



**Office of the Washington State Auditor**  
**Pat McCarthy**

# **Fraud Investigation Report**

## **Franklin County**

**For the Investigation Period January 1, 2016 through December 31, 2017**

**Published April 30, 2018**

**Report No. 1021289**





**Office of the Washington State Auditor**  
**Pat McCarthy**

April 30, 2018

Board of Commissioners  
Franklin County  
Pasco, Washington

**Report on Fraud Investigation**

Attached is the official report on a misappropriation at Franklin County. On October 25, 2017, the County 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 the cash receipting procedures in the Superior Court Clerk's office at the County from January 1, 2016 through December 31, 2017. 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.

If you are a member of the media and have questions about this report, please contact Assistant Director for Communications Kathleen Cooper at (360) 902-0470. Otherwise, please contact Fraud Manager Sarah Walker at (509) 454-3621.

Pat McCarthy  
State Auditor  
Olympia, WA

cc: Thomas Westerman, Director of Finance

# FRAUD INVESTIGATION REPORT

## Investigation Summary

On October 25, 2017, the County Clerk notified our Office, as required by state law, regarding a potential loss of public funds in the Superior Court Clerk's Office.

The Franklin County Sheriff's Office investigated. We reviewed the Sheriff's Office investigation, performed an expanded review and determined a cash receipting misappropriation totaling \$11,062 occurred at the Superior Court Clerk's Office between January 2017 and July 2017. Our investigation also revealed control weaknesses in the County Treasurer's Office.

We will refer this report to the Franklin County Prosecuting Attorney's Office.

## Background and Investigation Results

Franklin County operates on an average annual budget of about \$40 million, including about \$900,000 in revenues from the Superior Court Clerk's Office. The Clerk's Office has 14 full-time positions and one part-time position.

The loss was detected on October 13, 2017, while the Legal Financial Officer was checking customer voicemails on the Financial Manager's office phone because she was out on unexpected leave. A customer left a message, questioning why the County had not yet cashed a check mailed in July 2017. While researching for an explanation, the Legal Financial Officer identified an entire day's deposit from July 18, 2017 – \$6,614 in cash and \$2,246 in checks – never made it to the bank.

We reviewed the investigation performed by the Franklin County Sheriff's Office. Deputies compared daily cash receipting hard copy files to bank statements from January 2016 through December 2017. Deputies also reviewed the County Treasurer's Office deposit logs to identify the person who took the deposit to the Treasurer's Office. The Sheriff's Office confirmed the July 18, 2017 deposit was missing and identified an additional deposit missing dated January 18, 2017. The January deposit consisted of \$1,387 in cash and \$815 in checks.

Our investigation focused on cash receipting procedures including electronic accounting system adjustments and reconciliations. We also:

- Compared all system cash receipts to the bank statement deposits for January 2016 to December 2017. We did not identify any additional missing deposits. We found that funds were typically deposited within one to three business days after receipt. However, we found that in July 2017, not including the missing deposit, funds receipted on the 19<sup>th</sup> and 20<sup>th</sup> were delayed in deposit by seven days and funds receipted on the 21<sup>st</sup> were delayed five days. Some depositing delays up to six days continued in September through December 2017.

- Learned the Financial Manager and Legal Financial Officer at the end of the day typically handled together the reconciliation of all cash and checks received for that day. There was no backup if one of the two were absent. Once funds were reconciled from the system to the tills, the bank deposit slip was prepared and the funds were placed into a sealed bank bag and placed in the vault overnight. The following morning, typically, the Financial Manager and on occasion the Legal Financial Officer would take the bank bag to the County Treasurer's Office for deposit. This responsibility was not assigned to one person.
- Observed by reviewing the receipting system that the July 18, 2017, missing deposit was still pending to be posted in the system as reconciled to the bank. It was the Financial Manager's responsibility to identify and reconcile pending deposits in the system.
- Discovered that the Clerk's Office received a safe from the Treasurer's Office sometime in 2015 and did not change the combination once installed. In addition, the Financial Manager told us in an interview that in April 2017 she had given the safe's combination to one of the Clerk's Office cashiers.

The Clerk's Office changed accounting and case management systems in late 2015; therefore we also performed limited testing in the old receipting system to determine if misappropriation risks existed in the old system or were limited to the new system. We did not identify any issues in the old system. Further, to determine if any additional misappropriation occurred, we also examined system adjustments and forfeited-property disbursements, and performed a limited review of disbursements. We did not find additional misappropriation; however, we did identify additional weaknesses. Specifically, the current accounting system cannot produce reports that are detailed enough to allow adequate monitoring.

In February 2018, we interviewed the Financial Manager, Legal Financial Officer and County Clerk. Based on our interviews, we noted the following:

- The County Clerk explained that the Finance Manager would provide him with a system screen shot of the monthly bank reconciliation. He did not retain the documentation but would review it to ensure it appeared to balance.
- The Financial Manager explained that she was behind on reconciling the system to the bank. With the assistance of the Legal Finance Officer, she was reconciling the system in six-month blocks. Due to the reconciliation process being time consuming, they would at times refer to their internal daily deposit forms in addition to or instead of the bank statements. She explained that if the deposit bag was not in the safe in the morning she would likely have assumed it was because the Legal Finance Officer had already taken it down to the Treasurer's Office. There was no formal process or method of accountability for taking the deposit to the Treasurer's Office.

- The Financial Manager also said the Clerk’s Office experienced significant staff turnover from January 2016 through December 2017. During this time, 20 employees were hired and 16 separated from the office.
- The Legal Finance Officer explained that she only read off the bank statement to the Finance Manager who then cleared bank deposit amounts. She would not know if there were any deposits in the system that were unreconciled to research the reason for them not being deposited. The Legal Finance Office was not aware of any review or monitoring being performed on the reconciliations or various types of adjustments.

## **Control Weaknesses**

Internal controls at the County were not adequate to safeguard public resources or detect misappropriation in a timely manner. We found the following weaknesses allowed the misappropriation to occur:

- The Clerk’s Office lacked segregation of duties over cash handling procedures. The two primary people responsible for reconciling the cash receipts to the deposits also prepared the deposit and transmitted funds to the Treasurer’s Office. In addition, there was not adequate oversight from someone independent of cash handling, reconciling and depositing.
- The bank reconciliation to the system receipting records was not completed in a reasonable amount of time nor was there monitoring of the bank reconciliations to ensure they were accurate or performed timely.
- An unknown number of people had access to the vault, where cash and checks receipted for the day were placed in a sealed bank bag overnight. In addition, multiple people transferred the bank bag to the Treasurer’s Office the following day for deposit.

## **Recommendations**

We recommend the County Clerk’s office strengthen internal controls over cash receipting procedures. For example, someone independent of the receipting and depositing process should reconcile the system receipts to the bank statement to ensure adequate oversight and monitoring to safeguard public resources and compliance with County policies. Further, this should include reviewing the receipting system for any unreconciled deposits or pending system adjustments.

We also recommend the County seek recovery of the misappropriated \$11,062 and related investigation costs of \$12,650 from its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the County must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General’s Office and can be reached at (360) 586-0740 or [mattk1@atg.wa.gov](mailto:mattk1@atg.wa.gov). The contact for the State Auditor’s Office is Sadie Armijo,

Assistant Director of Local Audit, who can be reached at (360) 902-0362 or [Sadie.Armijo@sao.wa.gov](mailto:Sadie.Armijo@sao.wa.gov).

## **County Clerk's Response**

*Franklin County would like to thank the State Auditor's Office for the opportunity to respond to the Investigation Report regarding the alleged misappropriation of funds.*

*When the Superior Court Clerk's office discovered a potential loss of public funds, the County Risk Manager, State Auditor's office, and law enforcement were properly notified. In addition, the employee was placed on administrative leave while the matter was investigated.*

*As a result of the investigation, the County strengthened internal controls to prevent the violation of long standing policies and procedures in the following areas:*

- *Cash receipting duties are delegated exclusively to cashiers.*
- *The preparation of the deposit is the dual responsibility of the Financial Manager and the Legal Financial Officer. In the event of either of their absence, the Chief Deputy, the Clerk and/or an authorized LFO Deputy Clerk will backup. All deposits are clearly documented and verified delivered to the County Treasurer's vault the same working day on the Treasurer's Office Garda Log, together with the date, time and signature of deliverer on Clerk's Office Daily Reconciliation Report.*
- *Increased controls to ensure accurate and timely reconciliation, including a monthly review of any unreconciled deposits or pending system adjustments.*
- *Legal Financial Office's safe combination is changed every 90 days and when an authorized employee entrusted with the combination leaves the County's employment. Under no circumstances is the safe combination to be shared without the express consent of the Clerk.*

*The County concurs with the State Auditor's recommendations and will actively seek recovery of the misappropriated funds and investigation costs from its insurance bonding company.*

*Franklin County appreciates the thorough investigation completed by the State Auditor's Office.*

## **State Auditor's Office Remarks**

We thank County officials and personnel for their assistance and cooperation during the investigation. We will review the corrective action taken during our next regular audit.

## 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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

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We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
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