



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Special Investigative Unit

---

Special Investigation

# Show Low Fire District

Theft and Misuse of Public Monies

---

May • 2016  
Report No. 16-402



**Debra K. Davenport**  
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

## The Joint Legislative Audit Committee

---

Representative **John Allen**, Chair

Senator **Judy Burges**, Vice Chair

Representative **Anthony Kern**

Senator **Nancy Barto**

Representative **Debbie McCune Davis**

Senator **Lupe Contreras**

Representative **Rebecca Rios**

Senator **David Farnsworth**

Representative **Kelly Townsend**

Senator **Lynne Pancrazi**

Representative **David Gowan** (*ex officio*)

Senator **Andy Biggs** (*ex officio*)

## Audit Staff

---

**Lindsey Perry**, Manager and Contact Person

The Auditor General's reports are available at:

**[www.azauditor.gov](http://www.azauditor.gov)**

Printed copies of our reports may be requested by contacting us at:

**Office of the Auditor General**

**2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333**



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

May 10, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board  
Timber Mesa Fire and Medical District<sup>1</sup>

The Honorable Brad Carlyon, Navajo County Attorney

The Office of the Auditor General (Office) has conducted a special investigation of the Show Low Fire District (District) for the period February 2005 through June 2012. The Office performed the investigation to determine the amount of public monies misused, if any, during that period and the extent to which those monies were 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 District's financial records or internal controls. The Office also does not ensure that all matters involving the District's internal controls, which 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 Special Investigative Report describes the Office's findings and recommendations as a result of this special investigation.

Sincerely,

Debbie Davenport  
Auditor General

Attachment

---

<sup>1</sup> In September 2014, the Show Low Fire District merged with Lakeside and Linden Fire Districts to form the Timber Mesa Fire and Medical District.

# SUMMARY

---

In July 2012, the Navajo County Attorney's Office requested the Office of the Auditor General to assist in its investigation of potential theft at the Show Low Fire District (District). As a result of our investigation, we determined that from February 2005 to June 2012, Natalie Cluff, former district administrative manager, used a fraud scheme to embezzle public monies totaling \$1,794,594, falsifying records to conceal her misconduct. The embezzled monies came from taxes paid by district property owners that should have been used to support district operations for fire protection and preservation of life. We have submitted our report to the Navajo County Attorney's Office, which has taken criminal action (see Conclusion on page 17 of this report).

## Investigation highlights

Former Show Low Fire District administrative manager, Natalie Cluff:

- Embezzled \$1,794,594 by unlawfully issuing and signing district checks.
- Falsified computer data and forged audit reports in order to conceal her embezzlement.

Specifically, Ms. Cluff may have violated state laws related to theft, fraudulent schemes, and misuse of public monies when she unlawfully issued 474 checks totaling \$1,794,594. In particular, Ms. Cluff issued 446 unlawful district checks totaling \$1,623,465 payable in her name, her father's name (district fire chief), or her then-fiancé's name (district assistant fire chief), usually writing various false explanations for the checks' purpose in the memo sections. All of the available checks were deposited in Ms. Cluff's bank accounts.<sup>1</sup> Ms. Cluff also issued another 28 unlawful district checks totaling \$171,129 payable to personal credit card accounts associated with the above-listed individuals. Bank and credit card records show this money was primarily spent on retail-related purchases, cash withdrawals, and personal debt, with some money going to two of Ms. Cluff's siblings.

In addition, Ms. Cluff may have violated state laws related to computer tampering, forgery, and false filing when she attempted to conceal her actions by falsifying information recorded in the District's accounting software related to 150 of these unlawful checks and by submitting fake district Independent Auditor's Reports to two entities a total of 11 times.

Ms. Cluff embezzled this nearly \$1.8 million of district monies by abusing her authority as district administrative manager and by taking advantage of inadequate internal controls over the expenditure and reporting of district monies. Additionally, district officials, including Ms. Cluff's father Ben Owens, failed to exercise oversight over Ms. Cluff's activities. In particular, they did not adequately segregate cash disbursement duties, allowing Ms. Cluff access to check stock, check-register-accounting software, signature stamps, and bank statements without any compensating controls. Moreover, governing board officials failed to ensure Ms. Cluff was appropriately supervised, allowing her to report directly to her father or her then-fiancé.

---

<sup>1</sup> Deposit records were not available for ten checks dated between May and September 2005. The remaining 436 checks were deposited in seven of Ms. Cluff's bank accounts: two of her own, two she held jointly with her ex-husband, two she held jointly with her parents, and one she held jointly with her then-fiancé.

In the time since the Office of the Auditor General's investigation began, district officials reported that they implemented improvements to controls over district monies such as discontinuing the use of signature stamps and hiring an accounting firm to conduct audits through fiscal year 2014. Subsequent to these changes, in September 2014, the District merged with two other fire districts and created a new district. Although the District no longer exists and no internal control system can completely prevent dishonest behavior such as Ms. Cluff's, there are ways districts in general can improve control over public monies to help deter and detect fraud. As discussed in the Recommendations section on page 15, districts should separate check-preparing and signing responsibilities, and an employee independent of these two functions should reconcile check registers to bank statements. Moreover, districts should develop and implement policies and procedures regarding the use of signature stamps and should evaluate accounting software programs to ensure financial transactions are accurately recorded. Additionally, board members should exercise their authority to review district financial records and consider receiving training to educate themselves about district statutory requirements as well as financial policies and procedures.

# TABLE OF CONTENTS

---



Introduction & Background	1
Finding 1: Ms. Cluff embezzled \$1,794,594 of district monies by unlawfully issuing 474 checks and concealed her misconduct by falsifying records	3
By unlawfully issuing 446 of these checks in her name, her father's name, or her then-fiancé's name, Ms. Cluff embezzled \$1,623,465	3
By unlawfully issuing 28 of these checks for payments on credit cards associated with herself, her father, or her then-fiancé, Ms. Cluff embezzled \$171,129	6
Ms. Cluff falsified records associated with 150 of the unauthorized district checks she unlawfully issued	7
Finding 2: Ms. Cluff submitted fake audit reports to two entities	9
Finding 3: District officials failed to safeguard and control district monies	13
Recommendations	15
Conclusion	17
Tables	
1 Public monies Ms. Cluff embezzled February 2005 through June 2012	3
2 Deposit records for unlawful checks Ms. Cluff issued payable in her name, her father's name, or her then-fiancé's name August 2005 through July 2012	5

# TABLE OF CONTENTS

---



## Tables (Continued)

3	District checks Ms. Cluff unlawfully issued for individuals' personal debt February 2005 through April 2011	6
4	Fake Independent Auditor's Reports Fiscal years 2005 through 2011	9

# INTRODUCTION & BACKGROUND

---

During the time period of February 2005 through June 2012 that our investigation covered, Show Low Fire District (District) was located in Navajo County and provided fire suppression services for the city of Show Low and surrounding communities. In September 2014, the District merged with Lakeside and Linden Fire Districts to form the Timber Mesa Fire and Medical District. This merger occurred during the course of this investigation and after theft allegations had been made.

As one of 44 special taxing districts in Navajo County that levied property taxes during fiscal year 2014, the District levied the highest amount at \$4,284,647 (unaudited). The District was legally responsible, by statute, to report its financial position to the Navajo County Board of Supervisors annually and was governed by five governing board members who were elected to 4-year terms by voters residing within the District's boundaries.

## Natalie Cluff's district employment duties included managing finances

Ms. Cluff began her employment with the District on May 15, 2000, as an administrative assistant and by April 2008 was promoted to administrative manager wherein she was responsible for the supervision, administration, and operations related to district finances, including preparing payroll, overseeing accounts payable, reconciling bank and credit card statements, and assisting with preparing budgets. Ms. Cluff issued checks from two different district bank accounts using her access to the District's accounting software, blank check stock, and governing board members' signature stamps. Likewise, Ms. Cluff had this same check issuing access for a \$1 million line of credit Navajo County had established with a bank to help the District pay bills while awaiting collection of tax revenues. Ms. Cluff also submitted annual reports to Navajo County.<sup>1</sup>

Ms. Cluff had unfettered access to the accounting software, check stock, and signature stamps for all district bank accounts.

As a result of alleged policy violations involving financial transactions, the District put Ms. Cluff on paid administrative suspension on July 3, 2012. Ms. Cluff subsequently resigned on August 9, 2012.

---

<sup>1</sup> Arizona Revised Statutes (A.R.S.) §48-251 requires nonexempt special taxing districts to submit to the county in which the district is located annual reports with organizational information such as governing board member names and phone numbers; meeting schedules and location; as well as financial reports of fund balances, revenues, and expenditures. A.R.S. §48-253 requires those financial reports to be audited if the district budget is \$1 million or more.



