



Washington State Auditor's Office

Government that works for citizens

Fraud Investigation Report

Lower Squilchuck Irrigation District

Chelan County

For the Investigation Period July 1, 2009, through November 30, 2015

Published December 29, 2016

Report No. 1018387





Washington State Auditor's Office

December 29, 2016

Lower Squilchuck Irrigation District
Wenatchee, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Lower Squilchuck Irrigation District. On December 21, 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 Secretary's unallowable activities at the District from July 2010 through November 2015. 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. Suzzi Steinbrech, Secretary

FRAUD INVESTIGATION REPORT

Investigation Summary

On December 21, 2015, a District Commissioner 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 payroll and credit card misappropriation had occurred at the District, totaling \$66,789 between July 2010 and November 2015. We also identified \$3,605 in questionable payroll-related disbursements.

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

Background and Investigation Results

The Irrigation District, located in Chelan County, provides operations and maintenance of an irrigation system serving approximately 251 customers. A three-member Board of Commissioners governs the District. One Secretary manages the administrative operations, while one system manager maintains the irrigation system operations. The District's expenses for the investigation period were as follows:

	Average yearly expenditures	Payroll expenditures
2009-2011	\$78,577	\$11,940
2012-2015	\$117,144	\$30,681

The District hired a Secretary in July 2009. The Secretary was responsible for handling the District's clerical services, which included annual financial reporting, preparing disbursement voucher approval forms that included payroll, presenting the voucher forms to the Board for approval, submitting approved vouchers to the County for check processing and subsequently mailing the checks prepared by the County. In addition, the Secretary was responsible for ordering and receiving any needed office supplies, maintaining District records and documenting Board meeting minutes.

In 2015, it came to the attention of the Board that the District had not filed its annual reports with the State Auditor's Office since 2008 as required by state law (RCW 43.09.230). The Board made multiple requests to the Secretary to complete all the unreported annual financial reports. In November 2015, the Board terminated the Secretary's employment. Upon termination, the Secretary left one laptop computer in the District's possession, and later returned another laptop computer with a backpack containing minimal District files to the newly hired Secretary, who started in December 2015.

While reviewing District files, the new Secretary discovered that most all District records, including approved board meeting minutes and financial reports, invoice supporting records and approved voucher forms were missing or not properly retained.

The District did not have a formal written agreement with the former Secretary. According to Board meeting minutes dated July 14, 2009, the former Secretary’s employment started July 13, 2009, and she was to be paid \$15 per hour. It was the Board’s understanding that the former Secretary’s monthly compensation was about \$300 for about 20-25 hours worked. According to the Board meeting minutes dated May 10, 2011, the Board increased the former Secretary’s compensation rate to \$17.50 per hour.

Our investigation focused on District general disbursements that included payroll payments to the former Secretary and credit card payments for one office supply store, for which the Secretary managed account access, payment and reconciliation of charges. We found the following:

Payroll

The District had to obtain copies of original voucher approval forms and expenditure detail reports from the County to determine actual payment amounts disbursed to the former Secretary. We also were able to locate some timesheet documentation maintained by the former Secretary from August 2009 to August 2010 and December 2010 through May 2011. We reviewed this information and found compensation to the former Secretary in 2009 through June 2010 met Board expectations. Compensation to the Secretary during this time averaged about \$255 per month for about 17 hours worked. However, in July 2010, monthly payments began to increase beyond Board expectations and continued to increase every year after that. This resulted in an overpayment of at least \$58,657 to the former Secretary between July 2010 and November 2015 and questionable compensation of \$3,605. The table below summarizes the misappropriation by year:

Year	Misappropriated Amount	Questionable Amount
2010	\$225	\$1,198
2011	\$609	\$2,407
2012	\$6,708	\$0
2013	\$15,533	\$0
2014	\$20,519	\$0
2015	\$15,063	\$0
Totals	\$58,657	\$3,605

During our investigation we found several months over the span of multiple years, when the former Secretary’s compensation greatly exceeded the Board’s expectation. Because we could not find timesheet documentation for 2012 through 2015, we used the total monthly compensation to the former Secretary and the Board approved hourly rate to determine estimated hours that should

have been supported on a timesheet. We identified 22 months when the former Secretary's compensation amounted to more than 100 calculated hours claimed, with a maximum of 244 hours in May 2015. From February 2013 to May 2013, calculated hours averaged 150 each month. The table below provides some examples where the compensation paid calculated to more than 100 hours:

Month	Total Compensation	Hourly Rate	Estimated Hours
April 2012	\$2,262.50	\$17.50	129
March 2013	\$2,630.00	\$17.50	150
December 2014	\$3,787.50	\$17.50	216
May 2015	\$4,262.50	\$17.50	244

In addition, there were instances where the vouchers presented to the Board as approved from the previous month were not what was actually processed by the County. In each of these instances, all disbursements matched except the payments for the former Secretary and to one specific office supply store. For example:

Monthly meeting dates	Board document	Voucher Approval payroll Amount	Actual payroll disbursement Amount	Overpayment
November 2011		\$371	\$871	\$500
December 2011		\$212.50	\$612.50	\$400
April 2015		\$402.50	\$2,612.50	\$2,210.00
October 2015		\$0	\$2,612.50	\$2,612.50

For each of the discrepancies identified between the voucher approval forms and the board meeting documents, we reviewed the voucher approval form in detail and noticed the forms often were altered at some time. Whiteout appears to have been used in some instances, with total figures crossed out and new figures documented either for the former Secretary's payroll disbursement amount or for the overall final total of the voucher approval form requested for processing.

The Board also reviewed the voucher approval forms, and Board members did not feel their signatures appeared authentic in all cases. This was specifically observed by the Board on the July 2015 voucher approval form, where the only disbursements listed were to the office supply store

for \$1,717 and compensation to the former Secretary of \$1,955. This was also observed on the May 2015 voucher approval form, which listed only one payment – a disbursement to the former Secretary of \$1,650.

Credit card

The Board was not aware the District had an office supply store credit card account until after the former Secretary’s employment was terminated. Although it approved payments to the office supply store, the Board had the impression that the payments were for corresponding invoices, not to pay on a store credit card account opened in their name. The Board had to request credit card statements from the office supply store to review transaction purchase details. From the Board’s review, purchases from 2010 through 2013 appeared reasonable. We performed the following additional procedures:

- We reviewed transaction purchase details on all office supply credit card statements from 2014 to 2015 and found the former Secretary used the District’s account to make \$8,132 in personal charges. Items purchased by the former Secretary included \$7,126 in gift cards. Gift card values ranged from \$25-\$200 and were for various vendors, such as; Visa, clothing stores, online retailers, and fuel. Other items included baby wipes, food, lotion, toothpaste, lip balm, phone accessories, children’s books, stickers and puzzles. None of these items served a business purpose for the District, according to the Board.
- We compared the office supply store credit card statements to voucher approval payments from 2010 through 2015. Beginning in 2014, voucher approval payments do not match account statements. This appeared to be an attempt by the former Secretary to reduce the outstanding balance owed on the items purchased on the credit card account. In addition, during our review we compared payments to the office supply store on voucher approval forms to the available monthly board meeting documents and identified discrepancies between what was presented to the Board for approval and what was actually processed by the County. For example:

Board meeting document dates	Voucher approval month	Voucher approval amount	Actual disbursement amount	Overpayment
April 9, 2015	March 2009	\$56.09	\$856.09	\$800
October 8, 2015	September 2015	\$52.10	\$3,852.10	\$3,800

We made multiple attempts to contact the former Secretary, but she did not respond to our interview requests.

Control Weaknesses

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

- The District did not have a written agreement with the former Secretary to clearly define payroll compensation expectations.
- The Board did not require timesheets to support work performed by the former Secretary.
- The District did not perform a secondary comparison of the County expenditure detail reports to the final voucher approval forms to ensure only approved disbursement and payroll transactions were paid.
- The former Secretary handled all purchases, processed payments for all charges and reconciled the District's Office supply store credit card account without any secondary review of the statements.

Recommendations

We recommend the District strengthen internal controls over general disbursements including payroll compensation to hired service providers. For example, this should include a secondary review of payroll and reconciliations handled by the Secretary position to ensure adequate oversight and monitoring to safeguard public resources. Additionally, we recommend that the District comply with established Local Government Records Retention Schedules.

We also recommend the District seek recovery of the misappropriated \$66,789 and related investigation costs of \$6,045 from the former 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

Lower Squilchuck Irrigation District has put in place many safeguards to insure the Water District is operating in a secure environment.

All personnel working for the district are now under written agreement concerning wages and accounting for time worked for the district.

The board is now presented with accounting records downloaded and printed from the Chelan County Treasurer at each monthly meeting. Hand written reporting is no longer allowed. Vouchers

are reconciled each month. Voucher amounts and monthly bills paid are part of the minutes each month and are reconciled by the County Treasurers reports the following month. Vouchers presented to the county each month are now signed by each board member and then they must print their name on the voucher in order to make forgery much more difficult.

Statements for ALL items submitted for payment by the County Treasurer are presented to the board before the vouchers are totaled and signed, then a diagonal line is drawn across the remaining lines to prevent the addition of items for payment. A copy of the original voucher is kept in the district files.

Records will be retained as required, both on paper and electronic media, and will be available to board members and others requiring access to such records.

The water district is open to any other suggestions in order to protect funds entrusted to it.

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov