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October 4, 2017

Members of the Arizona Legislature

The Board of Supervisors  
Santa Cruz County, Arizona

The Honorable George Silva, Santa Cruz County Attorney

The Office of the Auditor General (Office) has conducted a financial investigation of Santa Cruz County landfill operations for the period March 2015 through April 2015. The Office performed the investigation to determine the amount of public monies misused, if any, during that period.

The investigation consisted primarily of inquiries, observations, examination of selected financial records and other documentation, and selected tests of internal control over the County's landfill 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 as a result of this investigation.

Sincerely,

Debbie Davenport  
Auditor General

Attachment

## Santa Cruz County Theft and Misuse of Public Monies

**Synopsis:** As part of its responsibility to prevent and detect fraud, Santa Cruz County (County) management took appropriate action by reporting a fraud allegation to a law enforcement agency and to the Office of the Auditor General (Office). The County subsequently requested our Office to investigate the fraud allegations, and we determined that from March through April 2015, Gary Shadrick, former landfill supervisor, embezzled \$8,233 of landfill receipts that should have been used to support county operations. On September 15, 2017, a criminal complaint was filed against Mr. Shadrick.

### Overview

The County operates three landfill/transfer station sites, and in fiscal year 2016, these sites reported revenue of \$2,061,792. For the last 7 of his 15 years as a county employee, Gary Shadrick managed two of these sites. His responsibilities included reviewing daily receipt reconciliations, safeguarding landfill receipts, preparing deposit forms, and submitting landfill receipts and deposit forms to county officials.

As a result of our fiscal years 2012 and 2013 audits, our Office twice reported to county management that it should improve its procedures over landfill receipts due to certain deficiencies we noted regarding landfill receipts and deposits.<sup>1</sup> In fiscal year 2014, county management implemented new internal control procedures to better safeguard landfill receipts, including assigning an employee to review the timeliness of landfill deposits. This employee took corrective action after noticing landfill receipts were more than 2 weeks late for deposit. Specifically, on May 4, 2015, this employee conducted an unannounced spot check at the main landfill site Mr. Shadrick managed and determined that although check receipts were secured in the safe, no cash receipts were present. Mr. Shadrick admitted to the employee and, later, to other county employees that he had taken cash receipts but did not know how much. The County immediately placed him on administrative leave and on May 14, 2015, terminated his employment.

### Mr. Shadrick embezzled \$8,233 of public monies that should have benefited the County

From March 19 through April 28, 2015, Mr. Shadrick embezzled cash receipts totaling \$8,233 from both of the landfill/transfer station sites he managed. These daily cash receipts ranged from \$54 to \$2,186 and should have been deposited with the county treasurer; however, Mr. Shadrick kept these monies for his own personal use. Mr. Shadrick admitted to Auditor General staff that he had taken the money and claimed he was going to pay it back. He further admitted that for at least a few months' time prior to March 19, 2015, he had delayed making deposits, instead taking landfill cash receipts for his personal use and later depositing the amount he took with either subsequently collected landfill cash receipts or with some of his personal monies. Although transaction amounts for the few months' time that Mr. Shadrick admitted he was delaying deposits while personally using cash receipts cannot be quantified because certain county records are incomplete and inaccurate, other county records depict that at the end of his scheme, missing landfill receipts totaled at least \$8,233.<sup>2</sup> Mr. Shadrick offered to repay these monies; however, as of June 16, 2017, no repayment had been accepted.

Mr. Shadrick admitted to taking cash receipts and claimed he intended to pay the money back.

<sup>1</sup> See Office of the Auditor General, Single Audits: *Santa Cruz County Year Ended June 30, 2012*, and *Santa Cruz County Year Ended June 30, 2013*.

<sup>2</sup> Multiple daily cash summary reports for landfill receipts were missing, illegible, or inaccurate, and deposit forms did not always identify the source of the monies being deposited.

# County officials failed to provide adequate oversight and maintain effective internal controls

County officials did not provide adequate oversight or maintain effective internal controls to ensure all landfill cash receipts were appropriately collected, recorded, and deposited. In fact, our Office twice reported to county management that the County was at risk of exposing public monies to misuse and potential loss. In particular, our fiscal years 2012 and 2013 financial audits revealed landfill cash receipts did not match cash deposits and those receipts were not deposited in a timely manner. Although management subsequently implemented certain internal control procedures, those procedures did not provide adequate oversight and were ineffective at ensuring timely and accurate deposits. Moreover, management did not ensure correct and complete records were maintained for landfill receipts and deposits. Consequently, Mr. Shadrick had the opportunity to embezzle cash receipts until the May 2015 unannounced spot check described earlier.

## Recommendations

Since becoming aware of the theft, county management reported that they have further enhanced internal control procedures. In particular, management enabled the audit trail function on the landfill accounting software to assist in daily reconciliations and ensure the accuracy of collections to deposits. Management reported that they also updated county policy to require cash collections over \$500 be deposited by the next business day and mandatory deposits be made on Mondays and Thursdays regardless of collection amounts. However, the County can take additional actions to improve controls over public monies to help deter and detect fraud. Specifically, county management should:

- Independently verify that landfill deposits are accurate and timely;
- Update county policy to describe expectations for landfill receipt, deposit, and reconciliation procedures, including a description of all documents that should be retained. Retained documents should include, but are not limited to, the treasurer's deposit receipt, landfill deposit form, daily cash summary report, and accounting software receipt collection statements;
- Ensure landfill policies are communicated to employees and acknowledged as received and understood; and
- Continue to conduct unannounced spot checks to ensure policies are being followed.

## Conclusion

Our investigation revealed that from March through April 2015, Gary Shadrick, former landfill supervisor, embezzled \$8,233 of landfill receipts that should have been used to support county operations. We have submitted our report to the Santa Cruz County Attorney's Office, which, on September 15, 2017, filed a criminal complaint with the Nogales Justice Court alleging that Mr. Shadrick committed theft and misuse of public monies against the County.