



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Town of Hatton

For the investigation period October 1, 2022 through April 7, 2025

Published May 6, 2025

Report No. 1036977



Scan to see another great way
we're helping advance
#GoodGovernment



**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).

This report contains the results of our investigation of the former Clerk-Treasurer's unallowable activities at the Town from December 14, 2022 through November 21, 2024. 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 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: Rhea Isaac, Mayor

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

FRAUD INVESTIGATION REPORT

Investigation Summary

In February 2023, the Town's Mayor resigned. To help with daily operations, a former Town employee began working in the Town office with the current Clerk-Treasurer. This former employee quickly noticed questionable activity, including unsupported payments for services paid to the Clerk-Treasurer, unauthorized banking activity, and acquisitions of wildland fire equipment. 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).

In May 2023, we started our regularly scheduled accountability audit and opened an investigation. Our investigation determined a multi-scheme misappropriation occurred at the Town, totaling at least \$72,119 between December 14, 2022, and November 21, 2024. Additionally, \$144,604 in questionable payments occurred between October 25, 2022 and September 20, 2024.

The Town has not filed a police report. We will refer this case to the Adams County Prosecuting Attorney's Office.

Background and Investigation Results

The Town is in Adams County and has annual average revenues and expenditures of about \$186,350 and \$187,280, respectively. The Town provides water and garbage services to less than 200 people.

The Town operates under a mayor-council form of government. The elected five-member Council is the Town's oversight body that sets and approves all Town policies. The Town currently has two part-time employees who are responsible for Town operations, the Water Master and the Clerk-Treasurer. The Clerk-Treasurer is responsible for overseeing day-to-day operations, including processing payroll, making disbursements and credit card purchases, and monitoring assets. Additionally, the Clerk-Treasurer is responsible for reconciling bank and credit card statements to the Town's accounting system.

In May 2023, at the beginning of a regularly scheduled audit and our investigation, we asked the Clerk-Treasurer multiple times to provide records for audit, including bank statements. Because the Clerk-Treasurer provided very little information, we issued a subpoena to obtain copies of banking and credit card records for review.

We determined through our investigation that the Clerk-Treasurer was responsible for a multi-scheme misappropriation totaling at least \$72,119 between December 14, 2022, and November 21, 2024. Additionally, \$144,604 in questionable payments occurred between October 25, 2022, and September 20, 2024. The following details the results of our investigation.

Payroll

We compared Town payroll records to bank disbursement records and identified a payroll misappropriation of at least \$35,953 between December 14, 2022, and October 21, 2024. The misappropriated amounts included payments for hours in excess of the Clerk-Treasurer's approved work schedule and cash advances to the Clerk-Treasurer that he did not repay. We also consider an additional \$63,320 in payroll disbursements between October 25, 2022, and September 20, 2024, to be questionable because the Town had no supporting records to confirm if the payments were for work actually performed.

General disbursements

We obtained copies of cleared Town checks from the bank and reviewed the Town's records to verify that the payments were for legitimate business expenses. We identified an accounts payable misappropriation of at least \$660 occurring on June 23, 2023. The misappropriated amount related to the Clerk-Treasurer's child support payment, which should have been deducted from his paycheck. We found \$66,229 in questionable payments between November 21, 2022, and September 17, 2024, because the Town did not have adequate documentation to show the transactions were related to Town business.

Credit cards

The Clerk-Treasurer was the only Town employee who was issued a credit card. Our review of credit card statements identified \$15,055 in questionable purchases between February 21, 2023, and July 13, 2023, because the Town did not have adequate documentation to show the transactions had a legitimate business purpose. On January 31, 2024, the bank closed the Town's credit card due to nonpayment and wrote off the outstanding balance of \$4,477, including \$834 in fees.

Unauthorized use of Town equipment

In December 2023, the Town established a volunteer fire department and equipped it with vehicles and equipment on loan from the United States Forest Service through the Federal Excess Personal Property program facilitated by the Department of Natural Resources (DNR). The program intends for this equipment to be used for wildland firefighting, and the program exists to put such equipment in rural areas as part of a larger wildfire response strategy. On paperwork filed with DNR, the Clerk-Treasurer listed his position as Fire Chief and indicated he was responsible for managing the Town's program. Through the program, the Clerk-Treasurer applied for and acquired multiple items to equip the Town fire department between January 26, 2023, and April 1, 2023. Items acquired included fire trucks, water tenders, harvester trucks, fire tanks, other vehicles and defibrillators. The value of the equipment is estimated over \$1.3 million.

In August 2024, while performing an inventory of the fire equipment, auditors found the Clerk-Treasurer kept one of the fire vehicles and one defibrillator at his home, which was located outside Town limits. The following month, the Clerk-Treasurer returned the fire vehicle to Town property. However, as of March 2025, the defibrillator is unaccounted for. We determined the unauthorized use of Town equipment is a misappropriation of \$31,894, which is the value of the defibrillator.

On August 27, 2024, we interviewed the Clerk-Treasurer who said he would provide support for the payroll, disbursements, and credit card transactions that lacked supporting records in the Town's files. He also said he would provide photos of the fire vehicle and defibrillator that he kept at his home, to confirm their existence. We continued to ask the Clerk-Treasurer multiple times in September and October 2024 for the information he offered to provide, but he did not provide it. In October 2024, the Clerk-Treasurer stopped working for the Town.

On April 7, 2025, we met with the Mayor as part of concluding our investigation. During the meeting, the Mayor said that despite no longer working for the Town, the former Clerk-Treasurer was still able to access Town bank accounts. The Mayor also had identified an additional payment that the former Clerk-Treasurer prepared, signed, and cashed for hours that were not worked. That day, we accompanied the Mayor to the bank to ensure the former Clerk-Treasurer was removed from the Town's bank accounts.

While at the bank with the Mayor, we obtained copies of bank statements and cleared checks for the period of October 1, 2024, to April 7, 2025 to determine if further misappropriation had occurred. We found an additional \$3,612 in misappropriation between October 21, 2024, and November 21, 2024. The former Clerk-Treasurer used the Town's bank account information to make four personal payments to an online bill payment processing vendor.

Control Weaknesses

Internal controls at the Town were not adequate to safeguard public resources. We found the following weaknesses allowed the misappropriation to occur:

- The Town lacked oversight of the Clerk-Treasurer's activities.
- The Clerk-Treasurer had full access to the Town's accounting system and bank accounts, which allowed him to process his own payroll and inappropriate disbursements without any oversight.
- The Clerk-Treasurer was in charge of monitoring and tracking the Town's equipment which led to his personal use of the equipment.
- The Clerk-Treasurer was in charge of making purchases for the Town and reconciling the bank and credit card statements. This allowed him to make purchases without approval.

Recommendations

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

- Establishing an independent review of all employee timesheets to ensure amounts paid reflect actual hours worked
- Ensuring Town equipment is properly tracked and safeguarded
- Establishing adequate monitoring procedures to ensure disbursements are made only for allowable and valid public purposes
- Ensuring someone independently reconciles the Town's credit card and bank activity to account for all its disbursements
- Requiring and retaining supporting documentation for all transactions to demonstrate their public purpose
- Removing employees' access to town resources and systems, such as bank account access, immediately when they leave the Town's employment

We also recommend the Town seek recovery of the misappropriated \$72,119, questionable amounts as appropriate and related investigation costs of \$37,300 from the former Clerk-Treasurer 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.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov