



# Washington State Auditor's Office

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## Fraud Investigation Report

# City of Sunnyside

Yakima County

**For the Investigation Period January 1, 2013, through December 31, 2014**

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## Washington State Auditor

September 19, 2016

City of Sunnyside  
Sunnyside, Washington

### Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Sunnyside. On April 13, 2015, 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 Finance Clerk's unallowable activities at the City from January 1, 2013, 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.

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

cc: Ms. Elizabeth Alba, Director of Finance

# FRAUD INVESTIGATION REPORT

## Investigation Summary

On April 13, 2015, the City Manager notified our Office regarding a potential loss of public funds as required by state law (RCW 43.09.185).

We initiated an investigation and determined a cash receipting misappropriation had occurred at the City, totaling \$17,831 between January 1, 2013, and December 31, 2014. In addition to the cash receipting loss, we also identified questionable transactions totaling \$18,214.

The City has notified the City of Sunnyside Police Department and will file a police report when our final report is issued. We will refer this report to the Yakima County Prosecuting Attorney's Office.

## Background and Investigation Results

The City operates on an annual budget of about \$22 million, and collects \$6.6 million in utility revenue and \$2.7 million in business and occupation (B&O) tax revenue. An elected, seven-member Council governs the City. The Council elects one of its members to serve as Mayor for a two-year period. The Council also appoints management to oversee the City's daily operations, as well as its 105 full-time employees, including a Billing Clerk who processed utility billings and Finance Clerk who was responsible for cash receipting and filling in for the Billing Clerk when she was unavailable.

In our Accountability Report dated March 2014, we issued a finding over the City's lack of policies and procedures, including inadequate segregation of duties over utility billings and cash receipts. In response to the finding, the City contracted with its software vendor to reconcile previous months' bank statements. In March 2015, the software vendor discovered a \$2,048 deposit was missing from the bank deposit records. The software vendor expanded its review to identify unusual adjustments to utility accounts and cash receipts. On April 20, 2015, one of the City's Finance Clerks was placed on administrative leave and subsequently resigned on May 31, 2015.

Our investigation focused on the City's utility cash receipting and other miscellaneous revenues, and identified the following activities:

### **B&O tax payments**

The City provided all available documentation of B&O tax transmittals paid to the City from 2014. We identified 14 payments for which receipts were either not issued, issued and later decreased or voided, or issued for a smaller dollar amount. These checks were substituted for cash that was removed from the bank deposit, resulting in a misappropriation of \$6,281. The former Finance Clerk was solely responsible for collecting all B&O tax revenue.

### **Manual treasurer's receipts**

The City used manual treasurer's receipts when the accounting system was not functioning or for collecting miscellaneous payments such as housing rehabilitation loans. These manual receipts were later entered into the system. The City reviewed all manual receipts for 2013 and 2014 and identified nine payments, totaling \$1,918 that were originally receipted as cash that were later recorded in the accounting system as check payments. Six of these cash payments were recorded in the accounting system with the same check number (123), and two cash payments were recorded in the accounting system with a check number that matched the manual receipt number. The City also identified two payments totaling \$635 that were not recorded in the system or applied to the customer's account. The customer for one of these accounts contacted the City regarding the discrepancy. We reviewed the manual receipts in question and agree with the results. In addition, we identified five manual receipts that were not entered into the accounting system for the correct amount, totaling \$100. The former Finance Clerk signed as the cashier on all of these manual receipts.

### **Building permit receipts**

We identified 11 receipts for building permits paid in cash that were later voided without justification or support. The City could not identify the reason for the voids, which totaled \$2,037.

### **Deleted or adjusted utility receipt transactions**

We reviewed 22 cash receipt adjustments and voids and compared this to customer account activity. For all 22 transactions, there was no documented justification for any of the adjustments or voids. We performed a detailed review of customer account activity related to these 22 transactions and found payments were typically collected in cash. Four transactions were collected in cash and subsequently adjusted to a check or voided, resulting in a loss of funds. These four transactions totaled \$662. Twelve transactions were collected as cash and subsequently voided and re-entered as cash on another day. These transactions, totaling \$3,647 are questionable, as discussed further below.

### **Deleted or adjusted receipt transactions with repeat check numbers**

We analyzed adjustment activity for 2013 and 2014 and identified repetitive check numbers entered into the system. Specifically, check number 123 was used 15 times and check number 1514 was used 16 times on adjustments made by the former Finance Clerk. Upon reviewing these adjustments, 21 of these transactions were initially receipted as cash and then adjusted to a check. We verified that three of these transactions were substituted with B&O checks described above. Total transactions with repeat check numbers that have not already been included above total \$6,198.

We noted additional transactions in each of the areas tested above that could not be supported and are considered questionable. The questionable items include:

- \$1,637 of manual receipt transactions that did not get entered into the accounting system in a timely manner or in the same method as the initial receipt
- \$10,531 of unusual B&O tax adjustments
- \$3,647 of unusual and unsupported utility receipt adjustments
- \$351 in transactions recorded through another employee's identification number that were both unusual and unsupported
- the missing deposit of \$2,048 was never located

In May 2016, we interviewed the former Finance Clerk and asked her about some of the unusual transactions identified during our investigation. She did not explain or justify why specific receipts were adjusted or deleted, or why she repeatedly used the same check numbers.

## **Control Weaknesses**

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

- The former Finance Clerk had complete access to key systems, including cash-receipting, utility billings, deposit reconciliations and account adjustments.
- The Utility Clerk and Finance Clerk were responsible for receipting utility payments and also making adjustments to receipts and utility bills. There was no independent review of receipt adjustments, and support for adjustments was not retained.
- The City did not monitor to compensate for the lack of segregation of duties to ensure it could detect or prevent misappropriation.
- The former Finance Clerk was solely responsible for receipting and reconciling B&O tax payments, without independent oversight.
- Manual receipts were not reconciled to the accounting system to ensure receipts were recorded in the system completely and accurately, and included in the daily deposit.

## Recommendations

We recommend the City strengthen internal controls over cash receipting to ensure adequate oversight and monitoring to safeguard public resources and compliance with City policies.

We also recommend the City seek recovery of the misappropriated \$17,831 and related investigation costs of \$7,330 from the former Finance Clerk or its own 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 [matk1@atg.wa.gov](mailto:matk1@atg.wa.gov). The State Auditor's Office contact person 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).

## City's Response

*The City of Sunnyside has taken many steps to increase internal controls in order to assure the safeguard of public resources. The following summarizes the some of the ways the City has made changes to practices or policies in order to tighten internal controls:*

- A city wide review of user rights within the software system is periodically performed to assure that the appropriate rights are given to supervisory staff and cashiers are not given the right to void or change transactions.*
- Any requests for a voided transaction to be made must be requested in writing to the Director of Finance or their designee. Those requests are completed by the Director of Finance or designee and retained by the Finance Department. A report is generated monthly for all voided transactions which are then compared to the written requests.*
- A universal password for cashier computers was eliminated. All users were required to logon using their own unique logon and password. Computers city-wide were set to log off after 15 minutes of inactivity.*
- Cash drawers were given locking lids with unique keys for overnight storage in the vault. Locking bank bags were implemented for cashier deposits. The use of locking cash drawers when away from visual site was implemented. Two person cash count down was implemented for all cashiering at City Hall.*
- Financial software was integrated for Building Permitting, Dog Licensing and Business Licenses to be within the same financial software system allowing for tracking and reporting.*
- Mail is opened by the City Clerk and delivered to the Finance Clerks on a rotation basis. No one person handles receipting mail payments or B & O payments.*

- *The City began reconciling bank statements within the financial software in order to monitor and reconcile deposits/expenditures.*
- *The City's Financial Software Company took measures to lock down the cash receipting system in order to assure cashiers could not make changes retroactively to receipts once the deposit had been reconciled.*

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

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

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