



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

August 26, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs
Arizona Governor

Board of Supervisors
Santa Cruz County, Arizona

U. S. Department of Justice
Assistant U.S. Attorney

The Honorable Kris Mayes
Arizona Attorney General

We conducted a financial investigation of certain Santa Cruz County Treasurer's Office transactions for the period March 2014 through March 2024. 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 Santa Cruz County Treasurer's Office 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

Former Santa Cruz County Treasurer—Alleged Financial Misconduct

Synopsis

As part of their responsibility to prevent and detect fraud, Santa Cruz County (County) officials took appropriate action by reporting to us and the Federal Bureau of Investigation (FBI) alleged financial misconduct by the former County Treasurer (Treasurer). We conducted an investigation to determine the amount of public monies misused, if any, and to identify any deficiencies in the County Treasurer’s internal control structure that may have allowed the Treasurer’s alleged misconduct to go undetected. Additionally, we are cooperating, as allowed by law, with the United States Department of Justice and the FBI as part of their review.

Our investigation revealed that from March 2014 through March 2024, the Treasurer allegedly took \$39,472,100 when she made at least 182 unauthorized wire transfers from 2 County Treasurer’s Office bank accounts to business bank accounts connected to her.² To help conceal her actions, the Treasurer allegedly failed to record her unauthorized wire transfers in the County Treasurer’s accounting system and lied to and/or provided numerous false investment statements, cash reconciliations, and Treasurer’s Reports to County entities, officials, and employees; a County financial consultant; and/or the Arizona Auditor General (Office).

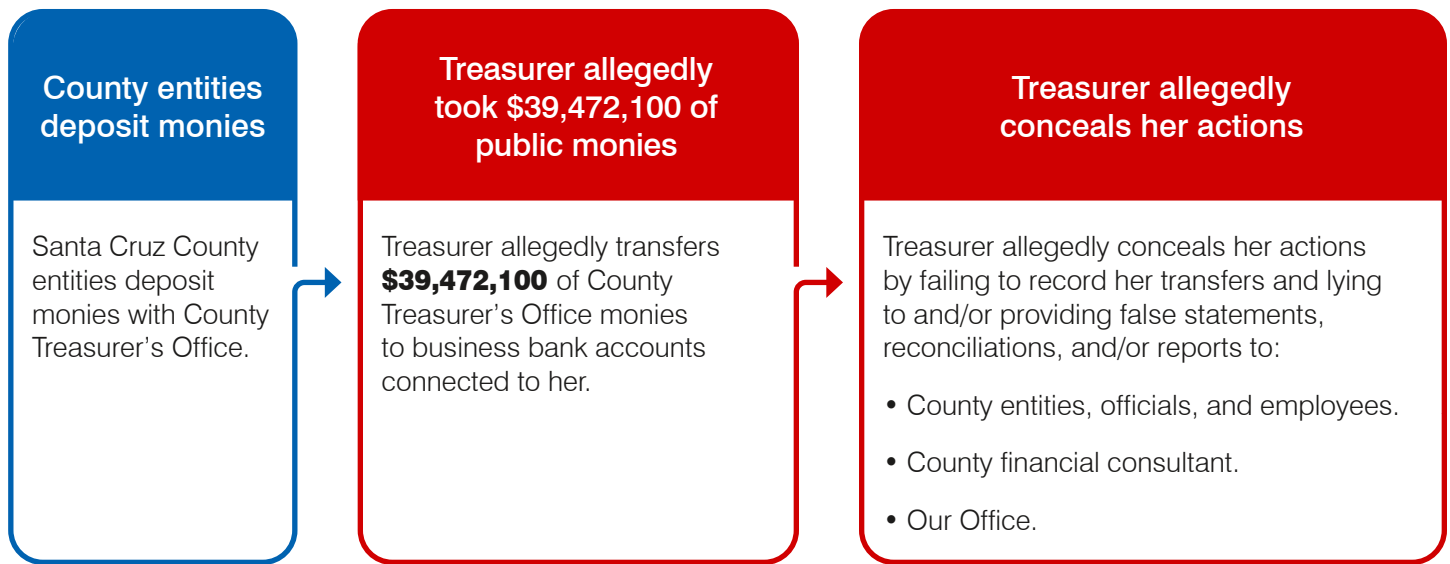
Because the primary responsibility for the prevention and detection of fraud rests with those charged with governance and management, including the Santa Cruz County Board of Supervisors, County Manager, and County Chief Financial Officer, we made 9 recommendations to County officials for actions they can now take to improve internal controls over public monies and help deter and detect fraud.³ Finally, we made 2 recommendations to the Arizona Legislature to consider revising statutes to give the Office direct access to financial institution records and require newly elected or appointed county treasurers and chief deputy treasurers to meet minimum training requirements.

¹ This report is based on data available to us as of this report date.

² Because most bank records prior to March 2017 were not available to us, we obtained certain amounts from information included in the County’s civil complaint against the Treasurer filed in Pima County on August 1, 2024. Specifically, we used bank records to verify 160 wire transfers totaling \$37,234,100 and relied on the County’s civil complaint information as the source for the remaining 22 wire transfers totaling \$2,238,000.

³ AICPA (Clarified) [AU-C] Section 240, Considerations of Fraud in a Financial Statement Audit, Responsibility for the Prevention and Detection of Fraud, paragraph .04, states, “The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.”

Figure 1
Former Santa Cruz County Treasurer’s alleged financial misconduct
March 2014 through March 2024



Arizona county treasurer offices general functions

Arizona county treasurers collect property taxes and manage cash for county departments and other county entities such as school districts and special taxing districts. The principal duties include receiving, recording, safeguarding, investing, and disbursing cash for these multiple entities. Each county treasurer has custody of 3 types of monies:

1. Monies collected on behalf of an entity, such as property taxes, that are held for a short time until remitted to that entity (e.g., held in a checking account).
2. Monies from any of these entities that, per those entities’ instructions to the treasurer, have been invested in specific investments (e.g., invested in Arizona State Treasurer Local Government Investment Pool, aka LGIP).
3. Remaining monies from these multiple entities are combined (i.e., pooled) and invested (e.g., held in a money market savings account).

The Governmental Accounting Standards Board (GASB) considers monies in category 3 an external investment pool. GASB encourages, but does not require, stand-alone financial statements for external investment pools. Should the pool not issue financial statements, the county must include certain information about the pool in its financial statements and depends on the treasurer to provide that information.

County board of supervisors has oversight authority over the county treasurer.

Unlike the State Treasurer’s internal and external investment pools, which are overseen by the State Board of Investment, independent oversight of county external investment pools is not required.⁴ Nonetheless, Arizona Revised Statutes (A.R.S.) §11-251 allows a county board of supervisors to supervise the official conduct of all

county officers, including the county treasurer; see that the officer faithfully performs their duties, and can require the officer to make reports and present their books and accounts for inspection.

⁴ The activity and performance of State investment pools are reviewed monthly by the State Board of Investment in accordance with A.R.S. §35-311.

Every month and once a year, Arizona county treasurers are required by A.R.S. §11-501 to report accounts of collection, custody, and disbursement of public revenue to the county board of supervisors and post those reports on the treasurer’s website (Treasurer’s Reports). Specifically, the treasurer shall prepare these reports “under oath,” reporting monies received and from whom they were received, reporting monies disbursed and to whom they were disbursed, and reporting the remaining amount on hand. Arizona county treasurers also provide the monthly Treasurer’s Report to the county school superintendent’s office and each agency and county department that has cash on deposit with the county treasurer.

Former Santa Cruz County Treasurer

The former Santa Cruz County Treasurer held the position for just over 11 years, taking office in January 2013 and winning the following 2 elections. The Treasurer’s annual salary, prescribed by A.R.S. §11-419(B), was around \$63,000. The Treasurer’s 6-person staff included a chief deputy treasurer, a senior secretary, and 4 tax clerks. When the Treasurer was elected, a chief deputy treasurer was already in place. The Treasurer initially allowed this person to continue in the position. However, as allowed by law, the Treasurer appointed a new chief deputy treasurer who was subsequently approved for the position under a waiver to a hiring freeze by the Board of Supervisors in February 2014. According to the new chief deputy treasurer, the Treasurer did not like that the previous chief deputy treasurer wanted to be in control of all the processes. As the County’s fiscal custodian, the Treasurer was responsible for:

- Managing property taxes totaling approximately \$41 million annually. These public monies were from taxes levied by the County, 6 school districts, 6 special taxing districts, and a community college district.
- Managing approximately 1,293 accounts associated with those entities, which as of March 31, 2024, had a total balance of \$129,613,334.^{5,6} See Table 1 for a list of these entities and their respective percentage of the total monies the Treasurer managed as of March 2024.
- Overseeing 23 investment accounts, which as of March 31, 2024, had a total balance of \$37,841,070.
- Receiving and keeping an account of all County monies, safely keeping the monies, and only disbursing those monies as provided by law.

All monies received by the County Treasurer’s Office were first deposited in the County Treasurer’s Office checking account. The Treasurer and the chief deputy treasurer transferred monies from that checking account to the money market savings account for interest earning purposes. Monies in this money market savings account were included in the County Treasurer’s Office external investment pool as described earlier. Except for specific individual investment accounts held at the State Treasurer, all monies received by the County Treasurer’s Office were combined and held in pooled accounts.

The Treasurer was also the organizer, member, manager, and statutory agent for a domestic limited liability company and had bank accounts associated with that business at Wells Fargo Bank and at BMO Harris (BMO).

The County’s servicing bank’s anti-money laundering team flagged the County Treasurer’s Office money market account because \$4,550,000 had been transferred to business bank accounts connected to the Treasurer.

On April 3, 2024, JPMorgan Chase Bank, N.A. (Chase), the County’s servicing bank, notified the County that its anti-money laundering team had flagged the County Treasurer’s Office money market savings account due to multiple outgoing wire transfers to 2 business bank accounts connected to the Treasurer (the Wells Fargo Bank and BMO business bank accounts described above). Specifically, they reported that 12 wire transfers

totaling \$4,550,000 had been deposited in business bank accounts connected to the Treasurer. The County took corrective action the next day by removing the County Treasurer’s Office authorized signatories from all County

⁵ The total LGIP value as of March 31, 2024, that was excluded from this total balance is \$23,225,774.

⁶ In this context, “accounts” does not mean bank account. Rather, it is a bookkeeping term for numerical records documenting the affect cash transactions have on an accounting fund.

Treasurer’s Office bank accounts, replacing them with the County manager and County board of supervisors chairman. On April 18, 2024, the County board of supervisors accepted the Treasurer’s resignation that she tendered after it notified her of its intention to consider suspending her as County Treasurer due to irregular and suspicious financial activities. Through her legal counsel, the Treasurer declined to be interviewed by us.

Table 1
Entity monies managed by the County Treasurer’s Office
March 2024

Entity name	Percentage of total treasurer monies managed less LGIP ¹
Nogales Unified School District #1	31.57%
Santa Cruz County	29.76%
Santa Cruz Valley Unified School District #35	25.12%
Rio Rico Fire District	2.73%
Santa Cruz County Jail District	2.56%
Santa Cruz Flood Control District	2.55%
Sonoita Elementary School District #25	2.04%
Patagonia Union High School District #20	1.53%
Patagonia Elementary School District #6	1.27%
Tubac Fire District	0.56%
Santa Cruz Elementary School District #28	0.14%
Nogales Suburban Fire District	0.08%
Santa Cruz County Provisional Community College District	0.05%
Sonoita Elgin Fire District	0.03%
Miscellaneous ²	0.02%

¹ March 2024 money values in the Local Government Investment Pool (LGIP) invested with the Arizona State Treasurer are excluded from the table as these monies are not held by the County Treasurer’s Office.

² The miscellaneous percentage consist of monies associated with Santa Cruz County District #99, the Town of Patagonia, Nogales Animal Control, and Unorganized Territory.

Source: Auditor General staff analysis of the Santa Cruz County Treasurer’s Report and the Arizona State Treasurer’s Office Statement of Accounts for March 2024.

Treasurer allegedly made at least 182 unauthorized wire transfers totaling \$39,472,100 from County Treasurer’s Office accounts to business bank accounts connected to the Treasurer during a 10-year period

Table 2
Treasurer’s alleged unauthorized transfers of public monies
March 2014 through March 2024

Time frame (in fiscal years)	Number of wire transfers	Total transferred
March - June 2014	2	\$251,100
2015	6	603,000
2016	10	930,000
2017	14	1,275,000
2018	17	2,100,000
2019	29	3,115,000
2020	25	4,280,000
2021	24	5,588,000
2022	17	4,240,000
2023	18	6,950,000
July 2023 – March 2024	20	10,140,000
Totals	182	\$39,472,100

As shown in Table 2, from March 2014 through March 2024, the Treasurer allegedly took Santa Cruz County Treasurer’s Office pooled monies by making at least 182 unauthorized wire transfers totaling \$39,472,100. She allegedly made these unauthorized transfers from the County Treasurer’s Office money market savings and checking accounts at Chase Bank to business bank accounts connected to her, held at Wells Fargo and at BMO.⁷

Although each wire transfer from the County Treasurer’s Office checking and money market savings accounts required separate authorization from both the Treasurer and another County Treasurer’s Office employee using their own respective passwords and multifactor token authentication devices, the Treasurer bypassed this internal control process.

The Treasurer bypassed internal controls in order to make unauthorized wire transfers to business bank accounts connected to her.

The chief deputy treasurer told us that the Treasurer asked for her password and access to her multifactor token authentication device reportedly so that the Treasurer could transfer monies to a Wells Fargo investment account that offered a more favorable interest rate than the State Treasurer LGIP (Local Government Investment Pool). As a result, the Treasurer and the chief deputy treasurer shared their passwords with each other and kept their token authentication devices accessible to each other. By overriding this internal control, the Treasurer created a way to repeatedly make unauthorized wire transfers from County Treasurer’s Office accounts by herself without detection.

These wire transfers generally occurred 1 to 5 times every month except for June and July when no transfers were made.^{8,9} As shown in Figure 2, transferred amounts ranged from \$25,000 to \$725,000, with one \$2,950,000 transfer in August 2023. All but 1 of these transfers came from the County Treasurer’s Office money market savings account. The 1 transfer from the County Treasurer’s Office checking account occurred in November 2021 and was for \$225,000.

⁷ Included in this amount is one \$60,000 wire transfer on April 14, 2017, to Wells Fargo that did not include any business name for the benefiting account. However, it referenced the same beneficiary number for several of the Treasurer’s other wire transfers to business bank accounts connected to her and is therefore included in our total of the Treasurer’s unauthorized wire transfers.

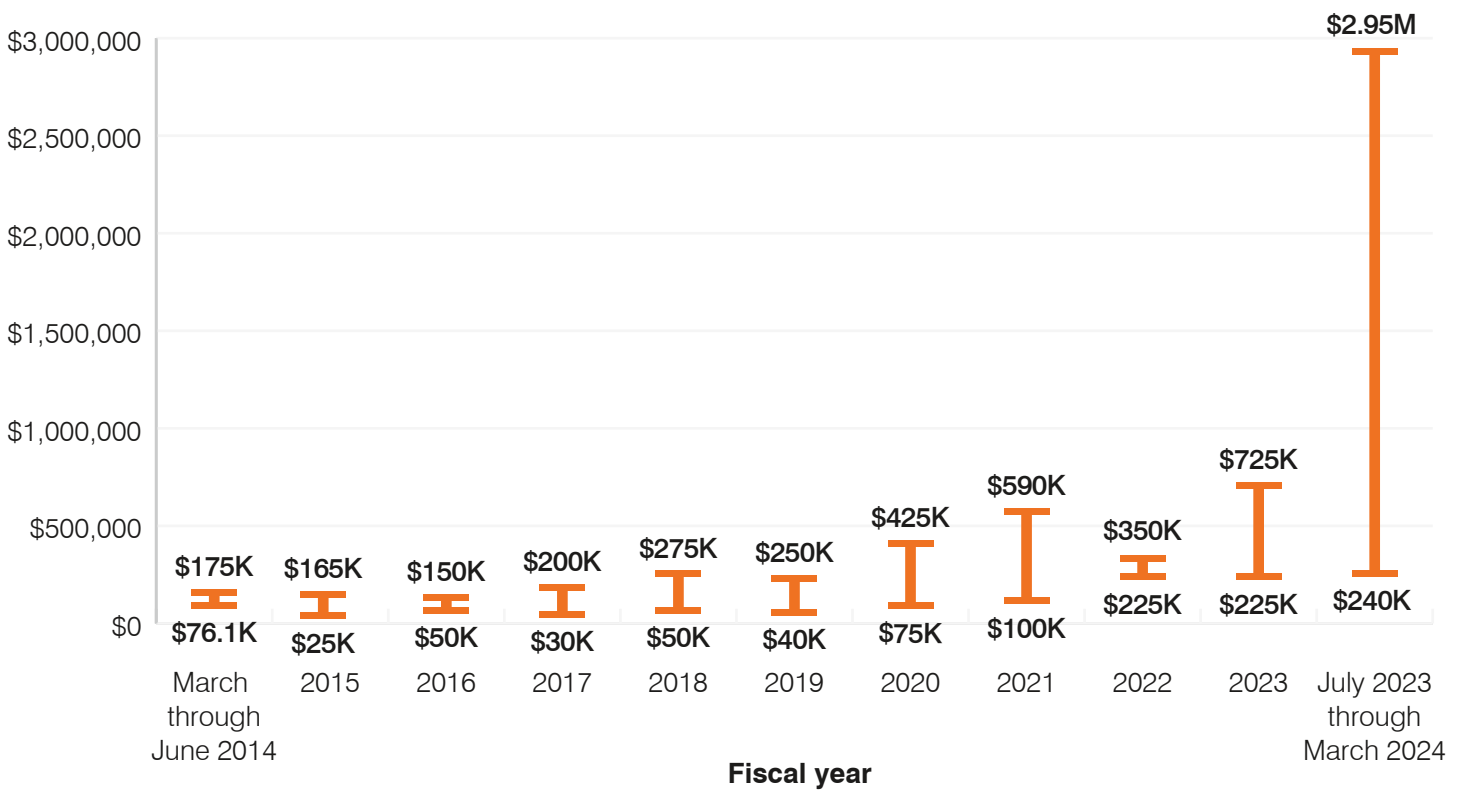
⁸ Additionally, no unauthorized wire transfers occurred in February 2019 or October 2022.

⁹ Bank statements for June and July were used by the County financial consultant for compiling the County’s financial statements and by our Office for performing the County’s financial statement and federal compliance audits due to their being the last month of the prior fiscal year and first month of the new fiscal year, respectively.

Additionally, because bank statements were not available from Chase Bank before March 2017, we obtained certain amounts from information included in Santa Cruz County’s civil complaint against the Treasurer filed in Pima County on August 1, 2024. Specifically, we used bank records to verify 160 transfers totaling \$37,234,100 and relied on the County’s civil complaint as the source of information for the remaining 22 transfers totaling \$2,238,000.

Although the Treasurer had allegedly been transferring large amounts of County Treasurer’s Office monies to the Wells Fargo business account since at least March 2014, her suspicious activity was not flagged by bank anti-money laundering teams until April 2024, about 2 months after she stopped transferring monies to the Wells Fargo business account and started transferring monies to the BMO business account. The Treasurer allegedly made at least 176 transfers of County Treasurer’s Office monies totaling \$37,322,100 to the Wells Fargo bank account and 6 transfers totaling \$2,150,000 to the BMO business account.

Figure 2
Ranges of public monies Treasurer allegedly transferred to business bank accounts connected to her March 2014 through March 2024



Treasurer allegedly concealed her actions by failing to record transactions and lying to and/or submitting false Treasurer’s Reports, cash reconciliations, and investment statements to County entities, officials, and employees; a County financial consultant; and/or our Office

Although the Treasurer was responsible for ensuring accurate recording and standardized reporting of the County Treasurer’s Office financial information, she was allegedly able to shirk this responsibility and perpetrate her actions without detection by any of the 6 employees she managed: a chief deputy treasurer, a senior secretary, and 4 tax clerks.

The Treasurer may have provided some County Treasurer's Office employees with loans and gifts.

Some of these employee acknowledged to us that they received personal financial help or gifts from the Treasurer. In particular, the chief deputy treasurer said she received from the Treasurer a \$6,000 "loan" for a new air conditioner, and she intends to repay the "loan" after

she retires. The chief deputy treasurer also told us she received, for her sister's use, a car from the Treasurer that she valued at \$3,000, and since 2019 or 2020, the Treasurer has been paying for her personal cell phone. Likewise, the senior secretary told us the Treasurer had paid her personal bills from time to time, had given her children \$100 on their birthdays, and had given the senior secretary \$1,500 for her own birthday. Similarly, a tax clerk told us that the Treasurer had given her son a "generous" gift when he got married, her daughter was married at the Treasurer's ranch, and she and the Treasurer had traveled together for a long weekend stay in San Carlos, Mexico.

The Treasurer may have also attempted to have a personal relationship with a UBS financial advisor who handled some of the County Treasurer's Office investments. Specifically, the Treasurer's County email account showed that in February 2023, she offered that UBS financial advisor one of her family's homes to stay in. We were unable to locate a responding email from the financial advisor, and UBS legal counsel restricted our ability to make further inquiries with him on this and other matters described on page 12.

Concealment from County and County Treasurer's Office employees and officials

Because the Treasurer had access to the chief deputy treasurer's bank credentials, she was apparently making transactions in County Treasurer's Office accounts without anyone approving or otherwise monitoring those transactions.

The Treasurer may have lied to the chief deputy treasurer

—The Treasurer was apparently transferring monies from the County Treasurer's Office money market savings account to the Wells Fargo business bank account connected to her but she allegedly lied and told the chief deputy treasurer she was transferring monies to a Wells Fargo investment account that offered a more favorable interest rate than the State Treasurer LGIP. The chief deputy treasurer told us she had no responsibility

for the money market savings account (other than apportioning the interest and making transfers to and from the checking account), never saw any bank statements for this Wells Fargo account, and did not monitor the Treasurer's wire transfers because the Treasurer was her boss. Additionally, nobody else oversaw the Treasurer or monitored her actions, although the County board of supervisors was responsible for doing so.

Notwithstanding, the chief deputy treasurer did question the Treasurer about one of her wire transfers. Specifically, because the chief deputy treasurer was responsible for recording County Treasurer's Office checking account transactions in the County Treasurer's accounting system, she asked the Treasurer about her November 2021 \$225,000 wire transfer from the County Treasurer's Office checking account described on page 5. The Treasurer reportedly told the chief deputy treasurer that instead of wiring money out of the County Treasurer's Office money market savings account to the supposed Wells Fargo investment account described above, she mistakenly wired it out of the County Treasurer's Office checking account instead and claimed the money would be returned. The chief deputy treasurer said she later questioned the Treasurer again because the money had not been returned and the Treasurer told her the investment company had trouble returning the money. The chief deputy treasurer failed to record the transaction in the County Treasurer's accounting system, as required, or further follow up with the Treasurer. The \$225,000 was never returned to the County Treasurer's Office checking account.

