



Office of the Washington State Auditor
Pat McCarthy

Special Investigation Report

City of Kahlottus

Franklin County

**For the Investigation Period January 1, 2008 through
December 31, 2015**

Published July 6, 2017

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**Office of the Washington State Auditor
Pat McCarthy**

July 6, 2017

City of Kahlotus
Kahlotus, Washington

Report on Special Investigation

Attached is the official report on our investigation at City of Kahlotus. On November 25, 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 Mayor, former Clerk/Treasurer and former Public Works Director's activities at the City from November 1, 2008, through October 31, 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.

If you are a member of the media and have questions about this report, please contact Assistant Director for Communications Kathleen Cooper at (360) 902-0470. Otherwise, please contact Fraud Manager Sarah Walker at (509) 454 3621.

Pat McCarthy
State Auditor
Olympia, WA

cc: Ms. Kadie Stanaway, Clerk/Treasurer

SPECIAL INVESTIGATION REPORT

Investigation Summary

On November 25, 2015, the Mayor notified our Office regarding a potential loss of public funds as state law requires.

We determined questionable payroll activity, totaling \$14,698 occurred at the City between November 2008 and October 2015. In addition, we identified \$2,373 in questionable employee reimbursements, credit card transactions and general disbursements.

Background and Investigation Results

The City, located in Franklin County, operates on an annual budget of about \$250,000. The City provides water and garbage services to 114 customers. The City operates under a mayor-council form of government. The elected, five-member Council is the City's oversight body that sets and approves all City policies. The City currently has two part-time employees who handle the day-to-day operations. The Clerk/Treasurer position is responsible for monitoring the day-to-day operations, preparing and processing payroll for all City employees, and processing all general disbursement transactions. The Public Works Director is responsible for handling all the maintenance needed for any of the City's properties. The Clerk/Treasurer is the spouse of the Public Works Director.

Our investigation focused on City payroll, credit cards and general disbursements. The former Clerk/Treasurer was hired in March 2003, and her employment was terminated in October 2015. The former Public Works Director was hired in March 2013 and resigned in August 2015. The former Mayor took office in 2010 and left this role March 2016. Our investigation found the following:

Payroll

Extra pay/Overtime/Holiday/Sick leave compensation

We reviewed payroll disbursements to the former Clerk/Treasurer from January 2014 to October 2015, and to the former Public Works Director from January 2014 to August 2015.

Former Clerk/Treasurer

Based on the former Clerk/Treasurer's employment contract dated March 23, 2004, this position was regularly scheduled, part time and salaried, with a fixed amount of 32 working hours a week. According to the City's 2005 Personnel Manual, all overtime is allowed under certain conditions and must be approved by the Mayor.

We identified potential overpayments to the former Clerk/Treasurer between January 2014 and October 2015 for the following:

- \$3,998, which includes 261.25 hours (150.75 for 2015 and 110.5 for 2014) of unsupported extra pay hours, and 13 hours of unsupported overtime hours. There is no City policy authorizing extra pay.
- \$2,353, which includes 165.5 hours (82.5 for 2015 and 83 for 2014) of holiday and sick leave hours. This compensation was paid above her normal salary.

When we interviewed the former Clerk/Treasurer on January 27, 2017, she said her position was regularly scheduled, full-time and salaried, with a fixed amount of 32 working hours a week, which amounted to 128 hours a month. She said that any hours over the 128 hours were paid at an hourly rate or overtime rate. Timesheets were documented as approved by the former Mayor. We attempted to contact the former Mayor to verify this information, but she did not respond to our interview request. Due to the lack of documentation about additional hours worked and the inability to connect with the Mayor we are considering these amounts questionable.

Former Public Works Director

We were unable to obtain any document such as a contract to determine if the Public Works Director was a regularly scheduled part-time or full-time position. Based on our review of his timecards, the former Public Works Director did not have a fixed schedule. According to the City's 2005 Personnel Manual, only regularly scheduled full-time or part-time employees are entitled to accrue vacation and sick leave.

We identified potential overpayments to the former Public Works Director between January 2014 and August 2015 for the following:

- \$954, which includes 66.25 hours (7 for 2015 and 59.25 for 2014) of unsupported extra pay. The City's 2005 Personnel Manual does not discuss extra pay.
- \$2,402, which includes 181.25 hours (116.75 for 2015 and 64.5 for 2014) of holiday and sick leave.

When we interviewed the former Public Works Director on January 27, 2017, he said his position was full-time and salaried, with a fixed schedule that varied based on the season, and that the position accrued vacation and sick leave. We attempted to contact the former Mayor, but she did not respond to our interview request. We are considering these overpayments as questionable because we were unable to talk to the Mayor.

Vacation Cash-out

We reviewed the leave balance report and payroll cost report from January 2008 to October 2015. We noted vacation was cashed out each year. The City's 2005 Personnel Manual did not discuss vacation cash-outs as allowable. We identified potential unallowable vacation cash-outs to the:

- former Clerk/Treasurer totaling \$3,666, which amounted to 280 hours between November 2008 and September 2015.
- former Public Works Director totaling \$1,325, which amounted to 100 hours between October 2014 and August 2015.

