

FRAUD INVESTIGATION REPORT

Investigation Summary

During our accountability audit for 2014 and 2015, we identified a potential loss of public funds and initiated an investigation covering 2011 to 2016.

From the investigation, we determined that misappropriation related to payroll, totaling \$3,412, and questionable transactions in payroll, accounts payable and cash receipting, totaling \$2,611, occurred at the Town between September 2012 and December 31, 2016. The table below shows the misappropriation and questionable amounts by category.

Summary of Results		
Description	Total Misappropriation	Total Questionable Expenditures
Mid-Month Draw	\$600	\$0
Vacation Leave Cash outs	\$2,560	\$0
Sick leave cash outs	\$0	\$1,752
Overtime and Compensatory Time paid	\$252	\$135
Accounts Payable	\$0	\$174
Cash Receipting	\$0	\$550
Totals	\$3,412	\$2,611

A loss report has not been filed with law enforcement. This report is being referred to the Stevens County Prosecuting Attorney's Office.

Background and Investigation Results

The Town of Springdale, located in Stevens County, operates on an annual budget of about \$200,000 and provides services such as water and sewer to about 280 citizens. The town is governed by an elected five-member council and an independently elected Mayor who oversees the town's three employees. The Clerk/Treasurer position is responsible for managing the Town's daily operations.

The current Clerk/Treasurer was hired by the Town in 2001. As of this report's date, she still serves as Clerk/Treasurer. Her primary responsibilities include payroll, accounts payable, utility billing and cash receipting. In performing these duties, she is also responsible for ensuring the town's assets are safeguarded and monitored.

Since 2010, our office has issued accountability audit findings noting that the Town lacked written policies and procedures to ensure proper safeguarding over cash receipting, utility billing adjustments and support for cash receipting and payroll leave tracking. We also noted in September 2012 that the Town's Clerk/Treasurer had received a mid-month draw in the amount of \$600. Such draws were allowed under town policy at that time. She then also received her full paycheck for the month with no evidence that the Town had ever been repaid.

During planning for the accountability audit, we followed up on the status of each weakness area identified in the prior audit findings. In addition, on November 2, 2016, our office received a citizen hotline referral from someone who had reviewed the prior accountability audit reports and wondered why many of the noted concerns had not been resolved by subsequent audits.

Our accountability audit began on November 3, 2016, and the Clerk/Treasurer provided us the Town's files. Separately, our investigation focused on accounts payable, cash receipting, and payroll and leave balances tracking.

Payroll and leave use

We reviewed payroll records for the Clerk/Treasurer from January 2011 through December 2016. We analyzed the timesheets, use of leave as compared with the council-approved paystubs, town payroll policies and our understanding of the Town's payroll process. Based on our analysis and an interview with the Clerk/Treasurer, we identified \$3,412 in misappropriation and \$1,887 in questioned payroll costs. The details of the misappropriation and questioned payroll costs are as follows:

Mid-month draw

The Clerk/treasurer requested and received a mid-month draw of \$600 on September 4, 2012. Our review of payroll documentation through December 31, 2016, did not show where her future payrolls were reduced by this amount or if she had ever repaid the Town. We requested from the Clerk/Treasurer any documentation that would show how the excess funds she received were repaid. During an interview on April 13, 2017, the Clerk/Treasurer said she thought she had repaid the \$600 draw by taking less vacation leave. From our review, this did not occur, as the Clerk/Treasurer had actually taken 30 hours of vacation leave more than she had earned for 2012. We determined the draw was not repaid and that the \$600 was misappropriation.

Vacation Leave cash outs

Under the Town's vacation pay and sick leave buyout resolution (No. 04-03), the Town Marshal and Clerk/Treasurer may buy out unused leave. We requested the approved timesheets and paystubs for the Clerk/Treasurer from 2011 to 2016. We then compared the timesheets to the pay stubs to determine if the amount of time that was approved was equal to the amount of time paid. Through this process, we determined that both sick leave and vacation time were not being tracked and reconciled to determine what the true balances were. Based on the pay stubs, we quantified the total amount of leave used for each year. The Clerk/Treasurer had exceeded the amount earned for 2011 to 2015 by 148 hours or \$2,560. For 2016, the Clerk/Treasurer did not exceed her vacation leave balances.

