



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Easton School District No. 28

For the investigation period July 6, 2011 through August 30, 2021

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

August 13, 2024

Board of Directors
Easton School District No. 28
Easton, Washington

Report on Fraud Investigation

Attached is the official report on questionable activity at Easton School District No. 28. On May 8, 2023, the 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).

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: Nicole Courtney, Business Manager

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FRAUD INVESTIGATION REPORT

Background and Investigation Results

Easton School District serves about 100 students in Kittitas County and has an annual budget of approximately \$3 million.

When we began the District's 2019-2020 audit in 2021, we requested data for the audit; however, the District did not provide the requested data. The Accounts Payable Clerk left in December 2021 and the Superintendent left in June 2022.

The District hired a new Accounts Payable Clerk in June 2022 and a new Superintendent in July 2022. We requested data overtime and shifted to a two-year audit, which was more efficient due to the District's delay in providing documentation.

The new Accounts Payable Clerk and Superintendent attempted to fulfill our requests but were sometimes unable to produce the records District should have held. Additionally, they brought to our attention concerns of personal credit card expenses, leave cashouts and funds the District paid to a timeshare company during the tenure of the previous Superintendent and Accounts Payable Clerk.

We began our audit in February 2023, and a month later began investigating a possible misappropriation of public funds. We identified questionable disbursements totaling \$58,423 and a potential loss of \$33,489 through an asset sale, all occurring between July 6, 2011, and August 30, 2021. Due to the District's lack of records and weak monitoring, we were unable to determine if the loss was in fact misappropriation.

Timeshare Charges

The District purchased ownership in a timeshare from the then-chair of the Board for \$3,500 in July 2011. During the audit, District staff were unable to locate board meeting minutes that included discussion and approval of this purchase, but said it was discussed in board meetings. Additionally, staff said the timeshare was intended for board retreats and conferences to save the District money. The timeshare account listed the then-Superintendent and Accounts Payable Clerk as co-owners of the timeshare, not the District. In June 2016, someone removed the Accounts Payable Clerk's name from the timeshare account and added the Superintendent's wife as a co-owner.

To determine whether the District used the timeshare for a business purpose, we reviewed records from the timeshare company to determine when someone used it. The records did not show who used the timeshare. However, someone used the District's timeshare a handful of times in Lake Chelan, Washington, and Coeur D'Alene, Idaho between July 2011 and April 2021. Available board meeting minutes from that period did not include any discussion of board retreats or other potential District use.

The District paid \$8,250 in dues and fees for the timeshare between the purchase and April 2021, when the Board voted to sell the timeshare. Three months later, the timeshare ownership was transferred to a private party and had an assessed value of \$35,189. This private party unexpectedly provided \$1,700 in cash to the District's main office, which the District recorded in its general ledger and deposited. The District did not record the remaining \$33,489 in the general ledger, and it is unclear why the District did not receive the full assessed value amount.

Credit Cards

We reviewed credit card transactions the Superintendent and the Accounts Payable Clerk made between August 2012 and February 2020. The District did not have original credit card statements on file, as required by the state's records retention schedule, so we requested credit card statements directly from the District's bank.

We identified charges in the District's credit card statements for travel for sports or District-related conferences with notations in the general ledger showing the details and District purposes of those charges. We also identified many travel charges that did not include such details; when the District did not specify travel as District-related, we questioned the costs. Based on our analysis, we identified questionable costs of \$3,578 on the Superintendent's credit card and \$26,397 on the Accounts Payable Clerk's credit card. The questionable transactions include travel, food and tourist attraction charges that do not appear to be for an official District purpose.

Accounts Payable

In addition to credit card payments, we reviewed the vendor master file to identify payments that do not appear to have a District purpose. Our testing identified \$16,697 in questionable transactions including payments to the Accounts Payable Clerk's husband, a bicycle shop and a glassblowing studio. Due to a lack of documentation, we are unable to determine if these transactions were legitimate and had a District purpose.

In summary, we found:

| Area | Questionable | Potential Loss |
|---------------------------------------------|-----------------|-----------------|
| Timeshare | \$11,751 | \$33,489 |
| Superintendent credit card payments | \$3,578 | |
| Accounts Payable Clerk credit card payments | \$26,397 | |
| Disbursements | \$16,697 | |
| Total | \$58,423 | \$33,489 |

Superintendent Leave

In addition to the areas above, we examined the Superintendent's contracts for school years 2014-2015 through 2020-2021 to determine if leave use and compensation were appropriate. However, we were unable to reach conclusions due to District's processes and lack of available records.

For example, multiple District personnel told us the Superintendent was absent from work extensively for vacation and several personal matters during the investigation period. Our testing found that he had not submitted any leave from 2017 forward, which seems unreasonable. However, because the Superintendent did not maintain a timesheet or other reliable tracking of his time, we could not ultimately determine the exact hours and days he was out of the office to compare to his leave usage to quantify a potential loss. In one instance, his calendar indicated he was absent for the week (40 hours) in early 2021, but he did not submit leave requests for that period. However, it is unclear whether we could use his calendar as a reliable log of his absences.

We also identified the District paid the Superintendent for one day more than what his contract allowed, resulting in an overpayment of \$716 in 2019. Additionally, in 2020, the Superintendent cashed out six days of leave he did not have available to him, despite his contract not allowing any cash-outs. This resulted in an overpayment of \$4,425 in fiscal year 2019-2020. However, the Board approved these overpayments as part of the regular payroll approval process.

Control Weaknesses

The District's internal controls were inadequate to safeguard public resources. The District's Board of Directors did not provide adequate monitoring and oversight of the Superintendent's and Accounts Payable Clerk's purchasing, payroll and leave activities that was necessary to demonstrate the legitimacy and District purpose of every transaction. Further, the District did not maintain accurate or complete accounting records for review to determine the validity of its expenditures.

Recommendations

We recommend Easton School District Board of Directors implement regular, effective monitoring and oversight of the Superintendent and Accounts Payable Clerk purchasing, payroll and leave activities. The Board should closely review supporting documentation for both accounts payable and payroll payments to ensure they are legitimate, adequately supported, and an appropriate use of public funds. Because the Superintendent reports directly to the Board, it is especially important for the Board to actively monitor the Superintendent's activities.

We further recommend the District maintain supporting records to comply with state law and to demonstrate the validity of District expenditures.

We also recommend the District work with its attorney to assess loss amounts, as appropriate, and recoup assessed loss amounts and related investigation costs of \$2,109 from the former Superintendent and Accounts Payable Clerk and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the District 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.

District's Response

Easton School District values the efforts of the State Auditor's Office on this matter, takes misappropriations of funds very seriously, and concurs with the results of the investigation. Trust in our community is of utmost importance to the District and its Board of Directors.

The Superintendent and Accounts Payable staff member involved in this Fraud Report are no longer employed by Easton School District with their employment ending no later than June 2022.

Since June of 2022, Easton School District fiscal services and oversight have been provided by contracted services with NCESD. In addition, for the last two years, our current Payroll/AP staff member has been enrolled in NCESD's yearlong Payroll Academy to ensure the accurate processing of the District's payroll records.

With the hiring of a new Superintendent in July 2022, the District has implemented steps to enhance its procedures and increase fiscal, payroll, and Board activity transparency, including:

- Overall annual School Board meeting agenda calendar including monthly fiscal, Accounts Payable, Human Resources, and operational updates.*
- Monthly Board meetings to include monthly Payroll Updates(in progress)*
- Implementation of an electronic Board Meeting program for public review and participation (Board Docs)*
- Superintendent's Work calendar is shared with the Board in July and then reviewed in June*
- Board materials from 1975 to the present have been digitized and available electronically*
- District applied for and received a Records Retention Grant from the Secretary of State's Office*

At the completion of the Fraud Investigation Report by SAO, the District will seek to recover the loss amounts (\$33,489) and the related investigation costs (\$2019) from the former Superintendent and Accounts Payable staff member and will file a claim with the District's insurance provider to aid in recovering these funds. The District will fully cooperate with any further action taken by the Kittitas County Prosecuting Attorney's Office, demonstrating our commitment to justice and accountability.

Auditor's Remarks

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

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