



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

# **Fraud Investigation Report**

## **Oakville School District No. 400**

**For the Investigation Period June 30, 2009 through October 31, 2017**

**Published October 22, 2018**

**Report No. 1022289**





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

October 22, 2018

Board of Directors  
Oakville School District No. 400  
Oakville, Washington

**Report on Fraud Investigation**

Attached is the official report on a misappropriation at Oakville School District No. 400. On November 6, 2017, 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 Payroll/HR Manager's unallowable activities at the District from May 31, 2016 through July 11, 2017, including the questionable activities of the former Superintendent, two former Business Managers and two custodian employees. 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 Director of Communications Kathleen Cooper at (360) 902-0470. Otherwise, please contact Fraud Manager Sarah Walker at (509) 454-3621.

Pat McCarthy  
State Auditor  
Olympia, WA

## FRAUD INVESTIGATION REPORT

### Investigation Summary

On November 6, 2017, the District's newly hired Business Manager notified our Office regarding a potential loss of public funds as required by state law.

The District initiated an investigation and provided its files to us. We reviewed the District's files, performed an expanded review, and determined a payroll misappropriation totaling \$11,397 occurred at the District between May 31, 2016 and July 11, 2017. There were also questionable payroll and credit card disbursements totaling \$155,846 between July 2009 and July 2017.

The District has filed a report with the Grays Harbor County Sheriff's Office, which is investigating this case. We will refer this report to the Grays Harbor County Prosecuting Attorney's Office.

### Background and Investigation Results

The District, located in Grays Harbor County, operates on an annual budget of about \$3.8 million, including \$2.65 million in payroll expenses. The District educates about 230 students in kindergarten through 12th grade and is governed by an elected, five-member Board of Directors. The Board appoints a Superintendent to oversee the District's daily operations as well as its 40 employees, who provide basic education and support services. The District office staff primarily includes the Superintendent along with one full-time Payroll/HR Manager, one full-time Business Manager.

In August 2017, the District's newly hired Business Manager identified questionable payroll disbursements paid to multiple former District office staff including the current Payroll/HR Manager. The District placed the Payroll/HR Manager on administrative leave in November 2017 while it continued to review payroll records.

In January 2018, the District met with the Payroll/HR Manager and her attorney to discuss the questionable payroll disbursements. When asked about specific payroll disbursements, including a September 30, 2016 vacation cash out, the Payroll/HR Manager explained that she could not remember what occurred. At the conclusion of the meeting, the Payroll/HR Manager resigned from employment with the District. The District also discussed the vacation-leave buyouts with the custodian staff, who explained that the Payroll/HR Manager had approached them with a form to fill out to request the buyouts. They thought it was allowable.

We reviewed the District’s investigation, which identified the following six employees received questionable payroll disbursements:

- Payroll/HR Manager – *employed 1986 to January 2018*
- Former Superintendent – *employed July 2008 to June 2017*
- Former Business Manager 1 – *employed July 2014 to June 2017*
- Former Business Manager 2 – *employed July 2006 to October 2011*
- Custodian – *employed October 2005 to current*
- Custodian Supervisor – *employed November 1999 to current*

The Payroll/HR Manager was responsible for preparing, reviewing and transmitting all of the payroll disbursements, including her own payments. Documentation showed the former Superintendent approved some of the questionable disbursements paid directly to the Payroll/HR Manager, and the Payroll/HR Manager approved some of the questionable disbursements paid directly to the former Superintendent. The Payroll/HR Manager also approved the payroll disbursements to the custodian staff.

Our review of payroll disbursements concluded the following:

*Extra time compensation*

Questionable unsupported extra time compensation totaling \$49,133 was paid to the following former employees, who were exempt from overtime, between July 2009 and December 2016:

<b>Position</b>	<b>Hours Paid</b>	<b>Amount</b>
Payroll/HR Manager	585.75	\$18,813
Business Manager 1	356.50	\$16,044
Business Manager 2	347.25	\$11,503
Superintendent	59.50	\$2,773
<i>Total</i>		<i>\$49,133</i>

*Vacation-leave buyouts*

Vacation-leave buyouts were only processed for and disbursed to a limited number of District employees between 2011 and 2017. Payroll records were incomplete, making it difficult to determine if approvals occurred. Further, the missing records left us with an incomplete understanding of District policies and procedures over vacation-leave buyouts. We concluded:

- The former Payroll/HR Manager misappropriated \$4,314 in September 30, 2016 when a total of 160 hours were cashed out during an off-cycle payroll run. There was no support documenting approval, and the hours were not deducted from leave balances. The Payroll/HR Manager handled tracking and deducting employee leave balances.
- Questionable vacation leave buyouts totaling \$86,012 were paid to the following individuals:

<b>Position</b>	<b>Amount</b>	<b>Hours</b>	<b>Time period</b>
Superintendent	\$41,132	960	4 disbursements between January 2014 and July 2016
Payroll/HR Manager	\$27,678	1,120	5 disbursements between December 2013 and July 2016
Custodian Supervisor	\$7,283	407.40	2 disbursements between December 2013 and December 2014
Business Manager 2	\$5,454	199.50	1 disbursement in October 2011 during employment separation.
Custodian	\$4,465	280	4 disbursements between December 2013 and December 2016
<i>Total</i>	<i>\$86,012</i>		

### *Stipend compensation*

The former Payroll/HR Manager received \$15,000 in stipend disbursements for managing the District’s website between July 2015 and January 2018. We reviewed two stipend agreements approved by the former Superintendent for school years July 2015 to June 2016 and July 2017 to June 2018. Each stipend totaled \$5,000 and was to be paid on a monthly basis over the length of agreement; however, the Payroll/HR Manager processed this compensation to herself in lump-sum payments. The following lump sum stipend payments were disbursed:

<b>Stipend agreement period</b>	<b>Disbursement date</b>	<b>Amount</b>
July 2015 – June 2016	October 31, 2015	\$5,000
	May 31, 2016	\$5,000
July 2017 – June 2018	July 11, 2017	\$5,000

We concluded that the former Payroll/HR Manager misappropriated the \$5,000 stipend disbursement on May 31, 2016. Further, since the Payroll/HR Manager ended employment with the District in January 2018, and because the stipend was not paid in accordance with the July 2017 to June 2018 agreement, \$2,083 was also misappropriated, as this amount would have covered the period of February 2018 to June 2018. We consider the remaining stipend amount of \$7,917 questionable.

### *Other risk areas*

To determine if any additional misappropriations occurred, we examined systems to which the former District office employees had access. Our review of cash receipting and credit card charges did not identify additional misappropriation; however, we did identify the following concerns:

- Inaccurate payroll tax reporting to the Internal Revenue Service resulted in the District incurring about \$57,838 in fines between May 2012 and July 2017.
- Cash receipt testing found the District had still not addressed internal control weaknesses identified in prior audits. For the period tested, the former Payroll/HR Manager and former Business Manager 1 handled cash receipting duties. We tested \$207,860 in cash receipts collected between December 2016 and October 2017. During this period, the number of days between receipt date and deposit date ranged from one to 92 days, with an average of 27 days. Further, a lack of supporting records made it difficult to determine if all the funds collected were properly recorded and deposited.
- Review of credit-card charges showed that the District did not consistently ensure that all charges were adequately supported. We reviewed \$20,874 in charges between October 2015 to November 2017, concluding that \$12,784 were unsupported and questionable. Of

the questionable charges, \$526 were charged on the former Superintendent's card, \$466 were charged on the former Payroll/HR Manager's card, and \$11,792 were charged on cards not assigned to a specific employee, but instead the former Payroll/HR Manager was the assigned custodian of these cards.

### *Interviews*

In June 2018, we attempted to contact the former employees: Payroll/HR Manager, Superintendent, Business Manager 1 and Business Manager 2.

In July 2018, we interviewed the former Business Manager 1 by phone. She explained that she tracked her extra time and submitted those timesheets for approval by the former Superintendent. She had raised concerns over some payroll leave buyout transactions processed by the former Payroll/HR Manager to the former Superintendent, but the Superintendent assured her there were no issues. She ultimately left the District in June 2017.

In July and August 2018, the former Payroll/HR Manager communicated with us using email only. In an email dated July 23, 2018, she confirmed our understanding of the payroll process, which identifies her as being responsible for preparing and transmitting payroll disbursements. On August 3, 2018, we emailed asking about specific payroll disbursements such as the \$4,314 leave buyout that occurred on September 30, 2016. We attempted a second inquiry using email on August 22, 2018, and this time asked about the \$5,000 stipend paid on May 31, 2016, along with the original specific questions. As of September 2018, we have not received a response.

No other former employees responded to our requests for interviews.

## **Control Weaknesses**

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

- Employees responsible for processing and monitoring District payroll disbursements did not adhere to payroll policies in place. The former Payroll/HR Manager was allowed to prepare, authorize and transmit payroll disbursements without adequate oversight to ensure those disbursements were allowable.
- Monitoring over the Superintendent's payroll compensation was not adequate to ensure amounts disbursed were appropriate.
- Payroll records were not adequate to support if certain payroll disbursements were allowable or approved, such as extra time compensation and vacation buyouts. District vacation buyout policies did not provide enough specific guidelines, making it difficult to determine when it was allowable.
- Credit card charges were unsupported and did not include tracking of who used the card for charges made on cards not assigned to a specific employee.

- Cash receipting procedures did not ensure the proper bank and treasurer reconciliations were performed. Further, a lack of supporting records made it difficult to determine if all the funds collected were properly recorded and deposited.

## Recommendations

We recommend the District strengthen internal controls over payroll, cash receipting, and credit card operations to ensure adequate oversight and monitoring to safeguard public resources. This should include independent secondary reviews and policies' be in place over each operations area. Additionally, we recommend that the District comply with established Local Government Records Retention Schedules.

We also recommend the District seek recovery of the misappropriated \$11,397 as detailed below and related investigation costs of \$22,036 from the former Payroll/HR Manager and/or its insurance bonding company, as appropriate. We further recommend the District consider seeking recovery of the questionable payroll disbursements of \$143,062, as appropriate, from former employees as detailed below, and/or its insurance bonding company:

### Misappropriated:

Title	Vacation buyout	Stipend	Total
Payroll/HR Manager	\$4,314	\$7,083	<b>\$11,397</b>

### Questionable:

Title	Extra Compensation	Vacation Buyout	Stipend	Total
Payroll/HR Manager	\$18,813	\$27,678	\$7,917	\$54,408
Superintendent	\$2,773	\$41,132		\$43,905
Business Manager 2	\$11,503	\$5,454		\$16,957
Business Manager 1	\$16,044			\$16,044
Custodian Supervisor		\$7,283		\$7,283
Custodian		\$4,465		\$4,465
<i>Total</i>	\$49,133	\$86,012	\$7,917	<b>\$143,062</b>



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 [mattk1@atg.wa.gov](mailto:mattk1@atg.wa.gov). The contact for the State Auditor's Office is Brandi Pritchard, Assistant Director of Local Audit, who can be reached at (509) 662-0440 or [Brandi.Pritchard@sao.wa.gov](mailto:Brandi.Pritchard@sao.wa.gov).

## **District's Response**

*The District concurs with the summary of the fraud findings and would like to thank the staff at the State Auditor's Office for their support and assistance.*

*Once the Oakville School District Administration uncovered the appearance of misappropriation of public funds, the District promptly responded by informing the State Auditor's and also filing a report with the Grays Harbor County Sheriff's Office. Immediately, the District added safeguards to create efficient and effective accountability measures (listed below) and to strengthen internal controls, oversight, and monitoring.*

*First, the school district reorganized job responsibilities within the business office creating checks and balances between payroll and accounts payable accounting. The separation of these job duties naturally increased the number of eyes on our business practices. Thus, two separate reviews of payroll payments and records, with oversight by the administration and Oakville School Board, now occur as a part of our regular practice.*

*Second, the district has established stronger control of all credit cards, including an updated policy on use. Any credit card staff may use must be signed out and checked back in by the business office. Additionally, all receipts and history of any purchases (including purchase requisitions) are attached to the credit card statements for reconciliation.*

*Third, the District has added a new internal audit system, which includes onsite review of cash procedures (receipting and depositing) to monitor all transactions at the building and district levels. The District now provides cash handling training to all staff with responsibility and oversight of cash management. The District has placed additional emphasis on properly completing cash receipting, depositing and fundraiser reconciliation forms. We regularly perform random audits of all cash handling.*

*For increased oversight, the District instituted a system of increased transparency and reporting of the District financial information to the School Board. The Oakville School District Board has established a Financial Committee committed to raising standards and being good stewards of the public's funds.*

*We hope these stronger measures will help maintain the public confidence and fiscal accountability with our community. We have been completely cooperative with the Auditor's office*

*through this audit and have made appropriate system wide internal control modifications to eliminate the possibility of any future financial misappropriations at Oakville School District.*

### **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

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>