



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Auburn School District No. 408

For the investigation period August 10, 2010 through January 30, 2019

Published July 15, 2020

Report No. 1026441





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

July 15, 2020

Board of Directors
Auburn School District No. 408
Auburn, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at Auburn School District No. 408. On April 19, 2019, the District 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 teacher's unallowable activities at the District from August 10, 2010 through January 30, 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 Fraud Investigation Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy

State Auditor

Olympia, WA

cc: Troy Dammel, Executive Director of Business Services

FRAUD INVESTIGATION REPORT

Investigation Summary

On April 19, 2019, the Auburn School District notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185).

The District investigated and provided its files to us for review. We reviewed the District's files, performed additional procedures, and determined a purchasing misappropriation totaling \$21,427 occurred at the District between August 10, 2010, and January 30, 2019. We also identified that questionable purchases totaling \$19,810 occurred during that same time.

The District has filed a report with Auburn Police Department. We will refer this report to the King County Prosecuting Attorney's Office.

Background and Investigation Results

The District, located in King County, operates on an annual budget of about \$247 million, including \$7.2 million in the Auburn High School Career and Technical Education (CTE) program. CTE promotes and supports locally based middle and high school programs that provide 21st century academic and technical skills, including jewelry manufacturing, health care and green technologies.

During his annual budget review in September 2017, the District's CTE Director noticed one CTE Instructor was making large purchases of gold for the CTE Instructor's jewelry making classes. The purchases of metals including gold, silver, and other jewelry materials were for students to use and learn different methods and techniques of jewelry manufacturing.

In October 2017, an anonymous source showed the CTE Director pictures of items the CTE Instructor was selling online, which included gold jewelry and equipment that appeared to belong to the District. The source also showed the CTE Director recent invoices of gold purchases the CTE Instructor made with school funds.

Based on these concerns, the District launched a formal investigation in June 2018. Upon completing the investigation, the then-Human Resources Director concluded the CTE Instructor had not misused school funds or other school assets.

In February 2019, the same anonymous source brought concerns to the new, and now current, Human Resources Director. The source presented pictures of items the CTE Instructor was selling online along with documents showing recent gold purchases the CTE Instructor had made with school funds. Additionally, the CTE Director, who had been monitoring gold purchases since the previous investigation, determined the CTE Instructor had purchased approximately \$21,000 in gold over the previous seven years, which appeared excessive based on the time period and number of students.

The District interviewed the CTE Instructor on March 19, 2019, about the purchases. The CTE Instructor said advanced students had used the gold for program purposes, although they did not use gold in the 2018-2019 school year. The District presented the CTE Instructor with his class rosters just for the 2015-2016 through 2018-2019 school years; however, the CTE Instructor said he could not recall which students had used gold, and could not account for his remaining gold inventory.

To illustrate, a summary of students and gold purchases is as follows:

	2015-2016	2016-2017	2017-2018	2018-2019
Number of students in advanced level class	4	1	1	11
Gold purchases	\$3,797.58	\$5,994.19	\$2,717.81	\$0

The District placed the CTE Instructor on administrative leave with pay on April 15, 2019, until further notice.

We reviewed the District's investigation and agreed with its conclusions. The District's investigation found the CTE Instructor could not provide records showing that \$21,427 in gold purchased between October 4, 2012, and December 18, 2017, was for District purposes.

The District and the CTE Instructor entered into a settlement and release agreement, whereby the CTE Instructor would pay the District \$21,427 and resign on June 25, 2019. The CTE Instructor resigned on June 25, 2019, in accordance with the agreement.

To determine if any additional misappropriations occurred, we examined systems to which the former CTE Instructor had access. We reviewed purchases the CTE Instructor made from August 2010 through January 2019 and did not find additional misappropriation. However, we identified questionable purchases during this period totaling \$19,810, consisting of gold, silver, and stones. Other questionable purchases included missing District jewelry-making equipment.

Control Weaknesses

Internal controls at the District were not adequate to safeguard public resources. Specifically, the District did not have internal controls in place to ensure:

- CTE purchases were allowable, adequately supported, and properly authorized
- CTE inventory was properly monitored and reconciled at year-end

Recommendations

We recommend the District strengthen its system of internal controls over CTE purchases and inventory. Specifically, the District should design monitoring processes sufficient to provide adequate oversight of purchases and to safeguard public resources.

We further recommend the District seek recovery of related investigation costs of \$2,500 from the former instructor and/or its insurance bonding company, as appropriate.

We also recommend the District comply with state law (RCW 43.09.260), which requires that the Attorney General and State Auditor approve, in writing, any compromise or settlement of claims made by the District. 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 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.

District's Response

In fall of 2017, the CTE department assigned new internal controls for each program area and instructor in the Career and Technical Department.

The new controls are as follows:

- By no later than October of each school year all CTE instructors are required to submit their student project lists with the materials to be used and the cost per item to the CTE director for their review.
 - The project cost lists are reviewed by the director to establish each program's baseline expenditures and materials usage for that year. This list is kept in the instructors' yearly program file.
 - If there are any questions about the project requirements or materials to be used, a follow up e-mail will be sent by the CTE director and the correspondence will be documented in the teachers' program file.
- The review of individual receipts was adjusted to a Bi-weekly check of items purchased by each instructor.
 - If questions arise, requests for information are sent to the instructor and the responses/information are listed on the corresponding receipt document.
- The CTE Department adjusted the end of year inventory spreadsheet to show actual purchase costs, the amount of project material surplus and the storage location of these materials.
- A yearly review and documentation of equipment inventory in each program area is done each spring to update purchases made that year.

- The digital inventory list is shared with the CTE director and kept for backup to the building list.
 - Any surplus or missing equipment must be supported with a TMA (district surplus) report or a police report to show it has been accounted for.

Auditor's 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	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov