

Pine-Strawberry Water Improvement District Theft and Misuse of Public Monies

Financial Investigation

October 2017
Report 17-405



A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





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October 26, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Governing Board
Pine-Strawberry Water Improvement District

The Honorable Mark Brnovich, Arizona Attorney General

The Office of the Auditor General (Office) has conducted a financial investigation of Pine-Strawberry Water Improvement District for the period August 2010 through January 2016. The Office performed the investigation to determine the amount, if any, of public monies misused 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 Pine-Strawberry Water Improvement District 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



Pine-Strawberry Water Improvement District Theft and Misuse of Public Monies

CONCLUSION: The Gila County Attorney's Office reported a fraud allegation to the Office of the Auditor General involving Rebecca Sigeti. Ms. Sigeti was the accounting manager for Pine-Strawberry Water Improvement District (District) and the accountant for a private business, Sunny Mountain Realty, LLC (Sunny Mountain). Our investigation of Ms. Sigeti revealed that from August 2010 through January 2016, she may have embezzled a total of \$841,056 from her employers: \$524,686 from the District and \$316,370 from Sunny Mountain. The alleged embezzled district monies came from customer security deposits and water-use payments as well as taxpayer property tax payments and should have been used to support district operations. We have submitted our report to the Arizona Attorney General's Office, which has taken criminal action against Ms. Sigeti resulting in her indictment on 40 felony counts.

Ms. Sigeti allegedly embezzled \$524,686 of district monies by issuing district checks and warrants to herself and three related businesses

From August 2010 through January 2016, Ms. Sigeti may have violated state laws related to theft, misuse of public monies, fraudulent schemes, computer tampering, money laundering, and forgery when she issued 32 district checks and warrants with forged signatures totaling \$524,686 payable to herself and to three businesses for which she managed the bank accounts. Specifically, Ms. Sigeti paid \$408,922 of these monies to Sunny Mountain; \$93,294 to two businesses she owned with her husband; and \$22,470 directly to herself. Ms. Sigeti also falsified district records to help conceal her scheme by recording false payees, omitting payees, and deleting entries in the District's accounting software program and in bank account reconciliations.

Ms. Sigeti allegedly embezzled \$316,370 of Sunny Mountain monies by issuing checks to herself, her creditors, and two of her businesses

From August 2010 through September 2015, Ms. Sigeti may have violated state laws related to theft, fraudulent schemes, computer tampering, money laundering, and forgery when she issued 200 Sunny Mountain checks with forged signatures to herself, her creditors, and two of her businesses.¹ These checks totaled \$725,292; however, \$408,922 of this amount was paid with district monies deposited in Sunny Mountain's bank account, resulting in an alleged net theft from Sunny Mountain of \$316,370. Specifically, Ms. Sigeti issued Sunny Mountain checks totaling \$681,092 directly to herself and \$44,200 to her businesses and creditors. Ms. Sigeti also falsified Sunny Mountain records by recording false payees, omitting payees, deleting entries in the accounting software program, altering bank statements, and creating false invoices.

Investigation highlights

Rebecca Sigeti, former district accounting manager and former Sunny Mountain accountant allegedly:

- Embezzled \$841,056 from the District and Sunny Mountain by paying herself \$703,562, and her businesses and creditors \$137,494.
- Falsified computer data, reconciliations, bank statements, and invoices to conceal her embezzlement.

¹ The signatures on three Sunny Mountain checks were illegible, and authenticity could not be determined.

District governing board members failed to safeguard and control district monies

Former and current district governing board members failed to properly protect and control district monies entrusted to them by taxpayers. Specifically, they did not implement adequate controls over disbursement procedures, review bank statements, or enforce their conflict-of-interest policy.

Recommendations

Although district governing board members took certain corrective measures after our June 2016 investigative report regarding a former district governing board member, they can take additional action to improve control over public monies and help deter and detect fraud.² Governing board members reported they implemented some corrective measures, such as obtaining conflict-of-interest statements from governing board members and applicable personnel, ensuring checks and warrants are not prepared by authorized signers, and independently approving invoices for payment. However, the following recommendations from our June 2016 report have not yet been implemented. Specifically, governing board members should:

- Regularly review bank statements and ensure bank statements are reconciled to check register records by an individual independent of cash disbursements. Governing board members should review these reconciliations and compare them to the bank statements.
- Establish and enforce a written policy to ensure all applicable personnel complete and sign conflict-of-interest statements at least every year.

² The first investigation involved a separate alleged fraud with a former district governing board member. See Office of the Auditor General, Special Investigation: *Pine-Strawberry Water Improvement District Theft and Conflict of Interest*, June 2016, Report No. 16-403.



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INTRODUCTION AND BACKGROUND

Pine-Strawberry Water Improvement District overview

Pine-Strawberry Water Improvement District (District), located in Gila County, is a special taxing district established by the Gila County Board of Supervisors in 1996 and is primarily supported by water-use payments and property tax revenues.¹ The Gila County Board of Supervisors may review and comment on district financial transactions, but they do not have statutory oversight of the District's financial management; rather, that responsibility lies with the District. The District is overseen by seven governing board members elected to 4-year terms by voters residing within the District's boundaries and is responsible for formulating and implementing plans to both improve present water sources and to provide long-term reliable water sources. District management reported \$1,998,485 was received from water customers and \$472,383 was received from property tax payments in fiscal year 2016. These are unaudited amounts because the District's independent auditors were not able to provide a fiscal year 2016 audit opinion due to the District's failure to maintain sufficient internal controls and adequate records for cash, disbursements, and journal entries.

Independent auditors were not able to provide a fiscal year 2016 audit opinion because the District failed to maintain sufficient internal controls and adequate records for cash, disbursements, and journal entries.

Rebecca Sigeti worked as district accounting manager

Ms. Sigeti began her work at the District in October 2009 as a part-time accounting manager. When the District contracted with an operations management firm from December 2010 through May 2015, Ms. Sigeti continued her work at the District as a full-time employee of this firm. When the contract was amended in June 2015, she again became a district employee. Whether employed by the District or by the management firm, Ms. Sigeti was responsible for all district accounting functions, except she was not an authorized signer for any checking accounts. Authorized signers were the governing board chair, co-chair, treasurer, and secretary, except for during a 6-month period beginning in November 2013 when five of the seven governing board members resigned. During this period, the governing board lacked a quorum of members, so pursuant to A.R.S. §§48-1016 and 48-908, the Gila County Board of Supervisors assumed the governing board's duties until a special election could be held to seat new members.

Ms. Sigeti maintained control over district finances with no oversight. Specifically, she received invoices, maintained check and warrant stock, filed documents, prepared checks and warrants, recorded transactions in the District's accounting software, received bank statements, reconciled those statements to accounting records, and delivered deposits to the bank. No one reviewed bank statements or otherwise independently verified financial transactions. Ms. Sigeti resigned from the District in April 2016.

¹ The District was established under Arizona Revised Statutes (A.R.S.) Title 48, Ch. 6, and is thereby exempt from A.R.S. §48-251, which requires nonexempt special taxing districts to submit annual reports to the county in which the district is located. Annual reports should include organizational information such as governing board member names and phone numbers; meeting schedules and location; and financial reports of fund balances, revenues, and expenditures.

Rebecca Sigeti worked as the accountant for Sunny Mountain Realty, LLC, a business that received unauthorized district payments

As further described on page 3, Ms. Sigeti issued unauthorized district payments totaling \$408,922 to Sunny Mountain Realty, LLC (Sunny Mountain), a real estate business she began working for on an hourly basis around January 2010. Ms. Sigeti did not disclose her relationship with Sunny Mountain on a conflict-of-interest form as district policy required.

Ms. Sigeti was responsible for all Sunny Mountain accounting functions, except she was not authorized to sign checks or make deposits; these tasks were generally performed by Sunny Mountain's owner. Ms. Sigeti's duties included receiving invoices, filing documents, maintaining a block of check stock from which she prepared checks, receiving bank statements, and reconciling those statements to accounting records. Additionally, Ms. Sigeti recorded Sunny Mountain transactions in accounting software; however, she maintained a copy of those records on accounting software that belonged to the District and was saved on a district computer. Ms. Sigeti had no permission or authority to use the district computer or software for nondistrict-related purposes.

Sunny Mountain's owner stated to Auditor General staff that she did not review Sunny Mountain's bank statements; however, when checking her personal and business account balances in September 2015, the owner discovered her Sunny Mountain bank account balance was lower than it should have been and questioned Ms. Sigeti, who admitted only that she had borrowed money from the business account without permission. As further described on page 5, Ms. Sigeti provided the owner with two cashier's checks totaling \$47,550, which she falsely claimed was all she owed.²

In addition to her accounting responsibilities at the District, Ms. Sigeti managed the checking accounts for these three businesses that she issued unauthorized district payments to:

- Sunny Mountain
- RMS Accounting Services, PLLC
- Tilecraft, Inc.

In violation of district policy, Ms. Sigeti failed to complete a conflict-of-interest form disclosing her relationships with each of these businesses.

Rebecca Sigeti and her husband owned two businesses that received unauthorized district and Sunny Mountain payments

Ms. and Mr. Sigeti were both listed as members of the professional limited liability company, RMS Accounting Services, PLLC, in the Articles of Organization filed with the Arizona Corporation Commission in March 2014. Articles of Termination were filed in May 2016.

Similarly, Ms. Sigeti was listed as secretary and treasurer and her husband was listed as president and director of Tilecraft, Inc., in the August 1997 Articles of Incorporation filed with the Arizona Corporation Commission. The corporation was dissolved in January 2011 for failure to file the 2010 annual report.

Ms. Sigeti managed the checking accounts for both of these businesses. As described on pages 3 and 4, Ms. Sigeti issued unauthorized district and Sunny Mountain payments to RMS Accounting Services, PLLC, totaling \$89,961 (\$89,601 and \$360, respectively), and to Tilecraft, Inc., totaling \$6,679 (\$3,693 and \$2,986, respectively).

Ms. Sigeti did not disclose her relationships with Tilecraft, Inc., or RMS Accounting Services, PLLC, on a conflict-of-interest form as required by district policy.

² The owner of Sunny Mountain passed away in June 2017.



Ms. Sigeti allegedly embezzled \$841,056 of district and Sunny Mountain monies

As shown in Table 1, from August 2010 through January 2016, Rebecca Sigeti, former Pine-Strawberry Water Improvement District (District) accounting manager and former Sunny Mountain Realty, LLC (Sunny Mountain) accountant, allegedly embezzled \$841,056 of her employers' monies by issuing unauthorized payments totaling \$703,562 to herself and \$137,494 to her businesses and creditors. She used \$524,686 of district monies and \$316,370 of Sunny Mountain monies to perpetrate her scheme.

Table 1
Monies Ms. Sigeti allegedly embezzled August 2010 through January 2016

Recipient of allegedly embezzled monies	Amount
Ms. Sigeti	\$703,562
Ms. Sigeti's businesses and creditors	137,494
Total alleged embezzlement	\$841,056
Source of \$841,056 allegedly embezzled monies:	
District	\$524,686
Sunny Mountain	316,370

Source: Auditor General staff analysis of district and Sunny Mountain records.

Ms. Sigeti issued for her own benefit 32 unauthorized district checks and warrants totaling \$524,686

As shown in Table 2, from August 2010 through January 2016, Ms. Sigeti issued 32 unauthorized district checks and warrants payable to herself and to three different businesses totaling \$524,686. All of these payments, including those issued payable to businesses, were deposited to bank accounts Ms. Sigeti managed. These businesses included her other employer, Sunny Mountain, as well as two businesses she owned with her husband: RMS Accounting Services, PLLC, and Tilecraft, Inc. No invoices existed to support any of these payments.

Table 2
Unauthorized district payments Ms. Sigeti issued August 2010 through January 2016

Recipient	Number of payments	Amount
Sunny Mountain	21	\$408,922
RMS Accounting Services, PLLC	5	89,601
Ms. Sigeti	5	22,470
Tilecraft, Inc.	1	3,693
Total unauthorized payments	32	\$524,686

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

Ms. Sigeti issued unauthorized checks and warrants totaling \$355,892 from the District's operations bank account that held customers' water use payments, \$89,601 from the District's bank account that held water customers' security deposits, and \$79,193 from the District's Gila County Treasurer's account that held taxpayers' property tax payments. See Appendix (page a-1) for a listing of unauthorized district checks and warrants Ms. Sigeti issued.

Although these 32 district checks and warrants had two signatures, all governing board members Auditor General staff interviewed stated they did not sign these checks and

warrants.³ One check did not have governing board members' signatures. Rather, this check was issued during the time period that the Gila County Board of Supervisors had taken over governing board member duties because five of the seven governing board members resigned their position. One of the signatures on this check was reported by Gila County officials as forged and the other as authentic. Additionally, Ms. Sigeti falsified district records by deleting payees, recording false payees, or omitting payees in the District's accounting software program and in bank account reconciliations.

Ms. Sigeti and her attorney limited their discussion with Auditor General staff relative to district checks and warrants she issued, although she claimed she could not remember the District paying her for anything other than mileage reimbursement. Additionally, Ms. Sigeti could not explain why district checks were written to her but no invoices were in district records and the checks were not listed in the District's accounting software program.

Ms. Sigeti issued for her own benefit 200 unauthorized Sunny Mountain checks totaling \$725,292, \$408,922 paid for with district monies

As shown in Table 3, from August 2010 through September 2015, Ms. Sigeti issued 200 unauthorized Sunny Mountain checks totaling \$725,292 payable to herself, her creditors, and her businesses: Tilecraft, Inc., and RMS Accounting Services, PLLC. To help facilitate this plan, Ms. Sigeti deceptively increased the amount of money available in Sunny Mountain's bank account from July 2011 through January 2015 by depositing the 21 district checks and warrants totaling \$408,922 described earlier. Accordingly, the amount Ms. Sigeti allegedly embezzled directly from Sunny Mountain monies equaled \$316,370.

Table 3
Unauthorized Sunny Mountain payments Ms. Sigeti issued
August 2010 through September 2015

No genuine invoices existed to support any of these payments. Although the signatures on 3 of the 200 checks were illegible, 197 checks were clearly falsely signed with the misspelled name of Sunny Mountain's owner. Additionally, Ms. Sigeti falsified Sunny Mountain records by recording false payees, omitting payees, deleting entries in the accounting software program, altering bank statements, and creating two false RMS Accounting Services, PLLC, invoices.

Recipient	Number of payments	Amount
Ms. Sigeti	184	\$681,092
Ms. Sigeti's creditors	13	40,854
Tilecraft, Inc.	1	2,986
RMS Accounting Services, PLLC	2	360
Total unauthorized payments	200	\$725,292
Sources of \$725,292 unauthorized payments:		
District monies deposited in Sunny Mountain		\$408,922
Sunny Mountain monies		316,370

Source: Auditor General staff analysis of Sunny Mountain and bank records.

Ms. Sigeti did not discuss her Sunny Mountain activity with Auditor General staff; however, the owner of Sunny Mountain reported to Auditor General staff that when she questioned Ms. Sigeti about money missing from her business bank account, Ms. Sigeti claimed she had borrowed money to pay for her son's funeral expenses. As described on page 5, in October 2015, Ms. Sigeti gave the owner two cashier's checks totaling \$47,550, which she falsely represented was a full repayment.

³ One former governing board member whose reported signature was one of two on 19 checks and warrants was not interviewed because he is the subject of our Special Investigation: *Pine-Strawberry Water Improvement District Theft and Conflict of Interest*, June 2016, Report No. 16-403.

Ms. Sigeti used the monies she allegedly embezzled for her personal purposes

Ms. Sigeti used the \$841,056 she allegedly embezzled from her employers for herself, her businesses, and her creditors.

The unauthorized district and Sunny Mountain payments Ms. Sigeti issued to herself totaling \$703,562 were all deposited to her and her husband's checking account and commingled with other monies before being spent on personal purposes. Specifically, Ms. Sigeti made payments on their personal debt; transferred money to other personal, business, and family member bank accounts; and paid for retail and restaurant purchases; household, medical, and legal expenses; cash withdrawals; and other personal expenses.

The \$96,640 in unauthorized district and Sunny Mountain payments Ms. Sigeti issued to her businesses was deposited to business checking accounts, and about half was used for cash withdrawals, transfers to her other bank accounts, personal debt payments, and retail and household purchases. The other half was used to pay for what she had reportedly borrowed from Sunny Mountain. Specifically, on October 9, 2015, when her business checking account had a balance of \$1,583, Ms. Sigeti deposited an unauthorized \$48,692 district check she issued to RMS Accounting Services, PLLC. The following week, she used these monies to purchase two cashier's checks totaling \$47,550 payable to Sunny Mountain's owner, reportedly to pay back what she had borrowed.

Finally, the Sunny Mountain payments totaling \$40,854 Ms. Sigeti issued directly payable to her creditors was used to pay for her personal and business debt.



District governing board members failed to safeguard and control district monies

Former and current Pine-Strawberry Water Improvement District (District) governing board members failed to properly protect and control district monies entrusted to them by taxpayers. Specifically, they failed to design and implement adequate policies and procedures as follows:

- **Inadequate controls over disbursements**—Governing board members allowed Ms. Sigeti to control all aspects of processing and recording disbursements with no oversight. Specifically, she had control of all check and warrant stock, prepared all checks and warrants, received all bank statements, and was responsible for recording these transactions in the District's accounting software and reconciling that information to the bank statements. Accordingly, she was able to hide her scheme by omitting and falsifying information in the District's accounting software undetected because no one adequately reviewed her work.
- **Bank statements not independently reviewed**—Governing board members did not review bank statements or ensure that bank statements were reviewed and reconciled to check register records by an employee independent of cash disbursements.
- **Conflict-of-interest policy not enforced**—Although some governing board members stated they were aware Ms. Sigeti performed accounting work for private clients, no one ensured she completed a conflict-of-interest statement. Consequently, Ms. Sigeti's relationships with Sunny Mountain, RMS Accounting Services, PLLC, and Tilecraft, Inc., were not disclosed in district records. Governing board policy requires staff to disclose any likely or actual conflicts in writing.



Although district governing board members took corrective measures, they can take additional actions to improve control over public monies and help deter and detect fraud

In June 2016, as a result of our investigation regarding a former district governing board member, this Office recommended actions district governing board members could take to help deter and detect fraud.⁴ Additionally, independent auditors the District contracted recommended corrective actions in an October 2016 internal controls review and a March 2017 report on internal controls and compliance. Governing board members have reported they implemented some of these recommendations, such as obtaining conflict-of-interest statements from governing board members and applicable personnel, ensuring checks and warrants are not prepared by authorized signers, independently approving invoices for payment, and other corrective measures designed to improve control over public monies.

Recommendations

However, the following recommendations from our June 2016 report have not yet been fully implemented. Governing board members should:

1. Regularly review bank statements and ensure bank statements are reconciled to check register records by an individual independent of cash disbursements. Governing board members should review these reconciliations and compare them to the bank statements. The governing board should immediately investigate and resolve any discrepancies noted in reconciliations.

Because the District uses only one accountant, they are unable to properly separate the bank reconciliation responsibilities. Although the governing board chair indicated the governing board treasurer now provides adequate oversight by reviewing reconciliations, because the reconciliation is performed by the same individual who prepares checks, receives invoices, and receives bank statements, the governing board should take additional measures. If this duty cannot be separated, someone independent of these processes should receive the bank statements directly from the bank or use their digital access to independently verify transactions for propriety.

2. Establish and enforce a written policy to ensure all applicable personnel complete and sign conflict-of-interest statements at least every year. These statements should disclose all interests as outlined in governing board policy and should require a deliberate indication of “none” if no such conflict exists.

⁴ See Office of the Auditor General, Special Investigation: *Pine-Strawberry Water Improvement District Theft and Conflict of Interest*, June 2016, Report No. 16-403.



