



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

City of Kahlotus

For the investigation period January 1, 2019 through December 31, 2020

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

February 16, 2023

Mayor and City Council
City of Kahlotus
Kahlotus, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Kahlotus. In March 2022, we detected a potential loss of public funds during a regular accountability audit.

This report contains the results of our investigation of the unallowable and questionable activities at the City during the period of August 2019 through December 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: Kelli Seibert, Clerk/Treasurer

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FRAUD INVESTIGATION REPORT

Background and Investigation Results

We initiated a regularly scheduled accountability audit of the City of Kahlotus in October 2021. In March 2022 during the course of our audit, we identified a potential loss of public funds related to credit cards. We tested credit card charges and unusual transactions on bank statements, and found that the City did not have support on file for a majority of the transactions. As a result, in March 2022, we opened an investigation to determine if a misappropriation had occurred.

Our investigation focused on purchases using the City's credit card and bank statement activity for the period of January 2019 through December 2020. We issued subpoenas for certain vendor records and found that between August 2019 and November 2019, the Clerk/Treasurer misappropriated \$5,701 in credit card purchases and a cash withdrawal. Additionally, we identified questionable credit card charges totaling \$6,538 that occurred between August 2019 and December 2020. Our investigation found:

- In January 2019, the Mayor issued a letter of reprimand to the Public Works Director for personal use of the City's credit card. In that same month, the Public Works Director repaid the City \$81.78 for her personal purchase of food and cleaning supplies.
- In February 2019, due to staffing changes, the Public Works Director moved into the Clerk/Treasurer role. This is also around the time that our audit identified an increase in the City's credit card expenses.
- The Clerk/Treasurer was responsible for many of the City's day-to-day financial operations, including billing, receipting, storing credit card receipts, and reconciling charges.
- Between August 2019 and November 2020, the Clerk/Treasurer used her City-issued credit card to make \$4,464 in personal charges, including food and groceries, a monthly online subscription, vehicle insurance, and a \$1,709 personal federal income tax payment.
- On December 19, 2019, the Clerk/Treasurer made a cash withdrawal for \$1,237 from the City's bank account without approval, and she did not retain any documentation supporting its purpose.
- Questionable purchases totaling \$6,538 on the Clerk/Treasurer's City-issued credit card for gas, online vendor purchases, food, and cell phone service. We were unable to determine whether these expenditures were for a legitimate business purpose.
- The City incurred \$528 in late credit card payment fees between 2019 and 2020.

In February 2022, the Clerk/Treasurer was voluntarily laid off from the City, and she was not rehired. In July 2022, the Franklin County Sheriff's Office attempted to interview her about the personal credit card charges; however, she declined to be interviewed and requested an attorney. The Sheriff's Office arrested her in September 2022.

We attempted to reach the former Clerk/Treasurer for an interview, who in turn asked that we direct our questions to her attorney. On January 19, 2023, we asked the Attorney to respond to our request for a meeting by February 2, 2023. We received no response.

Control Weaknesses

The City's internal controls were inadequate for safeguarding public resources. The Mayor and City Council did not perform a secondary review of the Clerk/Treasurer's credit transactions or the City's bank statements, which allowed her to misappropriate public funds without them detecting it.

Recommendations

We recommend the City strengthen internal controls over its credit card transactions, including oversight and monitoring, in order to safeguard public resources. We further recommend the City develop and implement processes to ensure a secondary review of credit card and bank statements occurs.

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

We also recommend the City seek recovery of the misappropriated \$5,701, questionable amounts as appropriate, and related investigation costs of \$4,307.05 from the former Clerk/Treasurer and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the City 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.

City's Response

This is a written response the City of Kahlotus hoped we would never have to do.

The City of Kahlotus is such a small City that finding employees is hard let alone finding good, honest, reliable, trustworthy employees. Key word being trustworthy, the City was shocked with the findings of this investigation and we never thought a long-time employee would be using City

funds for personal purchases. The City is fully cooperation with the Auditors office with any information needed to help with this investigation.

Control Weakness

The City now has a new Mayor and new council members. The new City Mayor is more hands on with the position and looks over transactions. The new City Clerk/Treasurer keeps records of every transaction and has receipts for every purchase made both with the City Credit card and Accounts Payable checks. All transactions with the City of Kahlotus are done via checks or credit cards, absolutely under no circumstance is anything to be paid in cash and no cash should ever be taken from our accounts. All transactions have a paper trail with proof of purchases. This has been a lesson learned for the City and have made many changes to securing our financials, such as secondary reviews of all financials.

The City will seek recovery once our Audit has come to a close.

Auditor's Remarks

We thank City officials and personnel for their assistance and cooperation during the investigation. We will follow up on the City's internal controls during the next audit.

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In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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