



Washington State Auditor's Office

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Fraud Investigation Report

Federal Way School District No. 210

King County

For the Investigation Period August 1, 2009, through August 31, 2014

Published December 8, 2016

Report No. 1017864





Washington State Auditor

December 8, 2016

Federal Way School District No. 210
Federal Way, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Federal Way School District No. 210. On February 19, 2015, the District 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 Financial Secretary's unallowable activities at the District from August 1, 2009, through August 31, 2014. The purpose of our investigation was to determine if a misappropriation had occurred.

We performed our investigation 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. Jeri Carlson, Director of Business Services

FRAUD INVESTIGATION REPORT

Investigation Summary

The District's Accounting Manager notified our Office regarding a potential loss of public funds as required by state law in February 2015.

The District initiated an investigation over records spanning from August 1, 2009, through August 31, 2014, and determined the former Financial Secretary at Kilo Middle School had misappropriated about \$18,000 in concession sales that had been receipted but never deposited into the cash receipting system (point of sale). The Financial Secretary resigned with the District in November 2014.

The District filed a report with the King County Sheriff's Office, which investigated this case. The former Financial Secretary was charged with theft in March of 2016, pleading guilty in September 2016. Sentencing is currently scheduled for January 2017. This report will be referred to the King County Prosecuting Attorney's Office.

Background and Investigation Results

The District, located in King County, operates on an annual budget of about \$245 million, including approximately \$2 million in the Associated Student Body (ASB) Fund. The Financial Secretary was responsible for cash receipting at the Kilo Middle School Office, including fundraising, gate fees and student club activities. The school's ASB club advisors reported concerns about the balance of funds available in the ASB account. They maintained a spreadsheet where they recorded daily cash totals before submitting cash and cash count forms to the office, and could not reconcile their totals to the amounts recorded on point-of-sale reports later provided by the Financial Secretary.

The District's investigation primarily focused on cash receipting of concession sales at Kilo Middle School, because concerns were isolated to this area upon the District's review. The Accounting Manager conducted a reconciliation of the advisors' spreadsheet and daily cash count forms that had been retained, to the copies maintained by the Financial Secretary and to point-of-sale reports. It was determined through this investigation that a portion of the funds submitted by the ASB club was not deposited nor entered into the point-of-sale system. In some cases, copies of the cash count forms that the Financial Secretary retained appeared to be altered to show a lesser amount, which agreed with the system and deposit. The District found the following discrepancies between ASB records and the point-of-sale system:

- Fiscal year 2010: \$0
- Fiscal year 2011: \$602
- Fiscal year 2012: \$2,554
- Fiscal year 2013: \$9,861
- Fiscal year 2014: \$4,825

The total cash collected but not deposited was \$17,842 over the four years. In February 2016, a King County Sheriff's Office Detective interviewed the former Financial Secretary. Based on advice from the attorney, the Financial Secretary refused to answer most of the questions, including refusing to acknowledge cash handling responsibilities at Kilo Middle School. The Detective reviewed bank statements from the former Financial Secretary's personal accounts from August 2009 to December 2014, noting more than 100 cash deposits were made on separate days, ranging from \$20-\$220 and approximating amounts missing from the school.

We reviewed the District's and Sheriff Office's investigations and agree with their conclusions.

Control Weaknesses

The District's internal controls were not adequate to safeguard public resources. We found the following weaknesses allowed the misappropriation to occur:

- An independent and timely reconciliation of cash count forms to the point-of-sale system was not performed, as receipts were not provided to the advisors.
- The former Financial Secretary had full control of receipting and depositing payments without adequate oversight.

The District has made several internal control improvements related to cash receipting and monitoring revenues, including formal cash handling training for the new Financial Secretary and procedural training for the ASB advisors. We will follow up on these procedures during our next audit.

Recommendations

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

We also recommend the District seek recovery of the misappropriated \$17,842 and related investigation costs of \$3,302 from the former Financial Secretary 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 matk1@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.

District's Response

The District concurs with the summary of the fraud findings and would like to thank the staff at the State Auditor's Office for their support and assistance.

The District promptly responded to the potential fraud once identified by informing the State Auditor's Office as required and also filing a report with the King County Sheriff's Office. King County Sheriff's Department worked with District staff to complete their investigation of the loss. The case was turned over to the King County Prosecutor who pursued the former employee with criminal charges. The former employee plead guilty and is awaiting sentencing, which is currently scheduled to take place in January 2017. The District will seek restitution.

The District has and continues to provide cash handling training to all staff in the District with responsibility and oversight of cash management. One-on-one training occurs with new staff. Additionally, procedures are distributed each year and if requested, specific school site training also occurs. The District has placed additional emphasis on properly completing fundraiser reconciliation forms, performing random audits of such.

The District appreciates the assistance and guidance from the State Auditor's Office in helping to assist us with this matter. The District would also like to recognize the efforts of District staff as well, including the Accounting Manager who spent countless hours gathering information and records in support of the investigation.

With respect to the loss of funds that occurred to the Kilo Middle School Associated Student Body Fund (ASB), the District provided a transfer of monies from its General Fund back to the Kilo Middle School ASB Fund for the amount of the loss.

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.

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