CONCLUSION

On October 16, 2017, the Arizona Attorney General's Office presented evidence to the Arizona State Grand Jury. The action resulted in Ms. Sigeti's indictment on 40 felony counts—7 related to theft, misuse of public monies, fraudulent schemes, money laundering, and computer tampering; and 33 related to forgery.



Table 4
Unauthorized district checks and warrants Ms. Sigeti issued
August 2010 through January 2016

Date	Account	Payee	Amount	Authorized signature #1	Authorized signature #2
08/23/10	Operations	Rebecca Sigeti	\$ 2,000.00	Forged	Not interviewed ¹
10/04/10	Operations	Rebecca Sigeti	4,165.29	Forged	Not interviewed ¹
11/22/10	Operations	Rebecca Sigeti	6,925.36	Forged	Not interviewed ¹
12/20/10	Operations	Rebecca Sigeti	4,962.67	Forged	Not interviewed ¹
12/30/10	Operations	Rebecca Sigeti	4,416.15	Forged	Not interviewed ¹
06/30/10	Operations	Tilecraft, Inc.	3,692.89	Forged	Not interviewed ¹
07/11/11	Operations	Sunny Mountain	5,298.69	Forged	Not interviewed ¹
10/04/11	Treasurer property tax	Sunny Mountain	30,000.00	Forged	Not interviewed ¹
11/21/11	Treasurer property tax	Sunny Mountain	35,362.95	Forged	Not interviewed ¹
03/05/12	Treasurer property tax	Sunny Mountain	7,299.32	Forged	Not interviewed ¹
03/12/12	Treasurer property tax	Sunny Mountain	6,531.04	Forged	Not interviewed ¹
03/30/12	Operations	Sunny Mountain	9,172.69	Forged	Not interviewed ¹
05/07/12	Operations	Sunny Mountain	4,789.32	Forged	Not interviewed ¹
05/21/12	Operations	Sunny Mountain	9,682.91	Forged	Not interviewed ¹
06/11/12	Operations	Sunny Mountain	17,627.70	Forged	Not interviewed ¹
08/17/12	Operations	Sunny Mountain	6,430.86	Forged	Not interviewed ¹
09/24/12	Operations	Sunny Mountain	9,285.16	Forged	Not interviewed ¹
10/26/12	Operations	Sunny Mountain	8,118.62	Forged	Not interviewed ¹
11/09/12	Operations	Sunny Mountain	4,538.96	Forged	Not interviewed ¹
01/11/13	Operations	Sunny Mountain	13,276.32	Forged	Forged
02/27/13	Operations	Sunny Mountain	8,806.50	Forged	Forged
03/15/13	Operations	Sunny Mountain	19,306.56	Forged	Forged
05/18/13	Operations	Sunny Mountain	19,387.09	Forged	Forged
08/09/13	Operations	Sunny Mountain	28,432.50	Forged	Forged
12/27/13	Operations	Sunny Mountain	62,230.24	Forged	Forged
05/16/14	Operations	Sunny Mountain	29,452.48	Forged ²	Authentic ²
01/06/15	Operations	Sunny Mountain	73,892.17	Forged	Forged
10/09/15	Security deposits	RMS Accounting Services, PLLC	48,692.15	Forged	Forged
11/02/15	Security deposits	RMS Accounting Services, PLLC	12,692.18	Forged	Forged
12/16/15	Security deposits	RMS Accounting Services, PLLC	6,182.68	Forged	Forged
01/01/16	Security deposits	RMS Accounting Services, PLLC	9,872.13	Forged	Forged
01/19/16	Security deposits	RMS Accounting Services, PLLC	12,162.18	Forged	Forged
Total of 32 unauthorized district checks and warrants			\$524,685.76		

¹ One former governing board member whose represented signature was one of two on 19 checks and warrants was not interviewed because he was the subject of our Special Investigation: *Pine-Strawberry Water Improvement District Theft and Conflict of Interest*, June 2016, Report No. 16-403.

² Two Gila County officials' signatures were represented on this 05/16/14 check. One official stated to Auditor General staff her signature was falsified, while the other official stated his signature was authentic.

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

