



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

North Thurston Public Schools

For the Investigation Period September 1, 2016 through February 28, 2019

Published July 25, 2019

Report No. 1024239





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

July 25, 2019

Board of Directors
North Thurston Public Schools
Lacey, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at North Thurston Public Schools. On February 8, 2019, 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 Grounds and Maintenance Supervisor's unallowable activities at the District from September 18, 2017 and November 13, 2018. 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: Teena Barnes, Executive Director

FRAUD INVESTIGATION REPORT

Investigation Summary

On February 9, 2019, the Executive Director of Financial Services for North Thurston Public Schools notified our Office regarding a potential loss of public funds as required by state law.

The School District hired an outside investigator. The investigation determined \$9,104 in credit card purchases did not have a District purpose.

We reviewed the investigation results and determined a credit card misappropriation totaling \$6,520 and questionable transactions of \$2,584 occurred between September 18, 2017, and November 13, 2018.

The District will file a report with law enforcement at the conclusion of our investigation. We will refer this report 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 \$204 million and provides educational services to more than 14,500 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 a maintenance and facilities department responsible for making necessary purchases for the District.

A new Maintenance and Facilities Director began work during the fall of 2018. During the Director's normal review of credit card charge support, he questioned why he did not receive supporting documentation for purchases made by the Grounds and Maintenance Supervisor. The Director identified a purchase of a garage door opener that could not be found in use at the District.

The Grounds and Maintenance Supervisor was placed on administrative leave due to other matters in November 2018 and ultimately left employment in March 2019. After the Grounds and Maintenance Supervisor was placed on leave, the District began looking further into the former Supervisor's credit card usage. The Financial Services Department became involved and began investigating the unusual purchases. The Financial Services Department reviewed all credit card spending in the Grounds and Maintenance department for the prior school year and did not identify any concerns with other individuals who had District-issued credit cards.

The District expanded its credit card review related to the Grounds and Maintenance Supervisor to include all transactions between September 1, 2017 and November 29, 2018. The District identified 22 transactions totaling \$8,626, in addition to the garage door opener transaction for \$478 that did not appear to have a legitimate District purpose.

Our review of the District’s investigation focused on credit cards. We determined that the Grounds and Maintenance Supervisor purchased items that were outside the normal course of business for that position and did not have any District purpose, and that some items could not be found at the District. These purchases are misappropriation. We further identified items that were within the normal course of business for that position, such as tools and supplies. These also could not be found at the District. However, because we cannot determine if the purchases of tools and supplies were for a legitimate business purpose or for personal use, we consider these purchases questionable.

	<i>Misappropriated</i>	<i>Questionable</i>
Tools and supplies	\$1,151	\$2,584
50- gallon propane water heater	\$765	-
Automotive supplies and parts	\$548	-
Personal home heat pump and air handler	\$3,265	-
Garage door opener	\$478	-
Gas grill	\$312	-
Total	\$6,519	\$2,584

The District’s outside investigator interviewed the Grounds and Maintenance Supervisor on January 14, 2019, January 27, 2019 and March 13, 2019. When presented with the summary of purchases, the Grounds and Maintenance Supervisor said all purchases were for the District and that the items should be in inventory or installed at District buildings.

The District’s investigation determined that none of these items could be found at the District.

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 did not:

- Have an effective review process in place to ensure all purchases made by supervisors were allowable and for District purposes.
- Have a physical inventory policy or process in place to ensure all District assets were identified and monitored.

Recommendations

We recommend the District strengthen review and monitoring of credit card transactions and the physical inventory process to adequately safeguard public resources and comply with District policies. This should include an independent, thorough review of all credit card purchases. The

District should also implement policies and procedures to ensure that a physical inventory is completed.

We also recommend the District seek recovery of the misappropriated \$6,520 and questionable transactions of \$2,584 as appropriate and related investigation costs of \$1,938 from the former Grounds and Maintenance Supervisor 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 Brandi Pritchard, Assistant Director of Local Audit, who can be reached at (360) 489-4591 or Brandi.Pritchard@sao.wa.gov.

District's Response

The District discovered the misappropriation of funds during an investigation of alleged inappropriate conduct by the Grounds and Maintenance Supervisor. The misappropriation of funds was immediately reported to the State Auditor's Office. The investigation of alleged inappropriate conduct was expanded to include a review of procurement card purchases. It was discovered that during the time period of a leadership personnel change within the department, the Maintenance and Grounds Supervisor had access and authority to generate work orders and approve his own purchases of supplies to complete the generated work orders. The investigation further revealed that the items purchased could not be accounted for within the District's inventory.

The District immediately developed improved internal controls for purchases using procurement cards. Today, cards are checked in and out by using the Pro Card Authorization Form. For purchases within the Maintenance Department, the Maintenance Director must sign the form prior to checking out a Pro Card to a staff member. Once approved, the Pro Card is given to the requesting staff member and the purchase is made. The staff member returns the receipt and Pro Card to the office. The office professional verifies that the receipt and the Pro Card Authorization Form match. The Pro Card transaction is then processed for payment within the Financial Services Department. The payment process includes a final verification of the Pro Card Authorization Form and corresponding receipt by a Financial Services Office Professional prior to issuing payment on the Pro Card. In the Maintenance Department the purchased items are added to the inventory for the department. Today, internal audits of inventory are completed by Financial Services and the Director of Maintenance at least quarterly.

State Auditor's Office Remarks

We thank District 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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov