



A REPORT
TO THE
ARIZONA LEGISLATURE

Special Investigative Unit

Special Investigation

Pine-Strawberry Water Improvement District

Theft and Conflict of Interest

June • 2016
Report No. 16-403



Debra K. Davenport
Auditor General

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June 30, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Pine-Strawberry Water Improvement District

The Honorable Mark Brnovich, Attorney General

The Office of the Auditor General (Office) has conducted a special investigation of the Pine-Strawberry Water Improvement District (District) for the period August 2011 through February 2013. 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

SUMMARY

In May 2012, the Arizona Attorney General's Office informed the Office of the Auditor General of potential conflict-of-interest violations by former Pine-Strawberry Water Improvement District (District) treasurer, Michael Greer, in regard to his involvement with the District's award of an \$89,700 contract to his former business. Consequently, we conducted an investigation during which we became aware of other potential misconduct by Mr. Greer with the District as well as with another entity for which he was treasurer, the Gila County Mounted Posse (Posse). As shown in Figure 1 on page ii, our investigation revealed that from April 2011 to February 2013, Mr. Greer may have violated state laws related to conflict of interest, theft, fraudulent schemes, and forgery. We have submitted our report to the Attorney General's Office, which has taken criminal action against Mr. Greer resulting in his indictment on eight felony counts (see Conclusion on page 21 of this report).

Mr. Greer abused his authority as district treasurer—

Mr. Greer illicitly received from two district vendors (Hat Creek Electric Company LLC and From The Start LLC) a total of \$65,895 after he participated in awarding district contracts to them totaling \$110,700. Mr. Greer also improperly paid \$2,299 of his personal and business expenses using his district credit card. In addition, Mr. Greer forged a district letter falsely asserting that the District had received \$31,565 in cash deposits from himself.¹

Mr. Greer abused his authority as posse treasurer—

Mr. Greer spent \$38,706 of posse money for personal benefit. Specifically, he paid his personal and business expenses by withdrawing cash and writing checks from the posse bank account and by using a posse debit card. He also orally presented false treasurer's reports, concealing the Posse's true financial condition by fraudulently overstating bank account balances 12 times at posse governing board meetings.

Michael Greer investigation highlights

As former district treasurer, Mr. Greer:

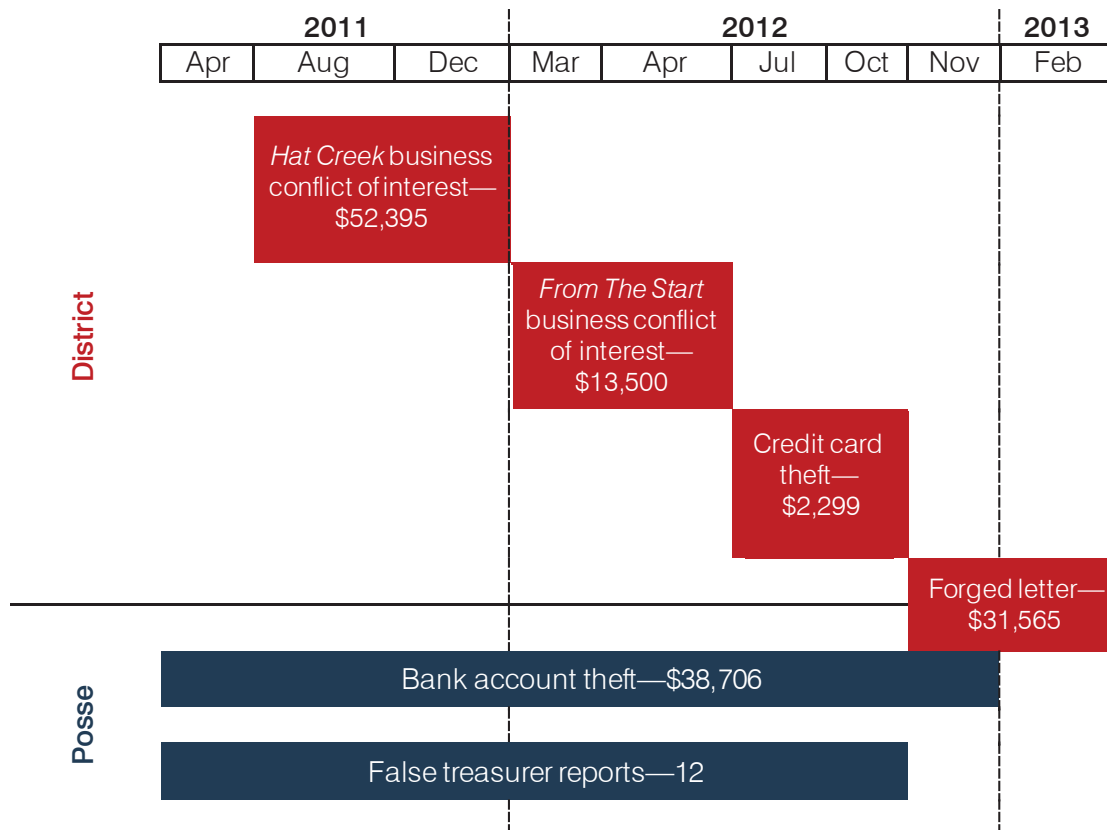
- Illicitly received \$65,895 from two vendors after helping to award them district contracts.
- Misspent \$2,299 using a district credit card.
- Made false statements on a letter he forged to look like it was from the District.