When we interviewed the former Clerk/Treasurer on January 27, 2017, she explained that the former Mayor told her she could either use the vacation hours or lose them; therefore, she decided to cash out the vacation leave. In addition, the former Public Works Director, told us in an interview that he never cashed out his vacation leave. The former Clerk/Treasurer was the one responsible for handling the preparation of the vacation cash out disbursements.

The payroll checks for the vacation cash-outs for both the former Clerk/Treasurer and former Public Works Director were signed by the former Mayor, and they were approved by the City Council during Council meetings. Due to limited documentation and not being able to talk with the former Mayor, we were not able to confirm these understandings. We are considering the leave cash-outs as questionable.

Leave Accruals

We reviewed the leave balance reports and payroll cost reports between September 2009 and September 2015.

Former Clerk/Treasurer

- We identified 121.4 hours of vacation leave and 12 hours of sick leave that were added to the former Clerk/Treasurer's leave balances without explanation or any supporting documents.

In our interview, the former Clerk/Treasurer she said that these hours were added because she forgot to properly add earned leave; however, we did not identify any accrual gaps to support this explanation.

Former Public Works Director

- We identified 18 hours of sick leave that were added to the former Public Works Director's leave balance without explanation or any supporting documents.

The former Public Works Director was not involved with the payroll process; therefore, we will consider these additional hours as questionable.

Summary of Questionable Payroll Activity			
Description	Former Clerk Treasurer	Former Public Works Director	Totals
Extra pay/overtime/ holiday/sick leave	\$6,351	\$3,356	\$9,707
Vacation Cash-out	\$3,666	\$1,325	\$4,991
Totals	\$10,017	\$4,681	\$14,698

Credit Cards

During 2014 and 2015, we noted the City paid a total of \$9,431 in disbursements to credit cards held in the City's name. Fuel expenses accounted for \$3,357 of these disbursements. According to the City's Personnel Manual 3.3.7 (f), only one trip should be made a month for needed supplies. We examined \$2,292 of the credit card transactions.

- We identified a number of fuel charges totaling \$654 that were supported only by a handwritten receipt prepared by the former Clerk/Treasurer. According to the former Clerk/Treasurer, this was due to the fuel vendor not providing a receipt to support the charge. This supporting documentation did not provide enough detail to assess if these charges were for valid City business purposes.
- We also identified \$279 of home improvement store charges without supporting documentation.

Due to limited supporting documentation, we consider these transactions as questionable.

General Disbursements

We reviewed disbursements related to reimbursements paid to employees during 2014 and 2015. We examined all the reimbursements to the former Mayor and former Clerk/Treasurer, which totaled \$2,525.

- We identified \$670 of unsupported reimbursements to the former Clerk/Treasurer, which included \$268 of mileage reimbursements and the rest for reimbursements of purchases for the City.
- We identified \$770 of unsupported reimbursements to the former Mayor.

Due to internal control weaknesses and limited supporting documentation, we were unable to determine if these were allowable or unallowable disbursements. Therefore, we consider these as questionable.

Summary of Questionable Disbursements				
Type of Disbursements	Former Clerk Treasurer	Former Mayor	Unassigned Questionable costs	Totals
Credit Cards	\$401	\$0	\$532	\$933
Disbursements	\$670	\$770	\$0	\$1,440
Totals	\$1,324	\$770	\$279	\$2,373

Control Weaknesses

Internal controls at the City were not adequate to safeguard public resources. We found these questionable payments occurred because the former Clerk/Treasurer was responsible for all payroll processing, benefit tracking and general disbursements processing without effective monitoring by the former Mayor and City Council.

Recommendations

We recommend the City strengthen internal controls over payroll disbursements including leave accruals, general disbursements including reimbursements to employees and credit card transactions to ensure adequate oversight and monitoring to safeguard public resources and comply with City policies.

We further recommend the City ensure records are retained and safeguarded in accordance with Local Government Common Records Retention Schedules and the City's Records Retention Schedules, as prescribed by the Secretary of State.

We also recommend the City seek recovery of the questionable transactions listed above, as appropriate, and related investigation costs of \$7,769.54 from the former Clerk/Treasurer, former

Public Works Director, former Mayor and/or its insurance bonding company. 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 43.09.330). 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, Assistant Director of Local Audit, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

In addition to the above recommendation, further internal control weaknesses were identified and have been communicated to City management in a separate document. Areas of those weaknesses include petty cash and cash receipting controls.

City's Response

The City of Kahlotus is working on safeguards so this will not happen in the future. Including rewriting the employee handbook and having the Mayor and the City Council overlook time cards, payroll, and account payables. City has also applied and received a gas card so we can monitor the outgoing fuel along with vendor accounts at various locations too.

We are working with the State Auditor closely with questions and concerns that we might have.

I, the Mayor will be reviewing sick leave and vacation leave monthly with the city clerk.

We, at the City been in contact with our attorney on various things to make sure the legality of things are correct.

State Auditor's Office Remarks

We thank City officials and personnel for their assistance and cooperation during the investigation. We will follow up on the status of these items during our next scheduled audit.

ABOUT THE STATE AUDITOR'S OFFICE

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