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November 25, 2005

Members of the Arizona Legislature

Santa Cruz County Board of Supervisors

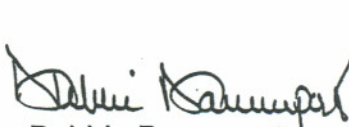
The Honorable Terry Goddard
Attorney General

The Office of the Auditor General has conducted a special investigation of the Santa Cruz County School Superintendent's Office for the period June 1998 through June 2004. 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 Santa Cruz County School Superintendent'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 Santa Cruz County Board of Supervisors, it becomes public record.


Debbie Davenport
Auditor General

Enclosure

SUMMARY

In May 2004, the Santa Cruz County Finance Department requested that the Office of the Auditor General investigate allegations of potential misuse of public monies by Ms. Hortencia Rodriguez, former Santa Cruz County School Superintendent's Office Accounting Specialist. Our Office conducted an investigation and submitted our report to the Santa Cruz County Attorney. During our investigation, we determined that Mr. Robert Canchola, Santa Cruz County School Superintendent, may have also misused public money. Consequently, we submitted an additional report to the Arizona Attorney General's Office. Both individuals have been separately charged with felony offenses. (See Conclusion on page 15.)

Our investigation revealed that from July 1998 through November 2003, Mr. Canchola may have embezzled at least \$16,549. In addition, Mr. Canchola may have violated conflict-of-interest laws by failing to file disclosure statements and participating in numerous payments to family-owned businesses totaling \$10,175. Finally, Mr. Canchola authorized or allowed numerous improper payments totaling \$21,254 that may not have been criminally charged due to the nature of certain records. Our investigation also revealed that from September 1998 through April 2004, Ms. Rodriguez may have embezzled at least \$8,500.

Ms. Rodriguez and Mr. Canchola were able to independently embezzle public monies undetected for nearly 6 years because of poor internal controls within the Santa Cruz County School Superintendent's Office. Specifically, checks were issued without being independently approved or reconciled to supporting documents or financial records.

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INTRODUCTION & BACKGROUND

Santa Cruz County encompasses about 1,250 square miles in southern Arizona, bordering the country of Mexico. The Santa Cruz County School Superintendent's Office, located in Nogales, provides administrative services to 6 school districts and more than 10,500 students, and employs approximately 8 staff members. The County School Superintendent's Office fiscal year 2004 general fund expenditures were \$1,089,157.

Mr. Canchola has been the Santa Cruz County School Superintendent since first elected in 1993. The Superintendent is responsible to Arizona citizens in general and to county students, parents, teachers, and taxpayers in particular for establishing internal controls to help ensure the prudent use of public money.

Ms. Rodriguez began her employment with the County School Superintendents' Office as an Accounting Specialist in 1986. She was responsible for processing payments related to county, state, and federal funds. The County terminated Ms. Rodriguez's employment on July 30, 2004.

FINDING 1

Employee embezzled public monies

From July 1998 through April 2004, Mr. Robert Canchola, Santa Cruz County School Superintendent, and Ms. Hortencia Rodriguez, former Accounting Specialist, embezzled at least \$25,049 from the Santa Cruz County School Superintendent's Office by improperly authorizing checks for their own personal purposes. See Exhibit 1. During a 6-year period, these individuals may have repeatedly violated state laws related to theft, fraudulent schemes, and misuse of public monies.

Exhibit 1: Alleged Theft Schemes July 1998 to April 2004

<u>Description</u>	<u>Total</u>
Payments for Mr. Canchola's personal debts and expenses	\$16,549
Personal payments to Ms. Rodriguez and her family members	<u>8,500</u>
Total theft	\$25,049

Source: Auditor General staff analysis of Santa Cruz County School Superintendent's Office, and private business and financial institutions' records.

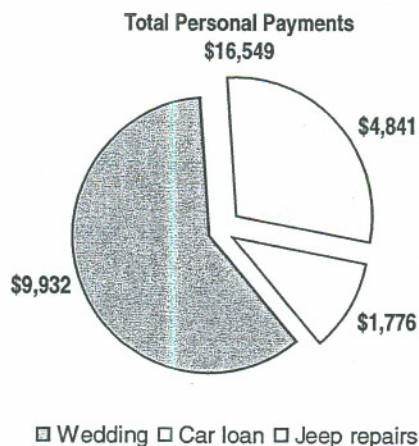
Actions by Mr. Robert Canchola

As a public official, Mr. Canchola is entrusted by the local community to prudently manage county assets; however, from July 1998 to November 2003, Mr. Canchola allegedly embezzled at least \$16,549 by fraudulently authorizing Santa Cruz County School Superintendent's Office checks to pay his personal debts. See Figure 1, page 4.

Wedding Expenses

Mr. Canchola established a checking account for a fictitious business and created a false invoice in order to use public money to pay expenses for his March 2001 wedding. Although no business license exists, Mr. Canchola submitted to the County School's Office an \$8,380 invoice for "grant administrative services" requesting payment to Santa Cruz County Math & Science Consortium. This consortium had no

Figure 1: Robert Canchola—Payments for Personal Debts and Expenses
July 1998 to November 2003



Source: Auditor General staff analysis of Santa Cruz County School Superintendent's Office, and private business and financial institutions' records.

legal place of business, and the address listed on the invoice belonged to a Nogales Mail Boxes Etc. store. Mr. Canchola then authorized the payment, personally endorsed the \$8,380 county check, and on March 8, 2001, opened a checking account with this check at a Nogales bank using his personal address and a fictitious business name of S.C.C. M & S Consortium. The false invoice was devoid of any contract or purchase order reference and did not include any time frame or place that "grant administrative services" may have been provided. The County School's Office had another document titled "Wedding" that referenced \$8,380. This budget sheet identified funds of \$8,380 and listed costs for food, beer, a wedding band, mariachis, rehearsal dinner, photos, a tuxedo, a dress, flowers, and decorations.

Mr. Canchola issued two more County School's Office checks that he then endorsed and deposited into this checking account. One check was payable to himself and the other was payable to S.C.C. M & S Consortium. This account was closed a year later without any legitimate business activity; rather, county funds were secretly used to finance his personal wedding expenses totaling \$9,932. In fact, Mr. Canchola wrote checks out of this account that were payable to himself, cash, a jewelry business, social hall, and a beverage company.

Car Loan

From 2001 to 2003, Mr. Canchola made 14 payments totaling \$4,841 of County School's Office money for the vehicle loan on his Toyota Echo. County files did not contain any documentation such as an invoice or statement to explain or otherwise support these payments. The County provides vehicles or mileage reimbursement for official travel; however, there is no authority for public payment of personal vehicle loans. Moreover, on the Toyota vehicle purchase agreement, Mr. Canchola did not indicate the car would be for a "non-personal use." Rather, he selected the option of "personal, family, or household purposes (personal use)."

Jeep Repairs

Prior to the purchase of the Toyota Echo described above, Mr. Canchola unlawfully authorized \$1,776 for his personal jeep repairs. As previously stated, there is no authority for public payment of personal vehicle expenses. Actually, in 1998, the County School's Office was assigned a 1996 Ford Contour for use in county-related activities. In 1999 and 2000, Mr. Canchola used County School's Office money totaling \$1,776 on at least six occasions to pay for repairs on his personal Jeep Wrangler.

Actions by Ms. Hortencia Rodriguez

Ms. Rodriguez embezzled \$8,500 from September 1998 to April 2004 by writing six county school checks to herself, her husband, and her son for personal purposes. None of the checks described in Exhibit 2 below, ranging from \$500 to \$4,000, had any supporting documentation such as an invoice or even a description of work performed to explain or otherwise indicate a public purpose for the expenditure. Ms. Rodriguez admitted to Auditor General staff that she needed money and "borrowed" it from the County by writing checks to herself and family members. She also said that she had received the money from the checks written to her husband and her son.

Exhibit 2: Personal Payments for Hortencia Rodriguez September 1998 to April 2004

<u>Date</u>	<u>Payee</u>	<u>Amount</u>
09-10-98	G. Rodriguez	\$1,000
12-05-00	M. Rodriguez	500
10-31-01	G. Rodriguez	1,800
11-27-02	H. Rodriguez	700
02-11-04	H. Rodriguez	500
04-30-04	H. Rodriguez	<u>4,000</u>
Total		\$8,500

Source: Auditor General staff analysis of Santa Cruz County School Superintendent's Office and private financial institutions' records.

FINDING 2

Superintendent engaged in conflicts of interest

As illustrated in Exhibit 3, Mr. Canchola may have violated conflict-of-interest laws by repeatedly authorizing payments from January 1999 through March 2003 totaling \$10,175 to his wife's business and a family-owned business along with failing to properly disclose his interest and relationship. To help ensure that public officials do not improperly use their position for their own benefit, Arizona law requires that public officials make known their substantial interest in any decision as well as refrain from voting on or participating in that decision. This disclosure must be made available to the public. Mr. Canchola needed to simply describe his and his family members' financial relationships with these businesses on a standard county form and then abstain from contributing to county decisions that involved those businesses.

Exhibit 3: Conflicts of Interest
January 1999 to March 2003

<u>Entity</u>	<u>Relationship</u>	<u>Amount</u>
LD Consulting Services	Wife's business	\$9,000
Canchola Group Inc.	Parents' businesses	1,175
		<u>\$10,175</u>

Source: Auditor General staff analysis of Santa Cruz County School Superintendent's Office, and State of Arizona and Santa Cruz County records.

LD Consulting Services

From July 2001 through July 2002, Mr. Canchola authorized ten payments totaling \$9,000 to his wife's business, LD Consulting Services. Mr. Canchola failed to disclose his substantial interest in this business until February 2002; however, even then he continued to authorize more payments for his wife's consulting services. Mr. Canchola did not provide any contracts to support these payments, and the invoices state only that consulting services were provided. Consequently, there is no

documentation of what types of consulting services were provided, or to whom they were provided.

Canchola Group, Inc.

From January 1999 through March 2003, Mr. Canchola authorized nine checks totaling \$1,175 to his parents' business, Canchola Group, Inc. Although Mr. Canchola did not disclose his interest with this business on county conflict-of-interest forms, he did identify Canchola Group, Inc. as an employer of someone in his household on the 2002 State of Arizona Financial Disclosure Statement forms for public officers. The payments were for purchases made at McDonald's restaurants owned by Canchola Group, Inc. and should have been independently approved by a county employee unrelated to this business.

FINDING 3

Superintendent misused public money

From June 1998 through June 2004, Mr. Canchola may have misused at least \$21,254 of public monies.

**Exhibit 4: Misuse of Public Money
June 1998 to June 2004**

<u>Description</u>	<u>Amount</u>
Superintendent's personal credit card payments	\$15,834
Flowers and food for Superintendent and staff	4,351
Unsupported payments to Superintendent, his wife, and IRS	<u>1,069</u>
Total	\$21,254

Source: Auditor General staff analysis of Santa Cruz County School Superintendent's Office records.

Although these expenditures were not charged as embezzlement due to the nature of the records involved with the transactions, at a minimum they appear to represent misuse of public monies as they are for various purposes

inconsistent with serving the needs of the students, teachers and parents of Santa Cruz County. (See Exhibit 4.)

Personal credit card payments

From June 1998 through January 2004, Mr. Canchola authorized 61 payments totaling \$15,834 toward the balance on his personal credit card account. Charges on this account ranged from \$1 to \$555 and were made at car repair and maintenance businesses and convenience stores that also provided fuel. In addition, the statements reflected that CDs, luggage, and cookware were purchased. No documentation was provided to demonstrate a county function for these expenses. In fact, the County School Superintendent's Office was assigned a county vehicle for traveling purposes in which fuel charges were properly included on a county gas credit card, and car maintenance services were provided through the county fleet service. Further, when a county employee is authorized to use their personal vehicle

for a county purpose, they are reimbursed for mileage at a standard rate using a standard county form and are not paid directly for any gas purchases. Mr. Canchola was aware of the proper reimbursement procedure, having submitted at least 54 travel reimbursement forms during this time period. Accordingly, he had already been compensated over \$13,000 for travel-related expenses, including reimbursement for mileage.

Flowers and food

On 47 occasions during fiscal years 1999 through 2004, the Superintendent authorized \$3,288 payable to a local Nogales deli for his and County Schools Office employees' breakfasts and lunches. Mr. Canchola also used \$1,063 of county money for flowers. The Arizona Constitution prohibits the use of public money for private benefit unless that benefit is incidental to a public purpose being served by the expenditure and the public value is not far exceeded by the amount being paid. Any public purpose that may have been associated with these gifts was not documented.

Unsupported payments

The Superintendent authorized several payments totaling at least \$1,069 that were not supported with appropriate documentation necessary to maintain the correct standard for expending public monies. In February 2004, Mr. Canchola authorized a \$500 payment to his wife that had no supporting documentation. Accordingly, it is unknown if any materials or services were provided. Further, in October 1998, he signed a check in the amount of \$343 payable to the Internal Revenue Service reportedly for late fees associated with an unknown entity and failed to demonstrate if there was any public purpose for such expenditure. Lastly, Mr. Canchola received money he was not entitled to when he reimbursed himself twice for expenses totaling \$226.

Finding 4

County School's Office failed to ensure adequate controls

The Santa Cruz County School Superintendent's Office failed to implement an adequate system of internal controls for their disbursements. In fact, the Superintendent established a business climate that did not encourage the prudent use of public money or promote the expectation that expenditures of public money should have a public purpose. As a result, Mr. Canchola and Ms. Rodriguez were able to embezzle public money for nearly 6 years.

As the Superintendent, Mr. Canchola was able to instruct his employees to issue payments to vendors without any additional supervisory approval and without providing any supporting documentation such as a receipt or invoice. Therefore, because of his management position, Mr. Canchola was able to carry out his misappropriations without detection.

In addition, because the County School's Office allows checks to be printed directly from their computer system with the Superintendent's signature, checks could be issued without any written supervisory approval. Therefore, Ms. Rodriguez was basically able to enter payee and amount information into the computer system and print out a check containing the authorized signature without any additional oversight control.

Furthermore, no one performed an independent reconciliation between records of the County School's Office and the Treasurer's Office for the accounts for which Ms. Rodriguez was responsible. If this had been done, the improper payments could have been discovered and deterred.

RECOMMENDATIONS

To help ensure proper control over, and use of, public monies, the Santa Cruz County School Superintendent's Office should establish effective internal controls over cash disbursements, including policies and procedures and monitoring of compliance with those policies and procedures. Specifically, the Office should ensure that:

1. No individual employee has responsibility for the entire cash disbursement process. Accordingly, the Office should properly segregate the following functions:
 - Authorizing expenditures
 - Signing checks electronically or manually
 - Reconciling disbursements to Treasurer's Office records

These functions can be effectively separated among the office staff and can be further strengthened by means of an appropriate secondary review and approval process.

2. Expenditures are only processed based on proper documentation. Such documentation includes, but is not limited to, properly approved purchase requisitions, purchase orders, and vendor invoices.
3. The individual approving the expenditure should be independent of processing the payment and signing the check. Expenditures should only be approved if they support the needs of the County School's Office in its role to serve the public, and in particular, the community's students, parents, citizens, teachers, and schools. Public money should not be used for private benefit unless that benefit is incidental to a public purpose being served by the expenditure and the public value is not far exceeded by the amount being paid.
4. Periodic monitoring by an independent entity is performed to ensure that all policies and procedures are being followed.

CONCLUSION

The Santa Cruz County Attorney and the Arizona Attorney General's Office took separate criminal actions against Ms. Hortencia Rodriguez and Mr. Robert Canchola, respectively, resulting in criminal charges for both individuals.

On September 26, 2005, in the Santa Cruz County Superior Court, Ms. Rodriguez pled guilty to theft and was sentenced to 30 days in the county jail and ordered to pay \$8,500 restitution.

On October 19, 2005, the Arizona Superior Court Grand Jury indicted Mr. Canchola on a total of 40 counts related to theft, fraudulent schemes, misuse of public money, and conflicts of interest.