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May 25, 2022

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Governing Board
Toltec Elementary 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 Toltec Elementary School District (District) transactions for the period January 1, 2013 through December 31, 2016. 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 and recommendations resulting from this investigation.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Toltec Elementary School District Criminal Indictment—Fraudulent Schemes, Conflict of Interest, Misuse of Public Monies, and Theft

SYNOPSIS: The Arizona Attorney General’s Office requested our assistance with investigating whether Toltec Elementary School District (District) employees misappropriated public monies. Our investigation revealed that from July 2014 through June 2016, former employees Dr. Jeffrey Van Handel, superintendent, and Ms. Eileen Crumbaker, director of business services, who were also governing board members of the nonprofit organization, World School Foundation, Inc. (WSF), secretly used their respective personal monies of \$380,845 and \$81,549 to fraudulently inflate their Arizona State Retirement System (ASRS) pension benefits. Specifically, they each concealed from the District and WSF that they were using their personal monies to fund an agreement between the District and WSF that fraudulently increased their District compensation and thereby their corresponding ASRS pension benefits. They continued this scheme with a later agreement between the District and WSF that benefited only Dr. Van Handel. Despite his conflict of interest, Dr. Van Handel worked to establish both agreements. Similarly, Dr. Van Handel and Ms. Crumbaker may have received unlawful loans of public monies when on 60 occasions they used District monies totaling \$253,983 to advance themselves this fraudulent compensation 33 to 234 days before depositing the agreements’ corresponding monies in a District bank account. Finally, Dr. Van Handel and Ms. Crumbaker failed to pay \$26,618 of the agreements’ monies owed to the District. Their actions resulted in liabilities against the District and WSF totaling approximately \$1.5 million. We have submitted our report to the Arizona Attorney General’s Office, which on May 2, 2022, presented evidence to the State Grand Jury. The action resulted in Dr. Van Handel and Ms. Crumbaker each being indicted on 3 felony counts related to fraudulent schemes, misuse of public monies, and theft, and Dr. Van Handel being indicted on 2 additional felony counts related to theft and conflict of interest.

Overview

Toltec Elementary School District, located in Eloy approximately 60 miles south of Phoenix, had fiscal year 2020 revenues of almost \$9.5 million and provided public education to about 970 students from prekindergarten through the 8th grade. Dr. Van Handel began his District employment in July 2011 as a construction project manager, becoming assistant superintendent in July 2013 and an unauthorized cosuperintendent in July 2015.¹ Ms. Crumbaker was the District’s business manager/director of business services from May 2006 through September 2017, when both she and Dr. Van Handel resigned. During their tenure, the District had significant deficiencies in internal controls that indicated the District failed to comply with the *Uniform System of Financial Records* (USFR) from fiscal years 2015 through 2017, resulting in the Arizona Department of Education withholding a total of \$197,209 of State aid from the District.² In fiscal year 2020, after Dr. Van Handel’s and Ms. Crumbaker’s resignations, all State aid previously withheld was returned to the District due to its compliance with the USFR.

World School Foundation, Inc., is a nonprofit organization that had 6 to 7 officers and directors serving as the governing board during our investigation time of 2013 through 2016. Dr. Van Handel served as director/chief executive officer and Ms. Crumbaker served as officer/chief financial officer. Although WSF’s corporate purpose was to “own and operate a charter school,” the Arizona State Board for Charter Schools stated in May 2015 that it was not aware of a charter school

¹ Because there is no statutory authority for a governing board to enter contracts with more than one superintendent, Dr. Van Handel’s superintendent contract and associated addenda for July 2015 through June 2018 may be invalid. Although the governing board president represented to us, and certain District documents support, that the governing board approved Dr. Van Handel as the “next” superintendent taking office after the then-current superintendent’s retirement, Dr. Van Handel’s superintendent contract overlapped the last year (July 2015 through June 2016) of the then-current superintendent’s contract. Nonetheless, the District paid Dr. Van Handel as superintendent through the end of his District employment.

² The USFR prescribes the minimum internal control policies and procedures Arizona school districts are required to follow for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements.

associated with WSF. Likewise, during our investigation time, WSF had no employees and none of the governing board members worked more than 5 hours a week for WSF.

