

Washington State Auditor's Office
Fraud Investigation Report

Edmonds School District No. 15
Snohomish County

Investigation Period
January 1, 2008 through December 31, 2013

Report No. 1011894

Issue Date
May 19, 2014



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

May 19, 2014

Edmonds School District No. 15
Lynnwood, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at Edmonds School District No. 15. On November 8, 2013, the District notified the State Auditor's Office of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of two former custodians and these custodians' unallowable activities at the District from January 1, 2008 through December 31, 2013. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

Questions about this report should be directed to Fraud Manager, Sarah Walker at (509) 454-3621.

TROY KELLEY
STATE AUDITOR

cc: Mr. Manuel Juzon, Business Operations Coordinator

Fraud Investigation Report

Edmonds School District No. 15 Snohomish County January 1, 2008 through December 31, 2013

INVESTIGATION SUMMARY

The District's Executive Director of Business Operations notified our Office regarding a potential loss of public funds, as required by state law.

The District initiated an investigation and determined two employees were paid for unearned overtime, which led to a loss totaling \$10,985.79 between January 2008 and December 2013.

We will refer this case to the Snohomish County Prosecuting Attorney's Office for any further action it determines is necessary.

BACKGROUND AND INVESTIGATION RESULTS

The District, located in Snohomish County, operates on an annual budget of approximately \$238 million, including approximately \$166 million in payroll expenses. In fiscal year 2012-2013, the District had approximately 1,183 certificated staff and 682 classified staff.

A District employee notified the Human Resources Department that he witnessed custodial staff members claiming overtime for work not performed. In October 2013, The District initiated an investigation. The Human Resources Director-Classified Staff interviewed both employees. During the interviews, the employees said they submitted payroll slips for overtime that was not earned, or submitted overtime slips for work that was performed during regular work hours. One employee said she had been doing this since starting employment with the District in 1998. As a result of the interviews, the District terminated both staff members' employment.

The District performed additional procedures to determine an amount of misappropriation. Based on these procedures, we determined:

- A lead custodian was paid \$546 in unearned overtime during July and August 2013.
- A staff custodian was paid approximately \$10,439.79 in unearned overtime from 2008 to 2013. Our review went back only to 2008 because the District changed payroll systems and it was not possible to run detailed payroll reports prior to 2008.

CONTROL WEAKNESSES

Internal controls at the District were not adequate to safeguard public resources. We found the following weaknesses allowed the misappropriation to occur:

- Custodial staff were not required to use a punch clock or other timekeeping system to monitor their regular hours worked during the week. Staff only needed to submit overtime slips for time performed beyond the regular 40-hour week.
- Supervisors did not ensure overtime slips were for work performed beyond an employee's regular 40 hour work week.

The District adopted the following processes to help decrease future risk of a similar occurrence:

- Staff are now required to use an electronic timekeeping system to clock in and out during their regular shifts, and if they are working, for special events.
- Supervisors compare overtime slips to time submitted through the timekeeping system to ensure overtime was earned.
- Principals of the schools are requested to remain aware of when custodians are working at their buildings.

RECOMMENDATION

As noted above, the District has strengthened internal controls over overtime and payroll reporting to ensure adequate oversight and monitoring to safeguard public resources and compliance with District policies.

We recommend the District seek recovery of the misappropriated \$10,985.79 and related investigation costs of \$2,717 from the former lead custodian and custodian and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the District must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Sharon James is the contact person for the Attorney General's Office and can be reached at (360) 586-1912 or sharon.james@atg.wa.gov. The contact for the State Auditor's Office is Sadie Armijo, Deputy Director of Local Audit, who can be reached at (360) 676-2165 ext. 108 or sadie.armijo@sao.wa.gov.

DISTRICT'S RESPONSE

We thank the State Auditor's Office for its assistance during this investigation.

STATE AUDITOR'S OFFICE REMARKS

We thank District officials and personnel for their assistance and cooperation during the investigation.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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