



Office of the Washington State Auditor  
Pat McCarthy

# Fraud Investigation Report

## City of Tenino

For the investigation period January 1, 2016, through February 6, 2023

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

April 13, 2023

Mayor and City Council  
City of Tenino  
Tenino, Washington

**Report on Fraud Investigation**

Attached is the official report on a misappropriation at the City of Tenino. On December 23, 2019, the City 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 unallowable and questionable activities at the City during the period of January 2016 through December 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 Special Investigations Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy, State Auditor  
Olympia, WA

cc: Wayne Fournier, Mayor

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# FRAUD INVESTIGATION REPORT

## Investigation Summary

On December 23, 2019, the City of Tenino notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). The City discovered that the Utility Clerk had made several unauthorized, unnecessary transfers between customer utility accounts in a way that concealed the fact that some cash payments were not receipted nor deposited.

We initiated an investigation and determined a cash receipting misappropriation occurred at the City totaling \$22,783 between September 2016 and December 2019. We also identified questionable amounts of \$33,730 between January 2016 and November 2019.

The City filed a police report in December 2019 with the Tenino Police Department. We will refer this case to the Thurston County Prosecuting Attorney's Office.

## Background and Investigation Results

The City, located in Thurston County, operates on an annual budget of about \$3 million, and collects about \$1.4 million in utility revenues and \$240,000 in business and occupation (B&O) tax revenue.

An elected, five-member Council and an independently elected Mayor govern the City, which employs 13 people, including a Clerk Treasurer and a Utility Clerk. The Utility Clerk is responsible for receipting and recording utility customer payments, receipting B&O tax payments, handling utility account close-outs when people sell their property, and preparing daily bank deposits. The Clerk Treasurer is responsible for reconciling the Utility Clerk's daily receipting summaries with monthly bank statements.

In December 2019, a resident who volunteers to help with City office functions discovered that the Utility Clerk made several unauthorized, unnecessary transfers between customer utility accounts. The volunteer brought this to the Clerk Treasurer and Mayor's attention on December 18, 2019. On December 27, 2019, the Mayor and Clerk Treasurer asked the Utility Clerk about the transfers, who acknowledged they were inappropriate. The Mayor placed the Utility Clerk on unpaid administrative leave on December 27, 2019, and the City subsequently terminated her employment on January 15, 2020.

We found a total misappropriation of \$22,783 occurred between September 2016 and December 2019. We also identified \$33,730 in questionable amounts between January 2016 and November 2019. A summary of the loss by year is shown in the table below.

Year	Misappropriation	Questionable
2016	\$490	\$17,873
2017	\$6,042	\$4,082
2018	\$8,957	\$7,982
2019	\$7,294	\$3,793
<b>Total</b>	<b>\$22,783</b>	<b>\$33,730</b>

During our investigation, we found the Utility Clerk misappropriated funds using multiple methods. This included processing negative cash payment transactions, utility escrow payments, processing accounting system adjustments, applying B&O tax payments to customer utility accounts, and transferring and writing off customer utility accounts.

*Negative cash payments and Utility escrow payments*

As part of our overall review of transfers between accounts, we noticed utility accounts with positive balances, which were often the result of receiving a utility close-out escrow payment from a title company. When someone sells property, the escrow company pays any outstanding utility balance on the seller’s behalf. The escrow company does this by asking the City for the account’s balance and then mailing a check to be applied to the account. Often, sellers already have paid their last utility bill, so an escrow company’s action can result in a positive account balance. The City’s policy is to refund that surplus through the accounts payable system, mailing a check to the customer’s last known address.

As part of our review, we issued subpoenas for select title company payments from January 2017 through March 2020. Using this information, we found that refunds were not issued to 40 customers who had positive balances because of the escrow payments. Instead, the balances on those 40 accounts were reduced down to zero when the Utility Clerk processed a negative cash payment transaction on the accounts, sometimes even a year or more after the account became inactive. A negative cash payment transaction is never expected on a utility account. The Utility Clerk processed the transaction as if a payment was being made on the account, but it was for a negative amount and in cash. These negative cash payment transactions were always processed on the same day as other customers made actual cash payments—this allowed the negative transaction to be offset by actual cash-paying customers, making the whole process almost untraceable during the bank statement reconciliations.

In this area, we found the Utility Clerk was responsible for:

- \$18,381 in misappropriated funds achieved through the negative cash payment transaction process. Of this amount, \$5,566 are the surplus funds that should have been refunded to property sellers after the escrow company paid their final utility bills.

- \$1,653 in questionable amounts—these funds were applied to customer accounts for reasons that are unclear.

Additionally, we found misappropriation of a nonrelated customer payment of \$140 inappropriately applied to the Utility Clerk’s mother’s account in January 2017. The nonrelated customer’s account then subsequently had a credit adjustment processed in the same amount to correct the account (given the original payment was not applied to their account). The Utility Clerk’s mother’s account was not adjusted to remove the improperly applied payment.

#### *B&O tax payments*

As we reviewed transfers and adjustments to utility accounts, we also noticed that some B&O tax payments were not always recorded properly. Rather, parts of some payments were improperly applied to utility customer accounts and recorded as cash payments, but that cash ultimately was not deposited into the City’s bank account. We subpoenaed select vendors for their records of B&O tax payments between January 2017 and March 2020. This revealed \$3,496 in misappropriated B&O tax payments. Of this amount, the Utility Clerk applied \$1,066 in payments to her mother’s utility account to reduce amounts owed.

Additionally, we summarized \$5,746 in questionable B&O tax payments that we could not determine where the City had recorded those payments, if at all.

#### *Customer account transfers and write-offs*

We discovered that the Utility Clerk had transferred balances from some utility accounts to other accounts with different service addresses. This is unexpected because balance transfers usually happen when one party takes over payment responsibility from another at the same address, such as when someone rents a home from someone else. In this case, we totaled \$766 in misappropriated credit balance transfers applied on the Utility Clerk’s mother’s utility account to reduce the balance owed. We further calculated \$8,273 in balance transfers between accounts with different addresses. These transfers are questionable because we could not determine whether they were legitimate.

Finally, we noted that the Utility Clerk wrote off \$18,058 in utility account balances without supporting documentation or the City Council’s approval, which is required. We consider these write-offs questionable.

On February 2, 2023, we interviewed the former Utility Clerk. She said she knew processing some of the customer adjustments was wrong. However, when we asked her to explain the reasoning behind specific examples that involved customer adjustments and missing cash receipts, she did not provide any information. Instead, she asserted that our Office could not pursue her to recoup the missing funds because “it was past the statute of limitations.” Four days after our interview, the former Utility Clerk sent a text message to the Mayor asking for a meeting to discuss repaying the City.

A summary of loss by scheme is as follows:

	Misappropriation	Questionable
Negative cash payment transactions	\$18,381	\$1,653
Customer payment applied to mother's account	\$140	
B&O tax payment	\$3,496	\$5,746
Customer account transfers	\$766	\$8,273
Unapproved account write-offs		\$18,058
<b>Total</b>	<b>\$22,783</b>	<b>\$33,730</b>

## Control Weaknesses

The City's internal controls were inadequate for safeguarding public resources. We found the following weaknesses allowed the loss to occur:

- The City lacked adequate segregation of duties over cash receipting and bank deposit preparation.
- The Utility Clerk could make utility account adjustments, transfers, and negative cash transactions without oversight or monitoring of her activities.
- The City did not monitor B&O tax payments to ensure that the amount receipted was accurately recorded in the accounting system.
- The City did not monitor utility close-out payments to ensure any credit balances on past customers' accounts were refunded.

## Recommendations

We recommend the City strengthen its internal controls over cash receipting to ensure adequate oversight and monitoring to safeguard public resources. The City should segregate duties between those responsible for cash receipting and those responsible for preparing bank deposits, or implement increased monitoring to ensure transactions are supported and accurate. In addition, we recommend the City implement a processes or procedures to ensure adjustments, transfers or other non-cash transactions are adequately supported and independently reviewed.

We also recommend the City seek recovery of the misappropriated \$22,783, questionable amounts, as appropriate, and related investigation costs of \$32,800 from the former Utility Clerk 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 [mattk1@atg.wa.gov](mailto:mattk1@atg.wa.gov). The contact for the State Auditor's Office is Brandi Pritchard, Assistant Director of Local Audit, who can be reached at (360) 489-4591 or [Brandi.Pritchard@sao.wa.gov](mailto:Brandi.Pritchard@sao.wa.gov).

## **City's Response**

*The City of Tenino appreciates the Washington State Auditor's Office for its collaboration during the review of this City reported fraud case. The City takes internal controls, transparency, and maintaining public trust very seriously. Theft of public assets, in any form, is unacceptable. The City has increased internal controls.*

*The City of Tenino has made many changes to secure our financials, such as secondary reviews. All write offs and adjustments must be approved and signed off by a second person.*

*The City of Tenino currently has a Financial Committee that meets quarterly to review all receipts, expenditures, Bank Statements and Reconciliations.*

*All control weaknesses and recommendations have been addressed and implemented prior to this report being issued.*

*The City of Tenino will continue to be diligent by improving and strengthening the internal controls and monitoring of funds through all available resources to prevent any fraudulent activities in the future.*

## **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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