



A REPORT
TO THE
ARIZONA LEGISLATURE

Special Investigative Unit

Investigative Report

Bowie Unified School District No. 14

Theft of Public Monies

December • 2003



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 19, 2003

Members of the Arizona Legislature

Governing Board
Bowie Unified School District No. 14

The Honorable Terry Goddard
Attorney General

The Honorable Tom Horne
State Superintendent of Public Instruction

The Office of the Auditor General has conducted a special investigation of Bowie Unified School District No. 14 for the period June 1999 through October 2002. The investigation was performed to determine the amount of public money misused, if any, during that period and the extent to which those monies had been misused.

The investigation consisted primarily of inquiries and examination of selected financial records and other documentation. Therefore, the investigation was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, the Office does not express an opinion on the adequacy of the financial records or the internal controls of Bowie Unified School District No. 14. The Office also does not ensure that all matters involving the District's internal controls that might be material weaknesses under standards established by the American Institute of Certified Public Accountants or other conditions that may require correction or improvement have been disclosed.

The accompanying Investigative Report describes the Office's findings and recommendations as a result of this special investigation.

After this report is distributed to the members of the Arizona State Legislature, the Attorney General, and the State Superintendent of Public Instruction, it becomes public record.

Sincerely,

Debbie Davenport
Auditor General

Attachment

SUMMARY

In November 2002, Bowie Unified School District No. 14 communicated to the Office of the Auditor General allegations of financial misconduct by their former business manager, Ms. Jodi Johnston. As a result, our Office conducted an investigation of those potential improprieties and submitted our findings to the Cochise County Attorney's Office. The Cochise County Attorney's Office has taken criminal action against Ms. Johnston. See the Conclusion on page 9.

Our investigation revealed that Ms. Johnston may have embezzled at least \$32,148 for her personal benefit between June 1999 and October 2002 from three district accounts. Ms. Johnston issued 38 district payments to herself, her family, and her husband's business. Ms. Johnston made these payments primarily from the Student Activities Fund, but also from the District's Revolving Fund and a federal grant. Further, Ms. Johnston allegedly forged the former superintendent's signature on all but one of these payments.

The District's internal controls over the disbursement process were inadequate. Specifically, check preparing, check signing, and recordkeeping duties were not properly segregated; supporting documents were not required to process transactions; and authorization controls were circumvented.

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INTRODUCTION & BACKGROUND

Bowie Unified School District No. 14 is located in Cochise County, approximately 30 miles from the New Mexico border. Currently, the District has approximately 100 students and employs 5 administrators and 12 teachers.

Bowie Unified School District is fiscally accountable to its students, their parents, and the local taxpayers for over \$1.5 million it received in fiscal year 2002, nearly \$500,000 of which included state revenues. The District is also responsible for the appropriate expenditures of those monies. Districts establish this accountability by implementing effective internal controls.

Arizona statutes require school districts to maintain separate accounts for different sources of monies based on the purposes designated by statutes, grantors, and others. The three accounts from which monies were allegedly embezzled, their source of monies, and the appropriate use of those monies are described as follows:

- **Student Activities Fund**—Established to account for monies raised by students through a number of fund-raising events, including car washes, bake sales, candy sales, t-shirt sales, and other similar events for use by student organizations, clubs, and other similar activities.
- **Revolving Fund**—Established to provide for immediate cash disbursements such as postage, freight, travel, and other minor disbursements. The account is established on an imprest basis from the District's Maintenance and Operation Fund, which consists of state and local monies.
- **21st Century Grant Fund**—Established to account for federal grant monies for various after-school and summer programs that enhance educational support, cultural arts, and personal well-being.

The Bowie Unified School District maintains the monies for the Student Activities and Revolving Funds in checking accounts. The grant monies are held on deposit with the County Treasurer under the administration of the Cochise County School Superintendent's Office.

Ms. Jodi Johnston was hired as the superintendent's secretary in August 1995 and promoted to Business Manager in June 1998. She resigned from that position in December 2002. Ms. Johnston had the authority to initiate payment requests, process disbursements, sign checks, record expenditures, and reconcile district records.

FINDING 1

Former business manager embezzled public monies

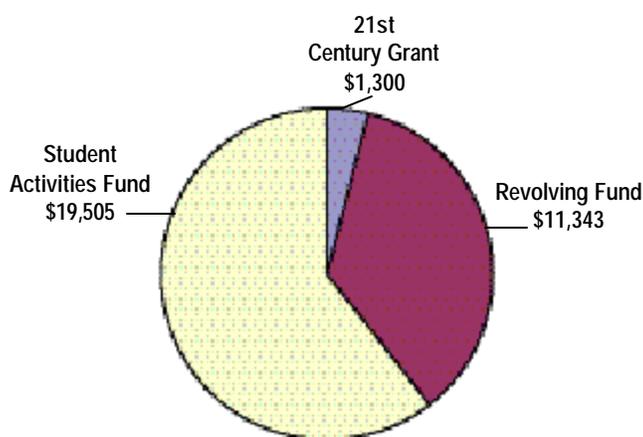
During the period June 1999 to October 2002, Ms. Johnston allegedly embezzled at least \$32,148 from Bowie Unified School District No. 14. Ms. Johnston wrote or authorized 38 checks from three district accounts to herself, her family, and her husband's business for her personal benefit. In addition, Ms. Johnston allegedly forged the former superintendent's signature on all but one of these checks.

Student Activities and Revolving Funds

Ms. Johnston embezzled at least \$30,848 from two district checking accounts—the Student Activities Fund and the Revolving Fund. As shown in Chart 1, the majority of the monies were embezzled from the Student Activities Fund. To embezzle these monies, Ms. Johnston removed 37 checks from the back of both checkbooks and drafted them in her name, the names of her family members, and the name of her husband's business. She also forged the former superintendent's signature on all 37 checks, even though she was an authorized signer on all district checking accounts. The amount of the checks ranged from \$200 to \$2,474.

When Auditor General staff presented Ms. Johnston with several of these checks, she told auditors she signed the former superintendent's signature, and deposited them in her personal bank account.

Figure 1: Embezzled Monies by Source
June 1999 to October 2002



Source: Auditor General staff analysis of Bank One and Bowie Unified School District records.

21st Century Grant Fund

Ms. Johnston authorized a \$1,300 payment to herself from the 21st Century Grant monies. Specifically, Ms. Johnston submitted an invoice to the Cochise County School Superintendent's Office claiming "reimbursement for till"; however, Ms. Johnston did not document that she provided any goods or performed any services related to the grant. Further, Ms. Johnston did not seek the required approval of the grant administrator until after the warrant had been paid.

FINDING 2

District officials failed to maintain adequate controls

District officials failed to establish proper controls over the District's cash disbursement process, which allowed thefts of public monies to go undetected. The District never established policies and procedures governing its cash disbursement process. As a result, Ms. Johnston exercised complete control over cash disbursements and, therefore, was able to embezzle monies without being detected. Specifically, Ms. Johnston was responsible for initiating and recording expenditures, preparing, signing, and mailing checks for payment, and reconciling district records to the bank statements. An appropriate level of internal control could have been accomplished by assigning a portion of the disbursement process to other administrators. For example, the District could have assigned the business manager to approve transactions and reconcile bank accounts, while other administrators, such as the accounts payable clerk and the receptionist, could divide the responsibilities of processing, recording, and mailing payments. Maintaining a secondary review process, such as requiring the superintendent's approval and signature on all checks, and approval of monthly bank reconciliations, could also have contributed to an appropriate level of internal control.

In addition, district officials allowed expenditures to be processed and paid without adequate supporting documentation. Particularly, checks were written without evidence of requisitions, purchase orders, or invoices. Moreover, the District did not always retain bank statements, reconciliations, canceled checks, invoices, and other similar documents. Arizona State Library, Archives and Public Records sets school district requirements for record retention. Specifically, purchase-related documents are to be kept for a period of 3 years after the fiscal year in which they were prepared. Bank-related documents, such as statements, reconciliations, and canceled checks, are to be kept for 10 years after the fiscal year in which they were prepared or received.

Finally, the District failed to enforce authorization controls. Specifically, Ms. Johnston was allowed to circumvent the authorization process governing the use of 21st Century Grant monies. The 21st Century grant administrator is responsible for approving all disbursements of these monies; however, Ms. Johnston used her authority and control over the disbursement process to process certain disbursements without the grant administrator's approval.

RECOMMENDATIONS

To help ensure proper control over, and use of, public monies, the District should establish effective internal controls over cash disbursements, including policies and procedures and monitoring of compliance with those policies and procedures. Specifically, the District should ensure that:

1. No individual employee has responsibility for the entire cash disbursement process. Accordingly, the District should properly segregate the following functions:
 - Custody of the various checking account checkbooks
 - Authorizing expenditures
 - Signing district checks
 - Reconciling district checking accounts to bank records

These functions can be effectively separated among the business manager and other administrative staff. Controls can further be strengthened by employing an appropriate secondary review and approval process.

2. Expenditures are only processed based on proper documentation. Such documentation includes, but is not limited to, purchase requisitions, purchase orders, and vendor invoices.
3. Cash disbursement duties have been properly assigned to the appropriate individuals.
4. Periodic monitoring is performed to ensure that all policies and procedures are being followed.

5. Records are retained in accordance with the *Records Retention and Disposition Schedule for Arizona School Districts* as follows:

- Expense accounting records including requisitions, purchase orders, claims, demands, vouchers, vendor invoices, receiving reports, warrant registers, and other records should be retained for 3 years after fiscal year prepared.
- Bank reconciliations, statements, and canceled checks should be retained for 10 years after fiscal year prepared.

CONCLUSION

On December 12, 2003, the Cochise County Attorney's Office took criminal action against Ms. Jodi Johnston through the Superior Court Grand Jury. This action resulted in a two-count indictment, including theft and fraudulent schemes.