## Ms. Cluff's father and then-fiancé worked for the District

During Ms. Cluff's employment, her father and her then-fiancé also worked for the District. Her father was employed as the fire chief beginning in May 1997 until his retirement in June 2012. The District employed Ms. Cluff's then-fiancé beginning as a firefighter in September 2001. He advanced to various positions, including assistant fire chief in May 2006 and fire chief in March 2012, ending with his resignation in August 2012.<sup>1</sup>

## Investigations ensued after concerns of unauthorized payments were brought to governing board

In June 2012, district employees informed a governing board member that certain check payments appeared to be unauthorized and were deleted from the accounting software. Consequently, the District hired an accounting firm to review specific financial areas. The accounting firm's report outlined several areas of concern, and the District subsequently hired a law firm to investigate allegations of workplace misconduct. The law firm's August 2012 report concluded that Ms. Cluff had engaged in extensive misconduct that needed to be addressed by law enforcement. Accordingly, the Navajo County Attorney's Office began an investigation of potential theft at the District and requested assistance from the Office of the Auditor General (Office).

Through their attorneys, Ms. Cluff and her father declined to meet with Auditor General staff. Ms. Cluff's then-fiancé agreed to meet and reported to this Office he had no knowledge of the unauthorized checks Ms. Cluff issued payable in his name. His statements were corroborated by text messages obtained from Ms. Cluff's cell phone. Specifically, she wrote to an acquaintance that she would take full responsibility, her father and her then-fiancé were guilty only of trusting her, and she failed miserably. Ms. Cluff also wrote to her mother that she had ruined her then-fiancé's career and reputation.

---

<sup>1</sup> Although Ms. Cluff's then-fiancé held various district positions during his employment, he was the assistant fire chief for most of the embezzlement time frame discussed in this report. He and Ms. Cluff's father were concurrently serving as fire chief for a 4-month transition period prior to Ms. Cluff's father's retirement.

# FINDING 1

---

## Ms. Cluff embezzled \$1,794,594 of district monies by unlawfully issuing 474 district checks and concealed her misconduct by falsifying records

From February 2005 through June 2012, Ms. Cluff, former Show Low Fire District (District) administrative manager, embezzled \$1,794,594 of public monies when she unlawfully issued 474 checks. The embezzled monies came from taxes paid by district property owners that should have been used to support district operations for fire protection and preservation of life. As shown in Table 1 below, Ms. Cluff issued 446 unauthorized district checks totaling \$1,623,465 payable in her name, her father's name (district fire chief), or her then-fiancé's name (district assistant fire chief), and another 28 unauthorized district checks totaling \$171,129 payable to personal credit card accounts associated with the same individuals. Attempting to conceal her unlawful actions, Ms. Cluff also falsified certain records in the District's accounting software related to 150 of these unauthorized checks.

---

**Table 1: Public monies Ms. Cluff embezzled February 2005 through June 2012**

Description	Number of checks	Amount
Checks Ms. Cluff issued payable to herself, her father, or her then-fiancé	446	\$1,623,465
Checks Ms. Cluff issued payable to credit card accounts associated with herself, her father, or her then-fiancé	<u>28</u>	<u>171,129</u>
<b>Total embezzled</b>	<b><u>474</u></b>	<b><u>\$1,794,594</u></b>

Source: Auditor General staff analysis of district records and interviews with district staff.

---

## By unlawfully issuing 446 of these checks in her name, her father's name, or her then-fiancé's name, Ms. Cluff embezzled \$1,623,465

From May 2005 through June 2012, Ms. Cluff wrote 446 unlawful district checks totaling \$1,623,465 payable in her name, her father's name, or her then-fiancé's name, usually writing various false explanations for the checks' purpose in the memo sections. These checks ranged in amount from \$1,006 to \$9,784 and were issued up to 22 times in a month, with the highest monthly total equaling \$76,238. All of the available checks, including those

Ms. Cluff issued unlawful checks up to 22 times in 1 month with individual check amounts ranging from \$1,006 to \$9,784.

issued in her father's or her then-fiancé's names, were deposited in Ms. Cluff's bank accounts.<sup>1</sup> Bank records show these deposits were commingled with other monies such as salary and primarily spent on retail-related purchases, cash withdrawals, and personal debt, with some money going to two of Ms. Cluff's siblings.

