



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Whitman County

For the investigation period January 1, 2015 through October 12, 2017

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

October 15, 2020

Board of Commissioners
Whitman County
Colfax, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at Whitman County. On August 2, 2018, the County 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).

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 (509) 662-0440.

Pat McCarthy
State Auditor
Olympia, WA

cc: Sharron Cunningham, Finance Administrator

FRAUD INVESTIGATION REPORT

Background and Investigation Results

On August 2, 2018, the County notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). The three employees who managed the daily operations of the fairgrounds left the County's employment for various reasons in October 2017. Upon their departure, other county employees began familiarizing themselves with the department's work and identified multiple concerns.

The County dedicated about \$308,000 of its \$65.9 million total annual budget in 2017 to the Palouse County Fairground department. Fairground revenue comes from activities such as conducting fairs, entertainment and exhibit events, hosting educational programs, and public donations for the royalty scholarship program.

The County investigated and provided its summary files to us in February 2019. We reviewed the County's investigation and determined \$1,350 in misappropriation of fair royalty scholarship program funds occurred in May 2017. During our review of the County's investigation, we identified other operational areas with risks for additional losses. However, due to lack of adequate records and monitoring over Fair department operations, we could not determine if further misappropriation or questionable activity occurred.

We reviewed the County's investigation and determined:

- Responsibility for misappropriated scholarship money could not be assigned. In May 2017, three vendors wrote checks totaling \$1,350 to support the fair royalty scholarship program. Those checks were cashed, but the funds were not deposited into the County's bank account. The vendors provided copies of the cancelled checks, which did not provide enough information to identify either the bank or bank account that ultimately received the funds.
- The County reviewed other fairground operation areas from January 2015 to October 2017, including cash receipting, payroll disbursements, employee travel reimbursements, credit card purchases by management, and fairground small and attractive assets. However, because these areas of operations had limited independent County oversight, lacked adequate documentation to support activities and did not adequately track assets, we could not determine if further misappropriation or questionable activity occurred in these areas.

Control Weaknesses

Internal controls at the County were not adequate to safeguard public resources. The County's investigation found the following weaknesses allowed the misappropriation to occur and made it difficult to determine if further losses occurred:

- Cash receipting controls were not adequate to guarantee funds and donations received were deposited into the County's bank account.
- Supporting records for payroll disbursements, travel reimbursements and credit card purchases were not adequate to validate the expenses or to determine if they were for legitimate business purposes.
- The County did not have a formal policy requiring tracking purchases of small and attractive assets or maintaining a list of assets in the Fair department.

Recommendations

We recommend the County strengthen internal controls over Fair department operations to maintain adequate oversight and monitoring to safeguard public resources. Improvements should include an independent review of fairground operations in areas of cash receipting, payroll disbursements, credit card purchases, travel reimbursements and asset inventory.

County's Response

Overall changes in Fair Admin staff

Whitman County Palouse Empire Fair administrative staff left County employment the first half of October 2017. New administrative staff was hired, and practices, policies, and procedures were addressed to correct internal control issues.

The Washington State Auditor's Office (SAO) was notified in mid-August 2018 of the incongruities found by the current Fair, Auditor, and Treasurer's staff regarding financial records and tracking small attractive items. The SAO reviewed the County's documentation and directed the County's efforts to identify and correct any issues. The County's findings were forwarded to the SAO.

Cash receipting controls were not adequate to guarantee funds and donations received were deposited into the County's bank account.

The Fair personnel worked closely with the Treasurer and Auditor's Offices to determine the use and correctness of Fair bank accounts. All accounts are balanced, and the Fair personnel reconcile all bank accounts monthly with the Auditor's and Treasurer's offices confirming the activity and balances.

County staff discovered that some donations for the royalty program were not deposited into any County-owned bank account. Immediately the Fair discontinued soliciting public donations for the royalty program.

The following new policies and procedures have been established to correct the cash receipting internal controls:

- Revenue Collection Policy/Procedure
- Cash Receipting Policy/Procedure
- Royalty/Scholarship Program Policy/Procedure

The Fair staff has participated in the County's Cash Handlers Course presented by the County Treasurer and Auditor's staff. They continue this practice with any new employees who have the potential to handle cash.

Supporting records for payroll disbursements, travel reimbursements and credit card purchases were not adequate to validate the expenses or to determine if they were for legitimate business purposes.

Whitman County utilizes the County's financial software in processing accounts payable, receipting/accounts receivable, and payroll. A minimum of two employees are necessary to fully process payroll, travel reimbursements, and credit card purchases. The Fair works closely with the Auditor Office to provide verification and appropriate documentation.

Payroll Disbursements: Payroll prelists are signed by the employee, supervisor (when applicable), and Fair Manager or Director. Time Off requests are submitted on a request form with employee and Fair Manager or Director signature. Request form(s) are kept on file in the Department with employee's payroll prelist.

Travel reimbursement: Employees must complete a Whitman County Auditor's Office Employee Reimbursement Form for travel reimbursement. The Form requires two signatures and proper documentation. In addition, two approvals are required when processing for payment. An explanation for the purpose of travel is listed on the Form. Accounts Payable performs two reviews of all invoices followed by a majority vote of the Board of County Commissioners to approve all warrants.

Credit Card Purchases: The prior practice of frequently using credit cards has been curtailed. Businesses are first asked to direct bill, however this is a fading business practice and many companies require credit card payment. When utilized, an invoice for items purchased and an explanation (when needed) accompany the payment of credit card statement. Accounts Payable performs two reviews of all invoices followed by a majority vote of the Board of County Commissioners to approve all warrants.

The County did not have a formal policy requiring tracking purchases of small and attractive assets or maintaining a list of assets in the Fair department.

No complete Small Attractive Items (SAI) list was available from the previous administration, so the Fair staff inventoried new SAI purchases as they were purchased and prepared inventory sheets based on the SAI items not found on the list.

The Fair worked with the Auditor's Office to obtain any previous SAI lists for the Fair. The Fair staff started physical inventory of items in Colfax Office and at Fairgrounds using previous lists and the accounts payable list for small tools and equipment.

A physical audit of SAI was performed with a representative from County Auditor office on items purchased between the end of 2015 through 2017.

The Fair developed a new SAI policy, and an inventory of SAIs is conducted annually.

Auditor's Remarks

We thank County 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.

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