Year	Vacation leave balances available per policy	Vacation Leave taken or cashed out	Amount of vacation remaining / (taken in excess)	Dollar amount of vacation taken in excess
2011	100	100	0	\$ -
2012	160	189.83	(29.83)	\$ (490)
2013	160	198.37	(38.37)	\$ (630)
2014	144	168	(24)	\$ (432)
2015	144	200	(56)	\$ (1,008)
2016	168	160	8	\$ -
Total vacation in excess - misappropriation				\$ (2,560)

Sick leave cash outs

We reviewed the use and cash-outs of sick leave from 2011 to 2016. The Clerk/Treasurer did not exceed the amount of leave earned for any of the years. However, we determined that the Clerk/Treasurer cashed out 93.64 sick leave hours, or \$1,752, which is questionable because these cash-outs lacked support. In most instances when the Clerk/Treasurer cashed out sick leave, her timesheet for the week indicated she had worked 40 hours. The paystubs for such time periods in 2016 showed the Clerk/Treasurer was paid for 40 regular hours and 16 sick hours. The sick hours were not indicated on her timesheet, which was reviewed and approved by the Mayor. It appeared the Clerk/Treasurer was adding the sick time to her pay after the timesheet for the regular hours had been approved.

Overtime and compensatory time paid

We reviewed the use and cash-out of overtime and compensatory time for 2011 to 2016. There were instances in fiscal year 2015 where the amount of time for which the Clerk/Treasurer was paid did not correspond with her approved timesheets. Specifically, we noted in April 2015 that she was paid for five hours of overtime, but her approved timesheet reported 40 regular hours worked. The overtime was paid at the time-and-a-half rate. We also noted compensatory time

that was taken for pay in the amount of four hours in May 2015 and 10 hours in June 2015. We determined that \$135 in overtime is questionable and \$252 in comp time is misappropriation because these amounts were entered on the paystub but were not on the approved timesheets.

Accounts Payable

We reviewed vendors used by the District from January 2015 to December 2015 and selected all payments made to the Clerk/Treasurer related to travel. We identified \$174 in questionable mileage payments.

Cash Receipting

We reviewed a utility billing revenue trend, attempted to reconcile the total amount of 2015 system receipts to the total amount of bank deposit receipts, and performed detailed cash receipt testing for May 2015 to determine if the city's receipts corresponded with deposits as listed on the Town's bank statements. Based on our work and initial conclusion, we identified three payments that were shown to have been receipted but were not on the bank statements. We identified \$550 in missing cash receipts that we determined are questionable.

During our interview, the Clerk/Treasurer acknowledged the variances identified during our review of payroll and leave use, accounts payable and cash receipting, and said they were mistakes.

Control Weaknesses

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

- The Council and Mayor's review of the Clerk/Treasurer's timesheet was not sufficient to ensure that the amount of time and type of pay she submitted was what she was actually being paid.
- Vacation and sick leave were not monitored by an independent Town employee to ensure amounts earned and used were accurate, and that leave buyouts complied with the town's resolutions.
- Disbursements for the Clerk/Treasurer's travel were approved despite lacking supporting documentation.
- Cash receipting for utility bilings lacked review to ensure that the Town's receipts were reconciled to the bank accounts.

Recommendations

We recommend the Town strengthen internal controls over payroll, accounts payable and cash receipting to ensure adequate oversight and monitoring to safeguard public resources and compliance with the Town's policies. These controls should include an effective review to ensure that:

- Payroll and leave balances are tracked by an independent person to ensure that employees are not allowed to take more leave than earned
- Vacation and sick leave cashed out are approved in advance by the Mayor and Council with supporting documentation that shows why the leave was not able to be used, as the policy requires
- Disbursements for employee travel are thoroughly reviewed for support and to ensure the town received the benefit of the expense
- Cash receipting and bank reconciliations are monitored by an independent person to ensure that amounts indicated as receipted are properly safeguarded and arrive in the Town's bank account intact.

We also recommend the Town seek recovery of the misappropriated \$3,412 and related investigation costs of \$14,500 from the Clerk/Treasurer and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Town 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 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.

Town's Response

The Springdale Mayor and Town Council thoroughly reviewed the Fraud Investigation Report and Auditor's supporting documents for the timeframe of January 1, 2011, through December 31, 2016, and do not agree with the findings. We believe the audit contains many flaws and erroneous statements.

We dispute the findings of fraud on the part of the Town Clerk, and see no basis whatsoever for prosecution based on the supporting documentation.

State Auditor's Office Remarks

Our Office has been reporting concerns regarding the Town's internal controls and safeguarding of assets since 2004 and have issued findings in four of the last five accountability audits. We reaffirm the results of our fraud investigation report and will review the status of these issues during our next audit.