The Treasurer allegedly failed to accurately record transactions and thereby may have falsified at least 121 monthly Treasurer’s Reports—Because the Treasurer allegedly failed to ensure her unauthorized wire transfers were accurately recorded in the County Treasurer’s accounting system, the loss of this money was omitted from monthly Treasurer’s Reports she was responsible for providing to the County board of supervisors.^{10,11} As a result, there would have been at least 121 falsified Treasurer’s Reports since March 2014.

Notably, County finance department and other entities that had cash on deposit with the County Treasurer’s Office received these falsified Treasurer’s Reports, which appeared to be correct because they reflected entity transactions. However, because the amounts the Treasurer was allegedly taking from these entities were not recorded, disbursements were understated, and balances were overstated. For example, the January 2024 Treasurer’s Report claimed the combined ending balance for all entities was \$150,956,078, but actual County Treasurer’s Office bank account statements obtained recently from the bank reported a combined ending balance of \$113,764,204, a difference of \$37,191,874.¹²

Had the Treasurer recorded her alleged unauthorized wire transfers in the County Treasurer’s accounting system, she would have had to identify the entity and fund she was taking money from, which would have resulted in her actions being detected by entities reconciling their financial records to Treasurer’s Reports.

Because no one at the County Treasurer’s Office truthfully reconciled Treasurer’s Reports to bank statements, no one discovered that the Treasurer’s wire transfers were not recorded in the County Treasurer’s accounting system or that entities actually had less money than what she reported.

Furthermore, the County has allowed the County Treasurer’s Office to use an inadequate accounting system that did not automatically capture or record the Treasurer’s alleged unauthorized wire transfers at any time and the system automatically deleted data and detailed transactions at the end of each month. In connection with our prior County financial audits, County management and information technology (IT) staff acknowledged to us that the County Treasurer’s accounting system was outdated and had control deficiencies. For example, for the County’s fiscal year 2019 financial audit, County IT staff reported to us issues in the County Treasurer’s accounting system related to restricting access and managing systems configurations and changes. Since fiscal year 2009, we have reported that the County has inadequate internal controls over its financial information system or IT systems.¹³

At least 76 false and irregular monthly Cash Reconciliation reports were provided to the County board of supervisors and/or the County finance department—Since March 2017, at least 76 monthly Cash Reconciliation reports provided to the County board of supervisors and/or the County finance department had false individual bank and investment statement amounts, false monthly Treasurer’s Report amounts, and/or false reconciling adjustment amounts.¹⁴ The chief deputy treasurer told us she did not know why checking and money market savings amounts did not match the bank statements or why investment account information was not always listed and assumed that the Treasurer had prepared the monthly reconciliations. Moreover, these false and irregular monthly Cash Reconciliation reports were provided to the County board of supervisors and/or the County finance department with no apparent consequence.

¹⁰ Although as described on page 2 the Treasurer was required by A.R.S. §11-501 to report monthly accounts of collection, custody, and disbursement of public revenue to the County board of supervisors “under oath,” Treasurer’s Reports were not provided to the County board of supervisors. Rather, the County clerk of the board/elections director told us County Treasurer’s Office employees provided her with monthly Treasurer’s Reports, of which she acknowledged receipt but then returned that copy to the County Treasurer’s Office without presenting it to the County board of supervisors. Nevertheless, the County finance department regularly received monthly Treasurer’s Reports that appeared to be signed by the Treasurer attesting “I, [Treasurer’s name] Treasurer and ex-officio tax collector of Santa Cruz County, State of Arizona do solemnly swear that the report herewith is a true and correct statement of transactions of my office...”

¹¹ A.R.S. §11-493(2)(3).

¹² Less than 1 percent of the \$37,191,874 difference may be attributed to month-end timing variances.

¹³ In our fiscal years 2002 through 2014 County financial audits, we also reported that the County Treasurer’s Office had either not performed reconciliations or had unreconciled differences between its balances and the balances at the financial institutions that hold the County Treasurer’s Office deposits and investments. Additionally, in fiscal years 2009 through 2017, we reported that the County Treasurer’s Office did not properly apportion interest to County funds and other entities, such as school districts. See [Santa Cruz County Single Audit Reports 2002-2023 | Auditor General \(azauditor.gov\)](#)

¹⁴ The County board of supervisors required all County departments to submit monthly reports, which for the County Treasurer’s Office included a Cash Reconciliation report between the bank and investment accounts and the Treasurer’s Report. The County board of supervisors approved the monthly departmental reports during their meetings.

County officials and employees apparently failed to review monthly Cash Reconciliation reports.

In fact, County board of supervisors members did not evidently review the monthly Cash Reconciliation reports even though the County board of supervisors holds supervisory authority over the County Treasurer,

particularly due to her responsibilities of collecting, safekeeping, managing, or disbursing public revenues.¹⁵ Some County board of supervisors members told us they were not sure how County departments submitted monthly reports to the County board of supervisors, were not sure of report purposes, and had not actually seen the February 2024 cash reconciliation report (for example) until we emailed them a copy.¹⁶ The County board of supervisors chairman told us that the meeting minutes might state that the County board of supervisors approve the monthly reports, but the approval does not connote that the supervisors have done anything to verify the contents, and he did not know when or to whom the monthly reports might be distributed.

Moreover, the deputy county manager/chief financial officer told us that prior to April 2024, he had not seen the County Treasurer's monthly Cash Reconciliation reports, and if the monthly County departmental reports submitted to the County board of supervisors came to the finance department, they would have been filed and retained only for record-keeping purposes.

