



A REPORT
TO THE
ARIZONA LEGISLATURE

Special Investigative Unit

Special Investigation

Pinal County Sheriff's Office

Theft of Public Monies

December • 2005



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

Senator **Robert Blendu**, Chair

Senator **Carolyn S. Allen**

Senator **Gabrielle Giffords**

Senator **John Huppenthal**

Senator **Harry E. Mitchell**

Senator **Ken Bennett** (*ex-officio*)

Representative **Laura Knaperek**, Vice Chair

Representative **Tom Boone**

Representative **Ted Downing**

Representative **Pete Rios**

Representative **Steve Yarbrough**

Representative **Jim P. Weiers** (*ex-officio*)

Investigative Staff

George Graham, Manager

Lindsey Burger, Senior

Copies of the Auditor General's reports are free.

You may request them by contacting us at:

Office of the Auditor General

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

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 20, 2005

Members of the Arizona Legislature

Pinal County Board of Supervisors

The Honorable Terry Goddard
Attorney General

The Office of the Auditor General has conducted a special investigation of the Pinal County Sheriff's Office for the period January 2002 through September 2003. The investigation determined the amount of public monies misused, if any, during that period and the extent to which those monies had been 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 financial records or the internal controls of the Pinal County Sheriff's Office. The Office also does not ensure that all matters involving the County's internal controls that 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 accompanying Investigative Report describes the Office's findings and recommendations as a result of this special investigation.

After this report is distributed to the members of the Arizona State Legislature, the Attorney General, and the Pinal County Board of Supervisors, it becomes public record.

Debbie Davenport
Auditor General

Enclosure

SUMMARY

In October 2003, Pinal County Administrators requested that the Office of the Auditor General investigate allegations of financial misconduct by Ms. Sylvia Martinez, former Inmate Service Detention Officer for the Pinal County Sheriff's Office (PCSO). As a result, our Office conducted an investigation of those financial improprieties and submitted our report to the Attorney General's Office. The Attorney General has taken criminal action against Ms. Martinez, and she has been indicted on felony charges. See Conclusion on page 13 of this report.

Our investigation revealed that Ms. Martinez may have embezzled at least \$11,884 between January 2002 and September 2003. In addition, Ms. Martinez misused public money by delaying deposits of inmate money totaling \$42,840 to help conceal her theft of \$11,884.¹ She further attempted to conceal her actions by falsifying and disposing of documentation, which constitutes tampering with public documents, and by manipulating information within the PCSO bond accounting system.

The County's lack of internal controls and inadequate segregation of duties allowed Ms. Martinez to embezzle money received on behalf of inmates for almost 2 years. Specifically, in addition to handling and depositing all inmate bonds and commissary monies, Ms. Martinez was responsible for preparing and signing checks, recording transactions in the accounting systems, and reconciling bank information. As a result, Ms. Martinez was able to embezzle public money, and in turn, the County was unable to deter or detect her thefts.

¹ Arizona Revised Statutes §35-302 provides that money belonging to, received or held by a county in their official capacity is considered public money.

TABLE OF CONTENTS



Introduction & Background	1
Finding 1: Employee embezzled public monies	3
Money Order—Cash Substitution Theft	4
Checks Issued to Relative	5
Delayed Deposits	5
Finding 2: Employee tampered with public documents	7
Finding 3: Sheriff's Office Management failed to ensure adequate controls	9
Recommendations	11
Conclusion	13
Exhibits:	
1 Alleged Embezzlement Schemes January 2002 to September 2003	3
2 Money Order—Cash Substitution Lapping Scheme	4

INTRODUCTION & BACKGROUND

As of June 30, 2004, the Pinal County Sheriff's Office (PCSO) had 325 employees with a general fund budget of \$15,145,000. The Pinal County Jail is maintained by the PCSO, and it has the capacity to house up to 700 inmates. In 2004, nearly 9,600 people were booked into the jail.

Ms. Sylvia Martinez began her employment with the PCSO as a detention aide in 1996 and by early 2001, was assigned as a detention officer in the jail's property room. In this position, Ms. Martinez was responsible for the bond and inmate commissary bank accounts that relate to bond activity, commissary purchases, and inmates' cash and property. The bond account is used to facilitate the posting of bonds by inmates held at the jail. To post bond, money orders are remitted on behalf of the inmate and deposited into the bond account. Following the deposit, a check is issued from the bond account to the court processing the inmate. The inmate commissary account is used to hold money confiscated from inmates upon their arrival at the jail and money remitted by family and friends for inmates to use to purchase commissary goods while incarcerated.

The PCSO established two separate bank accounts at a local credit union to account for the bond and inmate commissary activities. In 2003, monthly deposits into these two accounts ranged from \$51,000 to \$180,000 for the bond account and from \$33,000 to \$174,000 for the inmate commissary account. The PCSO used three PC-based accounting software packages as their accounting systems to separately account for bond activity, commissary purchases, and inmates' cash and property.

In September 2003, PCSO officials became aware of discrepancies within the deposit process. Specifically, Ms. Martinez allegedly lost money orders that should have been deposited in the bond and inmate commissary accounts. As a result, they conducted an initial inquiry and temporarily changed Ms. Martinez's responsibilities to exclude the cash-handling function. On October 3, 2003, Ms. Martinez voluntarily resigned her position with the PCSO.

FINDING 1

Employee embezzled public monies

From January 2002 to September 2003, Ms. Sylvia Martinez, former inmate service detention officer, allegedly embezzled at least \$11,884, and misused approximately \$54,724 in Pinal County Sheriff's Office funds. Ms. Martinez embezzled public money from the PCSO jail through two fraud schemes that consisted of taking money received on behalf of inmates and then falsifying and disposing of documentation, in addition to manipulating information recorded in the PCSO bond accounting system.

First, as summarized in Exhibit 1 below, Ms. Martinez embezzled \$9,384 by taking cash receipts from the inmate commissary deposit and substituting money orders from inmates' bond payments. Ms. Martinez concealed the cash shortage by using bond payments subsequently made by other inmates to pay the Court for the originating inmates' bonds. In doing so, she also intentionally delayed deposits and bond payments totaling \$42,840 of inmate money orders—a misuse of public money. Secondly, Ms. Martinez falsified information in the PCSO inmate commissary accounting system and issued a \$2,500 PCSO check payable to her sister for their personal use. In an interview with Auditor General staff, Ms. Martinez admitted taking the money to pay her personal bills.

Exhibit 1: Alleged Embezzlement Schemes
January 2002 to September 2003

<u>Scheme Type</u>	<u>Number of Instances</u>	<u>Amount</u>
Money Order—Cash Substitution Lapping Theft	22	\$ 9,384
Check Issued to Relative	1	<u>2,500</u>
Total Theft		<u>\$11,884</u>
Delayed Deposits	56	<u>42,840</u>
Total Funds Misused		<u>\$54,724</u>

Money Order—Cash Substitution Theft

From May 2002 through September 2003, Ms. Martinez embezzled \$9,384 by taking cash receipts from the inmates' commissary deposits for her personal use. To cover up this scheme, she fraudulently deposited 22 money orders totaling \$9,384 received for inmate bond payments into the inmate commissary account rather than the bond account. By manipulating the deposit, Ms. Martinez was able to exchange money orders for cash and embezzle \$9,384 of the offsetting cash from the inmate commissary account deposit.

Each morning, Ms. Martinez collected cash and money orders from the department's safe. Depending on the monies that were available, Ms. Martinez embezzled cash ranging from \$30 to \$1,000 from the inmate's commissary account deposit and replaced it with money orders in the equivalent amount from the bond account deposit. The money orders would then be deposited into the inmate commissary account, and the bond account balance would be understated by the amount stolen.

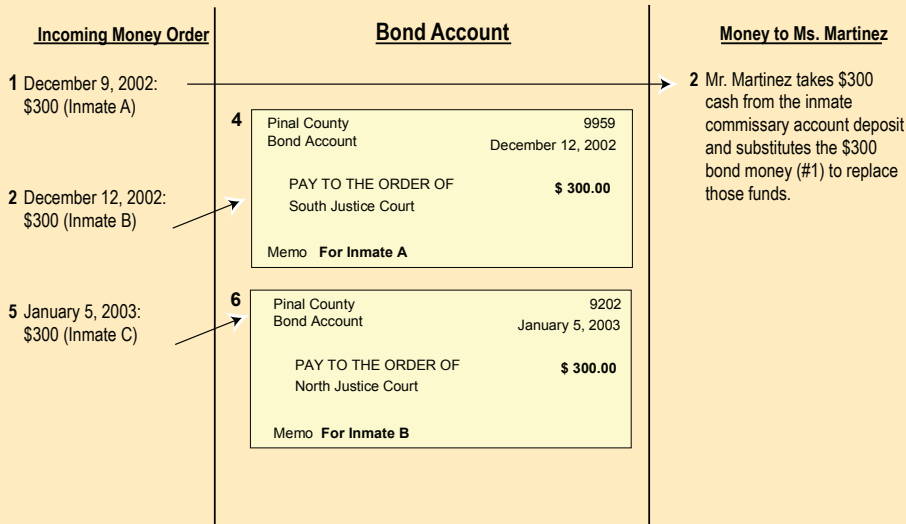
Ms. Martinez then used a lapping scheme to continue her thefts and fund the original inmate's bond payment. As illustrated in Exhibit 2, the basic premise for the lapping scheme involved substituting inmate A's money order for commissary account cash,

and then using inmate B's money order to fund inmate A's bond payment. In this case, Ms. Martinez delayed the bond payment for inmate A, issuing the payment well after the original money order was received rather than the day of receipt. Ms. Martinez repeated this process in order to maintain adequate fund balances within the bond account. In total, Ms. Martinez's lapping scheme affected at least 70 inmates and their respective funds.

Ms. Martinez concealed a portion of her thefts by later depositing money orders disguised as the original inmate money orders. Specifically, she issued new money orders with

embezzled funds, and then she deposited the money orders into the bond account in order to maintain an adequate balance. In fact, Ms. Martinez personally obtained and fraudulently submitted 18 money orders, copying information from the original money order and thereby attempting to pass these items off as money orders received from PCSO inmates.

Exhibit 2: Money Order—Cash Substitution Lapping Scheme



Further, Ms. Martinez helped conceal her theft by voiding at least two outstanding bond account checks totaling \$1,000 and using these unclaimed PCSO funds to subsidize her thefts of cash and to pay personal bills. The two PCSO bond checks issued to different justice courts were outstanding because they were never cashed. Since Ms. Martinez was also responsible for performing the bank account reconciliations, and without another person's review, no one noticed these long, outstanding checks and Ms. Martinez was able to redirect the money toward different inmates' bonds and toward her own personal use.

Check Issued to Relative

On January 7, 2002, Ms. Martinez embezzled \$2,500 of county funds by issuing an unauthorized check to her sister. Specifically, Ms. Martinez embezzled money intended for an inmate's bond by transferring the funds out of the bond account and into the inmate commissary account. Then, in order to issue a check from the commissary account, Ms. Martinez falsely reestablished her sister as an inmate in the accounting system as if she had been readmitted to the jail while carrying \$2,500. Next, she wrote the check payable to her sister and then entered information to terminate the activity and make it appear like her sister had been released. On January 7, 2002, Ms. Martinez's sister deposited the \$2,500 into her (the sister's) personal checking account and then transferred \$575 into Ms. Martinez's personal checking account a week later.

Delayed Deposits

In order to perpetrate her lapping scheme and conceal her thefts, Ms. Martinez intentionally withheld and delayed 56 bond account deposits totaling \$42,840 of inmate money orders. The money was eventually deposited. However, delaying these deposits helped facilitate Ms. Martinez's theft of \$9,384 and consequently led to overdue court payments ranging from 3 to 41 days late. Therefore, \$42,840 of public money held by Ms. Martinez in her official capacity was not used for its intended purpose, but was in fact used for Ms. Martinez's personal benefit.

FINDING 2

Employee tampered with public documents

From January 2002 through September 2003, Ms. Martinez concealed her thefts using various fraudulent schemes, including disposing of bond package documentation (money order copies, booking reports, and bond envelopes), disguising money orders by forging remitter information onto the face of the money order, and manipulating information within the bond and inmate commissary ledger accounting systems. Further, Ms. Martinez filed the falsified documents as a public record with the County.

From January 2002 to September 2003, Ms. Martinez tampered with documents in 84 different instances:

- Ms. Martinez destroyed bond package documentation, including approximately 53 money order copies.
- Ms. Martinez manipulated 13 money orders. In order to convert the 13 embezzled money orders into cash, Ms. Martinez deceptively deposited money orders for bond payments as a substitute for the inmate cash she kept for personal use. Additionally, Ms. Martinez defaced the items by inscribing an inmate's name on the face of the money order, thereby making it appear like other money orders that were intended for deposit in the inmate commissary account.
- Using previously embezzled funds, Ms. Martinez purchased, fraudulently completed, and deposited 18 money orders into the bond account in order to pay some of the outstanding inmate bonds that she had used to cover her theft of cash from the commissary deposit. She attempted to disguise the money orders as the originals by copying an inmate's original bond information onto the money order as well as forging signatures on some of the money orders.

