



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Yakima County special purpose districts

For the investigation period January 1, 2017 through September 30, 2023

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

March 11, 2024

Elected Officials
Yakima County special purpose districts
Yakima County, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at seven special purpose districts in Yakima County. On March 13, 2023, a special purpose 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 a Bookkeeper's unallowable activities at these special purpose districts from January 1, 2017, through September 30, 2023. 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: Halley Newhouse, Commissioner, Yakima County Drainage District No. 12
Ted Durphey, Commissioner, Yakima County Drainage District No. 16
Scott Meek, Commissioner, Yakima County Drainage District No. 7
Tom Belaire, Commissioner, Yakima County Drainage District No. 11
Christine Thompson, Commissioner, Yakima County Drainage District No. 28
Pete Faxon, Commissioner, Wenas Irrigation District
James Doornick, Commissioner, Union Gap Irrigation District

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FRAUD INVESTIGATION REPORT

Investigation Summary

On March 13, 2023, Yakima County Drainage District No. 12 notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). The District reported concerns that its Bookkeeper was overdrawing funds that were not approved by the Board of Commissioners, and submitting the same expenses for reimbursement to multiple governments for which she was providing bookkeeping services.

Separately but related to those concerns, auditors identified unusual payroll disbursements to the same Bookkeeper during a regular audit of Union Gap Irrigation District. We then began a process to identify other governments the Bookkeeper may have worked for, using records that were gathered as part of regular audit work. We ultimately confirmed the Bookkeeper conducted work for seven special purpose districts in Yakima County.

Our investigation, which covered each of the seven districts, determined the Bookkeeper misappropriated \$9,151 in aggregate between January 2019 through June 2023. In addition, we identified \$17,706 in questionable disbursements that occurred during the same period. The table below summarizes the financial impact to each government.

Government	Misappropriation	Questionable
Yakima County Drainage District No. 7	\$1,034	\$753
Yakima County Drainage District No. 11	\$1,015	-
Yakima County Drainage District No. 12	\$1,113	\$9,329
Yakima County Drainage District No. 16	\$3,115	\$665
Yakima County Drainage District No. 28	\$1,100	\$25
Union Gap Irrigation District	\$1,626	\$6,933
Wenas Irrigation District	\$148	-
Total	\$9,151	\$17,706

Background

These special purpose districts in Yakima County are responsible for providing drainage or irrigation services to people who live within their boundaries. The districts' operations are primarily supported through assessment fees, resulting in annual revenues ranging from \$5,571 to \$824,912, as detailed in the table below. Union Gap Irrigation District is the largest of the affected districts, and it has four full-time employees in addition to an elected Board of Directors. Yakima County Drainage District No. 11 also has three full-time employees in addition to a Board of Supervisors. The other five districts are overseen by an elected governing body but have no employees.

Except for Union Gap Irrigation District, the Bookkeeper was considered a contractor for the districts. However, most districts did not have formal documentation of the Bookkeeper’s agreed-upon duties and compensation. We reviewed a variety of documentation including invoices and financial reports and spoke with several elected officials across multiple districts to gain an understanding of the Bookkeeper’s duties.

For all districts, the Bookkeeper was responsible for preparing financial reports for board approval and processing district vendor payments, including costs for her own bookkeeping services and job-related expenses for which she requested reimbursement. For Union Gap Irrigation District, the Bookkeeper was also responsible for preparing payroll, including her own pay disbursements. The table below summarizes the Bookkeeper’s time working for each district, as well as their reported revenues for fiscal year 2022.

Government	Reported Revenues (FY 2022)	Bookkeeper’s Service Period
Yakima County Drainage District No. 7	\$15,921	February 2019 – February 2023
Yakima County Drainage District No. 11	\$265,148	April 2019 – current
Yakima County Drainage District No. 12	\$5,571	February 2019 – December 2022
Yakima County Drainage District No. 16	\$7,025	February 2019 – July 2023
Yakima County Drainage District No. 28	\$6,924	February 2019 – current
Union Gap Irrigation District	\$824,912	January 2017 – December 2023
Wenas Irrigation District	\$52,444	January 2018 – current

Investigation Results

Our investigation found the Bookkeeper used multiple schemes to misappropriate funds, but not all schemes occurred at each district. We have summarized these schemes and identified which districts were affected.

Duplicate reimbursements – Wenas Irrigation District and drainage districts 7, 11, 12, 16 and 28

When the Bookkeeper resigned from Yakima County Drainage District No. 12, she provided the District with a folder of all its financial records. This included documentation for reimbursements that the Bookkeeper submitted for supplies that she had purchased while doing work for the District. When District officials reviewed these records, they found invoices, receipts and reimbursement forms indicating the District had fully reimbursed the Bookkeeper for the same expenses that she had also submitted to several other districts for reimbursement.

We reviewed reimbursements for all seven districts and found that between October 2019 and April 2023, the Bookkeeper used 26 invoices to submit 117 reimbursement requests. The Bookkeeper’s purchases were primarily for office supplies that could have been used in her duties for multiple districts. However, rather than splitting the cost of the purchases among the districts she used the supplies for, she requested reimbursement from multiple districts for the full cost of the purchases.

This resulted in the Bookkeeper being reimbursed \$5,509 in excess of the amount she paid for the supplies, which we consider to be misappropriation. In addition, we identified \$188 in reimbursements that we consider to be questionable, as they are duplicate amounts across several districts but lack documentation to confirm whether they were legitimate.

The table below summarizes the losses through the duplicate reimbursement scheme that affected six of the seven districts.

Government	Misappropriation	Questionable
Yakima County Drainage District No. 7	\$1,034	\$113
Yakima County Drainage District No. 11	\$1,015	-
Yakima County Drainage District No. 12	\$1,113	\$25
Yakima County Drainage District No. 16	\$1,100	\$25
Yakima County Drainage District No. 28	\$1,100	\$25
Union Gap Irrigation District	\$0	\$0
Wenas Irrigation District	\$148	-
Total	\$5,509	\$188

Overdrawing Funds – Drainage District 12

As part of her duties at Yakima County Drainage District No. 12, the Bookkeeper prepared an annual budget for Board approval, which included costs for her own services. For the years 2020 to 2022, we compared the approved budget to actual expenses for her professional fees, and found she exceeded the budget by \$8,664. Because the Board gave the Bookkeeper authority to submit expenses for reimbursement without needing approval, Commissioners did not know until she resigned that she had exceeded budgeted amounts for her services. We consider the costs charged in excess of the approved budget to be questionable because the District did not have a contract with the Bookkeeper.

Payroll – Union Gap Irrigation District and drainage districts 7, 12 and 16

During a regularly scheduled audit of Union Gap Irrigation District, we noticed several instances where the Bookkeeper’s payroll appeared to have been modified to remove required withholdings, including Social Security, Medicare and other federal taxes. After reviewing the District’s payroll records, we identified 13 payments, totaling \$10,800, which had been modified. Nine out of the 13 payments were not recorded in the District’s accounting system. Since we do not have the

Bookkeeper's personal tax information that would be required to calculate the correct withholdings, we cannot substantiate the amount that should have been withheld.

We expanded our review of payroll at Union Gap Irrigation District and found the following:

- In January 2019, 2020 and 2021, the Bookkeeper calculated her pay for the prior year's work at the updated current-year rates, resulting in misappropriation of \$63 in aggregate.
- In November 2022, the Bookkeeper received \$632 in additional pay, which we determined was questionable due to lack of support.
- In May 2023, the Bookkeeper issued extra paychecks totaling \$6,301 labeled as "backpay" to two former employees, one being the former District Manager. We found these disbursements to be questionable because they lacked support to show they were legitimate and did not receive Board approval.
- In June 2023, the Bookkeeper cashed out 50 hours of sick leave for \$1,563. We reviewed the Bookkeeper's leave balance and found it was overstated by 46.43 hours due to unsupported adjustments that she had made. Because District policy does not allow sick leave cash-outs, we determined the full amount to be misappropriation.

We also reviewed the Bookkeeper's available timesheets from Yakima County Drainage District No. 12 for the period of February 2021 to December 2022. During this review, we found multiple instances of the Bookkeeper approving and processing her own payroll claims for future work she had not yet performed. Additionally, we identified one instance where she claimed a total of 24 hours worked for the same day at districts 7, 12 and 16. Since we cannot reasonably validate the Bookkeeper worked 24 hours in one day, we determined the full pay amount of \$1,920 to be questionable.

Additionally, we reviewed a service agreement between the Bookkeeper and Yakima County Drainage District No. 16. The agreement was for services between January 1, 2023, and December 31, 2023. At the beginning of 2023, the District's three-member Board had only one active Commissioner. The other two seats were vacant. While the remaining Commissioner was aware of the service agreement, there was no Board in place to approve it. The Bookkeeper then processed her own payroll claims, also without Board approval. These payments of \$1,000 in March 2023 and \$3,000 in June 2023 represented the full amount of the contract, despite the year being only half over. The Bookkeeper resigned on July 7, 2023, so we determined \$2,015 of the \$4,000 payment to be misappropriation because she did not work the full term of the agreement. The County appointed new Commissioners in August.

Conclusion

In total, our investigation found \$9,151 misappropriated by the Bookkeeper, and an additional \$17,706 in questionable disbursements.

