



# Washington State Auditor's Office

Independence • Respect • Integrity

## Fraud Investigation Report

# Grant County Mosquito Control District No. 2

## (North Banks Lake Mosquito District)

For the Investigation Period January 1, 2010 through December 31,  
2014

Published July 9, 2015

Report No. 1014684





# Washington State Auditor

July 9, 2015

North Banks Lake Mosquito District

Electric City, Washington

## Report on Fraud Investigation

Attached is the official report on a misappropriation at the North Banks Lake Mosquito District. In March 2015, we initiated an investigation at the District due to a potential loss of public funds.

This report contains the results of our investigation of the former District Clerk's unallowable activities at the District from January 1, 2010 through December 31, 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

cc: Ms. Darla Orr, Secretary

# **FRAUD INVESTIGATION REPORT**

## **Investigation Summary**

During the course of our accountability audit for 2012 and 2013, we identified a potential loss of public funds and initiated an investigation covering 2010 to 2014. From the investigation, we determined a payroll, general disbursement, and asset misappropriation had occurred at the District, totaling \$129,834 between 2010 and 2014.

This report is being referred to the Grant County Prosecuting Attorney's Office.

## **Background and Investigation Results**

The North Banks Lake Mosquito District, located in Grant County, operates on an annual budget of approximately \$225,000. The average of actual expenses for 2012-2014 include \$87,892 in payroll expenses and \$147,681 in operating expenses. A majority of its annual revenue is derived from property taxes.

An elected, five-member Board of Trustees governs the District. The daily operations are handled by a full-time District Clerk, a full-time District Sprayer, and one seasonal part-time Assistant Sprayer.

During the course of the scheduled accountability audit for 2012 and 2013, we identified concerns over payroll and general disbursements paid directly to the District Clerk, including a lack of appropriate monitoring by the District Board members. In addition, we learned the District Clerk maintains blank check stock and is an authorized custodian and signer of the check stock. Although the District's checks include two signature lines, the District Board allowed the District Clerk to handle all check signing without a second approving signature.

The District experienced significant turnover in its Board members in 2012, and the newly appointed Board members were not clear on their roles and responsibilities over District operations. We met with the District on February 18, 2015, to discuss our concerns. Based on these meetings, the Board requested the District Clerk turn over all District records. On March 2, 2015, the District Clerk returned the District records to the Board. On March 4, 2015, the District Clerk resigned from employment and we performed a review of these records and during our review, we identified a number of missing records, including all of 2014 files.

In order to determine if misappropriation had occurred and to what extent, we examined systems to which the former District Clerk had access. Our investigation focused on the District payroll, general disbursements, and assets. Our investigation found the following:

### *Payroll 2010-2014*

- Between 2010 and 2014, the District Clerk was compensated approximately \$122,128 more than the District's approved budgeted compensation. The District Clerk's budgeted salary for 2010 through 2014 totaled \$62,700; however, the District Clerk received gross compensation of approximately \$184,829. This total includes net pay for 2014 rather than gross, as the 2014 payroll records detailing gross pay information are missing.
- During 2012 and 2013, the District Clerk reported a high number of hours worked on a weekly, monthly, and yearly basis, even during the off season. According to the Board, the reported hours worked should have averaged approximately 20 hours a month. Examples of hours reported included:
  - November 2012 – reported 225 hours worked and was compensated \$4,810.
  - November 2013 - reported 242 hours worked and was compensated \$5,743.
  - December 2013 – earned \$7,464 (no timesheets to show hours for \$5,453 of this total).
  - January 2014 – earned \$7,885 in net pay (no timesheet to show hours).
- The District Clerk also reported working a large number of hours in a short span of days. For example, during a four-day period September 28 to October 1, 2013, the District Clerk reported 85 hours, equating to 21.25 hours worked per day. For the nine-day period March 5 to March 13, 2012, the District Clerk reported 135 hours, equating to 15 hours per day, including weekends.
- The District Clerk was also employed by at least two other agencies during this timeframe, bringing into further question the reasonableness of hours reported to the District.
- We examined Resolution 03-09 dated November 4, 2009, which describes extra contract work and compensation to be paid to the District Clerk and noted the following:
  - The District Clerk provided SAO a copied version of the resolution on December 2, 2014. The original resolution was never provided and has not been located within any of the District records to current. We reviewed District board minutes dated November 4, 2009 and identified one of the approving Board members on the resolution is not documented as being present during the meeting. Additional records reviewed reflect this same Board member was not appointed to the Board until August 16, 2011. This evidence brings into question whether the resolution can be considered an authentic District record and if the information documented has been altered.

