



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

**Fraud Investigation Report**  
**Lake Stevens School District No. 4**

**For the investigation period September 1, 2018 through May 31, 2020**

**Published January 19, 2021**

**Report No. 1027687**





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

January 19, 2021

Superintendent and Board of Directors  
Lake Stevens School District No. 4  
Lake Stevens, Washington

**Report on Fraud Investigation**

Attached is the official report on a misappropriation at Lake Stevens School District No. 4. On May 4, 2020, 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 Communications Office Professional's unallowable activities at the District from October 3, 2019 through April 27, 2020. 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 Special Investigations Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy

State Auditor

Olympia, WA

cc: Allina Holmquist, Accounting Supervisor

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

## FRAUD INVESTIGATION REPORT

### Investigation Summary

On May 4, 2020, the Lake Stevens School District No. 4 notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185).

In May 2020, the District investigated and determined a communications employee (Employee) used a District procurement card to make personal purchases. We reviewed the District's investigation and determined a procurement card misappropriation totaling \$49,611 occurred between October 3, 2019 and April 27, 2020. In addition, we identified a total of \$7,417 in questionable purchases from August 23, 2019 to January 15, 2020.

The District notified and filed a police report with Lake Stevens Police Department. We will refer this case to the Snohomish County Prosecuting Attorney's Office.

### Background and Investigation Results

The District, located in Snohomish County, operates on an annual budget of about \$142.8 million, including \$1 million in community services funds. The Communications and Community Services Department has five employees and informs the community about the students, staff and school district through internal and external communications, social media, volunteer programs, community education, facility use, and distribution of literature.

Between September 2019 and April 2020, the Employee did not turn in procurement card records to the Accounts Payable Department each month, as required for reconciliation. After an Accounts Payable specialist asked the Employee three times over seven months for the records and did not receive them, the specialist reported this problem to a supervisor and to an assistant superintendent. The District then began an investigation.

In an email dated May 4, 2020, the Employee said she made personal purchases using the District credit card and attributed her behavior to an emotional breakdown. The District placed the Employee on paid administrative leave on May 6.

During its investigation, the District interviewed the Employee's supervisor as well as the accounts payable specialist. The District then reviewed the Employee's credit card purchase activity beginning September 1, 2018. The District found unusual purchases began a year later, in September 2019.

Before the Employee was placed on leave, the District asked the Employee to review credit card statements from September 2019 to May 2020. The Employee identified \$49,611 in personal purchases that included large digital payment transactions as well as groceries, clothing and other merchandise. The District listed an additional \$7,417 in charges as being questionable, because they were non-business purchases that the Employee denied making.

On June 2, 2020, the Executive Director of Human Resources interviewed the Employee, who again acknowledged making the personal purchases using the District credit card. The District allowed the Employee to resign on June 12, 2020.

We reviewed the District's investigation and agree with its results.

## 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 Communications and Community Services Department relied on the employee to submit purchase card statements and supporting documentation to Accounts Payable Department without any follow up to make sure it was properly submitted.
- The District's Accounts Payable Department did not have adequate controls in place to ensure purchase card statements and supporting documentation were submitted in a timely manner.

## Recommendations

We recommend the District strengthen its system of internal controls over procurement card disbursements. Specifically, the District should receive purchase card documentation in a timely manner and review expenditures to confirm they are appropriate and adequately supported. Further, the District should establish written procedures to follow when it identifies unauthorized or unallowable purchases.

We also recommend the District seek recovery of the misappropriated \$49,611, questionable disbursements as appropriate and related investigation costs of \$3,887 from the former communications employee 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 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](mailto: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](mailto:Brandi.Pritchard@sao.wa.gov).

## District's Response

*The Lake Stevens School District appreciates the investigation efforts of the State Auditor's Office in this matter. The District takes misappropriations of funds very seriously and have determined this is an isolated event.*

*Upon the discovery of missing funds, the District took immediate action to notify the State Auditor’s Office and to file a report with the Lake Stevens Police Department. The District immediately identified an estimated amount of missing funds; examined and tightened the internal controls in the accounting processes for procurement card (P-Card) use; and trained the various supervisors and cardholders on the updated procedures. The District has also included disciplinary sanctions on the use of the cards if the procedures are not followed appropriately.*

*During this investigation, the District learned that the communications employee presented to their supervisor an incomplete report for approval; coded the various personal and business charges to multiple budget codes, making it difficult to isolate the fraud; then claimed to turn in the signed and approved procurement card reports to accounts payable—where the communications employee claimed accounts payable lost the reports and supporting documentation. In turn, the Accounts Payable Department did not report back to the supervisor in a timely manner to address this situation. Since beginning the P-Card program in the District, this is the only occurrence of lost reports.*

*To address the systemic control weaknesses the District has:*

- *Updated the Procurement Card Process Manual in September 2020, which included:*
  - *Incorporating applicable forms,*
  - *Clarifying and adding responsibilities to accounts payable and purchasing staff,*
  - *Defining communication and notification deadlines for unresponsive cardholders,*
  - *Creating protocols and consequences for deficiencies across all departments.*
- *Removed sharing of P-Cards*
- *Posted the updated procedures and manual on the Employee Resources webpage under “Purchasing” for quick access*
- *Created a P-Card training video and provided it to Office Professionals and Administrators through SafeSchools Training that was taken in September 2020*
- *Required card users, card custodians and supervisors to read and understand the updated P-Card requirements.*

*The District is working with Lake Stevens Police and the Snohomish County Prosecuting Attorney’s Office for restitution of the entire allowed amount.*

*The District has worked very hard to create controls instilling public confidence in our fiscal accountability and hope these stronger measures will help maintain that confidence.*

## **Auditor's Remarks**

We thank District officials and personnel for their assistance and cooperation during the investigation. We will follow-up on the District's internal controls during our next regularly scheduled audit.

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(564) 999-0950
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>