Ms. Cluff wrote false payment purposes in check memo sections—Attempting to make it appear as if the payments were for authorized reasons such as payroll-related purposes, Ms. Cluff wrote false explanations in the memo sections for 357, or about 80 percent, of the 446 unlawful checks she issued in her name, her father's name, or her then-fiancé's name. The remaining checks' memo sections were left blank.

Expressly, she often falsely indicated the check was for a certain pay period or paid time off; however, these employees all received their authorized pay through direct deposit from the District's contracted payroll service provider and were not entitled to receive extra pay. For example, on December 13, 2006, Ms. Cluff issued herself a \$2,556.80 unauthorized check reportedly for payroll even though she received her full pay through direct deposit. She wrote "11/27/2006 – 12/10/2006 Pay Period" in the memo section; however, this was not a true district pay period, and the payment was not included in district payroll records or reported to taxing authorities.

Ms. Cluff also falsely represented that certain checks were for retirement even though none of these employees were retired and the District's retirement plan was administered by another entity, not by the District. For example, on March 17, 2011, Ms. Cluff issued an unauthorized \$4,862.53 check payable to her father for "Retirement Pay-out." Ms. Cluff's account card was used this same day to deposit the check through an automatic teller machine (ATM) in a bank account she shared with her parents.

Ms. Cluff wrote false descriptions in memo sections such as:

- "Pay Period" with fake dates;
- "Paid Time Off" with fake dates;
- "Retirement Pay-out"; and
- wildfire and emergency situations.

Additionally, Ms. Cluff deceptively wrote that some checks were payment for attendance at specific state wildfire and emergency response situations, which, in some circumstances, could allow for supplementary pay; however, there is no record these individuals ever attended or assisted with those situations, and none of the payments followed typical district procedures for such events. Likewise, on February 25, 2010, Ms. Cluff wrote herself a \$9,783.56 district check with "Wildland (sic) Academy Instructor Pay" in the memo section, yet the Arizona Wildfire Academy (Academy) had no record of Ms. Cluff's ever teaching at their facility. Moreover, even if she had attended or taught at the Academy, she was not authorized to receive any supplemental pay for this service.

Ms. Cluff wrote herself a \$9,784 check for "Instructor" services she never provided.

<sup>1</sup> Deposit records were not available for ten checks dated between May and September 2005. The remaining 436 checks were deposited in seven of Ms. Cluff's bank accounts: two of her own, two she held jointly with her ex-husband, two she held jointly with her parents, and one she held jointly with her then-fiancé.

Finally, even though the memo section descriptions made the payments appear to be reportable income, most of these unlawful payments were not reported to taxing authorities (federal or state), retirement systems, or even the employees in whose name the checks were issued. Of the 446 unlawful checks she issued, Ms. Cluff included only six of these payments, totaling \$13,468, in district payroll records and tax-reporting forms such as W-2 forms.<sup>1</sup> As a result, Ms. Cluff did not include \$1,609,997 of these payments in district payroll records or otherwise report the payments to taxing authorities, retirement systems, or employees.

Ms. Cluff did not report \$1,609,997 of these payments to taxing authorities, retirement systems, or even the employees.

**Unlawful checks were deposited in Ms. Cluff’s bank accounts**—Deposit records show that all available checks, including those payable to her father and her then-fiancé, were deposited only in Ms. Cluff’s bank accounts. Specifically, 436 checks were deposited in seven of Ms. Cluff’s bank accounts: two of her own, two she held jointly with her ex-husband, two she held jointly with her parents, and one she held jointly with her then-fiancé. Although her father and her

then-fiancé had several bank accounts that were not associated with Ms. Cluff, none of these checks were deposited in those bank accounts.

All available unlawful district checks were deposited in seven of Ms. Cluff’s bank accounts. She shared two of these bank accounts with her parents and one with her then-fiancé.

Moreover, as shown in Table 2 below, all but 10 of the available checks were deposited electronically through an automatic teller machine (ATM). Documentation is not available to show who made the 10 teller-counter

deposits or whose account card was used for 171 of the ATM check deposits, but bank records show Ms. Cluff’s account cards were used for depositing 248 checks, including those payable to her father and her then-fiancé. Her father’s account card was used for the remaining 7 checks.