Had anyone from the County reviewed these monthly Cash Reconciliation reports, they may have noticed irregularities and discovered the Treasurer's actions. For example, although investment account balances characteristically fluctuate from month to month, available monthly Cash Reconciliation reports show that from August 2017 through January 2019, the UBS Financial Services, Inc. (UBS) investment statement balance did not fluctuate for at least 14 months but

Despite the inherent nature of true investment balances fluctuating from month to month, an irregular investment balance was presented as exactly \$16,204,072.45 for at least 14 months, apparently without being noticed by any County officials or employees.

remained unchanged at exactly \$16,204,072.45, which was also a false amount. Moreover, for July 2018, no UBS investment account information was included at all, only to start up again in August 2018, declaring that the same \$16,204,072.45 balance had returned. Notably, the UBS account balance was actually \$0 for most of this time frame because the Treasurer transferred the entire \$16,772,385.65 balance to the County Treasurer's Office checking account in January 2018.

Additionally, reconciliation amounts were even reused from one month to another. For example, and as illustrated in Table 3, both February 2021 and February 2022 Cash Reconciliation reports included the exact same balances with \$6,021,352.32 in the checking account, \$35,023,251.31 in the money market savings account, and \$9,143,450.70 in the State Treasurer LGIP. All these amounts were false.

Table 3
Falsely reported account balances were reused on later monthly Cash Reconciliation reports

Date reported	Reported account balances		
	Checking	MM Savings	State Treasurer LGIP
February 2021	\$6,021,352.32	\$35,023,251.31	\$9,143,450.70
February 2022	\$6,021,352.32	\$35,023,251.31	\$9,143,450.70

¹⁵ See A.R.S. §11-251.

¹⁶ The County clerk of the board/elections director told us she provides the County board of supervisors with monthly County department reports via a link to enable them to click and review.

Concealment from County financial consultant

County management is responsible for presenting financial statements free of material misstatement, whether due to fraud or error.

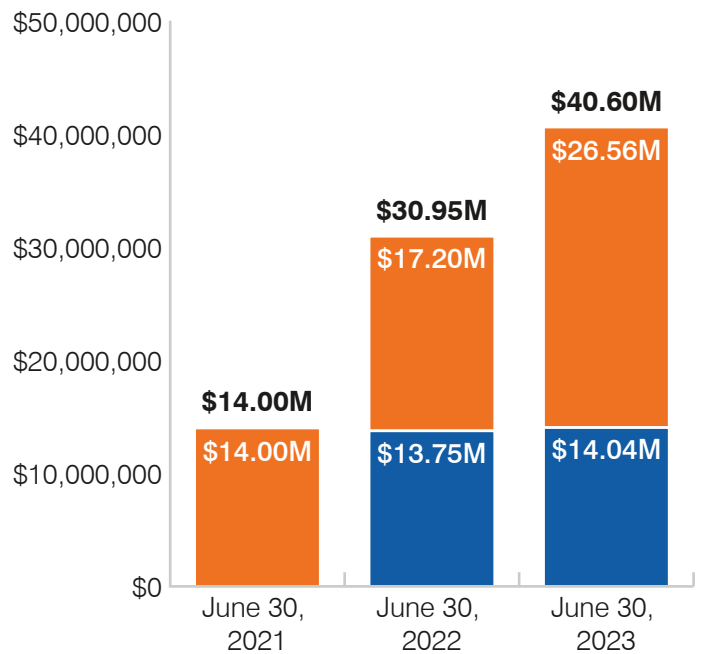
The Treasurer may have lied to and provided the County’s contracted financial consultant with fake UBS investment statements and false Cash Reconciliation spreadsheets for the County’s June 30 fiscal year ends, thus concealing her alleged actions and unauthorized use of public monies. County management is responsible for the

preparation and fair presentation of its financial statements in accordance with U.S. generally accepted accounting principles, and this consultant assisted the County in compiling their financial statements for the last 14 years.¹⁷ Part of that process related to working with the County Treasurer’s Office for cash and investments, particularly, 2 of the County’s Notes to the Financial Statements: Deposit and Investments and County Treasurer’s Investment Pool. The County’s financial consultant recently provided us with schedules and statements related to work at the County Treasurer’s Office for fiscal years 2021, 2022, and 2023. Those schedules and statements, along with our review of the Treasurer’s email communications with the consultant, showed the following:

- **The Treasurer may have lied to and provided the County’s financial consultant with 3 fake investment statements**—As shown in Figure 3, for each of the 3 fiscal years described earlier, the Treasurer provided the County’s financial consultant with 3 fake UBS investment statements and 2 UBS investment statements with real amounts, making it falsely appear as if more money was invested than there actually was.

Specifically, for fiscal year 2021, the Treasurer provided the County’s financial consultant with a fake UBS statement reflecting a nonexistent \$14,000,000 balance. In fact, this “investment” was fictitious. For fiscal year 2022, the Treasurer again provided the County’s financial consultant with a fake UBS investment statement, this time reflecting a nonexistent \$17,200,000 balance, and she also provided a UBS investment statement reflecting an actual \$13,748,143 balance.¹⁸ Likewise, for fiscal year 2023, the Treasurer provided the County’s financial consultant with a fake UBS investment statement reflecting a nonexistent \$26,561,200 balance and a UBS investment statement reflecting an actual \$14,037,140 balance.¹⁹

Figure 3
Summary of fake and actual UBS investment amounts reported by Treasurer
Fiscal years 2021 through 2023
As of June 30, 2021, 2022, and 2023



Total UBS investment amounts

- Fake UBS investment amounts
- Real UBS investment amounts

¹⁷ In accordance with AICPA U.S. Auditing Standards, AU-C Sections 580.10-12, we obtain annual statements from County management acknowledging they have the above listed responsibility for their financial statements as well as responsibility for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

¹⁸ The County Treasurer’s Office had previously held investments with UBS, and in October 2021, the Treasurer funded a UBS investment account for the County Treasurer’s Office with \$10,000,000 deposited from the County Treasurer’s Office checking account.

