



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

**Fraud Investigation Report**  
**Camas Washougal Economic**  
**Development Association**

**For the investigation period June 7, 2011 through May 31, 2019**

**Published May 14, 2020**

**Report No. 1026156**





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

May 14, 2020

Board of Directors  
Camas Washougal Economic Development Association  
Washougal, Washington

**Report on Fraud Investigation**

Attached is the official report on a misappropriation at the Camas Washougal Economic Development Association. On April 10, 2019, the Association notified the Office of the Washington State Auditor 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 Executive Director's unallowable activities at the Association from February 15, 2013 through February 12, 2019. 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 (564) 999-0800. Otherwise, please contact Acting Fraud Investigation Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy

State Auditor

Olympia, WA

cc: Jennifer Forsberg, Finance Director

## FRAUD INVESTIGATION REPORT

### Investigation Summary

On April 10, 2019, the Camas Washougal Economic Development Association notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185).

The City of Washougal investigated and provided its files to us for review. We reviewed the City's files, performed additional investigative work, and determined a disbursement misappropriation totaling \$19,311 occurred at the Association between February 15, 2013 and February 12, 2019. We also found questionable transactions totaling \$45,029 that occurred between April 30, 2012 and March 1, 2019.

The Association has filed a report with the Camas and Washougal police departments, which are investigating this case. We will refer this report to the Clark County Prosecuting Attorney's Office.

### Background and Investigation Results

The Association, located in Clark County, operates on an annual budget of about \$200,000. It was created in 2011 by the cities of Camas and Washougal, and the Port of Camas/Washougal, to promote business development in the Camas/Washougal area. The Association, when formed in 2011, was governed by a three-member Board of Directors composed of one party from each of the forming governments. In 2017, three new members joined the Board representing the Camas and Washougal School Districts, and Columbia River Economic Development Council. The Association has no employees.

In June 2011, the Port of Camas/Washougal entered into a one-year professional services agreement with the Executive Director's company (a sole proprietorship) for an Interim Economic Development Director to help form the Association. Once the Association was formed and the contract lapsed, the Board allowed the Interim Director to become the Executive Director. However, the Association did not enter into a new contract that outlined the expectations and compensation for the Executive Director role. The Executive Director was responsible for managing all financial and operating responsibilities of the Association.

The Association did not submit the required annual financial reports with our Office for fiscal years 2011 through 2017 and did not respond to our inquiries and requests for financial documentation until March 2019 when it asked the City of Washougal to prepare the financial reports. That same month, the Executive Director notified the Association he would no longer provide services after May 31, 2019. While preparing the financial reports, the City of Washougal identified transactions on the Association's bank statements that appeared to be unrelated to its normal operations and notified our Office. The City went through Association bank records from April 1, 2012 through March 31, 2019 and identified \$14,917 in personal purchases made by the Executive Director.

We reviewed the City's list of transactions and identified additional transactions through our own review of the Association's bank statements. The Association did not have supporting documents such as receipts or invoices that would show the business purpose for the transactions. Therefore, we had to rely only on the information on the bank statements and on interviews.

In September 2019, we interviewed two Board members, the Board secretary, and an ex-officio Association member to gain an understanding of the expected use of Association funds and the monitoring controls over Association bank accounts. During these interviews, we learned the Executive Director did not prepare financial statements for the Board – a practice expected in typical Board oversight. Additionally, we learned the Board did not conduct a secondary review of Association bank statements. The Director maintained sole control over the Association bank accounts.

Our investigation concluded a total misappropriation of \$19,311 in personal purchases made by the Executive Director occurred from February 15, 2013 to February 12, 2019. The Executive Director prepared and signed Association checks to pay personal expenses such as an advanced home air system and vehicle repairs or enhancements. He further used an Association debit card held in his name to charge personal expenses for items including a personal computer, hotel accommodations, fuel, and meals.

Additionally, our investigation found an additional \$45,029 in questionable transactions that occurred between April 1, 2012, and March 1, 2019. Some of the categories of these transactions included:

- \$13,921 – Meal expenses
- \$8,483 – Fuel expenses
- \$5,883 – Electronics hardware and software
- \$2,826 – Reimbursements to the Executive Director
- \$1,239 – Car rental expenses

All questionable transactions were directly associated with the Executive Director and had the potential to be for Association purposes. But because we did not locate any supporting documentation to explain the purpose of those disbursements and the Association had not clearly defined allowable use of funds, they are considered questionable.

On January 23, 2020, we interviewed the former Executive Director, who acknowledged making personal purchases with Association funds. He said these items should have been deducted from his regular monthly pay but could not identify which month or months that should have occurred. After the interview, on February 6, 2020, the former Executive Director provided a list of transactions that not only confirmed certain personal transactions were paid for with public funds but identified additional personal purchases. The list totaled \$12,989 in personal expenses paid using Association funds.

## Control Weaknesses

The Association did not have internal controls at the Association to safeguard public resources. Specifically, the Board did not adequately monitor the Association's financial activity. This resulted in the following weaknesses, which allowed the misappropriation to occur:

- The Executive Director maintained complete control over the account, including reconciliation. No one performed a secondary review of the Association bank accounts. Further, the Executive Director obtained a debit card to make immediate purchases without Board approval.
- Payments, including those for the Executive Director's services, were not reviewed or even provided to the governing body. The Director was allowed to make a verbal presentation on Association expenditures at Board meetings without providing supporting documents for a secondary review.
- The Association did not have a formal contract in place to clearly define what Association expenses were allowable and how these expenses should be approved and paid.
- The Association did not keep supporting documents to validate disbursements of funds.
- The Association did not have insurance to cover potential losses.

## Recommendations

We recommend the Board perform more direct oversight and monitoring of the Association's financial activities to safeguard public resources. We further recommend the Board strengthen internal controls over its financial systems to ensure all expenditures paid using public dollars are valid.

We also recommend the Association seek recovery of the misappropriated \$19,311 and related investigation costs of \$23,653 from the former Executive Director. Any compromise or settlement of this claim by the Association 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](mailto:mattk1@atg.wa.gov). The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Local Audit, who can be reached at (360) 489-4591 or [Brandi.Pritchard@sao.wa.gov](mailto:Brandi.Pritchard@sao.wa.gov).

## Association's Response

*The CWEDA concurs with the findings of this fraud investigation. At the time the CWEDA was established in 2011, it was the understanding of the CWEDA Board that CWEDA was not a public agency for the purposes of being subject to audit by the SAO. Once the CWEDA board was aware that they were a public agency subject to audit, they adopted new bylaws, reincorporated as a public not-for-profit agency, appointed a CFO and established financial procedures consistent with those utilized by public agencies and as described in this report. These necessary financial*

*practices have been in place since March 2019. In preparation for the state audit, the CWEDA CFO reviewed all expenditures of the CWEDA from its inception and discovered suspected losses in the range of \$15,000 - \$20,000, and additional questionable expenditures (as described in this finding and the SAO's Fraud Report), which were promptly reported to the SAO, along with the results of the internal audit. The CWEDA thanks the SAO for its assistance with the audit and the investigation regarding the losses. As described in this report, last year, for reasons unrelated to this audit, the CWEDA Board decided to disband the organization in June 2020.*

### **Auditor's Remarks**

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

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