During our investigation time, Dr. Van Handel and Ms. Crumbaker were the only signers on the WSF checking account, and they did not report to the other governing board members any financial information related to the WSF checking account. In fact, governing board members told us they were not familiar with WSF finances, did not know where WSF got money, did not recall seeing bank statements or financial reports with any detail, or having discussions about individual expense items. As a result, only Dr. Van Handel and Ms. Crumbaker knew the source of WSF checking account deposits and what those monies were used for. For 9 months prior to June 2014, the WSF checking account balance was less than \$100 without any financial activity. From June 2014 through June 2016, 99 percent of the WSF deposits were from the respective personal monies of Dr. Van Handel (\$380,845) and Ms. Crumbaker (\$81,549) and, as described below, used to pay the District for their fraudulent District compensation.

Fraudulent activity—From June 2014 through June 2016, 99 percent of WSF deposits were secretly composed of Dr. Van Handel’s and Ms. Crumbaker’s personal monies totaling \$462,394, which they used to pay the District for their fraudulent District compensation.

Dr. Van Handel and Ms. Crumbaker secretly used personal monies of \$380,845 and \$81,549, respectively, to fraudulently inflate their ASRS pension benefits

From July 2014 through June 2016, Dr. Van Handel and Ms. Crumbaker concealed from the District and WSF that they were using their respective personal monies of \$380,845 and \$81,549 to inflate their ASRS pension benefits. Specifically, they exploited their positions of trust at the District and at WSF by secretly using their own monies to fund 2, 2014 agreements between the District and WSF that provided no perceivable benefit to the District or WSF, but fraudulently inflated Dr. Van Handel’s and Ms. Crumbaker’s District compensation and thereby also inflated their corresponding ASRS pension benefits. As described below, the April 2014 agreement inflated both Dr. Van Handel’s and Ms. Crumbaker’s District compensation and the December 2014 agreement inflated only Dr. Van Handel’s.

Dr. Van Handel’s and Ms. Crumbaker’s personal monies secretly used to increase their District compensation and ASRS benefits through 2 District agreements with WSF July 2014 through June 2016

Agreement	Dr. Van Handel	Ms. Crumbaker	Totals
“Services”	\$218,389	\$81,549	\$299,938
“Donation”	162,456	-	162,456
Totals	\$380,845	\$81,549	\$462,394

District entered into April 2014 “Business Office Services Agreement” with WSF, invoicing \$299,938 from June 2014 through June 2015 for services it never provided—In a March 2014 memo to the District governing board and superintendent, Dr. Van Handel misrepresented that WSF was requesting “services” under the “district services program pursuant to ARS 15-1108” and did not disclose costs of these “services.” In fact, WSF had not requested any District services and was not even authorized to receive District services under that statute.³ However, despite the District having no authority to enter into this agreement with WSF, the governing board consented to Dr. Van Handel’s request to “Approve Agreement for Business Office Services.” In April 2014, the District superintendent and Dr. Van Handel as WSF chief executive officer signed a Business Office Services Agreement that called for WSF to pay the District for unspecified “administrative services” from the District’s assistant superintendent (Dr. Van Handel) and director of business services (Ms. Crumbaker) at respective monthly rates of \$12,500 and \$13,667. Dr. Van Handel’s and Ms. Crumbaker’s District salaries at that time were each at a \$5,833 monthly rate, but their signatures are on employment contract addendums that called for the District to pay them an additional \$12,500 and \$13,667, respectively, each month

³ Arizona Revised Statutes (A.R.S.) §15-1108, district services fund, allows a school district governing board to provide services on a “cost reimbursement basis” to “district schools or departments or other school districts,” and WSF was none of these.

that the services agreement “remains in force and effect.” They failed to disclose to the District that these addendums would be paid with their own monies funneled through the WSF checking account.

From June 2014 through June 2015, the District issued 16 invoices to WSF totaling \$299,938 that simply said “assistant superintendent” or “director of business services” without any description of “services” purportedly provided to WSF. Dr. Van Handel and Ms. Crumbaker issued 14 WSF checks to the District totaling \$299,938, secretly composed of \$218,389 and \$81,549 of their respective personal monies.

In December 2014, Dr. Van Handel proposed “replacing” this Business Office Services Agreement with a donation agreement to augment his superintendent salary up to the ASRS maximum starting in July 2015.⁴ Noticeably, his proposition that WSF receiving \$26,167 of monthly services could be replaced by WSF receiving nothing shows the “services” agreement’s true purpose was not to provide and receive services, but to increase his and Ms. Crumbaker’s District compensation. Likewise, neither the District nor WSF provided us with documentation to support that WSF received services from the District.

District entered into December 2014 “District Donation Agreement” with WSF, invoicing \$162,456 from July 2015 through June 2016—In an April 2013 email to District legal counsel, Dr. Van Handel misrepresented that “third party” funds would be used to “augment a public salary for the Arizona State Retirement System,” when instead, it would be his personal monies augmenting his salary. Dr. Van Handel perpetuated this fallacy the following month when he misrepresented in another email to District legal counsel that “the” District employment contract would be “augmented by an endowment from World School Foundation” even though it would be his personal monies augmenting his employment contract. Likewise, in a December 2014 memo to the District governing board, Dr. Van Handel did not disclose a dollar amount or that his personal monies would be used, but requested they approve “accepting the salary augmentation from the World School Foundation, Inc.,” which they did. Subsequently, Dr. Van Handel’s \$8,333 per month superintendent contract for fiscal years 2016 through 2018 fraudulently represented that his “salary may be augmented by third party donation up to the Arizona State Retirement System...Maximum Annual Compensation” and referenced a “District Donation Agreement between the District and World School Foundation Inc.” calling for the District to pay him an additional “\$11,365.00/month during each month that the Donation Agreement remains in force and effect.”⁵

From July 2015 through June 2016, the District issued 12 invoices to WSF totaling \$162,456 for “superintendent comp donation.” Dr. Van Handel issued 12 WSF checks to the District totaling \$162,456, secretly composed of Dr. Van Handel’s personal monies.

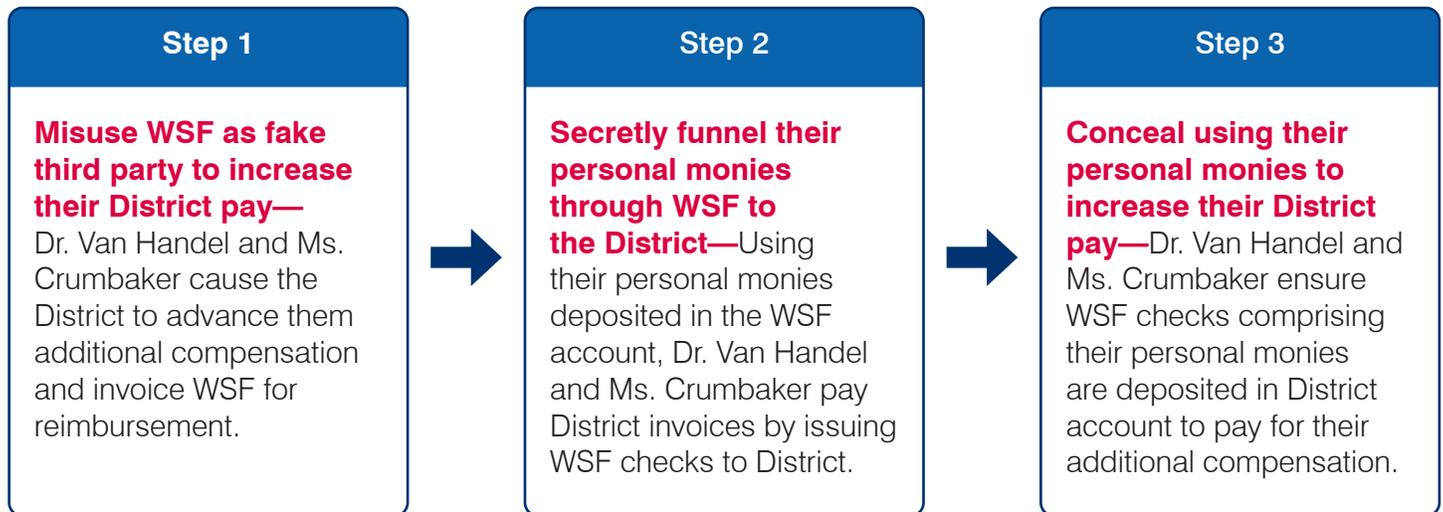
Dr. Van Handel and Ms. Crumbaker secretly used their own monies to fund the agreements, fraudulently increasing their District compensation and corresponding ASRS pension benefits—Using amounts from worksheets Dr. Van Handel prepared and provided to District staff, and with Ms. Crumbaker’s oversight, District staff advanced the additional compensation described in the 2 agreements to Dr. Van Handel and Ms. Crumbaker through District payroll and issued invoices to WSF for reimbursement.⁶ Then, without the knowledge of WSF or the District, Dr. Van Handel and Ms. Crumbaker used their respective personal monies deposited in the WSF checking account to pay those invoices by issuing WSF checks to the District. Lastly, Ms. Crumbaker ensured the WSF checks were eventually deposited in a District bank account, thus concealing that her and Dr. Van Handel’s personal monies were used to fraudulently increase their District compensation and corresponding ASRS pension benefits.

⁴ A.R.S. §38-746 and Internal Revenue Code section 401(a)(17) limit the amount of annual compensation for which retirement contributions can be paid. The maximum annual compensation for fiscal years 2015 and 2016 was \$260,000 and \$265,000, respectively.

⁵ As described in footnote 1, Dr. Van Handel’s fiscal years 2016 through 2018 superintendent contract and associated addenda may be invalid. Additionally, neither the District nor WSF provided us with this “District Donation Agreement,” and we could not find any evidence that it existed.

⁶ Although the agreement called for the Director of Business position to be paid \$13,667 monthly, the worksheet Dr. Van Handel prepared called for \$13,677 monthly, a \$10 difference. Consequently, Ms. Crumbaker was paid at the higher rate.

Dr. Van Handel’s and Ms. Crumbaker’s scheme to fraudulently increase their District compensation and corresponding ASRS pension benefits



Dr. Van Handel’s and Ms. Crumbaker’s actions resulted in liabilities against the District and WSF totaling about \$1.5 million

In May 2019, the ASRS issued a \$922,630 “Notice of Liability” to the District for “actuarially-determined unfunded liability” due to a total increase in compensation of 30 percent or more given to a member in any 1 or more years before termination.⁷ The ASRS further clarified “Jeff Van Handel received a 216.35% increase in compensation resulting in an increase to their monthly benefit amount.” Additionally, WSF reportedly owes Dr. Van Handel and Ms. Crumbaker a total approximating \$600,000. Dr. Van Handel represented to us that he sold about \$500,000 of “receivables” to WSF, and when WSF “begins to produce money,” those “receivables” will be paid back to him. Likewise, Ms. Crumbaker represented to us that she has paid WSF about \$100,000 and “once there’s money in that, in the World School Foundation, I’ll be paid back.”

Dr. Van Handel may have engaged in conflicts of interest when he received \$319,532 because of agreements he participated in and benefited from

Although Dr. Van Handel disclosed in District records that he had a substantial interest in WSF, he failed to refrain from participating with both 2014 agreements between the District and WSF described above. In fact, he was the primary, if not the only, communicator on behalf of the District as well as on behalf of WSF regarding both agreements. He was also the primary benefactor of these agreements, receiving \$319,532 from July 2014 through June 2016, net of District employer-related expenses. Dr. Van Handel’s participation with these 2 agreements is summarized below.

- As described on page 3, in April and May 2013 emails to District legal counsel, Dr. Van Handel asked about augmenting a public salary for the ASRS without stating his own salary would be augmented and falsely representing “third party” funds would be used. Within the May 2013 email, Dr. Van Handel also provided an additional paragraph to the employment contract for “an endowment from the World School Foundation, Inc.,” and asked District legal counsel if the language was satisfactory.
- In a March 2014 memo to the District governing board and superintendent, Dr. Van Handel requested that the Board approve the Business Office Services Agreement with WSF. Dr. Van Handel also prepared and provided to

⁷ Per A.R.S. §38-749(C), if ASRS determines that an employer has implemented a termination incentive program that results in an actuarial unfunded liability to ASRS, ASRS shall assess the cost of the unfunded liability to that employer.

District staff a “World School Foundation Agreement for Business Services PO” worksheet to be used for his and Ms. Crumbaker’s additional payroll amounts and for District invoices issued to WSF, starting in June 2014.

- In a December 2014 memo to the District governing board and superintendent, Dr. Van Handel requested the Board approve accepting the salary augmentation (District Donation Agreement) from WSF. Dr. Van Handel also prepared and provided to District staff an untitled worksheet to be used for his additional payroll amounts and for District invoices issued to WSF, starting in July 2015.

Dr. Van Handel and Ms. Crumbaker may have received unlawful loans of public monies totaling \$253,983

From July 2014 through June 2016, Dr. Van Handel and Ms. Crumbaker caused the District to advance them public monies through payroll on 60 occasions under the auspices of these 2 agreements, even though they knew, or should have known, their respective personal monies that they funneled through WSF’s checking account were not deposited in a District bank account in a timely manner. Therefore, agreement monies were not available at the time the District paid them their salary, which included the additional compensation. Specifically, of the 28 invoices totaling \$462,394 the District issued to WSF, 13 WSF check payments totaling \$253,983 issued by Dr. Van Handel and Ms. Crumbaker were deposited in a District bank account between 33 and 234 days late. This delay may have resulted in the District unlawfully loaning public monies to Dr. Van Handel and Ms. Crumbaker during this period.

Dr. Van Handel and Ms. Crumbaker may have misappropriated District monies totaling \$26,618

Dr. Van Handel and Ms. Crumbaker failed to reimburse the District \$26,618 of District monies they were advanced under the auspices of these 2 agreements. Specifically, from July 2014 through June 2016, Districts costs, including employer-related expenses, under these 2 agreements totaled \$489,012, but Dr. Van Handel and Ms. Crumbaker reimbursed the District only \$462,394. The difference of \$26,618 stems from their failure to issue a District invoice to WSF for Ms. Crumbaker’s last month of payroll advances under the Business Office Services Agreement and Dr. Van Handel’s failure to correctly calculate “benefit” (aka employer-related) expenses, in both worksheets described on pages 4 and 5 that he prepared, and District staff used for invoicing WSF.

District officials should take action to help prevent similar occurrences

Public officials with oversight authority have a responsibility to properly manage the administration of money and property entrusted to them and must ensure that sufficient internal controls are designed and implemented to protect those assets. Nevertheless, a system of internal controls will not succeed when those in a position to oversee operations are perpetrating unlawful behavior and concealing their misconduct. In this instance, Dr. Van Handel and Ms. Crumbaker appear to have abused their positions of trust at the District and at WSF to personally benefit from agreements between the District and WSF that provided no perceivable benefit to either the District or WSF.

Recommendations

District officials reported that they have implemented certain internal control improvements over payroll procedures such as now requiring governing board approval on personnel action request forms that disclose dollar amounts for employees changing positions to greater or lesser pay, and any employee providing District services to an authorized entity must now be paid as an independent contractor and not through District payroll. However, District officials, including governing board members, can take additional actions to improve internal controls over public monies and help deter and detect fraud. Specifically, District officials should:

- Attend training to educate themselves about District-related statutory requirements and ensure District agreements meet statutory requirements and provide District value.

- Establish a process to review and remediate disclosed conflicts of interest and ensure employees and public officers with disclosed conflicts refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase, in accordance with A.R.S. §38-503.
- Ensure that all revenues paid directly to the District are deposited with the county treasurer at least monthly and independently reconcile receipts or mail logs to validated deposit records and the District's accounting system to ensure all revenues are accurately recorded and deposited in a timely manner.
- Ensure the District recovers all costs under future reimbursement contracts in a timely manner.
- Retain source documents used to initiate accounting transactions to ensure proper recording and reporting of financial data.