



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Quincy School District No. 144

Grant County

For the Investigation Period September 1, 2016 through August 31, 2017

Published November 13, 2018

Report No. 1022370





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

November 13, 2018

Board of Directors
Quincy School District No. 144
Quincy, Washington

Report on Fraud Investigation

Attached is the official report on misappropriation of public funds at Quincy School District No. 144. On June 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 High School ASB (Associated Student Body) Secretary's unallowable activities at the District from November 16, 2015, through June 5, 2017. 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: Tia Stoddard, Business Manager

FRAUD INVESTIGATION REPORT

Investigation Summary

On June 7, 2017, the Quincy School District Business Manager notified our Office regarding a potential loss of public funds as required by state law.

The District initiated an investigation and hired an outside investigator to conduct a second investigation. The investigations determined a cash receipting loss had occurred.

We reviewed the results of both investigations and determined a cash receipting misappropriation totaling \$11,588 occurred between November 16, 2015, and June 7, 2017. We also found questionable losses of \$1,049 between September 4, 2014, and February 28, 2017.

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

Background and Investigation Results

The District, located in Grant County, operates on an annual budget of about \$36 million, including \$288,000 in High School Associated Student Body (ASB) activities. An elected, five-member Board of Directors governs the District and appoints a Superintendent to oversee the District's daily operations as well as 350 employees. The High School ASB Secretary is responsible for handling receipting, recording, depositing and reconciling activities for ASB funds, general funds, and donations. The Secretary had an employment contract that required annual renewal.

The reviews by the District and the outside investigator focused on High School ASB cash receipting and other duties performed by the Secretary. On June 7, 2017, the Secretary was placed on administrative leave until the end of June 2017, when her contract ended. At the time the Secretary was placed on leave, the District started its investigation. The investigation found the Secretary misappropriated \$9,896 of ASB funds from September 2016, to June 7, 2017.

We reviewed that investigation and the one by the outside investigator. They revealed the following:

- The ASB Secretary was knowingly writing and disbursing checks out of the District's revolving bank account when there were insufficient funds, causing the District to incur multiple bank fees.
- ASB receipted funds were not being deposited daily as required by District Board policy No. 6020. For the 2014-2015 and 2015-2016 school years, funds receipted toward the end of the school year were not deposited until August, which was at the beginning of the following school year. For example;
 - Funds receipted on May 28, 2015 totaling \$4,094, were not deposited until August 17, 2015. This total included \$3,348 in cash.

- Funds receipted on June 9 and June 23, 2016, totaling \$10,970, were not deposited until August 15 and 26, 2016. This total included \$8,388 in cash.
- The District's investigation identified funds receipted on March 20 and 31, 2017, totaling \$28,935.54, were not deposited until April 20 and May 11, 2017. This total included \$14,864 in cash. The April 20 deposit was short \$8,370 in cash; however, the May 11 deposit included \$7,990 more in cash when deposited.
- The District's investigation identified \$9,896 in missing cash receipts dating back to May 11, 2017 that were pending to be reconciled to the bank in the receipting system on June 7, 2017. These funds had not been deposited at the bank, which was why they were pending to be reconciled in the receipting system.

To determine if any additional misappropriations occurred, we expanded the review of High School ASB cash receipt documentation to include bank deposit records and receipting records from prior school years, including the 2014-2015 and 2015-2016 school years, and found the following:

- Bank deposit records for six deposits made between November 2015 and May 2017 revealed \$1,692 in additional misappropriation. Twelve ASB checks deposited into the District's bank were not recorded in the District's receipting system. In each deposit, the checks were used to replace the cash receipts already recorded in the system. This gave the appearance that the total of cash and checks deposited at the bank agreed to the system total.
- Another \$1,049 in questionable losses occurred between November 16, 2015, and June 9, 2016, that appear to be similar to the check-for-cash substitution.

In June and July 2017, the outside investigator interviewed the former Secretary, who said she used the funds for snacks, bottled water, and flowers for students and their families. She also said that she had given cash from the register in \$5 and \$10 increments to students so they could pay for their lunches.

In October 2017, the Quincy Police Department interviewed the former Secretary who said she used the funds for students. She said this practice started at the beginning of the 2016-2017 school year. She would delay her deposits until more cash came in to replace the funds that she had already receipted into the system. She said that she was planning to reimburse the missing receipts with her paycheck and a summer job.

In June 2018, we interviewed the former Secretary, who acknowledged the \$9,896 loss in ASB cash receipts. She explained that she knew this was going to be discovered, but she did not know when. She said she knew she would have to pay it back once it was found.

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 lacked:

- Appropriate segregation of duties, because the High School ASB Secretary was solely responsible for receipting cash, recording it into the point-of-sale system, preparing the deposit and delivering it to the bank, then reconciling the system to receipts deposited
- Independent review of deposits to verify all funds received were deposited in a timely manner and in the original receipt payment type (cash/checks)
- Independent review of the system reports showing all non-reconciled receipts to verify all receipted funds were included in the deposit
- Independent review of voids and adjustments in the point-of-sale receipting system for reasonableness and support

Recommendations

We recommend the District strengthen internal controls over ASB cash receipting to ensure adequate safeguarding of public resources and compliance with District policies.

We also recommend the District seek recovery of the misappropriated \$11,588 and questionable losses as appropriate, and related investigation costs of \$6,418 from the former High School Associated Student Body 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 Brandi Pritchard, Assistant Director of Local Audit, who can be reached at (360) 489-4591 or Brandi.Pritchard@sao.wa.gov.

District's Response

Quincy School District is dedicated to ensuring all necessary controls are implemented, and applicable laws and regulations are being followed.

Quincy School District placed the former High School ASB Secretary on administrative leave immediately upon detection of the fraud, and she did not return to work. Throughout the investigation, the District made significant improvements in its cash receipting and internal control practices. The District is committed to ensuring public resources are adequately safeguarded.

Quincy School District moved all cash receipting to an electronic format, providing each school with a Point-of-Sale system. This system tracks the timeliness of deposits, ensures the tender

receipted matches tender deposited, and helps promote consistent financial processing amongst all sites.

In addition to the aforementioned changes, the District is working with building administrators to determine best practices regarding separation of duties involving deposits and cash receipting. The District has also obtained safes for all schools to ensure funds are secure while on-site. The District will have combinations reset on all safes biannually for added security.

Quincy School District is acutely aware of the former system gaps, and is committed to making the necessary improvements. Once the fraud report is published, the District will forward the report to the prosecuting attorney's office with the recommendation that we collect the misappropriated \$11,588 and the auditor's cost for investigation of \$6,418.

State Auditor's Office Remarks

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

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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