



Washington State Auditor's Office

Troy Kelley

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Fraud Investigation Report

City of Rock Island

Douglas County

For the Investigation Period June 1, 2012 through April 30, 2014

Published March 2, 2015

Report No. 1013694





Washington State Auditor Troy Kelley

March 2, 2015

City of Rock Island
Rock Island, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Rock Island. On July 1, 2014, the City 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 former Clerk Treasurer's unallowable activities at the City from June 1, 2012 through April 30, 2014. 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 Sarah Walker, Fraud Manager, at (509) 454-3621.

TROY KELLEY
STATE AUDITOR

cc: The Honorable Russell Clark, Mayor

FRAUD INVESTIGATION REPORT

Investigation Summary

On July 1, 2014, the City Mayor notified our Office regarding a potential loss of public funds, as required by state law.

The City initiated an investigation and provided its files to us. We reviewed the City's investigation and determined the former City Clerk Treasurer misappropriated \$13,365 from payroll between June 2012 and April 2014.

The City has filed a report with the Douglas County Sheriff's Office, which is investigating this case. We will refer this case to the Douglas County Prosecuting Attorney's Office.

Background and Investigation Results

The City, located in Douglas County, operated on a budget of approximately \$2 million in fiscal year 2013, including approximately \$311,000 in payroll expenses. The City operates under a mayor-council form of government. The elected, five-member Council is the City's oversight body that sets and approves all City policies. The City has four full-time and one part-time employees who handle the day-to-day operations. The Clerk Treasurer position is responsible for monitoring the day-to-day operations, in addition to preparing and processing payroll for all City employees.

The City's investigation focused on reviewing general disbursements, payroll, credit cards, utility billings and adjustments, accounts receivables, petty cash, and small-and-attractive assets. The City's review discovered the following:

- The Clerk Treasurer inappropriately adjusted her payroll draws in the payroll system. Rather than allowing the system to automatically deduct the full amount of the mid-month draw from her end-of-month paycheck, she manually altered the system to deduct only half of the mid-month draw amount. This occurred during the months of October, November, and December 2013 and resulted in a misappropriation of \$1,500. In other months, she altered the system to deduct more than her actual draw. As a result, a total of \$400 in payroll draws had not been re-paid to the City upon termination of the Clerk Treasurer in April 2014.
- The Clerk Treasurer inappropriately included compensatory time earned on her paycheck from June 2012 through April 2014. City policy does not allow compensatory time for exempt employees such as the Clerk Treasurer. This resulted in a total of \$6,549 in additional compensation above her approved salary.
- The Clerk Treasurer set up the payroll system so that she was paid an additional hourly pay rate above her normal salary when she used vacation, sick, and holiday leave time

from January 2013 through April 2014. This resulted in \$6,415 in additional compensation above her approved salary.

In October 2014, a Douglas County Sheriff's Office sergeant interviewed the former Clerk Treasurer, who indicated that she should not "get into trouble" for the inappropriate additional compensation, but that she was "more than willing to pay it back".

Control Weaknesses

Internal controls at the City were not adequate to safeguard public resources. We found that the Mayor's and City Council's monitoring of the Clerk Treasurer's payroll disbursements and payroll benefits was ineffective to prevent this misappropriation. From June 2012 through April 2014, all of the Clerk Treasurer's payroll checks were approved by the City Council and all but three payroll checks were signed by the Mayor.

Recommendations

We recommend the City strengthen internal controls over payroll operations. For example, a detailed review of payroll draws and benefits paid to employees should be performed to ensure adequate oversight and monitoring to safeguard public resources and ensure compliance with City policies.

We also recommend the City seek recovery of the misappropriated \$13,365 and related investigation costs of \$4,088 from the former Clerk Treasurer or the City's insurance bonding company, as appropriate. Any compromise or settlement of this claim by the City 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. The contact for the State Auditor's Office is Sadie Armijo, Deputy Director of Local Audit, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

City's Response

The City of Rock Island concurs with the findings that have been presented in the Fraud Investigation Report for the period June 1, 2012 through April 30, 2014.

The City has since taken measures to prevent this type of loss in the future. City Council members have been provided with more detailed reports on a monthly basis of payroll expenditures and benefits paid to each employee. Two members of the City's Finance Committee are reviewing the payables before they are presented to the rest of the Council for approval.

The City is confident that we have taken the required steps to ensure that the public funds of the City are not misappropriated in this manner in the future.

State Auditor's Office Remarks

We thank City 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 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.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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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.

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