



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Town of Hatton

For the investigation period November 1, 2022 through October 23, 2024

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

May 6, 2025

Mayor and Town Council
Town of Hatton
Hatton, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Town of Hatton. On April 11, 2023, the Town 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 Assistant Director of Communications Adam Wilson at (564) 999-0799. Otherwise, please contact Special Investigations Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy, State Auditor
Olympia, WA

cc: Carmen Garcia, Clerk Treasurer

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FRAUD INVESTIGATION REPORT

Background and Investigation Results

In February 2023, the Town's Mayor resigned. To help with daily operations, a former Town employee began working in the Town office. This former employee quickly noticed questionable activity, including unauthorized cash withdrawals on the Town's bank statement. On April 11, 2023, the former Town employee notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185).

We investigated and determined the Town experienced a disbursement misappropriation totaling \$7,133 between January 12, 2023, and December 31, 2023.

Here is what our investigation found.

In January 2023, the Council agreed to pay the Mayor her annual salary of \$4,000 in advance. Paying salary in advance is against state law, as it is considered an unconstitutional gift of public funds.

A month later, on February 6, 2023, the Mayor withdrew \$1,000 in cash from the Town bank account. This cash was meant as a payment in advance for the Mayor herself to clean up an abandoned property next to the Town Hall. On February 8, 2023, and after the Town's Clerk-Treasurer questioned the withdrawal, the Mayor deposited it back into the Town's bank account.

On February 21, 2023, the Mayor withdrew \$2,800 in cash from the Town bank account as payment in advance for another property cleanup she had planned. The work ultimately was not completed. The Mayor resigned the next day at a Town Council meeting.

The Mayor made a partial repayment of \$500 to the Town on March 10, 2023, and another repayment of \$500 on May 22, 2023.

We confirmed the Mayor repaid a total of \$2,000 to the Town. However, the Mayor did not repay 10 of the 12 months of advance salary, totaling \$3,333, or the remaining \$1,800 in cash withdrawals.

In October 2024, we interviewed the former Mayor, who said she did withdraw cash from the Town bank and that she had not repaid the advance payroll she received.

Control Weaknesses

Internal controls at the Town were not adequate to safeguard public resources. We found the Town lacked oversight of the Mayor's banking activities and prepaid the Mayor for services, which allowed the misappropriation to occur.

Recommendations

We recommend the Town establishes effective management of its operations. This should include:

- Establishing adequate monitoring procedures to ensure disbursements are made only for allowable and valid public purposes
- Refrain from paying advances on salary to ensure all payments are for actual hours worked
- Requiring and retaining supporting documentation for all transactions to demonstrate their public purpose

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

We also recommend the Town seek recovery of the outstanding misappropriated amount totaling \$5,133 and related investigation costs of \$6,898 from the former Mayor and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Town 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.

Town's Response

The Town of Hatton would like to thank the Washington State auditor's team for helping us execute this audit. We are very happy to see this concluded and move forward. We, with the recommendations from the audit team, have placed some internal controls that will prevent the town from being in this position from here on out. We are striving to remedy all the issues and be in compliance with state law.

Auditor's Remarks

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

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

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.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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