



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report
North Thurston Public Schools
Thurston County

For the Investigation Period September 1, 2014 through October 31, 2016

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June 26, 2017

North Thurston Public Schools
Lacey, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the North Thurston Public Schools. On January 7, 2017, 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 Office Professional's unallowable activities at the District from June 8, 2015 through October 31, 2016. 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: Dr. Debra Clemens, Superintendent
Ms. Teena Barnes, Executive Director

FRAUD INVESTIGATION REPORT

Investigation Summary

On January 7, 2017, the Executive Director of Financial Services from North Thurston Public Schools notified our Office regarding a potential loss of public funds as required by state law.

The District investigated and provided its files to us. We reviewed the District's investigation and agree with its conclusions. The District determined a cash receipting misappropriation totaling \$7,271 and questionable losses totaling \$26,819 had occurred between June 8, 2015, and October 31, 2016.

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

Background and Investigation Results

The District, located in Thurston County, operates on an annual budget of about \$140 million and provides educational services to more than 14,400 students in kindergarten through 12th grade. North Thurston Public Schools is governed by a five-member Board of Directors. The Superintendent and District staff administer day-to-day operations and carry out decisions made by the Board. The District has 22 schools and more than 2,000 full and part-time employees, including an Office Professional at each school building, all of whom are responsible for receipting and depositing cash daily.

The Komachin Middle School Office Professional left her position for another within the District. When the new Office Professional started, she was working with Financial Services to understand her position and through that process discovered some inconsistencies in athletic fee receipting. The District opened an investigation and discovered more inconsistencies than originally detected. The District's investigation found the former Office Professional at Komachin Middle School was receipting funds in a manual receipt book as well as in the school's cash receipting software system. Not all manual receipts were being entered into the cash receipting system. The District obtained manual receipt books that were on site at the school. These books were not complete and had many missing pages. The District searched the school building for the missing pages and for other manual receipt books. Missing pages and books were located in boxes in the store room and other manual receipts were discovered in places the District wasn't expecting. A thorough search of the school building uncovered additional manual receipts that had been removed from the receipt books.

Once the District was confident all manual receipts had been located, they compared the revenues receipted in the manual receipt books versus what was recorded in the cash receipting system. Deposits at the school are based on the receipts that are entered into the cash receipting system. The investigation determined funds were missing from activities that represent fees for

activities as opposed to when a student is purchasing something tangible, such as apparel or books. The District found \$7,271 that was receipted in the manual receipt books but not included in the cash receipting system and not included in any District deposits.

Because the District's investigation was limited to incomplete receipt books, it performed a high-level analytical procedure to determine if additional funds were missing. The District obtained class rosters for classes that have associated fees. They also obtained lists of students who participated in sports and after-school activities. The District then estimated the amount of funds that should have been collected from the classes and activities and compared this to actual revenue amounts recorded in the receipting system. The District found actual revenue recorded in the receipting system was \$26,819 less than its expected collections. We consider this amount as a questionable loss to the District.

The District interviewed the former Office Professional on December 13, 2016, and again on January 5, 2017. During the interviews, she explained that she did not remember what happened and ended the last interview with offering to write a check for the missing money.

Control Weaknesses

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

- District policy was not followed when cash receipts were being issued. All receipts should be entered directly into the cash receipting system.
- Cash receipts and deposits were not adequately reviewed to ensure that all funds receipted were deposited.

Recommendations

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

We also recommend the District seek recovery of the misappropriated \$7,271, as well as questionable losses as identified above and related investigation costs of \$1,950 from the former Office Professional 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 Matthew 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.

District's Response

North Thurston Public Schools takes mishandling of public funds very seriously. The District reviewed all other school sites and found no evidence of misappropriation of funds. We immediately added stronger safeguards to ensure additional internal controls are in place. The District has added a new internal audit system, which includes ongoing onsite review of cash receipting procedures and is working with building administrators regarding best practices. The district is updating the existing electronic receipting system to automate the assignment of fees and fines, as well as, adding the system to the elementary schools. In addition, the district is adding the online payment system to all schools district-wide. This will allow parents or guardians to pay online minimizing the cash handling by multiple people.

By increasing our internal controls system-wide we are taking further steps in ensuring the protection of public funds. We hope these stronger measures will help maintain the public confidence and fiscal accountability the District has worked so hard to maintain over the years with our community. We have been completely transparent through this audit and will do everything possible to ensure that this will not happen again.

State Auditor's Office Remarks

We thank District officials and personnel for their assistance and cooperation during the investigation. We will review the District's new controls during our next audit.

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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