



Washington State Auditor's Office

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Fraud Investigation Report

Town of Lind

Adams County

For the Investigation Period January 1, 2010 through February 28, 2014

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Washington State Auditor's Office

December 21, 2015

Town of Lind
Lind, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Town of Lind. On February 24, 2014, the Town 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 Town from January 1, 2010 through February 28, 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.

A handwritten signature in black ink that reads "Troy X. Kelley".

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

cc: Ms. Denise Snead, Clerk/Treasurer

FRAUD INVESTIGATION REPORT

Investigation Summary

On February 24, 2014, the Town's Mayor notified our Office regarding a potential loss of public funds, as required by state law.

We initiated an investigation focused on transactions between January 1, 2010 and February 28, 2014 and determined internal controls at the Town were not adequate over cash receipting, deposits, utility billings, utility adjustments and bank reconciliations. Our investigation found:

- Misappropriation totaling \$48,268, made up of:
 - \$44,723 in cash payments not deposited timely, some held for almost three years
 - \$550 in checks for the former Clerk/Treasurer's personal utility payments not deposited timely, some held for almost three years
 - \$2,995 in unpaid utility charges on the former Clerk/Treasurer's personal accounts
- Loss to the Town of \$1,183 in stale-dated checks unable to be deposited
- Questionable adjustments of \$3,906 to customer accounts
- Payments of \$1,650 that were manually receipted but not entered into the system nor deposited

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

Background and Investigation Results

The Town, located in Adams County, receives annual revenues of approximately \$900,000, including \$500,000 in annual utility revenues, plus an additional \$2.7 million grant in 2013. An elected five-member Council and independently elected Mayor govern the Town. It has four full-time employees. The Clerk/Treasurer handles the daily operations with minimal supervision. This position is responsible for billing, receipting, recording, adjusting and depositing. In addition, this position provided bank reconciliations along with other financial reports for review and approval by the Mayor and Council.

In the Town's 2006 audits, we issued two findings for not depositing money collected in a timely manner and inadequate monitoring and oversight of the duties performed by the Clerk/Treasurer, creating the potential for misappropriation of public funds. Specifically, we identified \$52,870 in utility receipts that were recorded as payments in the utility subsidiary ledger, but not deposited to the bank in a timely manner. The deposits were made from two to 25 months later. According to the Clerk/Treasurer, the cash was held and not deposited so it was less accessible for expenditure

and could be used to build cash reserves. Concerns related to the monitoring of the Clerk/Treasurer's duties were also communicated to the Town during the prior two audits.

In the Town's 2007 audit, we issued another finding that the Town's internal controls were inadequate to ensure accurate accounting and financial reporting. This finding included expenditures in excess of available cash and investments for certain funds and other issues related to lack of adequate controls.

The Town employed the same Clerk/Treasurer from November 2003 to January 2014. When the Clerk/Treasurer was out of the office, another individual would fill in for her. That person could receive payments and write manual receipts, but did not create deposits nor take them to the bank. The funds would be placed in the safe until the Clerk/Treasurer returned.

In January 2014, the Clerk/Treasurer resigned from employment, but continued working into February in the evenings to assist and train the new Clerk/Treasurer.

In February 2014, the former Clerk/Treasurer asked the new Clerk/Treasurer to make several deposits totaling, \$46,656. These deposits were for payments entered into the utility system dated from March 2, 2011 through January 5, 2014. The deposit included \$1,933 in checks. However, the Town was unable to deposit checks totaling \$1,183 because they were too old (stale-dated checks), resulting in a loss of funds to the Town. Of the deposits, \$44,723, were in the form of cash and approximately \$35,000 of that was in \$100 bills. The deposits also included several checks from the former Clerk/Treasurer from May 2011 through January 2013 totaling \$550 for payments on her own account.

In March of 2014, we interviewed the former Clerk/Treasurer. When asked about the sizable deposits in February, she stated there were three customers who gave her postdated checks and/or asked her to hold the checks, and then she would forget about depositing them. When asked to explain why the majority of the deposits were in cash, she responded that she didn't have a logical explanation for the cash but that the money was in the vault the whole time and she forgot about it. She further explained that each day's receipts were always put in the vault at the end of the day and sometimes she would wait a few days to deposit the funds. When further asked how she decided what funds to deposit and when, she explained that the funds just stayed in the vault and none were taken, but that she had no thought process regarding what to deposit and what not to deposit and no explanation. She continued to explain that her checks were in there to pay money she owed on her account and that she held them in the same manner as other customers. We also asked her why the February 2014 deposits were from 2011-2013 receipts and how she picked which deposits to make timely and which to hold. She answered that she had no logical explanation for that; she knew she should not have held the money in the vault, but that she had neither reasoning nor explanation. During the interview, we inquired about personal finances and the former Clerk/Treasurer also told us that the former Mayor had loaned her money to help with her house payments. She estimated the loan was for about \$20,000.

We subsequently interviewed the former Mayor. He confirmed that he did loan funds to the former Clerk/Treasurer, but could not remember the amount or the purpose of the loan. The former Mayor said the loan was made in cash.

We performed an investigation following the report of the loss by the Town and our interview with the former Clerk/Treasurer. Our investigation focused on receipting of airport revenues, utility payments and adjustments to customer accounts. We determined through our investigation:

- Utility payment information was entered into customer accounts in the system, but some of the payments were not deposited timely. We compared payments recorded in the utility system to bank deposits and summarized the delay in deposits from January 1, 2010 through February 28, 2014 for those that were held for seven days or more:

Amount	Number of days between Treasurer's Receipt and Deposit
\$ 149,859	7-13 days
\$ 45,592	14-20 days
\$ 12,897	21-28 days
\$ 122,207	29 or more days

- We found that many of the deposits made seven days or later had more cash than the deposits that were made within six days of the receipt date.

	Cash	Check	Total	% of Deposits that are cash
7 or more days	\$ 132,626	\$ 197,929	\$ 330,555	40%
6 or less days	\$ 91,369	\$ 1,512,429	\$ 1,603,798	6%

- In 2010, outstanding utility deposits ranged from about \$23,000 to more than \$36,000. These were payments receipted in the system but not deposited as of the end of each month when the bank reconciliation was performed. There was a significant decrease in outstanding deposits in February 2011 to less than \$5,000. This was the time of the prior accountability audit. At the end of March 2011, the outstanding deposits were more than \$14,000 and continued to grow to around \$40,000 to \$60,000 by the end of 2013.

- In our review of the receipts, many of the manual receipts were unclear as to whether cash or checks were received and who actually receipted the monies. For system printed receipts, we noted the ability to go into the system and reprint receipts. A significant portion of the system receipts we reviewed had handwriting on them and could have been reprinted and modified to allow monies to be posted to different accounts than the person who actually paid them. We also found some of the system receipt numbers were used twice and some receipt numbers could not be found in the system.
- In our review of airport leases, we noted six payments from 2011 through 2013 for \$275 each, totaling \$1,650, were manually receipted in, but were not entered into the accounting system nor deposited.
- In our review of adjustments to customers' accounts, we identified total adjustments from 2010 through 2013 of \$4,988. Of these adjustments, \$3,906 was to the account of one customer who has rentals and businesses in town and is known to pay cash for utilities. None of the adjustments had adequate supporting documentation to identify the purpose of the adjustment or identify any review or approval of the adjustment.
- We also found the former Clerk/Treasurer inactivated her husband's account, which was past due \$2,164. The former Clerk/Treasurer also opened an account in her name, which was \$831 past due as of April 2014. She left her and her husband's accounts off the past due accounts information provided to the Mayor for review.

We issued a subpoena for the known personal accounts of the former Clerk/Treasurer. We determined through investigation:

- The former Clerk/Treasurer deposited cash into her accounts totaling \$82,121 from 2010 through 2013. Based on our review, we believe the former Clerk/Treasurer has additional personal accounts at other financial institutions. We did not subpoena additional records.
- The former Clerk/Treasurer made cash withdrawals from her personal accounts totaling at least \$15,300 in February 2014.
- A personal budget was found on the Town's computer. We reviewed the detailed budget, which included payments to the prior Mayor and payments on other utilities such as electricity, but specifically did not include payments to the Town for utilities.

In order to determine if any additional misappropriations occurred, we examined systems to which the former Clerk/Treasurer had access. We reviewed general disbursements, credit cards, use of grant monies and payroll. We did not find additional misappropriation.

We contacted the former Clerk/Treasurer for a follow-up interview after our investigation. She declined to meet with us. However, in subsequent phone conversations, she mentioned that she believed most of the cash deposited into her personal account was from cashed payroll checks and family members. We compared the payroll checks issued to the former Clerk/Treasurer's banking records and did not find exact matching amounts, but it is possible that \$4,660 and \$9,050 of cash deposits in 2013 and 2012, respectively, could be from cashed payroll checks.

Control Weaknesses

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

- The Town's former Clerk/Treasurer handled billing, receipting, recording, adjustments, month-end bank reconciliations and depositing. The former Clerk/Treasurer was also responsible for maintaining a subsidiary ledger of the billings, payments and amounts due from utility customers. These records result in summary transactions that post cash deposits and utility revenues into the general ledger used to support the financial statements.
- No one independent of these duties monitored the Clerk/Treasurer's work.

The Town has indicated it has made several internal control improvements related to cash receipting and utilities, which we will follow up on during our next audit.

Recommendations

We recommend the Town continue to strengthen internal controls over the utility billing and cash receipting processes to ensure adequate oversight and monitoring to safeguard public resources and compliance with Town policies. We also recommend the Town deposit cash receipts in a timely manner as required by state law (RCW 43.09.240).

We also recommend the Town continue to seek recovery of the funds owing on personal utility accounts, questionable transactions, as appropriate, and related investigation costs of \$20,435 from the former Clerk/Treasurer and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Town 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.

Town's Response

In February 2014, the former Clerk/Treasurer asked the Clerk/Treasurer in training to deposit two very large amounts of cash into the towns account. This event is what triggered a call to the State Auditor's Office.

From the beginning, the Auditor's Office has been very helpful and we have taken their advice on numerous items.

The Town of Lind realizes that its internal controls have not been adequate for quite some time.

The town has reviewed and modified its cash receipting and utility billing procedures and has made changes to our internal controls as suggested to better monitor and safeguard public resources.

In addition, the Town of Lind will work with the Sheriff's Department, Prosecutor's Office, and its insurance provider to recover lost funds and related investigation costs.

State Auditor's Office Remarks

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

ABOUT THE STATE AUDITOR'S OFFICE

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