¹⁹ The County’s deputy county manager/chief financial officer was also a recipient of the Treasurer’s email with the attached fake June 30, 2023, UBS investment statement.

The combined balances from these 5 statements resulted in falsely inflated investment amounts for fiscal years 2021, 2022, and 2023, with overstatements of \$14,000,000, \$17,200,000, and \$26,561,200, respectively.

Moreover, when the County's financial consultant emailed the Treasurer with questions about the UBS "investment," the Treasurer responded with apparent lies. For example, in a December 2021 email, the Treasurer wrote "As of June 30, 2021 \$14,000,000.00 was all in one account Triple A/Triple A Money Market backed up by US Government Securities." In a December 2022 email, the Treasurer wrote "This is all UBS Money Market. All will be invested in US Government Securities. They purchase the CD'S as good rates come in."

- **The Treasurer may have provided the County's financial consultant with 6 false June Cash Reconciliation spreadsheets**—The Treasurer may have provided the County's financial consultant with 6 false June Cash Reconciliation spreadsheets that had similar formats but different amounts than the false June Cash Reconciliation reports described earlier that were provided to the County board of supervisors and/or the County finance department. Although the false June Cash Reconciliation spreadsheets provided to the County's financial consultant included amounts that agreed to June 30 Chase checking and money market savings account balances, they also included other false amounts. For example, June Cash Reconciliation spreadsheets for fiscal years 2018 through 2020 included false adjustment amounts for warrants that reportedly had timing differences regarding when they were recorded in either the bank or the County Treasurer's accounting system. June Cash Reconciliation spreadsheets included the nonexistent UBS investment account balances described earlier. As a result, the Treasurer was able to make it look like more money was in County Treasurer's Office bank and investment accounts at each June 30 fiscal year-end than was actually in them.

Concealment from Arizona Auditor General

The Treasurer may have concealed her actions and unauthorized use of public monies from us much in the same way she allegedly concealed her actions from the County financial consultant but through more elaborate methods as described in the example below. Our Office is required by A.R.S. §41-1279.21(A)(1) to conduct or cause to be conducted annual financial statement audits for all counties and federal single audits for counties subject to the Single Audit Act Amendments of 1996. Although county treasurer's offices do not receive their own separate financial statement audits, they provide information to us for inclusion in the county financial audits. This information includes schedules of (1) real and personal property taxes, (2) bonds payable, (3) refunded bonds payable, (4) long-term debt payments, (5) investment activity, (6) registered warrants, and (7) cash balances at fiscal year-end for specific accounts. Accordingly, during our Santa Cruz County financial statement audits, we worked directly with the Treasurer, County staff, and the County's financial consultant, and examined records related to the County Treasurer's Office.²⁰

The Treasurer may have provided our Office with fake investment statements and taken deceptive actions to make them appear real

—Because our Office lacks authority to independently obtain detailed County Treasurer's Office financial information directly from a financial institution, the Treasurer and County staff facilitated our obtaining the County Treasurer's Office financial information from its financial institutions. For example, for our fiscal year 2022 County audit, we coordinated through the Treasurer to receive the UBS investment statement, and we received what appeared to be a true UBS investment statement directly from UBS. However, it was not a true statement, and it was not from UBS. Rather, newly obtained records show that the Treasurer may have used a fake UBS ShareFile account of "ubsfinancial" (now deleted), which was associated with a deceptive "ubsfinancialplanning.com" domain name to electronically send us a fake UBS investment statement. We received this fake UBS statement about a month after requesting certain investment information through our exchange of emails with the Treasurer and/or the UBS financial advisor from February 3 through 8, 2023.

Our Office lacks authority to independently obtain detailed County Treasurer's Office financial information directly from financial institutions.

²⁰ Our audits of the Santa Cruz County financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information, and the related notes to the financial statement were conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*.

Notably, we recently discovered that following those emails, the Treasurer and the UBS financial advisor exchanged their own emails that require further explanation; however, we were unable to obtain explanations from either of them on this matter. In particular, the UBS financial advisor emailed the Treasurer on February 9, 2023, simply asking her to call him. It is unknown if the Treasurer called the UBS financial advisor, but approximately an hour later, she emailed him, stating, “I’m not asking for anything. I’ll take care of it. Please don’t resign from my account.” Although we did not locate a responding email from the UBS financial advisor, 26 minutes later, the Treasurer emailed him again stating “Don’t worry you don’t have to do anything. You don’t even have to call. I called them and took care of it...I apologize.” Within 6 minutes, the UBS financial advisor emailed back stating, “Thank you.”

When we recently asked the UBS financial advisor about these emails in which the Treasurer requested him to not resign from her account, he told us that he remembered that but could not discuss it without permission. Still, even with the newly appointed County Treasurer’s subsequent permission and his participation with us trying to obtain an explanation for these emails, the UBS financial advisor declined to provide information, and UBS legal counsel later restricted us from speaking with him.

The Treasurer may have provided auditors with 6 false June Cash Reconciliation spreadsheets—

The Treasurer may have provided the same false June Cash Reconciliation spreadsheets to us that she provided to the financial consultant, typically through the financial consultant. These June Cash Reconciliation spreadsheets for the 6 fiscal years described earlier included the fake UBS investment account balances and false reconciling amounts for warrants that reportedly had timing differences regarding when they were recorded in either the bank or the County Treasurer’s accounting system (outstanding warrants). As part of our County audit procedures, which are conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*, we tested amounts for a sample of County outstanding warrants at the June 30 fiscal year-end. These amounts were correctly recorded. However, the Treasurer may have falsely inflated outstanding warrant amounts at the June 30 fiscal year-end for school districts and certain special taxing districts, which are not included in a County audit.²¹ As a result, it falsely appeared as if more money was in the County Treasurer’s Office bank and investment accounts for schools districts and certain special taxing districts than was actually in them.

County officials should take action to help prevent similar occurrences

The primary responsibility for the prevention and detection of fraud rests with those charged with governance of the entity and management.²² During our Santa Cruz County annual financial statement audits, County management acknowledged their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud. Similarly, 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, overriding internal controls, and concealing their misconduct. In this instance, the former Santa Cruz County Treasurer appears to have abused her position of trust in order to transfer public monies to business bank accounts connected to her.

Recommendations

In the time since County officials became aware of the Treasurer’s alleged financial misconduct, they reported that they have improved the following internal controls at the County Treasurer’s Office: (1) The County Treasurer now provides independent oversight of County Treasurer’s Office functions instead of performing cash-handling duties such as transferring monies; and (2) Reconciliations of bank statements to County Treasurer’s Office records are now performed by 4 employees and then reviewed by the County Treasurer, instead of 1 person performing the reconciliation without any

²¹ School districts and certain special taxing districts subject to the *Single Audit Act Amendments of 1996* are audited by independent auditors other than our Office. A.R.S. §§15-914 and 48-253 describe the requirements for school districts and special districts, respectively, to obtain a financial statement audit or financial review from an independent certified public accountant.

²² AICPA (Clarified) [AU-C] Section 240, Considerations of Fraud in a Financial Statement Audit, Responsibility for the Prevention and Detection of Fraud, paragraph .04, states, “The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.”

review. However, based on information we learned as part of this investigation about deficiencies in the County Treasurer’s Office internal control structure, there are additional actions that can improve internal controls over public monies and help deter and detect fraud.

Specifically, County officials, the County board of supervisors, and/or the County Treasurer, should:

1. Implement our IT-related controls recommendations included in prior audit reports since fiscal year 2009.
2. Ensure access to County Treasurer’s Office accounting records is restricted to, and transactions are recorded by, an employee who does not receive cash or make disbursements.
3. Ensure employees properly safeguard their passwords and multifactor token authentication devices and do not share them with others.
4. Ensure all cash transactions, including transfers, are recorded daily in the Treasurer’s Journal and that the detailed information required by A.R.S. §11-493 is recorded in County Treasurer’s Office accounting records for all receipts and disbursements.
5. Ensure bank accounts are reconciled at least monthly to the Treasurer’s Journal by an employee independent of cash receipt and disbursement functions. All reconciling items should be investigated and immediately resolved.
6. Ensure the Treasurer’s Report is independently reconciled to the Treasurer’s Journal and Treasurer’s Ledger monthly.
7. Establish policies and procedures for the County board of supervisors and/or County department employees regarding their responsibilities for approving and/or receiving Treasurer’s Reports and Cash Reconciliation reports. Conduct training on those responsibilities and have attendees document their understanding in writing.
8. Require County Treasurer’s Office employees to attend training on internal control procedures and document their understanding in writing.
9. Periodically conduct unscheduled compliance audits to ensure internal control procedures are functioning appropriately.

Legislature should consider revising statutes to give Arizona Auditor General independent access to financial institution records and require newly elected or appointed county treasurers and chief deputy treasurers to meet minimum training requirements

Government Auditing Standards outline the primary responsibility for the prevention and detection of fraud, including that this responsibility “rests with both those charged with governance of the entity and management.”²³ During our Santa Cruz County annual financial statement audits, we acknowledged our responsibility to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

²³ AICPA (Clarified) [AU-C] Section 240, Considerations of Fraud in a Financial Statement Audit, Responsibility for the Prevention and Detection of Fraud, paragraph .04, states, “The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.”

Because our Office lacks authority to independently obtain detailed County Treasurer's Office financial information directly from a financial institution, the Treasurer and County staff facilitated our obtaining the County Treasurer's Office financial information from its financial institutions.²⁴ Since the Treasurer's alleged unauthorized activities involved potential forgery, concealing material facts, perpetrating false pretenses through a computer, intentional omissions, material misrepresentations, and overriding internal controls, her actions were not detected. However, auditors would have had an additional tool to help detect her actions if they were able to obtain detailed County Treasurer's Office financial information directly from financial institutions.

A recent National State Auditors Association technical inquiry of whether states and territories of the United States have statutory authority to receive information directly from financial institutions in order to assist with state audits yielded responses from 16 states and 1 U.S. territory. Of those 17 responses, 9 indicated they have either statutory or subpoena/compel authority to access information directly with financial institutions.²⁵

Finally, because Arizona county treasurers are elected and do not have to meet any specific educational or experience requirements related to their job responsibilities of receiving, recording, safeguarding, investing, and disbursing monies for multiple county entities, including collecting county property taxes, other than being able to read and write the English language, and because each county treasurer is able to appoint their own chief deputy treasurer, it is critical that both newly elected or appointed treasurers and chief deputy treasurers have the necessary training to properly execute the duties of the Arizona county treasurers' offices. Appropriate training could include completing an introductory course of instruction related to the performance of duties of the county treasurers' office and completing at least 20 hours of continuing education annually related to topics such as internal controls and receiving, recording, safeguarding, investing, and disbursing monies for multiple county entities.

The Legislature should consider:

1. Providing the Arizona Auditor General statutory authority to independently obtain detailed Arizona government account records directly from financial institutions and enterprises to perform official duties.
2. Revising statute to require newly elected or appointed county treasurers and chief deputy treasurers to meet minimum training requirements, such as completing introductory and annual continuing education related to the performance of their duties.

²⁴ We similarly lack authority to independently obtain financial information directly from the financial institutions for all other entities that we audit.

²⁵ The 9 respondents with statutory or subpoena/compel power are Arkansas, Hawaii, Indiana, Kentucky, Michigan, Missouri, New Mexico, Puerto Rico, and Tennessee.