We interviewed the Bookkeeper on October 27, 2023. During the interview, the Bookkeeper said she thought she could provide services to multiple districts but ultimately found the work to be

overwhelming. Further, she said the duplicate reimbursements were errors, and she was willing to repay these amounts to the districts. Additionally, she acknowledged modifying her payroll withholdings at Union Gap Irrigation District and said that she had told the former District Manager she was doing this.

We interviewed the former District Manager on November 1, 2023, who said he was aware of the Bookkeeper modifying her pay withholdings, as well as her unallowable sick leave cash-out. However, he did not inform the Board or report this to the State Auditor's Office, as required by state law. He said he did not inform the Board and our Office because he believed the Bookkeeper was a trustworthy employee and would not intentionally misappropriate funds.

Control Weaknesses

Internal controls at all districts were inadequate for safeguarding public resources. Our investigation found the following weaknesses allowed the misappropriation and questionable activities to occur:

- All districts lacked a contract with the Bookkeeper to establish pay terms and employment expectations.
- All districts failed to adequately segregate duties and instead consolidated financial duties to one person. This limited the oversight necessary for ensuring the safeguarding of public resources and adequate monitoring of financial activity.
- All districts lacked sufficient controls to verify the Bookkeeper's expenses were legitimate and appropriately supported.
- At Union Gap Irrigation District, the former District Manager was responsible for reviewing the Bookkeeper's timesheet. He was aware of, but did not report, the Bookkeeper's payroll misappropriations.

Further, auditors had communicated with all the districts in the past about one or more of the weaknesses that led to the issues discussed in this report.

Recommendations

We recommend the districts reevaluate and strengthen their internal control systems. Specifically, all districts should:

- Establish effective internal controls through written policies and procedures. This includes adequately segregating duties, which should involve monitoring financial activity and requiring meaningful, independent reviews by people who are not directly involved in performing certain functions or activities.
- Ensure all employees, including contracted service vendors, have a written contract establishing pay terms and employment expectations
- Increase monitoring of account statements and disbursement activity throughout the year

We also recommend the districts seek recovery of the misappropriated \$9,151, questionable amounts as appropriate, and related investigation costs of \$21,800 from the Bookkeeper and/or their insurance bonding companies, as appropriate. The table below summarizes the total amounts we identified as misappropriation and questionable disbursements for each district, as well as the associated investigation costs.

Government	Misappropriation	Questionable	Investigation Costs	Total
Yakima County Drainage District No. 7	\$1,034	\$753	\$3,045	\$4,832
Yakima County Drainage District No. 11	\$1,015	-	\$2,730	\$3,745
Yakima County Drainage District No. 12	\$1,113	\$9,329	\$3,990	\$14,432
Yakima County Drainage District No. 16	\$3,115	\$665	\$2,730	\$6,510
Yakima County Drainage District No. 28	\$1,100	\$25	\$2,520	\$3,645
Union Gap Irrigation District	\$1,626	\$6,933	\$5,000	\$13,559
Wenas Irrigation District	\$148	-	\$1,785	\$1,933
Total	\$9,151	\$17,706	\$21,800	\$48,656

Any compromise or settlement of claims by these seven special purpose districts 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 (509) 726-1886 or Brandi.Pritchard@sao.wa.gov.

Districts' Responses

Yakima County Drainage District No. 7

We did not receive a response from this District.

Yakima County Drainage District No. 11

Plan of action:

After the Auditors meeting on February 9th, I met with other board members to have discussion about the report. In doing so, DID #11 will be seeking outside accounting counsel on the control weaknesses addressed in the report. They will help guide and direct our entity in the right direction.

Decisions on monies or actions:

At this time, we as a board are not interested in compromise or settlement of funds or actions brought forth in the report. It is also our position to be part to any actions with the Auditors office as this matter finds resolution. At this time, she will remain in her position with more oversight and modifications.

Direction forward:

The Auditors office and the prosecutor will make their decisions in going forward on this matter. Until this matter comes to a conclusion, we as a board are unable to make any finite decisions. The DID #11 will be revisiting this matter directly upon the outcome of any hearings and make a plan moving forward based on the States findings.

Yakima County Drainage District No. 12

After requesting bank statements associated with Drainage District No. 12 from the Bookkeeper, followed by her unsuspected resignation from the account, the board of DID No. 12 launched an internal investigation into the financials and found several transactions appearing to be fraudulent. The Auditor's office was contacted, and evidence was submitted for a professional investigation.

