

# FRAUD INVESTIGATION REPORT

## Investigation Summary

The Clerk Treasurer notified our Office on October 6, 2014 regarding a potential loss of public funds as required by state law (RCW 43.09.185).

We initiated an investigation and determined a cash receipting misappropriation occurred at the City, totaling \$39,659 between January 2012 and October 2014. The misappropriated funds include \$35,700 in cash payments that were receipted but not deposited, \$2,878 deleted from a personal utility balance owed and \$1,080 for a cash payment deleted from the utility system.

In addition to the cash receipting loss, we also identified questionable transactions totaling \$9,940. The questionable transactions included \$5,037 in deleted utility receipts and \$4,903 in payments applied to customer accounts that were not traceable to bank deposit records.

The City chose not to file a report with local law enforcement and made multiple attempts to enter into a restitution agreement with the suspected individual prior to the completion of the investigation. However, to be in compliance with state law, any compromise or settlement of this claim by the City must be approved in writing by the Attorney General and State Auditor.

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

## Background and Investigation Results

The City, located in Chelan County, operates on an annual budget of approximately \$4.5 million, including \$695,500 in utility revenues. The Clerk Treasurer is responsible for overseeing the daily financial operations of the City with the support of a Deputy Clerk and an Assistant Deputy Clerk. The Assistant Deputy Clerk position is responsible for handling most of the cash receipting duties and applying payments to customer utility accounts.

Our investigation focused on utility cash receipting and other miscellaneous revenues. Customer payments are receipted at City Hall by way of cash, check or credit card, and are recorded and reconciled in the City's accounting system. Our investigation focused on the following activities:

### *Cash receipts from January 2012 to October 2014*

We compared cash receipt books to the accounting system and amounts deposited at the bank. We identified a total of \$35,700 in cash payments that were receipted but not deposited.

#### *Assistant Deputy Clerk's personal utility account*

We traced all payments applied on account to receipt and bank deposit records. However, we identified that on September 22, 2014, the Assistant Deputy Clerk deleted the entire outstanding balance of \$2,878.36 on her personal utility account.

#### *Deleted utility receipt transactions from June 2011 to October 2014*

We compared cash receipts to the deleted transactions report. A total of 22 transactions were tested for appropriateness. For 10 of the 22 transactions, the City could not demonstrate the reason for the deletion. This totaled \$5,037. Of this total, during a second interview held in April 2015 with the former Assistant Deputy Clerk, where we presented the deleted transactions report, she identified one deletion amounting to \$1,080 as cash receipted funds that were misappropriated.

#### *Four customer utility accounts*

We selected four customers that typically paid in cash and traced all payments applied on their accounts from January 2012 to October 2014 to receipt and bank deposit records. A total of \$4,903 in payments applied to customer accounts could not be traced to bank deposit records. In addition, a total of \$1,429 in payments receipted and deposited in the bank was not properly applied to one customer's account.

In order to determine if any additional misappropriations occurred, we also examined systems to which the former Assistant Deputy Clerk had access. This included petty cash and credit card files. We did not find additional misappropriation; however, we did identify additional internal control weaknesses.

In October 2014, while still employed with the City, we interviewed the Assistant Deputy Clerk, who said she had taken receipted cash funds. At our request, the Assistant Deputy Clerk provided us a self-identified list, which dated back to January 2013 and totaled \$25,283. The Assistant Deputy Clerk resigned from employment effective October 31, 2014. In April 2015, we held a second interview with the former Assistant Deputy Clerk, asked follow up questions, and confirmed our understanding.

## **Control Weaknesses**

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

- No one reconciled cash receipt books used for customer cash payments to bank deposit records or accounting system records. The Assistant Deputy Clerk maintained access to all cash receipt books and the Clerk Treasurer did not refer to the receipt books during monthly bank reconciliation procedures.

- An accounting system weakness allowed users to apply payments to customer accounts, while the payments remained “unattached” within the system. As a result, the payment would not appear on the daily Deposit Register Report that lists all funds receipted for the day and is reconciled to the actual bank deposit.
- All City staff responsible for cash receipting, data entry, bank depositing and reconciliation had the ability to delete transactions in the accounting system. A secondary review and/or approval for a deleted transaction did not occur by the Clerk Treasurer. In addition, the Clerk Treasurer, the Deputy Clerk, or the Assistant Deputy Clerk did not maintain any supporting documentation to explain the reason for the deletion.

## Recommendations

We recommend the City strengthen internal controls over cash receipting procedures to ensure adequate oversight and monitoring to safeguard public resources and compliance with City policies. Improvements should include:

- Reconciliation of cash receipt books to bank deposit and accounting system records.
- Accounting system review of any unattached payments already applied to customer accounts, but pending to be posted for daily deposit.
- Implementing a review process of deleted transactions.

In addition to the above recommendation, additional internal control weaknesses were identified and have been communicated to City management in separate document.

We also recommend the City seek recovery of the misappropriated \$39,659 and related investigation costs of \$12,145 from the former Assistant Deputy Clerk and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the City 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 Sadie Armijo, Deputy Director of Local Audit, who can be reached at (360) 902-0362 or [Sadie.Armijo@sao.wa.gov](mailto:Sadie.Armijo@sao.wa.gov).

## City’s Response

*The City of Entiat has received a copy of the investigation report and spoken with the representatives from the State Auditor’s Office. City Administration acknowledges the theft and the control issues identified in the report.*

*Shortly after the suspected loss was reported to the Auditor's Office, both the Assistant Deputy Clerk and the Clerk/Treasurer voluntarily left their positions at the City of Entiat. Council created a full-time City Administrator position as of January 1, 2015. A new Assistant Deputy Clerk was hired to fill the vacant position. The City Administrator and Deputy Clerk covered the duties of the Clerk/Treasurer for an interim period (January 1 through April 30, 2015). A new Clerk/Treasurer was hired on May 1, 2015.*

*The City Administrator reviewed the City's processes and procedures and took the following actions:*

- 1. Ordered thermal receipt printers and required that all payments were immediately posted into the VISION accounting system with a receipt printed at the time of posting*
- 2. Discontinued the use of hand-written receipts*
- 3. Brought in VISION staff to train office staff on the proper use of the Utility and Cash Management elements of the accounting system; and to train the Administrator on the use of the Payroll and Finance elements*
- 4. Began a process of regularly checking the bank deposits and all accounts payable checks, including credit card statements for all employees*
- 5. Began regularly reviewing bank balances compared to previous balances and reported deposits*

*In addition, the City is reviewing and modifying other policies and procedures not noted in this report that have the potential to lead to other types of fraud. These include:*

- 1. Multiple people reviewing outgoing vendor and payroll checks*
- 2. Voided, deleted, and unattached receipts will have documentation attached and be reviewed and initialed by the Clerk/Treasurer. A spreadsheet will be created to track these receipts.*
- 3. More disclosure to the Mayor and City Councilmembers about all revenue and expenditures*

## **State Auditor's Office Remarks**

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