



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

City of Zillah

For the investigation period January 1, 2021 through August 31, 2023

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

May 20, 2024

Mayor and City Council
City of Zillah
Zillah, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Zillah. On November 7, 2023, 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).

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: Shelli Quantrell, Deputy Clerk-Treasurer

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FRAUD INVESTIGATION REPORT

Background and Investigation Results

On November 7, 2023, the City notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). In August 2023, the City terminated the employment of the Municipal Court Administrator. The following month, City officials discovered the former Court Administrator had not sent delinquent Municipal Court accounts to collections since May 2022, which had previously been sent monthly. As a result, the Court had 83 accounts with outstanding balances totaling \$43,507. The City mailed the collection letters, and then received responses from several people who said they had previously paid their balances and would provide written declarations attesting to this. The City contacted our Office, and we opened an investigation to determine if a misappropriation had occurred.

Our investigation focused on cash receipting at the Municipal Court from January 2021 through August 2023. We discovered that the Court Payment Tracker, a written log detailing drop box payments that are received and supposed to be logged and deposited by the Court Administrator, was missing for all months prior to April 2023. This limited our ability to investigate and confirm loss amounts. Using other available documentation, we found the Court Administrator misappropriated at least \$3,239 in public funds between September 2021 and August 2023. Additionally, we identified questionable activities totaling \$2,068 that occurred between April 2021 through August 2023. We found the losses occurred through a misappropriation of cash payments, adjustments to cash receivables, and deletion of cash receipts.

Missing cash payments

The City received declarations from eight customers stating they already paid in cash the amounts the City had identified as outstanding, a total of \$3,838.

- Two of these declarations were consistent with other documentation showing the Court Administrator received the payment but did not post it to the customers' accounts nor deposit the cash into the City's bank account, resulting in misappropriation of \$1,068.
- Due to a lack of City documentation, we could not validate four customers' declarations that they had already paid. We consider the total amount outstanding on these accounts, \$629, to be questionable.
- Due to a lack of City documentation, we could not confirm two customers' declarations that they had paid off their account balances while the former Court Administrator was still employed at the City. About a month after the Court Administrator's employment was terminated, someone began putting anonymous cash payments for both accounts in the City's drop box. Between September 26, 2023, and December 7, 2023, someone anonymously submitted three cash payments of \$100 each, along with a request each time to apply \$50 to each account. The City contacted the two account holders, who both said

they did not make these payments. In December 2023, the City wrote off the remaining balance on one of the accounts. After this account was written off, two additional anonymous payments were submitted for the remaining open account. In January 2024, we received a report from the Washington State Administrative Office of the Courts, which showed the former Court Administrator was employed at another government at that time and used her access to look up details on these two accounts. We determined the initial outstanding balance of these two accounts, totaling \$2,141, to be misappropriation.

Accounts receivable adjustments

We examined other activities performed by the Court Administrator during her employment, and found she made numerous adjustments to court accounts that appeared unusual and were coded as “errors.” We reviewed seven of these adjustments and found insufficient supporting documentation to validate them. Additionally, we found these adjustments inaccurately reduced the amount due on the accounts by a total of \$1,217. Because the Municipal Court did not have additional documentation, we could not confirm whether these adjustments resulted in losses. Therefore, we did not perform further testing and determined the \$1,217 to be questionable.

Deleted cash receipts

We identified one instance where the Court Administrator deleted a cash receipt for \$222 in April 2021 without support, which we determined was questionable. In addition, the Court Administrator receipted and recorded a cash payment of \$30 in September 2021 that was not deposited into the City’s bank account. She reversed this receipt in November 2021. She could not explain this when City officials asked about it. Without support for this transaction, we determined it to be misappropriation.

Interview with the former Court Administrator

On March 6, 2024, we interviewed the former Court Administrator. When we asked about the activities above, she said she was not involved in any wrongdoing and had no further information or explanation related to the missing cash. She also said she had not worked for any other courts other than the City’s Municipal Court, but later retracted her statement when we asked her about accessing City accounts while employed at another government.

On March 12, 2024, the Court Administrator called us and said the reason she looked up the Municipal Court’s accounts was because someone sent her information on those customers’ accounts and asked her to look them up. She would not provide further details on the nature or origin of this request.

Control Weaknesses

Internal controls at the City's Municipal Court were inadequate for safeguarding public resources. We found the following weaknesses allowed the misappropriation to occur:

- The City did not have a process in place to verify court staff sent accounts to collections timely.
- The Municipal Court collects payments through a drop box outside of operating hours, and two employees are responsible for collecting and recording these payments on a form. When reviewing the daily cash receipts, the City did not also review these forms to ensure all payments were posted to the cash receipting system and were retained. The City is missing forms up to April 2023.
- Although the City established an independent review of adjustments, this review was ineffective in ensuring they were all allowable and supported.

Recommendations

We recommend the City's Municipal Court strengthen its internal controls over cash receipting to ensure all overdue accounts are sent to collections, all drop box payments are recorded and deposited, and adjustments to accounts and cash receipts are allowable.

We will refer this case to Yakima County Prosecutor's Office.

We also recommend the City seek recovery of the misappropriated \$3,239, questionable amounts as appropriate, and related investigation costs of \$7,560 from the former Court Administrator 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 (509) 726-1886 or Brandi.Pritchard@sao.wa.gov.

City's Response

Thank you for allowing us to provide a response to the concerns raised in the investigation of the city's Municipal Court. The issues raised in the investigative report are related to the actions of the former Court Clerk. The City had followed the appropriate process related to addressing performance issues per the Union agreement. However, the steps taken did not resolve the continued performance deficiencies and resulted in the termination of the Court Clerk in August of 2023. After the Court Clerk was terminated, the City became aware of some irregularities that suggested that there was misappropriation of funds. The City timely reported the concerns to the Washington State Auditor's Office and the Yakima County Sheriff's Office.

While the investigation ensued, the City has taken several steps to strengthen the internal controls for the Court. We have entered into an agreement with Yakima County District Court to provide training and auditing services. The clerk position in the Court is part time and is the only position in the Court, other than the part time Judge. With the addition of the partnership with Yakima County District Court, we have a resource that has allowed us to ensure greater segregation of duties to strengthen our internal controls. We have used the resources of the Washington State Auditor's Office to help us better understand segregation of duties, especially as it relates to agencies with limited staffing.

Regarding cash receipting available on request is a policy related to cash handling which encompasses receipting and depositing of payments. We have worked diligently over the past several months to implement processes that have culminated in this policy. Some of the things that we have done are removal of the cash drop box, implementation of a daily cash control form and the establishment of a cash handling policy.

Another area of focus has been the end of month processing for the Court. The task has primarily been done by the Court Clerk. While the task itself is not difficult, it is tedious and requires focus to not miss steps. Errors could result in necessary reports not being prepared or being prepared with incorrect information. While the new Court Clerk will be trained in this task, the Judge determined that it was important and necessary to have another person trained. We have leveraged our agreement with Yakima County District Court to assist in the monthly process and the training. This ensures greater oversight in this critical task. Furthermore, to ensure greater access to these reports the Court has developed a process to save them electronically in .pdf format which is regularly backed up to secure cloud storage.

The end of month processing is directly tied to the auditing process. Available on request is a new auditing policy. The auditing function for the Court will be completed by staff from Yakima County District Court pursuant to the agreement. Separating this critical function from the Court further reinforces our internal controls and is consistent with the principles related to segregation of duties.

Another area that we have addressed is related to regular and timely case management using BIT reports that are available to us through a database maintained by AOC. The Court has scheduled regular monthly reports that will be processed by the Court Clerk. Available on request is a list of reports including a description of the purpose of the report. We are currently building a process and policy related to these reports.

As was noted in the report, the first indication that there had been some misappropriation occurred when the Court discovered that collection accounts were not being turned over to the contracting collection agency. To strengthen the internal controls in this area we have engaged our contract collection agency to perform the function of transferring cases monthly for collection processing. The Court generates a report to monitor this activity, but the task is performed by the collection agency. Separating this critical function from the Court further reinforces our internal controls and is consistent with the principles related to segregation of duties.

The City has taken this situation seriously as evidenced by our immediate report to the Washington State Auditor's Office and the Yakima County Sheriff's Office. While we have implemented many new processes, policies and controls to address the concerns outlined in the report, we will continue to review, re-evaluate and monitor our processes moving forward to ensure that we have the appropriate controls in place. We want to thank the Auditor's Office for their assistance in the investigation and their guidance.

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.

ABOUT THE STATE AUDITOR'S OFFICE

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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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