As former posse treasurer, Mr. Greer:

- Misspent \$38,706 from the Posse's bank account by withdrawing cash, writing checks, and using a debit card.
- Presented 12 false treasurer reports to the posse governing board.

¹ Mr. Greer provided this forged letter to a private lender in order to appear as if he were fulfilling loan provisions.

**Figure 1: Timeline of violations
April 2011 through February 2013**



Source: Auditor General staff analysis of district, posse, bank, vendor, and private lender records, and interviews with district, posse, vendor, and private lender representatives.

Although no internal control system can completely prevent dishonest behavior such as Mr. Greer's, there are ways to help ensure officials properly safeguard and control monies for which they have fiduciary responsibilities. As discussed in the Recommendations section on page 19, governing boards should require all board members and certain personnel to complete conflict-of-interest forms every year. In addition, governing boards should develop and implement purchasing policies and procedures that ensure monies are properly controlled and expended. These policies should provide for a clear separation of responsibilities regarding the disbursement of monies so that individuals preparing checks do not also sign them and supporting documentation, such as invoices or contracts, is reviewed for propriety by a separate authorized individual. Additionally, board members should regularly review bank statements to ensure bank accounts are authorized and that reconciliations between the bank statement and check register are independently performed and reviewed.

TABLE OF CONTENTS



Introduction & Background	1
---------------------------	---

Finding 1: Mr. Greer engaged in conflicts of interest, improperly receiving \$65,895 as a result of district contracts	3
--	---

Mr. Greer had a conflict of interest with the District's contract award to Hat Creek and received \$52,395 as a result of that contract	3
---	---

Mr. Greer had a conflict of interest with the District's contract award to From The Start and received \$13,500 as a result of that contract	7
--	---

Finding 2: Mr. Greer misspent \$2,299 of district monies	9
--	---

Finding 3: Mr. Greer made false statements on a letter he forged to make it look like it was from the District	11
--	----

Finding 4: Mr. Greer misspent \$38,706 of posse monies	13
--	----

Finding 5: Mr. Greer presented 12 false treasurer reports to the posse governing board	15
--	----

Finding 6: Former district officials failed to safeguard and control district monies	17
--	----

Recommendations	19
-----------------	----

Conclusion	21
------------	----

Tables

1 Money Mr. Greer received as a result of his conflict of interest with two district contracts for generator-related projects August 2011 through April 2012	3
--	---

TABLE OF CONTENTS



Tables (Continued)

2	Mr. Greer's receipt of money from District's contract with Hat Creek August 30, 2011 through December 14, 2011	6
3	Mr. Greer's personal use of posse money April 2011 through November 2012	13
4	Mr. Greer's falsely overstated posse bank account balances compared to actual posse bank account balances April 2011 through August 2012	15

Figure

1	Timeline of violations April 2011 through February 2013	ii
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INTRODUCTION & BACKGROUND

Michael Greer served as Pine-Strawberry Water Improvement District governing board member and treasurer

The Pine-Strawberry Water Improvement District (District) was established by the Gila County Board of Supervisors as a special taxing district in July 1996 and is primarily supported by water use payments and property tax revenues.¹ In fiscal year 2015, the District received \$1,928,517 from water customers and \$500,011 from property tax payments. 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 bylaws require every governing board member to provide the board chairman with a written disclosure of any interest they may hold that is adverse to the governing board or the efforts of the governing board. During his service as a board member, Mr. Greer made no such disclosure.

Mr. Greer was first elected to the district governing board in March 2008 for a partial term and then to a full term in 2010. As treasurer, he was responsible for reporting all income, expenses, assets, and liabilities to the governing board, and was one of four board members who were authorized signers on district bank accounts.² Mr. Greer resigned from the district governing board in December 2012 after he repaid, due to repeated requests from district officials, about \$2,300 of district monies he had misspent (see Finding 2 on page 9 for more information).

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 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.

² District bylaws require that district checks or warrants be signed by two signatories.

Michael Greer served as Gila County Mounted Posse executive governing board member and treasurer

The Gila County Mounted Posse (Posse) is a nonprofit corporation established in October 2010 to assist the Gila County Sheriff's Office in search and rescue operations and is administered by a five-member executive governing board.

Mr. Greer began serving on the posse executive governing board as treasurer in October 2010 when the Posse was first established. He was responsible for managing the posse bank account and informing the executive governing board of all fiscal affairs, as well as being one of five executive governing board members who were authorized signers on the posse bank account. Mr. Greer resigned as treasurer and as a posse member in November 2012 after he repaid, as a result of the posse commander's request, \$25,660 of posse monies he had misspent (see Finding 4 on page 13 for more information).

FINDING 1

Mr. Greer engaged in conflicts of interest, improperly receiving \$65,895 as a result of district contracts

As shown in Table 1 below, from August 2011 through April 2012, former Pine-Strawberry Water Improvement District (District) treasurer Michael Greer illicitly received \$65,895 from two district vendors (Hat Creek Electric Company LLC [Hat Creek], and From The Start LLC [From the Start]) that were paid \$113,395 for generator-related projects. He also failed to disclose his financial interest with those vendors and improperly participated in the District's contracting process for these generator-related projects.

Table 1: Money Mr. Greer received as a result of his conflict of interest with two district contracts for generator-related projects August 2011 through April 2012

Vendor	Amount district paid to vendor	Amount Mr. Greer received from vendor
Hat Creek Electric Company LLC	\$ 92,395	\$ 52,395
From The Start LLC	<u>21,000</u>	<u>13,500</u>
Total monies paid and received	<u>\$ 113,395</u>	<u>\$ 65,895</u>

Source: Auditor General staff analysis of district, bank, and vendor records and interviews with district and vendor representatives.

Mr. Greer had a conflict of interest with the District's contract award to Hat Creek and received \$52,395 as a result of that contract

Mr. Greer failed to disclose his financial interest with Hat Creek and helped to award that business the District's \$89,700 contract for 13 generator installations.¹ Mr. Greer improperly received \$52,395 from Hat Creek as a result of this contract.

Mr. Greer did not disclose his interest with Hat Creek contract—Mr. Greer did not declare his conflict of interest with Hat Creek to the district governing board even though he received money as a result of the District's contract award to Hat Creek. Mr. Greer and his business partner owned Hat Creek for at least 5 years before Mr. Greer purportedly sold his interest to the other partner (purchaser) on August 21, 2011. This purported sale occurred just 1 day before Hat Creek submitted its offer for generator installations to the District; however, Mr. Greer did not

¹ Hat Creek was paid \$2,695 more than the \$89,700 contract for a total of \$92,395 because of additional labor costs at one of the installation sites. In addition, this contract was not competitively procured in accordance with district policies. See Finding 6 on page 17 for more information.

effectively withdraw from the business. Specifically, certain terms of the purchase and sale agreement (agreement) were not fully consummated, and other terms did not separate Mr. Greer from Hat Creek business activity. In particular:

- **No payments for the Hat Creek purchase were made**—Although the purchase price of \$90,000 was to be paid to Mr. Greer in (36) monthly installments of \$2,500 commencing on September 1, 2011, no documents were provided to show that this occurred. Moreover, in an interview with Auditor General staff, the purchaser stated that he did not pay Mr. Greer any of the monthly installments.
- **Mr. Greer continued to manage Hat Creek business operations**—Despite the condition in the agreement that the purchaser was to be solely responsible for Hat Creek business operations and all billing and collections, from October through December 2011, Mr. Greer deposited five district checks issued to Hat Creek totaling \$27,395 in his Hat Creek business bank account (see page 6 for more information). Moreover, the district checks issued for the generator installations accounted for all of the purchaser's billings and collections because the district contract was the only contract the purchaser ever executed subsequent to the August 2011 agreement.
- **Hat Creek still used Mr. Greer's supervision as the qualifying party to maintain its contractor's license**—The work Hat Creek performed to install district generators was performed under Mr. Greer's supervision as the qualifying party on Hat Creek's K11 Electrical Commercial/Residential contractor's license. Although only the purchaser was to execute contracts entered after the August 2011 agreement, the purchaser did not hold a contractor's license and was therefore not qualified under state law to do the work called for under the district contract.¹ Moreover, although the agreement stated that the purchaser had 60 days to obtain a qualifying license, no portion of the agreement was predicated on his ability to obtain the requisite contracting license. In fact, the purchaser did not obtain a contractor's license and stated to Auditor General staff that he was unable to pass the commercial exam.
- **Mr. Greer actively participated in Hat Creek operations**—As further described on page 5, Mr. Greer provided substantial work related to Hat Creek's district contract to install generators, and the agreement did not prohibit this work. Rather than separating Mr. Greer from Hat Creek operations, the agreement allowed him to provide the purchaser with instructional advice and other services related to the Hat Creek business.

¹ The Arizona Registrar of Contractors licenses and regulates residential and commercial contractors pursuant, in part, to Arizona Revised Statutes §§32-1122, Qualifications for license, and 32-1151, Engaging in contracting without license prohibited.

Mr. Greer improperly participated with Hat Creek contract award—Mr. Greer improperly participated with the District's Hat Creek contract by directing this project to install 13 generators. Specifically, he contacted a prior business associate as well as Hat Creek to offer a price on the installation, providing both vendors with project information and taking them to the installation sites.¹ Moreover, Mr. Greer further participated in the District's contract award to Hat Creek by writing Hat Creek's offer using a computer at his home. Although the purchaser was present, Mr. Greer predominantly wrote the offer. Hat Creek's price was nearly \$13,000 less than the other vendor's offer, and on August 26, 2011, the district manager awarded the contract to Hat Creek.

Mr. Greer predominantly wrote Hat Creek's offer that was submitted to the District.

Mr. Greer also provided substantial work on this project after the contract was granted to Hat Creek. Specifically, he prepared for and managed installation of all 13 generators by:

- Overseeing the design and engineering work.
- Being present at work sites and directing workers on what to do.
- Compiling all drawings and contacting property owners regarding any required permissions allowing generators to be installed.
- Taking drawings for every site to Gila County Community Development and applying for permits to install the generators using the Hat Creek contractor's license for which he was still the qualifying party.

Mr. Greer received \$52,395 of the \$92,395 paid to Hat Creek—As shown in Table 2 on page 6, Mr. Greer received a total of \$52,395 of the \$92,395 the District paid to Hat Creek for the generator installations. Mr. Greer first received \$25,000 after he, as district treasurer, signed 13 district checks payable to Hat Creek totaling \$65,000.² Specifically, the purchaser deposited these 13 checks to his newly opened Hat Creek bank account on August 30, 2011, and withdrew \$25,000 cash that he provided to Mr. Greer. In interviews with Auditor General staff, the purchaser stated the \$25,000 was for buying an additional truck from Mr. Greer, and Mr. Greer stated he did not recall getting this money but did not dispute that the purchaser had bought a truck from him.

Mr. Greer received from the Hat Creek purchaser \$25,000 in cash.

¹ This contract was not competitively procured in accordance with district policies. See Finding 6 on page 17 for more information.

² District checks required two signatures. Mr. Greer was one of the two signatories for all of the checks issued to Hat Creek.

**Table 2: Mr. Greer's receipt of money from District's contract with Hat Creek
August 30, 2011 through December 14, 2011**

Receipt or deposit date	Description	Amount
08/30/11	Cash from \$65,000 initial district payment to Hat Creek	\$ 25,000
10/05/11	10/03/11 district check payable to Hat Creek	7,600
10/20/11	10/24/11 district check payable to Hat Creek	5,700
10/28/11	10/31/11 district check payable to Hat Creek	5,700
11/04/11	11/07/11 district check payable to Hat Creek	3,800
12/14/11	12/13/11 district check payable to Hat Creek	<u>4,595</u>
Total received from Hat Creek contract		<u>\$ 52,395</u>

Source: Auditor General staff analysis of district and bank records and interviews with Mr. Greer and the purchaser.

From October through December 2011, Mr. Greer received the remaining monies the District paid to Hat Creek. Specifically, as district treasurer, Mr. Greer signed five district checks totaling \$27,395 payable to Hat Creek, post-dating some of them. He deposited these checks to his Hat Creek business bank account that he had kept open, sometimes depositing the check up to 4 days prior to the check date.

Mr. Greer initially denied to Auditor General staff that he received any money from the Hat Creek contract or got paid for installing generators. However, after being presented with certain bank records, Mr. Greer admitted he received money from the Hat Creek contract and claimed a myriad of reasons for his receipt of that money. Specifically, Mr. Greer stated:

After his initial denial, Mr. Greer admitted he received money from the District's Hat Creek contract.

- He had used some of these Hat Creek monies to give cash to the purchaser.
- The purchaser owed him money for equipment.
- He had borrowed some of this Hat Creek money because he had a bill to pay.
- The purchaser owed him money pursuant to their August 2011 agreement.

Still, Mr. Greer was unsure how much money he had reportedly given to the purchaser and could not provide documents to support any disbursement to the purchaser or provide documents to support that he had received any payments from the purchaser pursuant to the August 2011 agreement.

Nonetheless, Mr. Greer's Hat Creek bank records reflect that these five district checks were deposited and commingled with other monies and generally spent within four business

days. Specifically, Mr. Greer made purchases primarily at hardware stores, service stations, and restaurants, and paid his debt expenses, made cash withdrawals, and wrote checks to his wife.

Mr. Greer had a conflict of interest with the District's contract award to From The Start and received \$13,500 as a result of that contract

Mr. Greer failed to disclose his interest with, and helped to award, the District's \$21,000 contract for generator maintenance to From The Start, a company owned by one of Mr. Greer's extended family members (owner). Mr. Greer improperly received \$13,500 from From The Start as a result of this contract.

Mr. Greer did not disclose his interest and improperly participated with From The Start contract award—Mr. Greer did not declare his conflict of interest with From The Start to the district governing board even though he received money as a result of the District's contract award to From The Start. Additionally, Mr. Greer participated with the District's award of the From The Start contract beginning with his personal arrangement and payment for the owner to receive generator service and repair training and certification in January 2012 from the generator manufacturer.¹

Further involving himself in the District's plan for generator maintenance, Mr. Greer asked one other vendor besides From The Start to offer a price on the maintenance service, providing both vendors with generator information, taking them to the actual sites, and personally receiving both vendors' price quotations.² Although the offers should have been sent directly to the District, they were instead addressed to Mr. Greer at his private business e-mail address. From The Start's offer was dated 6 days after Mr. Greer received the other vendor's offer, was \$4,650 less than the other vendor's offer, and it included an additional year of service. On April 17, 2012, the board chairman awarded the contract to From The Start.

Mr. Greer received \$13,500 of the \$21,000 paid to From The Start—On April 17, 2012, Mr. Greer received \$13,500 of the \$21,000 the District paid that same day to From The Start for generator maintenance.³ Specifically, on April 17, as district treasurer, Mr. Greer signed a \$21,000 district check payable to From The Start.⁴ The owner deposited this money to his From The Start business bank account, which he had opened the month before, bringing the available balance to \$21,006.35, and immediately issued a \$13,500 check payable to one of Mr. Greer's businesses.⁵ This check was deposited that same day in Mr. Greer's business bank account,

Mr. Greer received \$13,500 from the district vendor, From The Start, on the same day he signed a \$21,000 district check payable to From The Start.⁴

¹ Mr. Greer was aware that in order to keep warranties intact on the 13 generators Hat Creek installed, service and repairs were required to be performed by a person certified by the generator manufacturer.

² For expenditures between \$10,001 and \$25,000, district policies do not require public notice or more than two vendor solicitations.

³ As described in Finding 6 on page 17, the District did not have a policy prohibiting prepayment of services.

⁴ District checks required two signatures. Mr. Greer was one of the two signatories for this check issued to From The Start.

⁵ This business was incorporated in June 2011 by Mr. Greer and two of his associates to provide various services such as solar panel and satellite television installations.

which was overdrawn by \$60.63 at the time. Bank records show that after the \$13,500 check brought Mr. Greer's business bank account balance above negative, the money was primarily spent on cash withdrawals and personal and business expenses.

Mr. Greer initially stated to Auditor General staff that neither he nor his companies received any money from the District's generator maintenance contract with From The Start. However, after being presented with certain bank records, Mr. Greer reported that this \$13,500 From The Start check to him was for the owner's purchase of a vehicle, alternator, generator, ladder, and "service kits" that would be used for district generator service. However, the owner stated to Auditor General staff that although he did buy some "service kits" from Mr. Greer, they cost only \$380. The owner further stated the \$13,500 check was mostly for payment of his personal debt with Mr. Greer, and he thought Mr. Greer had the same understanding.

FINDING 2

Mr. Greer misspent \$2,299 of district monies

From July through October 2012, Mr. Greer unlawfully used a Pine-Strawberry Water Improvement District (District) credit card repeatedly for his personal and business-related purchases at gas stations, hardware stores, retailers, and restaurants totaling \$2,299. None of these purchases were for district-related purposes. Although Mr. Greer agreed to reimburse the District for his misuse of district monies when first advised by the District's accounting manager in August 2012, he continued to misuse the district credit card. Further, he repeatedly failed to repay this money for nearly 3 months as follows:

Despite repeated requests for payment, Mr. Greer failed to repay his earlier misuse of district monies, and he continued to misuse the district credit card for nearly 3 months.

- **August 22**—The district accountant showed Mr. Greer \$927 of his July and August district credit card charges that appeared unrelated to district business. Mr. Greer responded that his employees had used the district credit card instead of his personal credit card and he would bring in money to pay what he owed.
- **September 26 through 28**—The district accountant questioned Mr. Greer about additional charges for personal expenses made in August and September that totaled \$660. Mr. Greer responded that his employees were told to stop using the card in July, but they apparently had not listened, and he would reimburse the District.
- **October 19 through 22**—The district accountant noted additional charges for personal expenses made in September and October totaling \$712 and informed the governing board chairman, who contacted Mr. Greer. Mr. Greer admitted to the chairman that he had recently used the district credit card for a \$442 purchase of fishing equipment at Bass Pro Shops on October 10. Mr. Greer rationalized to the chairman that he bought this equipment to take his terminally ill father fishing but then stated he knew it was wrong to do that and would pay it back. The chairman requested that Mr. Greer also turn in his district credit card, which he did.
- **October 23**—Mr. Greer provided a \$2,299 check for his personal purchases. However, Mr. Greer's check did not clear the bank because of nonsufficient funds (NSF).
- **November 2**—Mr. Greer paid the District \$2,200 in cash.
- **November 8**—Mr. Greer paid the remaining \$129 in cash, including the bank's \$30 NSF fee.

FINDING 3

Mr. Greer made false statements on a letter he forged to make it look like it was from the District

In February 2013, Mr. Greer forged a letter to appear as if it were from the Pine-Strawberry Water Improvement District (District) and falsely reported in this letter that he had provided the District with \$31,565 cash. Mr. Greer provided this forged letter to a private lender attempting to persuade the lender that his use of loan proceeds was in accordance with their agreement.

Mr. Greer originally obtained a \$32,000 loan on November 21, 2012, from a private lender by falsely representing that he needed to post a bond in regard to an investigation of his alleged personal use of the district credit card. However, the District had no authority to accept and did not request a bond. Further, Mr. Greer did not use the loan proceeds for posting a bond; rather, he used \$25,660, or about 80 percent of the loan proceeds, to repay some of his theft from the Gila County Mounted Posse (see Finding 4 on page 13). Although the lender continually asked Mr. Greer to provide him with monthly updates and a copy of the bond, Mr. Greer failed to do so. Ultimately, in February 2013, Mr. Greer gave the lender a letter, which appeared to be on district letterhead, indicating district receipt of money from Mr. Greer. Specifically, the letter was addressed to Mr. Greer, purportedly signed by the District's office manager, and stated in part:

"As you requested please let this letter serve as your receipt for... four cash deposits totaling \$31,565...the funds can and will be returned to you after the conclusion of the current investigation of the Gila County Attorneys (sic) Office and the findings of the Auditor Generals (sic) Office. The cash deposits will be held in a non interest (sic) bearing account until such time as it has been determined how much, or if any funds are to be repaid to the district. Any and all remaining funds will be refunded to you in the form of a certified check."

Contrary to the representation in the letter, the District did not receive cash deposits from Mr. Greer. Further, the letter was not on district letterhead, but instead presented graphics like those on the District's Web site. Moreover, the purported author did not sign this letter, and her name and title were incorrect. When Auditor General staff presented these inconsistencies to Mr. Greer, he acknowledged he wrote this forged letter to get the lender "off my back."

Mr. Greer acknowledged he wrote a forged letter that appeared to be from the District in order to get a private lender "off my back."

FINDING 4

Mr. Greer misspent \$38,706 of posse monies

As shown in Table 3 below, from April 2011 through November 2012, Mr. Greer unlawfully withdrew cash and wrote checks from the Gila County Mounted Posse's (Posse) checking account, and used the Posse's debit card to purchase items for his personal and business use totaling \$38,706. Specifically, he used \$10,000 to lease a vacation home in Mexico. In addition, he repeatedly made numerous purchases for his business totaling \$18,724, cash withdrawals of \$5,600, and personal purchases of \$3,739. Moreover, Mr. Greer's personal transactions caused deficit balances in the Posse's bank account resulting in \$643 of bank fees for overdrafts and nonsufficient funds.

Mr. Greer used \$10,000 of \$38,706 he embezzled from the Posse to lease a vacation home in Mexico.

**Table 3: Mr. Greer's personal use of posse money
April 2011 through November 2012**

Description	Amount
Personal business expenses	\$ 18,724
Lease of vacation home in Mexico	10,000
Cash withdrawals	5,600
Personal expenses	3,739
Bank fees	643
Total personal use of posse money	<u>\$ 38,706</u>

Source: Auditor General staff analysis of posse and bank records and interviews with the vacation home's lessor and Mr. Greer.

After Mr. Greer was questioned in November 2012 by the posse commander about a posse check that failed to clear the bank because of nonsufficient funds, Mr. Greer admitted he "borrowed" money from the Posse. Beginning on November 23 and ending on November 26, 2012, Mr. Greer repaid some of this money by making several deposits to the posse bank account totaling \$25,660. The deposits comprised cashier's checks and cash Mr. Greer obtained from the loan proceeds he fraudulently acquired as previously described in Finding 3 (see page 11). Although Mr. Greer deceptively represented to the posse commander that he had paid what he "borrowed," as well as a supposed additional amount for interest, \$13,046 was not paid.

FINDING 5

Mr. Greer presented 12 false treasurer reports to the posse governing board

From April 2011 through August 2012, Mr. Greer provided the treasurer's report to the Gila County Mounted Posse (Posse) governing board wherein he orally stated false amounts of posse bank account balances for 12 different dates.¹ Specifically, as shown in Table 4 below, during eight governing board meetings, Mr. Greer overstated bank account balances for 12 dates, once also specifying a balance for a savings account that did not exist. Neither written treasurer's reports nor bank statements were made available to governing board members during meetings; rather, the posse secretary recorded Mr. Greer's oral treasurer's report of bank account balances in the board meeting minutes. These minutes reflect that Mr. Greer's treasurer's report overstatements ranged from \$956 to \$19,169. For example, on November 18, 2011, Mr. Greer reported a bank account balance of \$8,265, while bank records show the account was actually overdrawn by \$337.

Table 4: Mr. Greer's falsely overstated posse bank account balances compared to actual posse bank account balances April 2011 through August 2012

Date of governing board meeting	Date of bank account balance	False bank account balance reported by Mr. Greer	Actual bank account balance	False overstated amount by Mr. Greer
	04/30/2011	\$ 14,604	\$13,648	\$ 956
06/16/2011	05/31/2011	16,240	6,900	9,340
	06/16/2011	20,824	7,851	12,973
10/20/2011	10/20/2011	checking 16,695 savings 8,000 ¹	16,131	8,564
11/18/2011	11/18/2011	8,265	(337)	8,602
01/18/2012	01/18/2012	42,701	38,599	4,102
05/24/2012	04/30/2012	35,399	32,884	2,515
06/21/2012	06/21/2012	44,683	37,289	7,394
07/26/2012	06/30/2012	44,683	35,027	9,656
	07/26/2012	40,722	21,596	19,126
08/23/2012	07/31/2012	40,722	21,553	19,169
	08/23/2012	27,247	9,694	17,553

¹ The Posse had only one checking account. No savings account existed.

Source: Auditor General staff analysis of posse governing board meeting minutes and bank records.

¹ Although Mr. Greer was posse treasurer until his resignation in November 2012, there are no records that indicate Mr. Greer presented any treasurer's reports or bank account balance information to the governing board after August 2012.

FINDING 6

Former district officials failed to safeguard and control district monies

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

- **Conflict-of-interest policy not enforced**—Although the district bylaws require every governing board member to provide the chairman with a written disclosure of any interest they may hold that is adverse to the governing board or the efforts of the governing board, district officials did not enforce this policy. In particular, although the chairman and other board members were aware of several of Mr. Greer's business interests, including his ownership interest in Hat Creek Electric Company LLC (Hat Creek), they did not require him to make a written disclosure of his interests.

Although the chairman and district manager were aware of the supposed August 21, 2011, sale of Mr. Greer's Hat Creek business, no records were provided to Auditor General staff to support that the purchase and sale agreement was evaluated by any board members, district officials, or district legal counsel prior to the district awarding a contract to Hat Creek on August 26, 2011. Such an evaluation would have revealed that Mr. Greer had a conflict of interest because the purchase and sale agreement did not fully separate him from the Hat Creek business.

- **District officials did not follow their own purchasing policies**—The district manager did not use the formal competitive sealed bidding process for the \$89,700 generator installation contract awarded to Hat Creek. Although district purchasing policies require that any procurement resulting in an expenditure of more than \$25,000 be solicited using a formal competitive sealed bidding process, he instead used the policy for expenditures that were \$10,000 or less. This process only requires the procurement to be "as much economy as practicable in the open market place" and does not require public notice or governing board authorization. In his memo to the district accounting manager recommending Hat Creek be awarded the contract, the district manager provided the following rationale for breaking up the job by the 13 installation sites in order to use the less restrictive procurement as follows:
 - The belief that certain sites would be more costly than others.
 - Allows the District flexibility to select one or both contractors based on the lowest bid for each location.
 - Allows the District to record the true cost of each asset on an individual basis.

However, none of these factors precluded the solicitation of a competitive sealed bid. Moreover, this rationale disregarded several of the District's stated procurement policy purposes, the foremost of which is to maintain a procurement system of quality and integrity. This decision to refrain from a competitive bid process also disregarded other policy purposes, such as providing for increased public confidence in the District's procurement process, increasing the economy of the purchasing value, and fostering effective broad-based competition.

Finally, each of the two bidders submitted written price offers that defied the District's stated belief that certain installation sites would be more costly than others. For each of the 13 installation sites, Hat Creek proposed \$6,900 and the other vendor proposed \$7,890, both with no differentiation for extra costs. Despite this flat-rate contractual agreement, Hat Creek was still paid an extra \$2,695 for additional labor costs at one of the sites.

- **District purchasing policies inadequate**—District purchasing policies did not prohibit the prepayment of services. Accordingly, From The Start was paid the entire \$21,000 contract amount for the 2-year generator maintenance contract before any service was performed. This practice puts the District at unnecessary risk of losing public money should a vendor be unable to perform the contracted services already paid for.
- **District did not have sufficient control over credit card use**—The District did not have a written policy for credit card use and did not require users to sign and abide by user agreements. Further, district officials failed to cancel or put a hold on Mr. Greer's credit card when he failed to repay his misuse of district monies and continued to use the district credit card for personal expenses.

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 obtaining conflict-of-interest forms from six of the seven governing board members and prohibiting the issuance of credit cards in the names of individual board members. Although the District took some corrective measures and no internal control system can completely prevent dishonest behavior such as Mr. Greer's, the following recommendations are additional actions governing boards can take to help ensure that officials, including governing board treasurers, properly safeguard and control monies for which they have fiduciary responsibilities. Specifically, governing boards should:

1. Ensure all governing board members and 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.
2. Develop and implement purchasing policies and procedures that ensure monies are properly controlled and expended, periodically assessing the policies' effectiveness. These policies should specifically address procurement solicitation limits and processes; restrictions on prepayment of services; allowable and disallowable uses of credit cards; and consequences of failing to abide by governing board policy. In addition, governing board members and applicable personnel should receive training on these policies and provide a written acknowledgement of their understanding.
3. Ensure responsibilities of disbursing monies are adequately separated. Specifically, individuals who prepare checks should not also sign them. Further, supporting documentation for check payments such as contracts, invoices, or other billings should be reviewed for propriety by an authorized individual.
4. Regularly review bank statements and ensure bank statements are reconciled to check register records by an individual independent of cash disbursements. These reconciliations should also be reviewed by governing board members and compared to the bank statement. Any discrepancies noted in reconciliations should be immediately investigated and resolved.

CONCLUSION

On June 21, 2016, the Arizona Attorney General's Office presented evidence to the State Grand Jury. This action resulted in Mr. Greer's indictment on eight felony counts related to conflict of interest, theft, fraudulent schemes, and forgery.

