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September 28, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Governing Board  
Sunnyside Unified School District

The Honorable Mark Brnovich, Arizona Attorney General

The Honorable Kathy Hoffman, Arizona State Superintendent of Public Instruction

We have conducted a financial investigation of certain Sunnyside Unified School District (District) transactions for the period January through March 2019. We performed the investigation to determine the amount of public monies misused, if any, during that period.

The investigation consisted primarily of inquiries, observations, examinations of selected financial records and other documentation, and selected tests of internal control over District operations. The investigation was not conducted in accordance with U.S. generally accepted auditing standards and was more limited than would be necessary to ensure we discovered all misused public monies or to give an opinion on internal controls. Accordingly, we do not express an opinion on the effectiveness of internal controls or ensure that all deficiencies are disclosed.

The Financial Investigation Report describes our findings as a result of this investigation.

Sincerely,

*Lindsey A. Perry*

Lindsey A. Perry, CPA, CFE  
Auditor General

## Sunnyside Unified School District Criminal Indictment—Conflict of Interest, Fraudulent Schemes, and False Filing

**SYNOPSIS:** As part of their responsibility to prevent and detect fraud, Sunnyside Unified School District (District) officials took appropriate action by reporting to us an allegation of financial misconduct by former Parents as Teachers program coordinator Joan Katz. Our investigation revealed that from January through March 2019, Ms. Katz allegedly falsified, or directed a subordinate employee to falsify, District records to conceal her failure to comply with District purchasing requirements when she obtained services for 2 separate projects totaling \$3,874. Specifically, without soliciting for competitive price quotes, as required by District policy, Ms. Katz purchased \$1,374 of services from her daughter's company and \$2,500 of services from a District employee's company. Moreover, Ms. Katz illicitly participated in the District purchase from her daughter's company and failed to disclose her conflict of interest until after the District had paid her daughter. We have submitted our report to the Arizona Attorney General's Office, which on September 20, 2021, presented evidence to the State Grand Jury. The action resulted in Ms. Katz's indictment on 5 felony counts related to conflict of interest, fraudulent schemes, and filing false instruments.

### Overview

In fiscal year 2020, the District's Parents as Teachers (PAT) program received revenues of approximately \$540,000 and provided services to about 230 families with children from prenatal stages through kindergarten. Ms. Katz had been the program coordinator since 1998 and was responsible for reviewing program expenditures, overseeing the budget, managing staff, and directing program activities. Ms. Katz retired from the District in January 2020.

### Ms. Katz may have engaged in a conflict of interest when she participated with the District's \$1,374 payment to her daughter

In January 2019, Ms. Katz hired her daughter's company to provide printing services to the PAT program without conducting any competitive procurement or disclosing to appropriate District officials that her daughter was the sole member (owner) of the company. Ms. Katz continued to illicitly participate in this conflict of interest for several weeks when she worked directly with her daughter on project specifications exchanging 67 emails in January and February 2019. Additionally, Ms. Katz reviewed 3 versions of a \$1,374 invoice that her daughter had emailed to her, asking on the last email "...if this is ok." Ms. Katz approved this last invoice version on February 20, 2019. As a result, the District issued a \$1,374 warrant payable to Ms. Katz' daughter on March 12, 2019.<sup>1</sup>

Moreover, despite repeated prompts from District officials, Ms. Katz did not complete her fiscal year 2019 Conflict of Interest Disclosure Form (Disclosure Form) until March 8, 2019, and even then, she falsely listed that neither she nor her relative had a conflict of interest. But on March 13, 2019, the day after the District had issued payment to her daughter, Ms. Katz completed another Disclosure Form, this time disclosing that she had a conflict of interest by stating that her daughter made marketing materials for the PAT program.

#### Ms. Katz's illicit participation with the District's payment to her daughter January and February 2019

Hired her daughter's company for PAT program printing.

Managed project through 67 emails with her daughter.

Reviewed 3 invoice versions before approving payment to her daughter.

<sup>1</sup> In accordance with invoice instructions, the District issued the warrant payable to Ms. Katz's daughter, not to her company.

## Ms. Katz allegedly falsified, or directed a subordinate employee to falsify, District records

In February and March 2019, Ms. Katz allegedly falsified, or directed a subordinate employee to falsify, District records making it falsely appear as if she had followed competitive purchasing procedures required by District policy for 2 PAT projects totaling \$3,874. One of these projects was her daughter's printing project described above, and the other was for website design services provided by a District employee's company. Although no price quotes had been obtained before starting either project, Ms. Katz reportedly directed a subordinate employee to record in the District's accounting software the false statement that price quotes were on file for each project. Moreover, on her March 13, 2019, Disclosure Form mentioned above, Ms. Katz included the false statement that her daughter's "proposal came in as the lowest bid on the job." In fact, after the District had paid each party for services rendered, Ms. Katz and a subordinate employee at Ms. Katz's direction obtained price quotes from vendors and fallaciously included them in District files. Emails from the responding vendors indicated that they believed they were giving quotes for real projects, not projects that had already been completed.

## Although District officials initially failed to ensure that Ms. Katz completed a Disclosure Form, they took prompt and appropriate actions after discovering Ms. Katz's actions

Although District policy requires all employees to complete a Disclosure Form at least annually and District officials took steps to ensure that employees were aware of this policy, they did not ensure that Ms. Katz completed a Disclosure Form in a timely manner to comply with Arizona Revised Statutes §38-503. Specifically, in September 2018, District officials emailed all employees reminding them of District conflict-of-interest policies and directing them to complete the Disclosure Form. Additionally, in October 2018, Ms. Katz attended a District training where the presenter informed employees that any potential conflict regarding businesses they, their spouse, or a relative owns should be included on the Disclosure Form and that they should not participate in any decision making of associated contracts. Nonetheless, District officials did not notice until March 2019 that Ms. Katz failed to complete a Disclosure Form, at which time they again directed her to comply with District policy. After Ms. Katz finally disclosed her conflict of interest with her daughter's company, District officials took prompt action by conducting inquiries and reporting their concerns to us while we were on site at the District conducting our performance audit.<sup>2</sup>

In the time since our investigation began and as a result of our performance audit recommendations, District officials reported that they have improved internal controls over conflict-of-interest disclosures by providing employees with a training video regarding District conflict-of-interest policies and frequently asked questions; requiring employees to acknowledge that they have received and understood those policies; tracking employees who have completed Disclosure Forms and sending out bimonthly email reminders to those employees who have not submitted their form; and notifying the purchasing department of the vendor and employee where a conflict exists.

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<sup>2</sup> See Arizona Auditor General, *A Performance Audit of Sunnyside Unified School District*, December 2019, Report 19-212.