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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

September 25, 2018

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Governing Board
Silver Creek Irrigation District

The Honorable Brad Carlyon, Navajo County Attorney

The Office of the Auditor General has conducted a financial investigation of Silver Creek Irrigation District (District) for the period August 2011 through December 2016. We performed the investigation to determine the amount of public monies misused, if any, during that period.

The investigation consisted primarily of inquiries, observations, examination of selected financial records and other documentation, and selected tests of internal control over the District's 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,

Lindsey Perry
Auditor General

Attachment

Silver Creek Irrigation District Criminal Indictment—Theft and Conspiracy

SYNOPSIS: The Navajo County Attorney’s Office requested the Office of the Auditor General to assist in its investigation of potential fraud by Silver Creek Irrigation District’s (District) former bookkeeper. Our investigation revealed that from August 2011 through December 2016, the former bookkeeper withdrew \$829,400 of district monies and reportedly gave it all to his friend, Margaret Rogers. Ms. Rogers knew, or should have known, the monies she requested and received from the former bookkeeper were district monies. Some of these monies were purportedly deposited in and spent from the joint checking account she held with her husband, Russell Rogers. We have submitted our report to the Navajo County Attorney’s Office, which on September 11, 2018, presented evidence to the Navajo County Grand Jury. The action related to our report resulted in Ms. Rogers and Mr. Rogers each being indicted on five felony counts related to theft, conspiracy, assisting a criminal syndicate, and money laundering, and Ms. Rogers being indicted on three additional felony counts of fraudulent schemes. The former bookkeeper passed away in February 2018.

Overview

The District, established in 1893 as a special taxing district, manages water storage and conservation projects for 3,000 acres in the Snowflake, Taylor, and Shumway communities and is overseen by a three-person governing board. The former bookkeeper was the sole manager of the District’s finances for over 40 years. He worked part-time until his resignation in January 2017.

Former bookkeeper withdrew \$829,400 of district monies and reportedly gave it to Ms. Rogers after she repeatedly requested money

From August 2011 through December 2016, after Ms. Rogers made apparent repeated requests for money, the former bookkeeper withdrew from the District’s bank account \$829,400 by cashing 546 district checks he had issued payable to himself or cash. He generally cashed one to three checks per week in amounts ranging from \$300 to \$2,800. None of these cashed checks corresponded with deposits made in his personal bank accounts. Rather, the former bookkeeper reportedly gave all this money to Ms. Rogers by regularly leaving the cash at a predetermined location: a storage shed Ms. Rogers had rented and to which she provided him a key. Three of Ms. Rogers’ family members reported to investigators that pursuant to Ms. Rogers’ requests, they had frequently picked up cash from the storage shed.¹ They either delivered the money to Ms. Rogers personally or transferred it to her through a financial services company. One family member indicated that Ms. Rogers allowed her to keep \$100 each time she picked up the cash on Ms. Rogers’ behalf. Although the former bookkeeper indicated that Ms. Rogers agreed to repay the District with interest, no written agreement was created, and no money was returned to the District.

District checks cashed by former district bookkeeper August 2011 through December 2016

Year	Number of checks	Amount
2011	30	\$ 33,250
2012	55	60,900
2013	138	214,000
2014	129	239,900
2015	92	138,800
2016	102	142,550
Total	546	\$829,400

Source: Auditor General staff analysis of district bank records.

¹ Ms. Rogers declined to meet with investigators.

Ms. Rogers knew, or should have known, the monies she requested and received from the former bookkeeper were district monies

In Ms. Rogers' home, investigators located district accounting ledgers from 2011 that the former bookkeeper stated Ms. Rogers must have taken from his home office and "figured out that the Irrigation (District) had some money." The former bookkeeper also reported to investigators that he had told Ms. Rogers multiple times if he was not repaid the district money he gave her, they would both go to jail. Moreover, text messages obtained from Ms. Rogers' and the former bookkeeper's cell phones show Ms. Rogers knew she was receiving district monies and should be returning those monies to the District. In fact, a July 2015 text message from Ms. Rogers' cell phone to the former bookkeeper states "... Hopefully Monday or Tuesday at the latest the check that I received from this study will be clearing the bank. Then I can pay irrigation (the Irrigation District) off in full." (emphasis added).

Ms. Rogers and her husband likely used district monies for personal expenses

Because district monies Ms. Rogers received from the former bookkeeper were in cash, investigators could not determine the specific use of those monies; however, available records show the monies were likely used for Mr. and Ms. Rogers' personal expenses and Ms. Rogers' gambling activity. Mr. and Ms. Rogers' income deposited into their joint bank accounts from social security, pension, and disability payments was insufficient to cover their account withdrawals. Specifically, available bank records show that from June 2011 through January 2017, deposited income from those three sources totaled \$74,285, which was not enough to pay for their withdrawals without a total of \$104,038 in cash being deposited. Those withdrawals were for cash, truck rentals, and retail and grocery store purchases but did not include other typical living expenses such as those for rent, utilities, medical costs, personal care, and entertainment expenses, which were likely paid with cash. Likewise, although available gambling records were limited, Ms. Rogers may have used district cash to support her Arizona gambling activities that resulted in a net loss of \$102,153 for the 3 years ended January 2017.

District governing board failed to provide adequate oversight and maintain effective internal controls

The district governing board did not establish controls to ensure district monies were properly safeguarded. In fact, no written policies for financial processes existed. Governing board members stated they trusted the former bookkeeper and did not independently verify transactions. Specifically, without oversight, he was allowed to issue district bills, collect cash and check payments, make bank deposits, record transactions into district accounting records, prepare and sign checks, receive bank statements, and reconcile bank statements to accounting records without oversight.

Recommendations

Since becoming aware of the alleged theft, district governing board members reported that they implemented certain improvements to check-writing controls. In particular, two board members are now required to sign all checks, and only board members can be authorized signers. However, the District can further improve controls over public monies to help deter and detect fraud. Specifically, governing board members should establish written policies for all district financial processes that include procedures to ensure:

- Financial duties are properly segregated. For example, a person who did not sign checks should record the expense in district records, and another person who did not sign checks should ensure accuracy by comparing district records to canceled checks.
- Financial transactions are independently verified. For example, a person who did not sign checks should receive account statements directly from the bank or use digital access to compare bank records to district records and ensure transactions are accurately recorded and reconciled to the bank statements. The governing board should immediately investigate and resolve any discrepancies noted in reconciliations.