**Table 2: Deposit records for unlawful checks Ms. Cluff issued payable in her name, her father’s name, or her then-fiancé’s name August 2005 through July 2012**

Description	Number of checks	Amount
Ms. Cluff’s account cards used for ATM deposits	248	\$ 882,482
Unidentified account card used for ATM deposits <sup>1</sup>	171	641,086
Checks without deposit records <sup>1</sup>	10	36,307
Checks deposited at teller counter	10	39,621
Ms. Cluff’s father’s account card used for ATM deposits	<u>7</u>	<u>23,969</u>
<b>Total unlawful district checks</b>	<b><u>446</u></b>	<b><u>\$1,623,465</u></b>

<sup>1</sup> Deposit records were not available for checks dated between May and September 2005. Further, account card holder records for ATM deposits from 2005 to 2009 and for one ATM deposit in 2011 were not available.

Source: Auditor General staff analysis of district and bank records.

<sup>1</sup> In July and August 2008, six checks totaling \$13,468 were processed through the District’s payroll provider and therefore reported to taxing authorities and included in the employee’s income tax return. However, these payments were not authorized by the District’s governing board and were outside the parameters of the individual’s employment contract.

Embezzled monies were commingled with other monies and spent on personal purchases and transfers to Ms. Cluff's siblings—Embezzled checks were deposited in personal bank accounts and thereby commingled with other personal monies such as salary for these three individuals. The monies were used for personal expenses related to retail purchases, cash withdrawals, debt, and monetary transfers to Ms. Cluff's siblings. Specifically, during this 7-year time period, nearly half of this money was spent with retail vendors such as Amazon, Sephora, Walmart, and Coach. The remaining amount was primarily spent on cash withdrawals and debt payment associated with mortgages, auto loans, student loans, and credit cards as well as payments for utilities, restaurant purchases, and bank fees. Also included is \$120,572 Ms. Cluff transferred to her siblings. In particular, from June 2009 through July 2012, she made 139 transfers totaling \$94,720 to her sister's bank account in response to her requests for help with living expenses and 70 transfers totaling \$26,252 to her brother's bank account reportedly for childcare and cleaning services provided to Ms. Cluff by her brother's wife.

## By unlawfully issuing 28 of these checks for payments on credit cards associated with herself, her father, or her then-fiancé, Ms. Cluff embezzled \$171,129

As shown in Table 3 below, from February 2005 through April 2011, Ms. Cluff wrote 28 unlawful district checks totaling \$171,129 payable to credit card companies for six personal accounts associated with herself, her father, or her then-fiancé. Ms. Cluff had no authority or legitimate purpose to write district checks payable to an individual's personal credit card company as the District had other procedures in place for district purchases. In fact, Ms. Cluff and her father were both issued district credit cards they had used on occasion for authorized district-related purposes.

**Table 3: District checks Ms. Cluff unlawfully issued for individuals' personal debt February 2005 through April 2011**

<b>Description</b>	<b>Number of checks</b>	<b>Amount</b>
Two credit card accounts associated with Ms. Cluff's father	19	\$133,734
Three credit card accounts associated with Ms. Cluff	8	33,058
One credit card account associated with Ms. Cluff's then-fiancé	<u>1</u>	<u>4,337</u>
<b>Total unlawful district checks</b>	<b><u>28</u></b>	<b><u>\$171,129</u></b>

Source: Auditor General staff analysis of district and bank records.

These payments were not for district-related transactions, but for balances stemming primarily from personal cash advances, retail purchases, travel, interest, and bank fees. Moreover, some of these checks paid off balances that were several months old and had been accumulating interest charges. For example, in October 2009, Ms. Cluff issued a \$4,337.29 district check payable to American Express with the false description of “61004 Reimburse for building expenses” in the memo section. However, the American Express credit card account ending in the number “61004” belonged to an associate of her then-fiancé, and no purchases had been made on it in nearly a year. The District check paid the entire personal credit card balance, which stemmed not from “building expenses” but from personal purchases, late-payment and over-limit fees, and interest charges. Likewise, nearly 60 percent of the payments she made on her father’s personal credit cards related to cash advances, with the remaining amount for travel expenses and retail purchases at stores such as Dillard’s, Sephora, Eddie Bauer, Coach, and Lowes, as well as accumulated bank fees, late charges, and interest expenses. The checks Ms. Cluff issued to pay three of her personal credit card accounts were also for retail-related purchases and cash advances, travel expenses, interest, and bank fees.

Ms. Cluff issued district checks to pay off personal credit card balances that were several months old and had accumulated interest charges and late-payment fees.

## Ms. Cluff falsified records associated with 150 of the unauthorized district checks she unlawfully issued

From May 2006 through May 2012, Ms. Cluff attempted to conceal her embezzlement by falsifying information recorded in the District’s check-register-accounting software related to 150 of the 474 unauthorized district checks she unlawfully issued.<sup>1</sup> Specifically, after she issued these unauthorized checks, she either changed accounting software check data to reflect a previous lawful transaction or deleted the check entirely. For instance, on February 17, 2010, Ms. Cluff issued a legitimate \$6,151.04 district check to an individual pursuant to a specific contract, but a month later altered the accounting software to change the payee to her name, printed an unauthorized \$6,151.04 check for herself, and then changed the payee back to the original individual. Because district officials did not ensure the accounting software properly issued sequential check numbers, the check register appeared to reflect the issuance of only the authorized check. In other circumstances, Ms. Cluff simply deleted all information related to an unauthorized check, making the check register appear as if the unlawful check had never been issued.

Ms. Cluff attempted to conceal her embezzlement by changing or deleting district accounting software records.

<sup>1</sup> Check-register-accounting software data related to the remaining 324 checks show 9 checks were not altered; however, data related to the other 315 checks was incomplete.



# FINDING 2

## Ms. Cluff submitted fake audit reports to two entities

Ms. Cluff submitted fake district Independent Auditor's Reports to two entities a total of 11 times.<sup>1</sup> Specifically, she submitted to Navajo County seven fake Independent Auditor's Reports for fiscal years 2005 through 2011 and provided the last four of these to a bank Navajo County held a \$1 million line of credit with to help the District pay bills while awaiting collection of tax revenues. These reports were for the purpose of presenting an auditor's opinion on whether the District's financial position was fairly presented in the accompanying financial statements; however, the audits were never performed. Further, the District had no record of payment to any of these reported auditors. In fact, one of the listed certified public accountants (CPA) and the listed CPA firm do not exist. The one actual CPA, an acquaintance of Ms. Cluff, said he never performed these audits. See Table 4 below.

**Table 4: Fake Independent Auditor's Reports  
Fiscal years 2005 through 2011**

<b>Fiscal year</b>	<b>Auditor indicated on report</b>	<b>Audit actually performed</b>	<b>Status of reported auditor</b>
2005	Jennifer Wilson, CPA	No	CPA does not exist
2006	Jennifer Wilson, CPA	No	CPA does not exist
2007	Jennifer Wilson, CPA	No	CPA does not exist
2008	Ms. Cluff's acquaintance	No	CPA
2009	Ms. Cluff's acquaintance	No	CPA
2010	Ms. Cluff's acquaintance	No	CPA
2011	Hough & Wilson, Certified Public Accountants	No	CPA firm does not exist

Source: Auditor General staff analysis of bank, Navajo County, and Arizona State Board of Accountancy records.

Beginning in about 2005, Ms. Cluff reportedly represented to the governing board that as a cost-savings measure, printed copies of audit reports were no longer issued. Thereafter, she indicated when an audit was done and stated that a copy would be available in her office. In fact, financial statement audits had not been performed since 2003. A CPA had been engaged for the fiscal year 2004 audit; however, this CPA resigned, citing difficulty in obtaining the required audit information. Although this resignation letter was sent certified mail to the governing board and Ms. Cluff signed as receiver, board members stated they did not know the auditor had quit or that there were any complications with the audit. Accordingly, an audit for fiscal year 2004 was not submitted to Navajo County; however, Ms. Cluff submitted by facsimile transmission fake Independent Auditor's Reports for seven fiscal years thereafter, as follows:

<sup>1</sup> Arizona Revised Statutes (A.R.S.) §48-251 requires nonexempt special taxing districts to submit to the county in which the district is located annual reports with organizational information such as governing board member names and phone numbers; meeting schedules and location; and financial reports of fund balances, revenues, and expenditures. A.R.S. §48-253 requires those financial reports to be audited if the district budget is \$1 million dollars or more.



- **Audit reports for fiscal years 2005 through 2007 were fake**—These reports were allegedly written by Jennifer Wilson, CPA, with a Mesa address; however, the Arizona State Board of Accountancy has no record of her as a licensed certified public accountant, and the listed Mesa address does not exist. Moreover, the reports were poorly written with entire financial statements missing, several mathematical errors, date inconsistencies, and questionable amounts.
- **Audit reports for fiscal years 2008 through 2010 were fake**—An actual CPA who was an acquaintance of Ms. Cluff's supposedly wrote these reports. Nonetheless, he affirmed to Auditor General staff that he was not engaged to and never performed these audits. Similar to the prior fake audits described above, these fake audits had problems with accuracy and completeness as well.

In addition to Navajo County, Ms. Cluff also submitted the fiscal years 2008 through 2010 fake audit reports to a bank holding a \$1 million line of credit Navajo County had established to help the District pay bills while awaiting collection of tax revenues. Because of inaccuracies in the financial statements that necessitated explanation, a bank official e-mailed Ms. Cluff for the CPA's phone number as it was not included in the audit reports. Ms. Cluff dishonestly replied that the CPA had told her he was leaving his firm to go to a new firm, maybe in Florida; his phone number was not good anymore; the District had a new auditor; and "won't need to worry about his flakiness anymore." The bank authorized a short-term extension. Even though Ms. Cluff continued to issue the unauthorized checks described on pages 3 through 7, in later e-mails to the bank official she declared that two major fires had put the District in the predicament of not having sufficient monies for the upcoming payday but pledged to pay the bank back with taxes expected to be collected in the next couple of months. The bank allowed another short-term extension and continued to inquire of Ms. Cluff until she submitted the next year's audit as described below.

- **Fiscal year 2011 audit report was fake**—This report, still with problems of accuracy and completeness, was purportedly written by Hough & Wilson, Certified Public Accountants, and signed by Jen Hough, CPA. Nonetheless, the Arizona State Board of Accountancy has no record of either Hough & Wilson as a licensed firm or Jen Hough as a licensed CPA. The only contact information provided in the report was an e-mail address of "cpamomjen," which was used by the bank official in January 2012 after again noting inaccuracies in these financial statements. Data obtained from Ms. Cluff's personal cell phone revealed that her phone was used to send reply messages to the bank official from the "cpamomjen" e-mail account. In these messages, Ms. Cluff falsely presented herself to the bank official as Jen Hough, initially stating she was caring for her sick mother and would get back to him "ASAP," later attaching what was purported to be part of the notes to the financial statements.

Ms. Cluff falsely represented herself to be the auditor "Jen Hough."

On June 27, 2012, the bank official sent another e-mail to "Jen Hough" requesting information that should have been included in the financial statements. Although "Jen Hough" did not respond, just hours later, Ms. Cluff sent the official an e-mail from her personal account stating that she had not heard from him in a while. She further inquired if everything was

worked out and claimed that she just had lunch with the CPA who had performed the fiscal years 2008 through 2010 audits and he promised to help get things straight. She asked the official to please “see what we can do”; however, as described on page 1, Ms. Cluff was put on administrative suspension the following week.



# FINDING 3

---

## District officials failed to safeguard and control district monies

District governing board members and the fire chief, Ben Owens, failed to properly protect and control district monies entrusted to them by taxpayers. Although governing board members had the authority to review district financial records, and Mr. Owens as fire chief had contractual responsibilities to oversee district finances, these officials allowed one individual, Mr. Owens' daughter Natalie Cluff, to have control over millions of dollars without oversight for several years. During the time period Ms. Cluff was embezzling district monies, these officials entrusted her with significant budgeted amounts of district monies ranging from \$1.6 million in fiscal year 2005 to \$4.4 million in fiscal year 2012. For 8 years, the governing board and Mr. Owens failed to ensure the money was appropriately expended as they had budgeted, allowing Ms. Cluff to embezzle nearly \$1.8 million.

Specifically, the governing board and Mr. Owens failed to safeguard and control district monies as follows:

- **No independent oversight of accounting personnel**—No one established an independent level of review over the fire chief's daughter when she was hired as an administrative assistant or when she was later promoted to the administrative manager position. Instead, they allowed Ms. Cluff to have autonomous control over district finances and report directly to her father or her then-fiancé (district assistant fire chief). She had unfettered access to check stock, check-register-accounting software, signature stamps, and bank statements without any oversight or compensating controls regarding this inadequate separation of responsibilities. Most significantly, Ms. Cluff was allowed to maintain for all bank accounts the blank check stock and governing board members' signature stamps in her own custody. She regularly used these stamps without board members' review or approval, sometimes using a stamp 23 months after the member had served on the governing board. Even when signing checks in person, board members often did not review or approve documentation supporting expenditures; rather, they arrived at board meetings early to sign stacks of blank checks and provided them to Ms. Cluff.
- **Financial records not evaluated**—No one reviewed records such as bank statements, check register listings, or reconciliations between those documents for any of the accounts. In fact, one of the bank accounts Ms. Cluff embezzled from was established by the governing board 8 years before they even had statutory authority for maintaining a bank account separate from the county.<sup>1</sup> Although the governing board established this bank account in 2004 to assist with

Ms. Cluff maintained governing board members' signature stamps and used them without their review or approval.

---

<sup>1</sup> Beginning with fiscal year 2012, Arizona Revised Statutes §48-807(L) allows fire districts to maintain certain accounts with authorized financial institutions to fulfill their fiduciary responsibilities relative to payroll, ambulance, or special revenues.

payroll responsibilities, it never reviewed any documents to ensure it was used for the intended purpose. Other bank accounts Ms. Cluff embezzled from were appropriately authorized and established by the County; however, no one reviewed any records from those accounts, either. Counties do not have statutory oversight regarding the financial management of special taxing districts, like Show Low Fire District; that responsibility lies with the districts.

- **Accounting software inadequately managed**—District officials also did not ensure the accounting software properly recorded and controlled all transactions. Therefore, Ms. Cluff concealed her embezzlement scheme by changing and deleting transactions recorded in this software.
- **No assurance that annual financial audits performed**—As a nonexempt special taxing district with a budget of at least \$1 million, the District was required by state law to have annual audits performed in accordance with generally accepted auditing standards.<sup>1</sup> Nonetheless, neither the governing board nor Mr. Owens ensured the annual audits were performed from fiscal years 2004 through 2011.

---

<sup>1</sup> Beginning with fiscal year 2011, these audits are required to be performed in accordance with generally accepted government auditing standards.

# RECOMMENDATIONS

---

In the time since the Office of the Auditor General's investigation began, district officials reported that they implemented improvements to controls over district monies such as discontinuing the use of signature stamps and hiring an accounting firm to conduct audits through fiscal year 2014. Although the District took these appropriate measures, and considering that the District has since merged with two other fire districts to create Timber Mesa Fire and Medical District, the following recommendations are additional actions districts in general can take to improve control over public monies and help deter and detect fraud. Specifically, district officials should:

1. Ensure responsibilities of disbursing monies are adequately separated. Specifically, employees who prepare checks should not also sign them. Supporting documentation for check payments such as contracts, invoices, or other billings should be reviewed for propriety by an authorized employee. Additionally, an employee or official independent of cash disbursements should reconcile check register records to bank statements. Any discrepancies noted in the reconciliations should be immediately investigated and resolved.
2. Develop and implement policies and procedures regarding the use of signature stamps. Signature stamps should be securely stored and used only by the person whose signature is being represented. Further, the stamps should be destroyed at the conclusion of an individual's employment or a board member's term. Additionally, blank checks should not be signed. Only checks with all fields fully completed should be signed after appropriate documentation is reviewed and approved.
3. Evaluate accounting software programs to ensure recording of financial transactions is accurate and controlled. Any alterations to the program or transactional data must be appropriately authorized and fully reported.
4. Exercise their authority to review district financial records.<sup>1</sup> In particular, governing board members should regularly review bank statements and check register reconciliations. Additionally, board members should consider receiving training to educate themselves about district statutory requirements as well as financial policies and procedures.
5. Ensure employees are adequately supervised. Specifically, the governing board should develop and implement policies and procedures to address employees that are supervised by a relative. At a minimum, these policies and procedures should require supervisors to submit a statement that describes the relationship with the employee, and the supervisor must refrain from participating in decisions or contracts relating to that relative.

---

<sup>1</sup> Arizona Revised Statutes §48-805(E) allows one or more designated board members to have full access to the District's financial records.



# CONCLUSION

---

On May 3, 2016, the Navajo County Attorney's Office presented evidence to the Navajo County Grand Jury. This action resulted in the indictments of Natalie Cluff (former district administrative manager) on 21 felony counts related to theft, misuse of public monies, fraudulent schemes, computer tampering, forgery, and false filing. In addition, Ms. Cluff and her father Ben Owens (former district fire chief), were each indicted on four felony counts related to conspiracy, illegally conducting an enterprise, assisting a criminal syndicate, and money laundering.



