



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

City of Wapato

For the Investigation Period January 1, 2011 through December 31, 2017

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February 21, 2019

Mayor and City Council
City of Wapato
Wapato, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Wapato. On October 27, 2017, 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 Deputy Clerk Treasurer's unallowable activities at the City from October 2011 through October 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 Director of 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: Juan Orozco, City Administrator

FRAUD INVESTIGATION REPORT

Investigation Summary

On October 27, 2017, the former Clerk-Treasurer notified our Office regarding a potential loss of public funds as required by state law. The City identified bank deposits that did not include all money collected.

We initiated an investigation and determined a cash receipting misappropriation occurred at the City, totaling \$308,199 between October 2011 and October 2017.

The City has filed a report with the Yakima County Sheriff's Office. We will refer this case to the Yakima County Prosecuting Attorney's Office.

Background and Investigation Results

The City, located in Yakima County, operates on an annual budget of about \$6.6 million, and collects \$2.2 million in utility revenue, \$1 million in business and occupation (B&O) tax revenue, \$80,000 in lease revenue and \$120,000 in cemetery sales and services revenues.

An elected seven-member Council and independently elected Mayor govern the City. During our investigation, a formerly elected Mayor became the City Administrator, which is a new position. The City employs 36 employees, including a full time Clerk-Treasurer, Deputy Clerk-Treasurer, and two accounting clerks. The Clerk-Treasurer is responsible for overseeing the City's day-to-day operations, including reconciling the City's main bank account. The Deputy Clerk-Treasurer is a backup cashier for the two accounting clerks, and prepares the City bank deposits.

In October 2017, the City discovered missing B&O tax payments from one of its vendors. The City obtained copies of the checks in question and noted all were endorsed and deposited into the City's bank account. They identified that the amounts recorded in the accounting system for the B&O checks were less than the actual checks included in bank deposits. On October 26, 2017, the City's Deputy Clerk-Treasurer was placed on administrative leave, and was asked to resign in December 2017. Shortly after she resigned, the City requested her to provide assistance at City Hall on an unrelated matter. This potentially compromised our investigation, as she may have had access to relevant records. The Mayor and Clerk-Treasurer took this action despite being aware that the former Deputy Clerk-Treasurer was the subject of our investigation.

We initiated an investigation focused on cash receipting at City Hall. We issued a subpoena for the City's main bank account records, including all deposit record details from September 2011 to December 2017. We compared bank records to underlying supporting records at the City, including accounting system records, and found a total misappropriation of \$308,199. Of this amount, the former Deputy Clerk-Treasurer was responsible for misappropriating at least \$303,678. A summary of the loss by year is in the table below:

Year	Misappropriation Total	Misappropriation assigned	Misappropriation unassigned
2017	\$76,891	\$74,961	\$1,930
2016	\$98,124	\$96,897	\$1,227
2015	\$49,485	\$49,485	\$0
2014	\$47,508	\$47,508	\$0
2013	\$21,239	\$19,875	\$1,364
2012	\$10,507	\$10,507	\$0
2011	\$4,445	\$4,445	\$0
Total	\$308,199	\$303,678	\$4,521

We determined misappropriated funds involved B&O tax, lease and cemetery service payments:

	B&O and Lease checks	Cemetery checks	Total
Misappropriation assigned	\$287,224	\$16,454	\$303,678
Misappropriation unassigned	\$3,556	\$965	\$4,521
Total	\$290,780	\$17,419	\$308,199

B&O tax and Lease payments

We looked at bank copies of the B&O and lease payment checks deposited, and compared the amount on the check written by the business to the amount that was recorded in the City’s accounting system. That comparison, for checks received between September 2011 and September 2017, identified \$290,780 that businesses had paid the City but that wasn’t recorded in the City’s system. The unrecorded check amounts were used to replace other 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, when actually the deposits were short at least \$290,780. It was the former Deputy Clerk-Treasurer’s responsibility to reconcile the tills and prepare bank deposits. B&O payments were used as the main method to substitute the receipted customer cash payments removed from the bank deposit. Responsibility is assigned to the former Deputy Clerk-Treasurer for \$287,224 of the misappropriation; the remaining \$3,556 is unassigned based on inconsistent use of system user accounts.

Cemetery service payments

Funeral homes and other customers pay the City for cemetery plots and related services. We obtained copies of checks deposited to the City’s main bank account for cemetery sales from 2015 to 2017 and identified numerous payments for which receipts were either not issued or issued for less than what was deposited at the bank. These checks substituted the cash payments removed from the receipted customer cash payments, resulting in a misappropriation of \$17,419. The former Deputy Clerk-Treasurer was responsible for at least \$16,454 of the misappropriation; the

remaining \$965 is unassigned because we were unable to determine who initially received the payment.

To determine if any additional misappropriations occurred, we examined other areas accessible to the former Deputy Clerk-Treasurer. This included her personal utility account, the Court Trust bank account she was responsible for reconciling, and system accounting adjustments such as voids and deleted receipts. No additional misappropriation was found.

During the fiscal year 2017 accountability audit, we reviewed payroll disbursements and employee reimbursements. We did not find additional misappropriation in these areas; however, we did identify internal control weaknesses. We issued separate audit recommendations for those.

In May 2018, we interviewed City staff, which included the former Mayor/current City Administrator, former Clerk-Treasurer, the former Deputy Clerk-Treasurer and two former accounting clerks. During the former Deputy Clerk-Treasurer's interview, she acknowledged that what she did was wrong, and said she was sorry and was dealing with personal issues. We could not finish our questioning because she requested an attorney and ended the interview. However, she and other City staff confirmed she would receipt and record payments into the City's accounting system and prepare the bank deposit.

Control Weaknesses

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

- The City lacked adequate segregation of duties over cash receipting and bank reconciliation duties. One person – the former Deputy Clerk-Treasurer – handled duties both for cash receipting and preparing the bank deposit.
- The City did not monitor B&O tax and lease payments to ensure that the amount receipted was accurately recorded in the accounting system.
- Monitoring of cemetery services and sales was not sufficient to verify that all funds collected were deposited intact.

Recommendations

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

We also recommend the City seek recovery of the misappropriated \$303,678 and related investigation costs of \$42,443 from the former Deputy Clerk-Treasurer and/or its insurance bonding company, as appropriate. 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 Brandi Pritchard, Assistant Director of Local Audit, who can be reached at (360) 489-4591 or Brandi.Pritchard@sao.wa.gov.

City's Response

In response to the State Auditor's Office concerns with control weaknesses and the recommendations within the audit, the City of Wapato has implemented the following internal controls.

The City of Wapato's new Clerk-Treasurer has requested, with the City Administrator's authorization, the acquisition of a new safe for the safekeeping of bank deposits, and any banking information with bank account numbers exposed. This safe will also serve as an overnight storage for the daily deposits, cashier drawers and change drawer and any important information to safeguard public funds. This safe will have to be opened by a 2- person combination, one person will not be able to access this safe alone.

The City Administration is also implementing an internal control process which will include but not be limited to imposing double audits, cashier drawer audits monthly, to be done by 2 independent unrelated office personal. The city will also do a separate deposit for mail payments received daily. A 2-person audit of the mail payment will be completed daily. A copy of the daily deposit slip will be attached with the deposit bag slip and the cashier report to a daily cash sheet and safeguarded in a locked file cabinet.

There will also be a void receipt file set up with a 2-person audit. There will be a separation of duties between the accounts payable and receivable personnel. There will also be an audit of the accounts payable before the checks are signed off. We will also be building a new policy for unclaimed and outstanding City of Wapato warrants (checks issued by the city).

The Administration has taken steps to cut all credit cards and the amount of credit cards distributed. The administration is also cutting all spending and signors on charge accounts outside the use of bank issued credit cards. Any purchases will have to be approved and processed through City Hall or the director of the department in charge of the outside accounts.

There will be a daily accounting of bank accounts and reconciliation put in place by the Clerk-Treasurer. The maintenance of these accounts and investments will allow the City of Wapato to better track the day to day business of the Cities' public funds. A separate clearing account will be put into place for grant funded Public Works projects.

In conclusion, all audits put in place should prevent any intentional misappropriation of public funds. This is the beginning of the City of Wapato's internal control policy and procedures. As the new Clerk-Treasurer familiarizes herself with all the inadequacies of the department she will implement more audit and control procedures to protect the public's funds.

State Auditor's Office Remarks

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

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.

Contact information for the State Auditor's Office	
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