



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

City of Morton

For the investigation period July 1, 2012 through March 31, 2022

Published August 26, 2024

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

August 26, 2024

Mayor and City Council
City of Morton
Morton, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Morton. In October 2022, our scheduled financial statement audit detected a potential loss of public funds.

This report contains the results of our investigation of the former Clerk-Treasurer's unallowable activities at the City from February 4, 2013, through December 30, 2021. 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: LuAnn Ward, City Clerk

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FRAUD INVESTIGATION REPORT

Investigation Summary

In October 2022, during a regularly scheduled audit, we identified more than \$10,000 of ATM cash withdrawals from the City’s bank account between October 2019 and November 2021. Cities typically do not need to make ATM withdrawals as part of regular operations. In this case, City officials could not find any records supporting the withdrawals. While researching them, the City found that some customer utility cash payments from January 2020, totaling more than \$4,000, were not deposited in the bank.

We opened an investigation and determined a cash receipting and disbursement misappropriation totaling \$937,584 occurred at the City between February 4, 2013, and December 30, 2021. We also identified questionable payroll amounts of \$17,250 between April 2, 2013, and January 4, 2021. The table below shows the misappropriated and questionable amounts by year.

Summary of results		
Year	Misappropriation	Questionable
2013	\$21,296	\$9,381
2014	\$70,832	\$0
2015	\$126,630	\$1,437
2016	\$139,137	\$20
2017	\$143,544	\$1,511
2018	\$133,803	\$0
2019	\$148,150	\$1,507
2020	\$31,479	\$1,789
2021	\$122,714	\$1,606
TOTAL	\$937,584	\$17,250

The City has filed a report with its police department, which is investigating the misappropriation. We will refer this case to the Lewis County Prosecuting Attorney’s Office.

Background and Investigation Results

The City is in Lewis County, and it serves about 1,100 people. It currently operates on an annual budget of about \$4.6 million and collects about \$1.4 million in utility revenue and \$860,000 in tax revenue.

An elected five-member Council and independently elected Mayor govern the City. The City had three different Mayors during the period the misappropriation occurred. The City has about nine employees including a full-time Clerk-Treasurer and Deputy Clerk-Treasurer. The Clerk-Treasurer is a backup cashier for the Deputy Clerk-Treasurer and is responsible for overseeing the City’s day-to-day operations, including handling bank deposits and reconciling the City’s accounting system and bank statements. Additionally, the Clerk-Treasurer is an authorized

signer on checks and is responsible for preparing checks and recording expenditures, including payroll, in the accounting system. The Deputy Clerk-Treasurer is primarily responsible for receipting City revenues and preparing weekly receipt deposits for the Clerk-Treasurer to review and then deposit at the bank.

The Clerk-Treasurer began work in July 2012. In April 2013, the Clerk-Treasurer prepared and authorized a \$2,400 check for herself. Our auditors questioned this disbursement during a regularly scheduled audit in the fall of 2014, the Clerk-Treasurer called it a personal loan and the Mayor at the time subsequently wrote our Office a letter indicating the City approved the loan. At the end of that audit, in January 2015, we recommended the City refrain from loaning public funds, and ensure that the Clerk-Treasurer repays the money in a timely manner. The Clerk-Treasurer was supposed to make \$200 monthly payments to the City until she repaid the loan. However, she only repaid \$400 as of December 2014. During our current investigation, we confirmed the Clerk-Treasurer had repaid the full amount.

In June 2019, the Clerk-Treasurer notified the Department of Retirement Services (DRS) that she was no longer working with the City as of May 31, 2019. She then withdrew \$23,837 from her retirement funds, which would not have been allowed if she was still employed. During a DRS audit of the City the next year, DRS discovered that the Clerk-Treasurer was still working with the City and, therefore, was not entitled to receive those funds at that time. After the audit, DRS issued an invoice to the Clerk-Treasurer to return the funds she had withdrawn. DRS also notified the Mayor, Council and City Attorney of the issue. The City took no action against the Clerk-Treasurer and continued her employment. During our investigation, we confirmed with DRS that the Clerk-Treasurer had not returned the funds. However, because she officially retired from the City in March 2022, DRS no longer planned to attempt to collect the funds.

In October 2022, we questioned the ATM cash withdrawals during another regular audit, after which City officials discovered the Clerk-Treasurer did not deposit customer cash utility payments on multiple instances. We initiated an investigation on cash receipts at City Hall and issued a subpoena for the City's main bank account records, including all deposit record details from January 2015 to March 2022. We compared bank records to underlying supporting records at the City, including accounting system records, and identified additional concerns with disbursements paid to the Clerk-Treasurer dating back to February 2013.

We determined through our investigation that the Clerk-Treasurer misappropriated \$937,584 in cash receipts and disbursements between February 4, 2013, and December 29, 2021, which was essentially the entire time she was employed with the City. The following are the results of our investigation into those areas.

Cash receipts

We reconciled bank statement and deposit records to underlying supporting records at the City, including accounting system records from January 2014 to March 2022, and identified that a total cash receipting misappropriation of \$311,727 occurred between November 12, 2015, and December 29, 2021. The table below summarizes the loss by year.

Year	Misappropriation
2015	\$6,200
2016	\$50,308
2017	\$39,833
2018	\$50,653
2019	\$49,526
2020	\$17,618
2021	\$97,589
TOTAL	\$311,727

The misappropriated funds involved unauthorized ATM cash withdrawals, customer cash payments that the Clerk-Treasurer did not deposit at the bank, and vendor checks that she did not record in the accounting system but deposited in the bank to replace customer cash payments already recorded in the accounting system. Additionally, the Clerk-Treasurer wrote checks from the City, to the City, to substitute for customer cash payments already recorded in the accounting system. This made it look like the total of cash and checks deposited at the bank matched the accounting system, when in reality, the deposits were missing cash collected.

We further identified \$16,330 in cash deposits to the bank that did not have associated customer receipts to explain the source of funds. These were similar to cash amounts that the Clerk-Treasurer should have deposited at earlier dates. Additionally, we totaled \$8,626 in ATM cash deposits the Clerk-Treasurer made without any explanation or record on file at the City to support the reason for the cash deposit.

Disbursements

During our review of City accounting system records, we discovered several duplicate vendor invoice payments recorded in the system. We issued a subpoena for cleared checks for the City's main bank account between January 1, 2013 and March 31, 2022, and determined the Clerk-Treasurer wrote a significant number of City checks to herself and recorded them in the

City’s accounting system as payments to legitimate City vendors. A total disbursement misappropriation of \$625,857 occurred between February 4, 2013, to December 22, 2021. The table below summarizes the loss by year.

Year	Misappropriation
2013	\$21,296
2014	\$70,832
2015	\$120,430
2016	\$88,829
2017	\$103,711
2018	\$83,150
2019	\$98,624
2020	\$13,861
2021	\$25,125
TOTAL	\$625,857

To determine whether additional misappropriation occurred, we examined other systems the Clerk-Treasurer had access to. We reviewed payroll, credit cards and system accounting adjustments such as voids and deleted receipts. We found:

- Questionable amounts of \$17,230 paid to the Clerk-Treasurer between April 2, 2013, and January 4, 2021. These amounts were related to unapproved leave cash outs, the 2013 questionable personal loan from the City, and payroll amounts the Clerk-Treasurer drew earlier than policy allowed.
- A personal credit card charge for \$20 in April 2016. At the time, the Clerk-Treasurer acknowledged to the Deputy Clerk-Treasurer that the charge was personal, and she agreed to provide a personal check for repayment. However, during our investigation, the City did not have record of any repayment.

In May 2024, we interviewed the former Clerk-Treasurer, who took responsibility for misappropriating City funds.

Control Weaknesses

The City’s internal controls and oversight of the Clerk-Treasurer were inadequate to safeguard public resources. We found the following weaknesses allowed the misappropriation to occur:

- The City placed immense trust in the Clerk-Treasurer despite multiple red flags over her activities, which external agencies, including our Office, brought to the City’s attention beginning in 2015.
- The City did not adequately segregate key financial duties related to cash receipting, bank reconciliations, or disbursements. The Clerk-Treasurer receipted cash, reviewed bank

deposits that City staff prepared, took deposits to the bank and performed reconciliations between the bank statements and accounting system. Further, she maintained access to the City's check stock, prepared invoices, recorded payments in the accounting system, prepared checks and was an authorized signer. These incompatible duties, paired with lack of oversight, provided access and opportunity to misappropriate funds without detection.

- No one completed an independent review of the City's bank statement activity. The Clerk-Treasurer was solely responsible for reconciling the bank statements to the accounting system with no oversight. This allowed for unsupported transactions, such as ATM cash withdrawals, to appear on bank statements without anyone questioning them.
- Cash receipting controls were inadequate to ensure the City deposited all funds it received. The Clerk-Treasurer was able to remove customer cash payments, sometimes the entire cash deposit amounts, before depositing them in the bank without detection.
- No one scrutinized disbursements, including those for accounts payable and payroll, with sufficient detail to detect possible problems.

Recommendations

We recommend the City establish effective management of its operations. This should include:

- Establishing a culture of accountability and transparency at the City, which would include performing risk assessments when external agencies identify and inform City officials of red flags indicating possible misuse of public funds
- Segregating key financial duties, or when segregation is not possible, implementing robust monitoring over financial processes and activity
- A secondary review of the City's bank accounts by someone independent of the cash depositing and disbursement processes
- A thorough monthly bank reconciliation of cash receipts and disbursements to the accounting system to detect potential incomplete deposits and unsupported transactions, with an independent reconciliation review

We also recommend the City seek recovery of the misappropriated \$937,584, questionable amounts as appropriate, and related investigation costs of \$98,229 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 Special Investigations, who can be reached at (509) 726-1886 or Brandi.Pritchard@sao.wa.gov.

City's Response

The City of Morton would like to thank the State Auditor's Office for their effort in responding to our Fraud Investigation of 2022 and the Audit of our 2019-2021 Records. You have been very helpful in the ongoing process.

In 2021, the City Council passed an Ordinance eliminating the position of joint Clerk/Treasurer, and instead created the stand-alone position of City Clerk, and the stand-alone position of City Treasurer. By doing so, the City sought to provide checks and balances necessary for accountability and accuracy, and to also reduce the workload and responsibility for any single person. With the elimination of the joint Clerk/Treasurer position, there was no longer a single person responsible for banking, bill paying, and payroll reconciliation.

With the help of the State Auditor's Office recommendations, the City of Morton is moving forward with improvements to better serve our community. Honesty and integrity is the best policy for everyone concerned. Sincerely, Mayor Rick Mead, City Council Members and Staff for the City of Morton.

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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