



Office of the Washington State Auditor  
Pat McCarthy

## **Fraud Investigation Report**

# **Adams County Public Hospital District No. 2**

**(East Adams Rural Healthcare)**

**For the investigation period January 1, 2023 through November 11, 2023**

*Published September 4, 2025*

Report No. 1038006



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## Office of the Washington State Auditor Pat McCarthy

September 4, 2025

Board of Commissioners  
East Adams Rural Healthcare  
Ritzville, Washington

### Report on Fraud Investigation

Attached is the official report on a misappropriation at East Adams Rural Healthcare. On September 27, 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).

This report contains the results of our investigation of the former Accounting Clerk's unallowable activities at the District from May 16, 2023 through November 11, 2023. 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: Viola Babcock, Interim-CFO

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## **FRAUD INVESTIGATION REPORT**

### **Investigation Summary**

On September 27, 2023, the District notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). On September 26, 2023, a bank notified the District that one of its customers, the District's Accounting Clerk, had altered four District checks and used mobile deposit to put the funds into her personal bank account. The District immediately placed the Accounting Clerk on administrative leave. The next day, the District sent a letter to the City of Ritzville police department notifying them of the issue and terminated the employment of the Accounting Clerk.

The District reviewed records the Accounting Clerk had access to and identified the Accounting Clerk had made several potential personal charges on a District credit card. We reviewed the District's documentation, performed additional investigative procedures, and determined a disbursement and credit card misappropriation occurred at the District totaling \$32,041 between May 16, 2023, and September 25, 2023. Additionally, \$2,848 in questionable expenditures occurred between May 17, 2023 and September 6, 2023.

We will refer this case to the Adams County Prosecuting Attorney's Office.

### **Background and Investigation Results**

The District, located in Adams County, owns and operates East Adams Rural Healthcare, a 20-bed critical access hospital located in Ritzville and rural health clinics in Ritzville and Washtucna. The District provides inpatient, outpatient, nursing, medical clinic, imaging, therapy, and emergency care services for the residents of east Adams County. The District operates on an annual budget of about \$12 million. An elected, five-member Board of Commissioners governs the District. The Board appoints management to oversee the District's daily operations and employees, including the Accounting Clerk.

The Accounting Clerk was hired in January 2023 and was responsible for paying vendors, which included writing checks and ensuring they were signed by authorized people in the District. The Accounting Clerk also was responsible for receiving monthly credit card statements, notifying various department managers about their charges, receiving supporting receipts and documents for those charges, and verifying all expenditures against the monthly transaction summary in the District's general ledger. The position was not assigned a credit card; however, the Accounting Clerk did have access to District credit card information printed on the statements and would also request credit card details from other District card holders to make various business purchases.

We reviewed the records the District provided and agreed with the initial review it conducted. The District found that four checks printed between July 24, 2023, and September 21, 2023, made payable to multiple vendors and totaling \$20,755, had been altered with an adhesive label to make them payable to the Accounting Clerk.

These checks were all deposited into the Accounting Clerk’s personal bank account using mobile deposit. Furthermore, the Accounting Clerk tried to use mobile deposit to put funds from a fifth check into a separate personal bank account on November 11, 2023 – after having been terminated – for \$5,472. That check was originally generated on September 21 to pay a District vendor. The bank rejected this deposit, and the District did not lose these funds.

To determine whether additional misappropriation occurred, we examined other areas the Accounting Clerk had access to. We reviewed disbursements, credit cards, an online business charge account held in the District’s name, and we issued subpoenas for District-issued checks that cleared their bank, as well as purchase detail from multiple vendors. We found:

- Between May 16 and September 18, 2023, the Accounting Clerk made \$10,799 in credit card purchases for personal items, including city and electric utility payments, a personal storage container, and home restoration services for her home.
- Between June 7 and July 3, 2023, the Accounting Clerk charged \$487 in personal purchases on the District’s online business charge account. The purchased items were shipped to the Accounting Clerk’s home address.
- Between May 17 and September 6, 2023, we summarized \$2,848 in questionable transactions for cellphone providers, gift cards, and credit monitoring services purchases. These purchases are considered questionable because we could not definitively show the Accounting Clerk made them, though the products were from vendors the District did not do business with and were for items or services with no clear business purpose
- We reviewed copies of all District-cleared checks from January 1 to October 31, 2023 and did not identify any additional altered checks.

In total, we identified:

By Area	Misappropriation	Questionable
Disbursements	\$20,755	\$0
Credit cards	\$10,799	\$2,848
Online charge account	\$487	\$0
<b>Total</b>	<b>\$32,041</b>	<b>\$2,848</b>

Between March 19 and June 3, 2025, we made multiple attempts to schedule an interview with the former Accounting Clerk, who would initially agree to meet, but later canceled each interview, including our last attempt on June 3.

The District’s Human Resources Manager did receive a text message from the Accounting Clerk on September 26, 2023, apologizing and saying she would provide a cashier’s check to the District. As of June 2025, the District has not received any payments.

In April 2024, the former Accounting Clerk pled guilty to four separate charges in Adams County Superior Court and was sentenced to 60 days in jail.

## Control Weaknesses

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

- The District lacked adequate oversight and review of the Accounting Clerk's activities, specifically accounts payable disbursements and credit cards.
- After checks were issued, the District had no follow-up procedures or review to ensure the payments were received by the intended recipient.
- The Accounting Clerk was responsible for receiving credit card statements and obtaining support from the applicable card holder, while also making purchases and reconciling charges.
- The secondary review of credit card statements was not adequate to ensure credit card purchases were properly supported and for allowable business purposes.

## Recommendations

We recommend the District evaluate and strengthen internal controls over disbursements and credit cards. Specifically, we recommend:

- Establishing a periodic, independent comparison of cleared checks with accounts payable records to detect possible changes in payee or other key fields.
- Requiring and retaining receipts and other supporting documentation for all credit card purchases to demonstrate their business purpose for the District.
- Ensuring a thorough and detailed secondary review of monthly credit card activity by someone independent of the receiving and reconciling process.

We also recommend the District seek recovery of the misappropriated \$32,041, questionable amounts as appropriate, and related investigation costs of \$23,858 from the former Accounting 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](mailto: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](mailto:Brandi.Pritchard@sao.wa.gov).

## District's Response

*Currently the accounts payable clerk reconciles the credit cards matching receipts to the statement. The Human Resource manager then does a second review of both the statements and receipts and confirms the reconciliation. Credit card bank activity is reconciled by our Senior Accountant, and the bank reconciliation is signed off by the CFO.*

*The hospital continues to have Adams County issue warrants, however, starting in September, 2025 the hospital will utilize a combination of bank back-end security and our finance software back-end security to produce checks directly from the software onto blank check stock. The software includes electronic signature, check number, along with date, vendor name, and amount. The accounts payable module in the software provides limited access by job description and electronic footprint tracking of access and activity. We provided and had the Board approve a Resolution in July, 2025 that now moves signatures for bank accounts to two Board members (Chair and Secretary/Treasurer) and the CEO rather than accounts payable staff. Once the change from Adams County Warrants is moved to the hospital's own checks, we will do periodic checks on the checks clearing the bank accounts for any check modification post issuance.*

*The hospital intends to seek recovery of the funds misappropriated by the former Accounts Payable Clerk plus SAO charges.*

## 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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