

FRAUD INVESTIGATION REPORT

Investigation Summary

On December 4, 2017, the County Clerk notified our Office regarding a potential loss of public funds as required by state law. The County identified bank deposits that did not include all money that was collected.

We investigated and determined \$13,029 in cash receipts were misappropriated between January 2017 and December 2017. We also identified questionable transactions totaling \$2,290 that occurred in the same timeframe.

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

Background and Investigation Results

Yakima County operates on an annual budget of about \$289 million. The Clerk's Office collects about \$1.2 million in revenue for fines, fees and restitution payments. During 2017, four people (two on any given day) were responsible for reconciling cash receipts, preparing deposits and taking deposits to the County Treasurer's Office.

The loss was detected during the independent bank statement reconciliation process, when the Senior Manager at the County's Financial Services Department identified bank deposits from September to November 2017 did not include all cash collected through the receipting system.

Our investigation focused on cash receipting and accounting system adjustments at the Clerk's Office. For cash receipts, we compared receipts recorded in the Clerk's receipting system to the deposits from August 1, 2017, through December 4, 2017. We obtained all system-generated reports to identify the people who reconciled each deposit. We also obtained the Treasurer's Office deposit logs to identify the person who took the deposit to the Treasurer's Office. We determined that cash collected at the Clerk's Office totaling \$6,760 was never deposited into the bank.

We obtained a report showing all adjustments to receipts for July 1, 2017, through September 30, 2017. We reviewed 26 adjustments that reduced cash payments, processed by various employees at the Clerk's Office. We reviewed court orders, case activity and adjustment documentation. Also, for voids related to facilitator user and form fees, we confirmed the legitimacy of the transactions through the Court Facilitator. Six of these cash adjustments were not legitimate, all of which were processed through the Financial Supervisor's account. We expanded the scope of our review to cash adjustments for all of 2017, processed through the Financial Supervisor's account. We determined that cash receipts totaling \$6,269 were voided or adjusted with no valid reason. In addition, there were questionable adjustments totaling \$2,290.

To determine who was responsible for the misappropriation, we reviewed daily deposit forms, Treasurer's Office deposit logs, payroll records and refund check images. The Financial Supervisor was the only individual with access to the cash on all days when misappropriation occurred. Further, all of the adjustments and voids with misappropriation were processed through her access code. Through review of the deposit logs, we determined the Financial Supervisor deposited receipts only 14 times during the year. Seven of these deposits were short.

We assigned responsibility to the Financial Supervisor for at least three cash deposit shortages totaling \$2,760 for which she reconciled and deposited the cash, or where her handwritten notes show her involvement with the missing cash. Through our review, we further determined the Financial Supervisor was responsible for at least seven cash receipt system adjustments totaling \$839; we verified her involvement in the transaction through her signature, which was on either the reconciliation report or checks associated with the transactions. In addition to inappropriately adjusting the cash transactions, the Financial Supervisor wrote five checks associated with these transactions, totaling \$464 that inappropriately refunded individuals for payments that should not have been refunded. Altogether, we assigned responsibility to the Financial Supervisor for \$3,599.

On March 1, 2018, we interviewed all four people who were involved in the cash reconciliation process. The Financial Supervisor agreed that the documentation makes it look as if she took the money, but she said she did not. We were unable to finish our questioning because she requested an attorney and ended the interview.

Control Weaknesses

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

- The Clerk's Office lacked segregation of duties over cash handling procedures. Multiple individuals were responsible for reconciling the cash receipts to the deposits and transmitting funds to the County Treasurer's Office. In addition, there was not adequate oversight from someone independent of cash handling, reconciling or depositing.
- Cash and checks receipted for the day were placed in an unsealed bank bag in the vault overnight, with multiple individuals having access to the vault. Although this money was reconciled the next day and placed in a sealed bank bag, the sealed bag was not safeguarded before transmittal. Before it was transported to the Treasurer's Office, the bag could have been altered or switched with another bag, because the Clerk's Office did not monitor the numerical integrity of the sealed bags.
- There was no independent review of cash receipting adjustments or accounts receivable adjustments. Additionally, individuals responsible for performing these adjustments are also involved in the daily cash deposit preparation.

Recommendations

We recommend the County Clerk's Office strengthen internal controls over cash receipting and adjustments to ensure adequate oversight and monitoring to safeguard public resources and compliance with County policies.

We also recommend the County seek recovery of at least the misappropriated \$3,599 and related investigation costs of \$13,432 from the Financial Supervisor and/or the County's insurance bonding company, as appropriate. Any compromise or settlement of this claim by the County 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 matk1@atg.wa.gov. The contact for the State Auditor's Office is Sadie Armijo, Assistant Director of Local Audit, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

County's Response

Yakima County offers the following response to the Fraud Audit related to the County Clerk's Office:

The Board of Yakima County Commissioners is disappointed with the Clerk's progress concerning issues that are the sole responsibility of the elected Clerk.

We agree with the Auditors opinion that internal controls within the Clerk's office continue to be inadequate and has allowed misappropriations to occur. Despite the County's collective efforts to support her office, the Clerk has failed to resolve your findings.

The Board of Yakima County Commissioners will diligently pursue the State Auditor's recommendations.

State Auditor's Office Remarks

We thank County officials and personnel for their assistance and cooperation during the investigation. We will review the corrective action taken during our next audit.