



Office of the Washington State Auditor  
Pat McCarthy

# Fraud Investigation Report

## City of Morton

For the investigation period May 1, 2016 through August 1, 2023

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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 questionable activities at the City of Morton. On August 22, 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: LuAnn Ward, City Clerk

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## FRAUD INVESTIGATION REPORT

### Background and Investigation Results

In August 2023, as auditors were working with Morton to conduct an audit and another fraud investigation, we learned through a newspaper report of the City's investigations into the Police Chief earlier in the year for various allegations, including potential misuse of City funds. The Police Chief had resigned at the time of the newspaper report. We asked City officials to file a potential loss of public funds report with our Office, as required by state law (RCW 43.09.185).

We subsequently learned that in April 2023, an employee running the City's youth mentor program told the City Clerk she had concerns related to a check she gave the Police Chief for a donation to pay for certain goods. City officials looked into this and noted the Police Chief maintained access to a bank account that was outside the City's control but had been holding donations for police-related activities. City officials also identified questionable purchases on the Police Chief's credit card during a review of the City's credit card expenses in July and began investigating the purchases.

The City's investigation into credit card use concluded the Police Chief made \$198.80 in personal credit card purchases for wellness products in May and June 2023 and \$180.35 in questionable cleaning supply purchases in June 2022, all from an online vendor that were delivered to his personal residence.

We reviewed the City's investigation, performed additional testing of credit card purchases from May 2016 to May 2023, and gained a further understanding of the bank account the Police Chief maintained. Our investigation found:

#### *Credit Cards*

We agree with the City's conclusion that the Police Chief made \$198.80 in personal credit card purchases and questionable purchases of \$180.35. We also found the Police Chief made another \$833.38 in questionable credit card purchases between May 2017 and January 2023. The City did not have enough information to determine that the purchases had a valid business purpose. Questionable purchases were related to out-of-state travel, various restaurants and to an online vendor.

In our interviews with the City Clerk, she said the lack of documentation or the nature of some of the Police Chief's purchases led her to question their business validity. In these cases, she asked the Mayor to obtain supporting documentation from the Police Chief. However, the information or documentation the Police Chief provided was sometimes inadequate to determine the business purpose of the expenses.

### *Bank Account*

After the Police Chief was placed on administrative leave in May 2023, the City located bank account statements for the Morton Reserve Association. City officials were aware of this account, but did not oversee it and understood it was the Police Chief's responsibility. The statements showed multiple accounts connected to the Association, including a business savings account and checking accounts for "officer direct funds," "innovator" and "MPD youth programs."

In September 2017, the Police Chief registered the Association with the Secretary of State, listed himself as the registered agent, and listed the City's mailing address for correspondence purposes. According to City staff, the Police Chief engaged in a variety of community activities, such as the annual North Pole Patrol event, movies in the park and the Liberty's Kids after-school program.

The Police Chief often promoted these activities through video statements on the Morton Police Department's social media page. Further, posts on the page often advertised the activities as run by "your Morton Police Department." Advertisements gave the impression that the activities were City-sanctioned, and people donating money may not have understood that the contributions were not going to be subject to City oversight and monitoring. In fact, when people donated funds for these events to City officials in the police department, City staff did not record or deposit the funds and instead gave them to the Police Chief.

By serving both the City and the Association, the Police Chief made decisions on behalf of both parties at the same time, which may be a conflict of interest. The City did not establish agreements including terms and conditions for how the Association would conduct business with the City, such as defining which programs and fundraisers should be the City's or the Association's. These factors prevent us from determining whether donations and fundraiser revenue should have been deposited with the City, and whether disbursements from the account should be subject to the City's oversight, approval and scrutiny regarding their allowability as a use of public funds. We reviewed the Association bank statement records in the City's possession, which were for the period of April 2021 to July 2023, and found:

- \$17,363 in deposits into the Association bank account
- \$17,403 in various expenses. Of this amount, we found \$1,860 in ATM cash withdrawals, \$631 in out-of-state debit card purchases, \$140 to an airline and \$143 to a local motel.
- On August 1, 2023, the Police Chief gave a check payable to the Mayor for \$3,077.03, which was the balance of the Association's bank account.

In September 2023, the current Morton Police Chief called the former Police Chief and asked to speak with him. The former Police Chief initially indicated he would get back to the current Police Chief but ultimately, he did not.

## Control Weaknesses

The City's internal controls were inadequate for safeguarding public resources. The City's investigation and our expanded investigation found the following weaknesses allowed the questionable activities to occur:

- The City did not have adequate oversight and monitoring of the Police Chief's use of his City-issued credit card to ensure purchases were supported by documentation of a valid business purpose.
- The City Clerk responsible for reconciling credit card charges did not believe she had the authority to question the Police Chief's purchasing activity.
- The City did not have adequate oversight, monitoring or agreements in place over the Association's activities.

## Recommendations

We recommend the City implement stronger controls over credit card purchases, including ensuring all purchases have adequate support to show they are for a valid business purpose. This should also include City management review of department head purchases to ensure they are properly approved, supported and for a legitimate business purpose.

Additionally, we recommend the City develop internal policies and establish agreements with related groups that clearly define how they will do business with each other. At a minimum, the policy and agreements should provide criteria defining what fundraising and activities should be City-sponsored, discourage or prohibit City staff from serving in key roles with the related groups, and require that all advertising clearly indicate whether events are City-sponsored.

We will refer this case to Lewis County Prosecuting Attorney's Office for any further action it determines is necessary.

We also recommend the City seek recovery of the personal credit card purchases of \$198.80, questionable amounts, as appropriate, and related investigation costs of \$4,935 from the former Police Chief 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](mailto: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](mailto: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 2023. You have been very helpful in the ongoing process.*

*In 2023, the City Clerk was advised of possible misconduct of funds with a bank account that previously was not associated with the City, after investigation the mayor was notified and it was determined this account should be closed, which it was in August 2023 and monies turned over to the city until further investigation could be done. The city has since dis-allowed any such account be created. Any fund raising must be done and ran thru the cities books using bars codes for revenue and expenditures as all other accounts. By doing so, the City sought to provide checks and balances necessary for accountability and accuracy. A new credit card policy has been put into place with stricter scrutiny on receipts. Any questionable receipt is immediately turned over to the Mayor to follow thru. If an employee does not adhere to these rules their credit card privileges will be revoked. The city will seek recovery costs as well as costs related to the auditors investigation.*

*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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