

The School District Fraud Formula: How to Prevent Fraud in School Districts and Protect Student Learning and Teacher Salaries



Jonathan Butcher
SENIOR FELLOW
GOLDWATER INSTITUTE
OCTOBER 17, 2018

Introduction

Over the last 20 years, the Arizona Auditor General has documented fraud involving taxpayer money and school personnel in 21 school districts—approximately 10 percent of all Arizona districts. After adjusting for inflation, nearly \$26 million has been misused.¹ The total losses are equivalent to the salaries of nearly 540 Arizona teachers earning the state’s average teacher pay in 2017.²

The incidents have occurred across Arizona, involving districts both large and small. However, each of the cases on the auditor’s list shares three common elements, creating a formula seemingly followed, all or in part, by district personnel that misused taxpayer funds meant for children and teacher salaries.

To prevent fraud, state policymakers should review this formula and learn from the activities that show up repeatedly in incidents of school district fraud and embezzlement, thereby protecting taxpayers, students, and teachers.

1. Request that Districts Have Strong Financial Oversight

Over the course of five years, a Topock Elementary School District official and her daughter managed to conduct almost 1,000 credit card transactions and steal some \$236,000 from district students and teachers.³ The individuals bought gift cards, baby equipment, patio furniture, and alcohol and paid home utility bills. The official even wrote checks to herself and family members from the district’s checkbook.

These activities went undetected for years. In 2017, when the state auditor reviewed the district’s financials, the auditor found that the district “still did not have proper controls in place over expenditure processing, including the payment of credit card transactions.”⁴

This is the first common theme among the investigative reports involving Arizona school districts where fraud occurs: They consistently demonstrate poor accounting practices and weak fraud prevention measures.

A 2017 report from Phoenix Union High School District found that two employees managed to alter their wages on their W-2 forms to reduce the amount of taxes they owed by approximately \$10,000 each between 2012 and 2015.⁵ Similar to the district oversight problems in Topock, the auditor reports, “Although district officials took prompt and appropriate actions after detecting Ms. Kendall’s fraud scheme, prior to this discovery, officials had not provided adequate oversight or maintained effective internal controls to ensure W-2 form amounts were appropriately recorded and processed.”⁶

Eloy Elementary School District was cited for similar lax oversight when it allowed the woman in charge of payroll to “alter work hours recorded in the payroll software for herself without being detected.”⁷ Tolleson Unified High School District officials “failed to exercise an appropriate level of oversight” for a bookstore employee who was in charge of “collecting payments, recording receipts in the receipt-processing system, making the associated deposit, and performing the monthly reconciliation without a thorough review by an employee independent of these functions.”⁸

Such findings are not unique to Arizona. In Louisiana, where teacher unions polled their members about going on strike in the 2018-2019 school year, school district audits have found similar problems.⁹ An audit of Caddo Parish Public School District says a district employee allegedly stole \$260,000 and used the money for personal items.¹⁰ The audit blamed the district for allowing the fraud to persist, saying, “The School Board’s internal controls did not allow the detection of fraud or misappropriation in a timely manner.”¹¹ An investigation of theft in the Ouachita Parish school system made a similar comment about weak financial oversight within that district.¹²

Time and time again, theft by school district personnel occurs in districts with poor financial transparency rules in place. While preventing all acts of fraud is impossible, parents, teachers, and taxpayers should demand districts take better care of student resources. Districts should at least be following state guidelines for procurement and other financial practices to limit the ability of employees to misuse taxpayer money.



2. Fraud Is Not Always Limited to One Incident

The second part of the fraud formula is related to the first: Fraud can go unnoticed for years, accumulating in small amounts at a time until a substantial sum is misused or unlawfully acquired.

In 2010, the Arizona auditor uncovered embezzlement in the Kyrene School District that had gone undetected for five years.¹³ In sum, a school principal had misused almost \$90,000. In Yuma, a teacher misused more than \$86,000 over the course of five years before he was caught.¹⁴ The executive assistant to the Glendale Elementary School District superintendent misused some \$32,000 over four years before authorities uncovered the activity.¹⁵ Over and over again, school and district personnel find ways to skim money meant for students, often for years before being caught.

Small amounts stolen over time can result in substantial losses. The Topock incident cited above is notable because the district is small—only four teachers—and has an average teacher salary of just over \$60,000 per year.¹⁶ This means that the stolen \$236,000 is almost the equivalent of the district's entire budget for teacher salaries for one year.

Topock lost an amount nearly equal to an entire year's worth of teacher pay due to fraud that went unnoticed.

Again, the same problems exist in other states. In Oklahoma, a food service vendor overcharged the Oklahoma City school district for four years before the issue was resolved.¹⁷ The vendor settled with the district for an undisclosed amount. In Oklahoma's Swink Public School District, some \$235,000 was stolen over the course of five years.¹⁸

Obviously, such longer-term activity is related to the first part of the fraud formula (weak district financial oversight), but teachers looking for higher salaries should be asking those who oversee their salaries how misuse of education spending can persist.

3. Look for Creative Spending Habits

School district fraud makes for alarming news headlines, often because the perpetrators make extravagant purchases with the stolen funds.

In Scottsdale, a construction vendor was overpaid by \$9,000 for his work in the district and sponsored a deep-sea fishing expedition for district officials.¹⁹ In Ganado Unified School District, officials did not follow the rules for construction projects worth almost \$3 million.²⁰ The superintendent benefitted by having the vendor renovate the superintendent's home bathroom, replace his backyard deck, install new blinds, and perform a "complete" kitchen remodeling project.²¹ According to the state auditor, "the Superintendent did not make any payments for 4 months

until the Attorney General's Office requested documentation regarding the home improvements, at which time he sent \$40,163 by express overnight delivery."²²

In the Santa Cruz County School District, two officials misused district funds over the course of six years and paid for a wedding.²³ One district official created a fake business and used district funds to pay for alcohol, a wedding band, mariachis, a tuxedo, and a host of other nuptial expenses. The district official also made personal car payments with district monies. The other district official cited in the auditor's report "admitted to Auditor General staff that she needed money and 'borrowed' it from the County by writing checks to herself and family members."²⁴

One school official took school bookstore money and went gambling.²⁵ In 2015, a Tolleson Union High School District employee was discovered to have embezzled more than \$120,000 by fraudulently manipulating 374 school bookstore receipts. The state auditor reports the perpetrator went to casinos and gambled 76 times between 2009 and 2011 with more than \$73,000 in district funds (November 2009 was a high point, where she spent nearly \$7,000 at casinos).²⁶

Conclusion

Theft and embezzlement are an unfortunate, recurring problem in district schools around the country. Arizona's Auditor General routinely investigates districts regarding misuse of taxpayer funds meant for students and teacher salaries.

Incidents of school district fraud have three notable characteristics in common, creating a formula for such illegal activities. Taxpayers and teachers should ask school district offices why fraud is allowed to persist, often for many years before it is caught. The longer theft is allowed to occur, the more harm is done and the less money is left for teacher salaries and student needs.

School districts should answer for sloppy fiscal oversight. As school district interest groups demand more money from the state general fund, policymakers should point to incidents of fraud and require district offices to review their accounting practices. Districts should be following state guidelines, and when audits report weak financial accounting—even in districts without ongoing fraudulent activity—lawmakers should demand better fiscal behavior before sending more state money.

Appendix A

Year	District	Misused Spending (Inflation Adjusted)	Description
1998	Scottsdale Unified	\$18,254,000	Mishandling of contracts (e.g., accepting bribes such as deep-sea fishing trips in San Diego)
2000	Amphitheater	\$787,011	Mishandling of contracts
2000	Mobile Elementary	\$3,460	Misuse of public resources (e.g., personal trips, video rentals)
2001	Scottsdale Unified	\$145,662	Violation of purchasing rules
2003	Yuma	\$161,309	Unlawful authorization of contracts
2003	Ganado Unified	\$3,900,000	Violation of rules regarding construction projects (and superintendent benefitted personally from home improvements)
2003	Bowie Unified	\$44,513	Embezzlement
2005	Santa Cruz	\$74,510	Misuse of public monies (e.g., used school money to make car payments)
2007	Red Mesa	\$1,093,774	Embezzlement
2007	Santa Cruz	\$23,490	Embezzlement (e.g., trip to Disneyland)
2008	Page Unified	\$205,605	Embezzlement
2010	Kyrene	\$103,022	Misuse of public monies
2012	Yuma	\$95,762	Unlawful appropriation
2013	Paradise Valley	\$14,285	Embezzlement
2013	Glendale Elementary	\$44,297	Misuse of public monies and embezzlement
2013	Paradise Valley	\$79,220	Misuse of public monies
2013	Yavapai County	\$21,274	Theft and misuse of public monies
2014	Kingman Unified	\$13,893	Embezzlement
2014	Tolleson	\$11,315	Embezzlement and forgery
2015	Glendale Union	\$75,767	Misuse of public monies
2015	Yucca Elementary	\$4,695	Theft and misuse of public monies
2015	Roosevelt Elementary	\$33,288	Theft, forgery, misuse of public monies
2015	Tolleson	\$129,943	Theft and misuse of public monies
2017	Eloy	\$24,351	Theft and misuse of public monies
2017	Phoenix Union	\$20,426	Payroll fraud (attempt to reduce income tax payments)
2017	Topock	\$245,070	Misuse of public monies
2018	Scottsdale Unified	\$52,629*	Conflict of interest violations
	Total	\$25,682,138	

Source: Arizona Auditor General, “Financial Investigation Reports and Fraud Prevention Alerts,”
<https://www.azauditor.gov/financial-investigation-reports-and-fraud-prevention-alerts>; author calculations. *Estimated

ENDNOTES

- 1 See Arizona Auditor General, Financial Investigation Reports and Fraud Prevention Alerts, <https://www.azauditor.gov/financial-investigation-reports-and-fraud-prevention-alerts>; author calculations. See Appendix A.
- 2 Arizona Auditor General, Arizona School District Spending FY 2017, March 2018, 16, https://www.azauditor.gov/sites/default/files/18-203_Report_with_Pages.pdf; author calculations.
- 3 Arizona Auditor General, “Topock Elementary School District: Theft of Public Monies,” August 2017, https://www.azauditor.gov/sites/default/files/17-403_Report.pdf.
- 4 Arizona Auditor General, “Topock Elementary School District: Theft of Public Monies.”
- 5 Arizona Auditor General, “Phoenix Union High School District: Fraudulent Schemes and Theft,” August 2017, https://www.azauditor.gov/sites/default/files/17-402_Report.pdf.
- 6 Ibid.
- 7 Arizona Auditor General, “Eloy Elementary School District: Theft and Misuse of Public Monies,” January 2017, <https://www.azauditor.gov/sites/default/files/17-401%20Report.pdf>.
- 8 Arizona Auditor General, “Tolleson Union High School District: Theft and Misuse of Public Monies,” December 2015, https://www.azauditor.gov/sites/default/files/15-406_Report.pdf.
- 9 John Walton, “Louisiana Teachers Union Conducting Survey about Possible Strike,” ArkLaTex.com, April 26, 2018, <http://www.arklatexhome.com/news/local-news/louisiana-teachers-union-conducting-survey-about-possible-strike/1142891447>.
- 10 Melissa Kakareka, “Audit Alleges Fraud, Says CPSB Should Have Caught It Sooner,” KSLA News 12, February 27, 2017, <http://www.ksla.com/story/34618180/audit-alleges-fraud-says-cpsb-should-have-caught-it-sooner>.
- 11 Ibid.
- 12 Bonnie Bolden, “OPSB Audit Finds Employee Fraud,” The News Star, March 6, 2017, <https://www.thenewsstar.com/story/news/education/2017/03/06/opsb-audit-finds-employee-fraud/98807318/>.
- 13 Arizona Auditor General, “Kyrene School District: Theft and Misuse of Public Monies,” July 2010, https://www.azauditor.gov/sites/default/files/Kyrene_SD_Special_Investigation.pdf.
- 14 Arizona Auditor General, “Yuma Union High School District No. 70: Misuse of Public Monies,” February 2012, https://www.azauditor.gov/sites/default/files/Yuma_UHSD_Misuse_Of_Public_Monies.pdf.
- 15 Arizona Auditor General, “Glendale Elementary School District No. 40: Theft and Misuse of Public Monies,” March 2013, https://www.azauditor.gov/sites/default/files/Glendale_ESD_Theft_Misuse_Public_Monies.pdf.
- 16 Arizona Auditor General, Arizona School District Spending FY 2017, March 2018, 386, https://www.azauditor.gov/sites/default/files/18-203_Report_with_Pages.pdf.
- 17 “Oklahoma School District Settles Fraud Lawsuit,” Associated Press, February 26, 2018, <https://www.usnews.com/news/best-states/oklahoma/articles/2018-02-26/oklahoma-school-district-settles-fraud-lawsuit>.
- 18 SDEMedia, “State Board of Education Creates Task Force to Examine Financial Controls Amid Alleged Fraud in Swink district,” Oklahoma State Department of Education, November 12, 2015, <http://sde.ok.gov/sde/newsblog/2015-11-12/state-board-education-creates-task-force-examine-financial-controls-amid-alleged>.
- 19 Douglas R. Norton, “Investigative Report: Misfeasance by Officials of Scottsdale Unified School District No. 48,” October 1998, 6, <https://www.azauditor.gov/sites/default/files/IR10-98.pdf>.
- 20 Arizona Auditor General, “Ganado Unified School District No. 20: Misfeasance by District Officials,” June 2003, <https://www.azauditor.gov/sites/default/files/SIU03-2.pdf>.

- 21 Ibid, 9.
- 22 Ibid.
- 23 Arizona Auditor General, “Santa Cruz County School Superintendent: Theft of Public Monies,” November 2005, https://www.azauditor.gov/sites/default/files/Santa_Cruz_County_School_Superintendent.pdf.
- 24 Arizona Auditor General, “Santa Cruz County School Superintendent: Theft of Public Monies.”
- 25 Arizona Auditor General, “Tolleson Union High School District: Theft and Misuse of Public Monies,” December 2015.
- 26 Ibid.



500 East Coronado Road | Phoenix, Arizona 85004

Office (602) 462-5000 | Fax (602) 256-7045

www.GoldwaterInstitute.org