FINDING 3

Sheriff's Office Management failed to ensure adequate controls

Management failed to implement an adequate system of internal controls for cash receipts, cash disbursements, and recording activities relating to the bond and inmate commissary accounts. In fact, the PCSO's unsatisfactory segregation of duties and insufficient oversight weakened their control environment and allowed Ms. Martinez to control many aspects of the receipting and disbursement activities sufficient to embezzle public money undetected for almost 2 years.

Specifically, the Pinal County Sheriff's Office allowed Ms. Martinez to receive, record, and deposit all bond and inmate commissary account funds. Additionally, Ms. Martinez was responsible for preparing and signing checks, making the daily deposits, adding and deleting information in the ledger accounting systems, and reconciling bank information. At a minimum, cash-handling functions should be separate from recordkeeping functions. Therefore, employees who receive cash should not record cash collections into the PCSO ledger accounting system or reconcile bank account information.

Further, management did not ensure the integrity of the bond or inmate commissary accounting systems or the resultant accuracy of reports generated from those systems. No controls were established to prohibit unauthorized changes or deletions of information within the ledger accounting systems. The financial software used to monitor the bond and inmate commissary accounts were insufficient as entries could be deleted or changed retroactively to hide theft or other discrepancies. The software offered some limited controls; however, they were not used.

Moreover, management failed to ensure that monies were deposited intact, meaning that all money orders and cash receipts were deposited in their entirety. In addition, management did not ensure that bond payment checks were issued appropriately and within a timely manner after funds were received. Because of this, deposits and bond issued checks were sometimes delayed anywhere from 3 to 41 days.

RECOMMENDATIONS

To help ensure proper control over and use of public monies, Pinal County Sheriff's Office management should establish effective internal controls over cash receipt and disbursement activities, including policies, procedures, and monitoring activities. Specifically, management should ensure that:

1. No single employee should control all aspects of money handling, such as receipting, disbursement, and recordkeeping functions. Accordingly, the following functions should be properly segregated:
 - Receiving cash, money orders, and cashier's checks.
 - Recording cash receipts and disbursements in the bond and inmate commissary accounting systems.
 - Depositing cash receipts.
 - Compiling supporting documentation and filing it with the PCSO.
 - Issuing, voiding, and reissuing bond and inmate commissary account checks.
 - Reconciling deposits to the bond account cash receipt log.
 - Reconciling information within the bond accounting system.
 - Reconciling information within the inmate commissary financial accounting system.
 - Reconciling PCSO bond and inmate commissary accounts to bank records.

These functions can be effectively separated among the various lieutenants, sergeants, and detention officers within the Intake Department and Property Room. Controls can further be strengthened by employing an appropriate secondary independent review and approval process.

2. All deposits into the bond and inmate accounts should be made intact and on a daily basis. Additionally, a corresponding bond payment court check should be issued within 1 working day of receiving the bond funds.
3. A periodic update of a PCSO authorized bank account signers list should be performed to ensure only the appropriate employees have check signing authority.

4. Management should monitor the PCSO financial accounting systems and perform monthly reconciliations of the inmate record management system to the financial accounting systems to ensure:
 - Inmate commissary account checks are not issued from inactive or fraudulent inmate resident accounts.
 - Inmate resident accounts are not erroneously or fraudulently opened and closed.
5. Management should update the ledger accounting systems used to track bond and inmate commissary account funds to include controls that prohibit deletion of entries and retroactive alteration of entries.
6. Management should establish monitoring practices to ensure that all policies and procedures are followed.

CONCLUSION

On December 14, 2005, the Arizona Attorney General's Office took criminal action against Ms. Sylvia Martinez and her sister, Ms. Cynthia MacDonald, through the Superior Court Grand Jury. This action resulted in the indictment of Ms. Martinez on two counts of theft, and one count each of fraudulent schemes, misuse of public money, and tampering. Ms. MacDonald was indicted on one count of theft.