- This resolution describes work tasks to include developing, implementing, and utilizing a new organization file system and computer system. Extra contract pay for 2010-12 was to be paid *“up to weekly at the rate of pay of \$697.24 or this additional amount is to be added to (in addition to) the regular rate of pay for each time period, as depending on the hours is 70 or more. Pay rate for 2013 is to be regular pay again paid up to weekly depending on the hours incurred. At the end of the season in September 2013 on, additional pay, up to weekly, will be done paid on an hourly basis (at which the rate is at that time) and/or to be added to (in addition to) the regular rate of pay for each time period, as depending on the hours if 70 or more. The current chairman of the board will sign this off on time accumulated.”*
- Although the work tasks included developing, implementing, and utilizing a new computer system, all of the records received for audit were hard copy and did not include any system-generated reports. The District Clerk manually calculated payroll and documented it using a word-processing program. A computer turned over to the Board on March 2, 2015, provided no evidence of having ever been used. During an interview in April 2015 with the District Clerk, she explained that she used an older computer to document the extra contract work performed, but that she had disposed of that computer. This brings into question whether the District Clerk actually performed the additional duties discussed in the resolution.
- The District Clerk did not share this resolution with the new Board members appointed in 2012, nor did she inform them during the annual budget meetings when considering salary costs for budgeting purposes.
- From 2012 to 2013, we identified instances where the District Clerk’s timesheet did not indicate work was performed, but the District Clerk processed a payroll check:
  - Regular duty work – 12 instances totaling \$13,306
  - Extra contract work – 14 instances totaling \$10,821
- We identified six instances in 2013, totaling \$6,706, where the District Clerk was paid for extra contract work at the regular salary rate instead of the rate established in the resolution. In addition, the District Clerk reported fewer hours than the minimum 70 required to receive extra contract compensation per the resolution.
- We identified two general disbursements paid to the District Clerk in 2013 totaling \$2,020 that were not properly reported as payroll compensation.

- A summary of the District Clerk's compensation is as follows:

Year	Regular Salary	Extra duty pay	Total Actual Salary	Board Approved Salary	Difference Actual vs. Approved
2010	No timesheets, unable to determine breakout.		\$13,620	\$10,000	\$3,620
2011	Not timesheets, unable to determine breakout.		\$28,652	\$12,000	\$16,652
2012	\$22,000	\$15,100	\$37,100	\$13,200	\$23,900
2013	\$25,705	\$19,759	\$45,464	\$13,500	\$31,964
2014	No timesheets, unable to determine breakout (net pay).		\$59,992	\$14,000	\$45,992
Totals			\$184,828	\$62,700	\$122,128

- From 2010 through 2014, the District incurred Internal Revenue Service penalties amounting to \$5,019 for not making proper federal tax deposits based on record of federal tax liabilities. These penalties incurred related specifically to the reporting of the District Clerk's reported quarterly payroll.

#### *General Disbursements 2010-2014*

- A total of \$4,124 in reimbursements to the District Clerk lacked sufficient supporting documentation and appeared to be questionable expenditures. The District Clerk provided some invoice documentation for audit; however, these records were copied and appeared to have been altered. Key details were missing, such as date, who placed the order, shipping address, etc. We followed up with the District Clerk during meetings on March 5, 2015, and April 17, 2015, and requested original records. However, the District Clerk did not provide these documents.
- We identified differences between the Board meeting minutes provided for audit by the District Clerk and minutes presented by the District Clerk to the Board. We identified three months where check warrant listings did not match. Minutes provided for audit

showed approval of 12 checks amounting to \$2,932 that were not included in the minutes provided to the Board. Of this total, two checks amounting to \$2,020 were paid to the District Clerk.

### *District Assets*

- The District Clerk processed reimbursements to herself totaling \$3,582 for the purchase of information technology assets, including multiple computers. However, the District Board members are unable to account for any of these assets, among other assets considered missing.
- The District Clerk provided some invoice documentation for audit; however, these records were copied, appeared to have been altered and key details were missing. We followed up with the District Clerk and requested original records. However, the District Clerk never provided these documents.

On February 18, 2015, we met with the District to discuss concerns identified during our regularly scheduled accountability audit. During this meeting, each explained that the District Clerk verbally presents disbursements for approval at monthly Board meetings, and would only read her name once. This typically only included the \$1,100 related to her monthly salary. In addition, the Board Chair explained that there was no formal process for reviewing and approving the District Clerk's timesheet records for 2012 and 2013.

In April 2015, we interviewed the former District Clerk, who explained that the large number of reported payroll hours and extra duty compensation were appropriate. She stated she was originally confused with how to pay herself according to the resolution, and therefore had the Board Chair approve her timesheets starting in 2012. During this interview, the District Clerk also stated that she included all of 2014 files, along with a CD and USB thumb drive that supported the extra duty compensation work performed to the Board on March 2, 2014.

On May 1, 2015, the District Clerk faxed a personal statement to the State Auditor's Office, further explaining the extra duty work performed. Additional attachments included a position description for the District Clerk's normal duties. We compared the personal statement to the position description and found the work tasks were very similar, which made it difficult to understand the difference between the two types of duties.

## **Control Weaknesses**

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

- During Board meetings, the District Clerk typically presented District disbursements, including payroll, verbally to the Board for approval, rather than providing a list or report. The Board did not review supporting documentation for these disbursements.
- The District Clerk maintains the blank check stock for the District, is an authorized check signer, and is the only check signer on District disbursements. In addition, the District Clerk handles all account reconciliations and maintains supporting documentation without secondary reviews.
- District employee timesheets were not required until 2012 and, once implemented, the Board did not thoroughly review for accuracy, reasonableness, or compliance with District policies and resolutions. The timesheets only included total hours, and were not broken out by day.
- The District Clerk did not prepare or provide financial reports to the Board, and the Board never requested budget-to-actual reports when preparing annual District budgets.
- There was not an independent, periodic inventory of District assets.

## Recommendations

We recommend the District strengthen internal controls over operations. Specifically, the Board should better monitor District disbursements to ensure adequate oversight and monitoring to safeguard public resources and compliance with District policies. Additionally, we recommend that the District comply with established Local Government Records Retention Schedules.

We also recommend the District seek recovery of the misappropriated \$129,834 and related investigation costs of \$11,318 from the former District Clerk 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 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, Deputy Director of Local Audit, who can be reached at (360) 902-0362 or [Sadie.Armijo@sao.wa.gov](mailto:Sadie.Armijo@sao.wa.gov).

## District's Response

*The Grant County Mosquito Control District No. 2 would like to thank the State Auditor's Office for its investigation into this loss of funds. The State Auditor's Office staff conducted a thorough review of the District's finances and the District appreciates the support provided by that office*



*in pursuing the fraud investigation. The District considers this a serious matter and is committed to taking appropriate measures to protect public funds. To that end, internal controls have already been reviewed and strengthened to address those weaknesses identified by the State Auditor's Office. This loss resulted from the actions of one employee who voluntarily resigned on March 4, 2015 immediately following discovery of the alleged misappropriations. The District Board implemented numerous policies and procedures on March 4, 2015 and March 11, 2015 to strengthen internal controls and prevent any future misappropriations.*

*The District is insured through an insurance policy providing employee fidelity coverage and a claim for recovery of the misappropriated public funds and expenses of the fraud audit will be made immediately to the District's insurance provider upon finalization of this report. Additionally, this final report will be filed with the Grant County Prosecuting Attorney.*

*The District's Board and management remain committed to maintaining high quality mosquito control service at an affordable cost while protecting public funds.*

## **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 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.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<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
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>