

FRAUD INVESTIGATION REPORT

Investigation Summary

On June 27, 2016, the Mayor of the City of Mossyrock notified our Office regarding a potential loss of public funds as required by state law.

The City filed a report with Morton Police Department, which investigated and referred the case to the Lewis County Prosecuting Attorney's Office. The Lewis County Prosecuting Attorney's Office prosecuted the former Clerk/Treasurer of the City of Mossyrock based on the Police Department's investigation.

We obtained the Police Department's report and judgment filed with Lewis County Superior Court. We reviewed the investigation, performed an expanded review and determined that general disbursement, credit card and payroll misappropriation totaling \$65,895, and questionable activity totaling \$4,142, occurred at the City between January 2014 and June 2016.

Summary of results		
Area of investigation	Misappropriation	Questionable
General disbursements	\$59,987	\$978
Fuel	\$4,532	\$0
Credit cards	\$1,376	\$1,543
Payroll	\$0	\$1,621
Total	\$65,895	\$4,142

Background and Investigation Results

The City, located in Lewis County, operates on an annual budget of about \$850,000 and provides services to its citizens that include public safety, street improvement and general administration. The City also owns and operates water and sewer systems. The City is governed by an elected, five-member Council and a separately elected Mayor. The Mayor is the general supervisor for the Clerk/Treasurer position. The Clerk/Treasurer is responsible for the City's daily operations.

The former Clerk/Treasurer started with the City in August 2013. The former Clerk/Treasurer's general responsibilities included but were not limited to: preparing the City budget; implementing City policies; keeping records of City Council proceedings; accounting for all City receipts, disbursements and investments; and processing payroll for all City employees.

On June 17, 2016, staff at the City's bank contacted the Mayor regarding some transactions that were red-flagged because of a gap in the check number sequence. The Mayor immediately met with bank staff to look over banking records. Bank staff gave the Mayor account transaction histories for his review. The Mayor's review of the bank documents identified unusual ATM

cash withdrawals, payments to a fuel credit card that had been cancelled three years earlier and a payment to a mortgage company made via electronic transfer.

On June 20, 2016, the Mayor reported the possibility of fraudulent activities conducted by the former Clerk/Treasurer to Morton Police Department. The Police Department opened an investigation and began reviewing documentation. On June 22, 2016, the Mayor placed the former Clerk/Treasurer on administrative leave. Between June 20, 2016, and July 31, 2016, the Police Department compiled information that was used to charge the former Clerk/Treasurer with theft and identity theft. It obtained three years of City bank statements, fuel credit card statements and the former Clerk/Treasurer's personal bank records. The Police Department traced 17 payments from City accounts to the former Clerk/Treasurer's personal mortgage company, totaling \$56,981. The Police Department also accessed the City-owned computer the former Clerk/Treasurer used and identified evidence that the former Clerk/Treasurer had reopened the City's closed fuel credit card account and made \$4,375 in new purchases.

On September 7, 2016, the former Clerk/Treasurer pled guilty to identity theft in the first degree. On September 28, 2016, the former Clerk/Treasurer was sentenced to 60 months in prison.

On November 14, 2016, the Police Department gave our Office its report and supporting documentation for review. Additionally, it said the former Clerk/Treasurer also had been issued a City credit card, for which the Police Department did not obtain bank statements during their investigation. Our Office issued subpoenas to obtain those statements and performed an expanded review, focusing on general disbursements, fuel, credit card charges and payroll.

General disbursements

We reviewed City bank statements obtained by the police department from January 2013 through June 2016. We agreed with law enforcement's determination that the former Clerk/Treasurer made 17 payments from City accounts, totaling \$56,981, to cover her personal mortgage, and we identified an additional misappropriated payment, totaling \$1,914. When reviewing City documentation, we found the former Clerk/Treasurer created fictitious invoices to make the personal mortgage payments appear to be for an engineering business tied to a public works project. In addition, we identified altered bank statements intended to make the personal mortgage payment appear to match the engineering business name and the fictitious invoices.

We evaluated all bank-account transfers, debits and automatic withdrawals. We reviewed support for a majority of transactions, and found misappropriation by the former Clerk/Treasurer in the form of \$300 in cash withdrawals and one \$792 payment to a local phone company. We also identified \$978 in unsupported transactions that we determined to be questionable losses.

