

Washington State Auditor's Office
Fraud Investigation Report

**North Whidbey Park and Recreation
District
Island County**

Investigation Period
January 1, 2011 through December 31, 2012

Report No. 1010183

Issue Date
October 14, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

October 14, 2013

Bill Walker, Director
North Whidbey Park and Recreation District
Oak Harbor, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the North Whidbey Park and Recreation District. On October 31, 2012, the District notified the State Auditor's Office 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 Aquatic Club coach and treasurer's activities at the District from January 1, 2011 through December 31, 2012. 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.

Questions about this report should be directed to Fraud Manager, Sarah Walker at (509) 454-3621.

**TROY KELLEY
STATE AUDITOR**

Fraud Investigation Report

**North Whidbey Park and Recreation District
Island County
January 1, 2011 through December 31, 2012**

INVESTIGATION SUMMARY

The District Director notified our Office regarding a potential loss of public funds, as required by state law.

We initiated an investigation and found a loss of \$639.49 in duplicate payments to the District Aquatic Club coach. In addition, due to inadequate controls over cash receipting, fundraisers, account adjustments and payments for the aquatic club, we question transactions of \$43,186.

The Island County Prosecuting Attorney's Office has also been notified of this case.

BACKGROUND AND INVESTIGATION RESULTS

The District, located in Island County, operates on an annual budget of approximately \$985,000, including \$230,000 for the District Aquatic Club, which is run by a full-time head coach, four part-time assistant coaches and a part-time treasurer.

The District Aquatic Club had a separate bank account through which cash was receipted and payments were made without management oversight. The coach and former treasurer were the only signers on this account. Our investigation focused on cash receipting, fundraisers, account adjustments and payments for the aquatic club account. We determined the following through our investigation:

Cash Receipting

We found the treasurer was the only one involved in collecting funds and posting payments to customer accounts, however, not all payments were supported by receipts. We were unable to reconcile payments posted to customer accounts with receipts and bank deposits because:

- Fundraising money was not properly receipted and was comingled with other payments in deposits.
- Payments were posted to accounts up to three months after they were deposited.
- An unknown amount of payments were made at the main office and deposited into a separate general account comingled with monies from other sources.

We did not identify any misappropriation in our review of cash receipting, but we were unable to confirm that none occurred due to the weaknesses in internal controls.

During our review, we found a \$2,738 payment posted to the treasurer's individual club account on her last day as a volunteer for the swim club, but there was no corresponding payment deposited. When we questioned the former treasurer, she stated her account was moved to a paper file (an off-book receivable) and should not have been credited with a payment. No record of a paper file was available at the District.

Subsequent to our field work, the District received payment in full from the former treasurer.

Fundraisers

The District held fundraisers without keeping records of dates held or amounts received. We found \$7,958.01 in proceeds from fundraisers deposited but we were unable to determine if the amount was complete due to the lack of supporting documentation.

Account Adjustments

We found \$18,573 in adjustments made to District Aquatic Club members' accounts that could not be substantiated because there was no independent review or approval. This amount included an account balance reduced down to \$0 by an \$8,163.89 adjustment entry and notation that the electronic account was moved to a paper record. This member was still part of the club and only made four payments from December 2009 to October 2012 and was not charged any late fees (monthly charges were about \$450). A paper file was not available at the District.

Subsequent to our field work, the District received payment in full from the current aquatic club member.

Swim Club Disbursements

We found the coach submitted reimbursement requests to the District and was paid for \$639.49 in expenses that he had already paid with the Aquatic Club account as noted by his signature on the checks. We also found \$13,917 of the \$18,001 reimbursements that the coach and treasurer paid to themselves and two volunteers were not supported with receipts. Upon our request, the former coach provided credit card statements showing what \$11,698.04 in reimbursements were for but they were not detailed receipts so we could not confirm the purchases served a District purpose. The treasurer did not provide support and stated the District should have receipts for all reimbursements, but the District staff could not locate them.

In September 2013, we asked the former coach why he submitted personal reimbursement requests for expenses that he had already paid by writing a check from the Aquatic Club account. He stated that he made errors in the reimbursement filings.

CONTROL WEAKNESSES

Internal controls at the aquatic club were not adequate to safeguard public resources. We found the following weaknesses allowed a loss to occur:

- No independent review of cash receipts to ensure deposits made were complete or the cash/check composition was correct
- No review of fundraisers to ensure the amount collected was complete or deposited intact
- No independent review of adjustments made to aquatic club member's accounts to ensure they were legitimate
- The aquatic club was not aware of who could access and make changes to the members' accounts
- There was no District policy on past due accounts
- No review of disbursements made from the aquatic club account to ensure they were supported with receipts and served a District purpose
- The aquatic club operated out of a bank account that was not in the District's name

RECOMMENDATION

We recommend the District strengthen internal controls over the District Aquatic Club cash receipting, fundraisers, account adjustments and disbursements to ensure adequate oversight and monitoring to safeguard public resources and compliance with District policies.

We also recommend the District seek recovery of the \$639.49 from the former aquatic coach and related investigation costs of \$7,818.67 from the former employees 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 Sharon James is the contact person for the Attorney General's Office and can be reached at (360) 586-1912 or sharon.james@atg.wa.gov. The contact for the State Auditor's Office is Jan Jutte, Deputy Director of State and Local Audit, who can be reached at (360) 902-0363 or jan.jutte@sao.wa.gov.

DISTRICT'S RESPONSE

The District extends its gratitude to the Fraud Team for their diligence in reviewing operations and finances of our District's swim team program.

As identified and recommended by the Team:

- *The District has strengthened all internal controls—all swim team funds are now processed directly through the District's financial operations.*
- *The swim team's independent bank account has been closed.*

- *The District now independently reviews and oversees each swim team member's account.*
- *The District has enacted firm and consistent policies on dues and past due accounts, including late fees for unpaid dues, and applied them to all swim team families, without exception.*
- *The District sought and received repayment from the former treasurer and former aquatic club member who together owed nearly \$11,000 to District taxpayers. Both families have left the program and are no longer associated with the swim team, and the District has been repaid in full.*
- *The District will demand full repayment of \$639.49 from the former swim team coach who made improper reimbursement requests for expenses that the coach had already paid with swim team funds.*
- *The District will seek recovery of \$7,818.67 in invoiced costs of the investigation, as recommended by the investigative team.*

STATE AUDITOR'S OFFICE REMARKS

We thank District officials and personnel for their assistance and cooperation during the investigation.



ABOUT THE STATE AUDITOR'S OFFICE

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Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

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