We are disappointed our reported concerns were found to be misappropriated tax payer funds, and we will implement new practices for the board members to prevent this occurrence from repeating. Changes moving forward:

- *Any new accountants will be thoroughly vetted before hire.*
- *A contract including pay and position expectations will be drafted and signed by all parties.*
- *A two-part verification process for all payment requests, including payment voucher approval signatures by all board members and monthly statement reconciliation will be required moving forward.*

The board directors of Drainage District No. 12 will do their best to prevent another incident from occurring, and plan to pursue recovery of the misappropriated funds.

Yakima County Drainage District No. 16

We wish to thank the State Auditor for the organized and timely investigation.

Our current board is newly appointed. The past commissioner deceased in early 2023. His health was ailing for the past few years. The other person on DID 16A board was an unsupervised bookkeeper. Our new boards duties commenced in December 2023 with no training and the requirement to submit a test file for Assessment District Certification for Tax Year 2024. The Yakima County Treasure's office and Yakima County Assessor's office have been extremely helpful in assisting in the understanding of roles, responsibilities, duties and providing the knowledge to maintain Drainage District 16A. The learning experience has proven to be valuable knowledge for when a new accountant/bookkeeper is hired. At the present time an additional commissioner is being sought to help fulfill duties

- 1. First line of defense for developing internal control. Every new commissions must become knowledgeable of responsibilities, roles, duties and timelines in filing documentation with the County. All commissioners will compare reports to budgets. This will be accomplished through instructed and written training on policies and procedures. Knowledge and timing of processes, by all commissioners will become mandatory.*
- 2. Financial Monitoring will be accomplished by Secretary/Treasurer reviewing monthly financials, account statements, disbursements, and reporting to other commissioners. With three commissioners, positions of auditing, investing, and secretary treasure will be segregated with reporting to other commissioners.*
- 3. Written contracts for employees, contracted service vendors will be mandatory. Contracts must include rate, timing, and activity to be accomplished, signed by a minimum of two board members.*

Yakima County Drainage District No. 28

I am writing to address concerns regarding the misappropriation of funds in our governmental body, Yakima Country Drainage District #28, specifically related to the actions of our treasurer/secretary. I understand the gravity of the situation and assure you that we take this matter seriously.

To provide context, I was appointed President of the Board shortly after the passing of my father-in-law in April 2020. At that time, the treasurer/secretary, whose employment was recommended by the county, was already in place. My understanding was she had been a long-standing employee of multiple drainage districts, was experienced, thorough, and well-trusted. I didn't personally vet her resume or request references at that time, as a result. With only three board members, including myself, our responsibilities were substantial, and we relied on the established processes and the county's recommendation for key appointments.

In the early part of 2023, I became aware of concerns raised by another Drainage District Board President regarding potential misappropriation of funds. Taking these concerns seriously, I initiated an investigation. I requested copies of invoices from the Yakima County Assistant Assessor, David Garent, to assess the situation on March 1, 2023.

Upon receipt and reviewing the documents, I did not initially observe any discrepancies; costs seemed reasonable and appropriate. I can provide documentation of these emails.

There was no way of knowing receipts for which the subject had requested reimbursements had been “duplicated” amongst multiple accounts. This discovery was deeply troubling and has prompted us to reevaluate our internal controls and financial management processes.

We understand the importance of maintaining transparency and accountability in the management of public funds. To rectify this situation, we have taken the following steps to ensure best practices:

- *Any new accountants will be thoroughly vetted before hire.*
- *A contract including pay and position expectations will be drafted and signed by all parties.*
- *A two-part verification process for all payment requests, including payment voucher approval signatures by all board members and monthly statement reconciliation will be required moving forward.*

We acknowledge our responsibility in safeguarding public funds and are dedicated to rectifying any lapses in our financial management. We will provide your office with full cooperation and any necessary information throughout the investigation process.

I assure you that we are taking this matter with the utmost seriousness, and we are committed to restoring trust in our governmental body. If you require any further information or clarification, please do not hesitate to contact me directly on my cell at 509-367-4141.

Thank you for your attention to this matter, and we appreciate your understanding as we work towards a resolution.

Wenas Irrigation District

The Bookkeeper has constitutional rights of being innocent until proven guilty. She will be kept on the payroll and do her job with a few modifications, however if she is found guilty, we will request re-imbusement. We have no further comments while the case is pending.

Union Gap Irrigation District

We did not receive a response from this District.

Auditor's Remarks

As a matter of standard practice, we refer all investigation reports to the applicable county's Prosecuting Attorney. However, as a civil reporting agency, we play no role in deciding whether any criminal legal action is taken.

We thank the seven districts' officials and personnel for their assistance and cooperation during the investigation, and again recommend the Districts seek recovery of misappropriated amounts through civil means.

We will follow up on the districts' internal controls during their next audits.

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