



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Town of Cusick

For the investigation period January 1, 2018 through December 31, 2019

Published March 22, 2021

Report No. 1027588





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

March 22, 2021

Mayor and Town Council
Town of Cusick
Cusick, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Town of Cusick. On March 2, 2020, the Town 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 Special Investigations Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy
State Auditor
Olympia, WA

cc: Evin Olson, Town Clerk

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FRAUD INVESTIGATION REPORT

Background and Investigation Results

On March 2, 2020, the Town notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). The Town reported concerns that the Clerk/Treasurer was drawing more pay than she had earned and made unallowable purchases using the Town's debit card, credit card and charge accounts.

We investigated and determined a payroll misappropriation totaling \$2,458 occurred at the Town between January 27, 2019, and May 10, 2019. In addition, we identified \$5,047 in questionable disbursements that occurred between October 28, 2018 and November 27, 2019.

Our investigation focused on payroll draws and purchases using the Town's debit cards, credit cards and charge accounts. We determined:

- The Clerk/Treasurer was responsible for preparing payroll, including her own paycheck. The Town issues paychecks monthly but allows employees to draw from that amount before the end of the pay period, with the understanding that the paycheck will reflect the draw. Starting in October 2018, the Clerk/Treasurer had a negative balance in her payroll draw account, and it remained negative until she left employment on March 18, 2019. The Clerk/Treasurer owes the Town \$2,458.
- We could not determine whether credit card, debit cards, and charge account purchases totaling \$5,047 were for a legitimate public purpose, with \$4,509 of these purchases attributed to the Clerk/Treasurer. These appeared to be non-business purchases, such as gasoline purchased during the weekend.

We made multiple attempts to reach the former Clerk/Treasurer for an interview between June 2020 and August 2020, but she did not respond.

Control Weaknesses

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

- The Town had insufficient monitoring over payroll and accounts payable functions.
- No one independent of the Clerk/Treasurer reconciled employee payroll draws to verify they were handled properly.
- No one reviewed the Clerk/Treasurer's charges to the Town's debit cards, credit card and charge account to verify they were allowable and for a public purpose.

Recommendations

We recommend the Town evaluate and improve its internal control processes over payroll draws, credit cards, and charge accounts. At a minimum, someone independent of the payroll and accounts payable processes should review payroll to verify draws are reimbursed, and credit card and charge account purchases are for legitimate Town business.

We will refer this case to the Pend Oreille County Prosecuting Attorney's Office for any further action it determines is necessary.

We also recommend the Town seek recovery of the misappropriated \$2,458, questionable disbursements as appropriate, and related investigation costs of \$3,375 from the former Clerk/Treasurer and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Town 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 Matthew.Kernutt@atg.wa.gov. The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Local Audit and Special Investigations, who can be reached at (360) 489-4591 or Brandi.Pritchard@sao.wa.gov.

Town's Response

The Town is taking the following steps to prevent the sort of practices that allowed the things revealed in the audit to occur. The Town is not allowing payroll draws anymore. The Town no longer has debit cards. A policy will be developed to ensure that credit card expenses and payroll checks are verified and reconciled by someone other than the Clerk-Treasurer and documented as such.

Auditor's Remarks

We thank Town 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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