Fuel

We reviewed fuel credit card statements obtained by law enforcement from October 2013 through June 2016. The City stopped using the fuel card account in December 2013. In August 2014, a fuel card was found in a Mossyrock Police Department patrol car that had been sold to another police department. The fuel card was returned to the former Clerk/Treasurer for safekeeping. Later that same month, new charges appeared on the fuel statement. The City's bank account was used to pay for these charges. A total of \$4,532 was identified as misappropriation.

Credit card

We reviewed vendors paid with the bank credit card from October 2013 through June 2016. We identified that the City credit card was used to pay a large number of vendors; therefore, we met with the Mayor to evaluate the vendors and select those that were questionable. We identified \$1,543 as questionable charges and \$1,376 as misappropriation, including one personal utility bill that was altered by the former Clerk/Treasurer to look like a City expenditure.

Payroll

We reviewed payroll records for the former Clerk/Treasurer from August 2013 through June 2016, looking for inconsistencies in the paid amounts compared with approved salary documentation. We identified discrepancies starting in September 2014 and noted the former Clerk/Treasurer began adding money to her approved salary. Between September 2014 and June 2016, we identified \$1,621 in questionable payroll payments to the former Clerk/Treasurer.

Control Weaknesses

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

- Insufficient oversight of day-to-day activities performed by the former Clerk/Treasurer, lack of segregation of duties and independent reconciliations of bank and credit card statements
- A lack of monitoring to ensure credit cards, including fuel cards, were used for official City business and that accounts no longer used were properly closed
- Lack of an effective secondary review of general disbursements to ensure only City expenditures are paid with City funds
- Lack of an effective secondary review of payroll that ensures employees are properly paid in accordance with City policies

Recommendations

We recommend the City strengthen internal controls over general disbursements, credit cards including fuel cards, and payroll to ensure adequate oversight and monitoring to safeguard public resources and compliance with City policies.

We recommend the City seek recovery of the misappropriated \$65,895, questionable transactions as appropriate, and related investigation costs of \$10,700 from the former Clerk/Treasurer 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 43.09.260). 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.

City's Response

We at the City of Mossyrock would like to thank the State Auditor's Office for their effort in responding to our Fraud Investigation of 2016 and the Audit of our 2015 Records. You have been very helpful in the ongoing process. Although we do agree with most of your findings, we are concerned that there was not better communications by the courts in the legal process in which we may not be able to recoup all the specific losses the City absorbed.

Immediate action was taken when the fraud was discovered, and all outstanding credit cards were cancelled until such a time that it was prudent for the City to obtain new cards. The existence of the gas cards involved in the fraud was unknown and the monthly bill was hidden from the Mayor and Deputy Clerk by the City Clerk. We have limited who has access to the cards which are kept in the City vault with a record sheet attached of who is using the card and when it is returned requiring two people to initial that it has been returned and what the order was for. Statement for payment must have all receipts attached. With all online payments, memos are attached with explanation as to the purchase and what it is for.

In the day to day operations, the two office personnel are cross trained so that at any given time if necessary, they can perform the tasks required for the day. Each has their own till for cash transactions. Records of transactions are reviewed weekly and initialed by each person and as per City of Mossyrock Resolution 2009-7, the deposit is done once a week with verification by the City Clerk and City Treasurer. If one or the other is not available, the Mayor steps in to verify the deposit and transactions for the week. All payments and payroll made by the City Treasurer are reviewed by the City Clerk and Mayor as well as two City Council members at the end of the month.

Monthly reconciliation is completed by the City Treasurer and given to the Mayor for review and copies of the register and reconciliation are added to the monthly folder of vouchers for City Council members to review as well.

With the help of the State Auditor's Office, and possibly future on-site training to help spot areas of inconsistency and areas of improvement, we here at the City of Mossyrock hope to move forward and improve to better serve the constituents of our community. Integrity and honesty is the best policy for everyone concerned.

Sincerely,

Mayor Thomas Meade, City Council Members and Staff for the City of Mossyrock

State Auditor's Office Remarks

We thank City officials and personnel for their assistance and cooperation during the investigation and will follow up on the status of these items during our next scheduled audit. The steps the City has taken to prevent these issues from occurring demonstrate the City's commitment to being good custodians of public funds.