

# **Investigation Summary**

## **Ridgefield School District No. 122 Clark County**

### ***ABOUT THE DISTRICT***

Ridgefield School District is in Clark County and serves approximately 2,000 students from kindergarten through 12th grade. The District operates a high school, middle school and two elementary schools. Its 2007-2008 operating budget was approximately \$17.3 million. An elected, five-member Board of Directors has oversight of the District, appointing the management, setting the budget and holding other financial responsibilities. The District has approximately 150 employees and a monthly payroll of approximately \$1.5 million.

### ***ABOUT THE INVESTIGATION***

On May 14, 2009, the District contacted our Office regarding a potential loss of public funds. District management stated they had questioned the Assistant Business Manager about some discrepancies with her pay. They stated she admitted to having overpaid herself. The District allowed her to resign May 13, 2009.

Our initial investigation confirmed unusually large direct deposits into the former Assistant Business Manager's account for an extended period of time. The Federal Bureau of Investigation (FBI) was the lead investigative agency responsible for submitting the case to the U.S. Attorney's Office for prosecution. We worked with the FBI to investigate the misappropriation of District funds. Our primary role was to gather evidence to show how money was misappropriated.

### ***RESULTS***

Our investigation found the former Assistant Business Manager misappropriated at least \$806,644 in public funds from the District between July 1999 and April 2009. She manipulated the payroll system and destroyed public records to conceal the loss.

The former Assistant Business Manager had been employed by the District for more than 21 years. She had full control over payroll processing and unrestricted computer system access and authority to transfer District funds. These factors, including the former Assistant Business Manager being a long-term trusted employee, contributed to the situation that allowed her to circumvent internal controls and misappropriate the money.

We found during her normal monthly processing of District payroll, the former Assistant Business Manager would manipulate the payroll system to increase her net pay. She would take several steps to conceal the misappropriated funds. She would record the misappropriated funds as several benefit expenses, thereby blending the falsified

transaction into normal payroll expenses. To further conceal the misappropriation, she would reduce her cumulative earnings in the accounting system so information on her year-to-date pay reflected her normal salary.

She also destroyed District payroll reports. She would run preliminary payroll reports before entering falsified transactions and then run final payroll reports that showed the alterations. She destroyed the majority of final payroll reports that showed the falsified transactions and replaced them with preliminary reports.

We obtained District financial data back to July 1999 that showed the misappropriation occurred over at least 10 years. During these 10 years, the Assistant Business Manager inflated her net pay in amounts ranging from \$1,000 to \$10,000 for 111 months totaling at least \$806,644.

We have submitted the results of our investigation to the FBI. This case is being prosecuted by the U.S. Attorney's Office.

## **RECOMMENDATION**

We recommend the District seek recovery of \$806,644 in misappropriated public funds and related investigative costs of \$11,843.90. Any civil compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Cindy Evans is the contact person for the Attorney General's Office and she can be reached at (360) 586-2837 or [cindy@atg.wa.gov](mailto:cindy@atg.wa.gov). The contact for the State Auditor's Office is Jan Jutte, Director of Legal Affairs and she can be reached at (360) 902-0363 or [juttej@sao.wa.gov](mailto:juttej@sao.wa.gov).

We also recommend the District strengthen internal controls over payroll by segregating duties and ensuring adequate oversight and monitoring to safeguard public resources.

Bond & Insurance coverage for District employees is as follows:

Insurance Company:	<b>Travelers Indemnity Company</b>
Type of Policy:	<b>Commercial Crime</b>
Policy Number:	<b>104134621</b>
Amount of Coverage:	<b>\$1,000,000 with \$5,000 deductible</b>
Periods of Coverage:	<b>September 1, 1999 – September 1, 2009</b>

Insurance Company:	<b>Travelers Indemnity Company</b>
Type of Policy:	<b>Public Officials Bonds (2)</b>
Policy Number:	<b>103660360</b>
Amount of Coverage:	<b>\$50,000 each (\$100,000 total)</b>
Periods of Coverage:	<b>September 1, 2008 – September 1, 2009</b>

Insurance Company:	<b>Washington Schools Risk Management Pool (WSRMP)</b>
Type of Policy:	<b>Commercial Crime</b>
Policy Number(s):	<b>COV02-03, COV07-08, COV08-09</b>
Amount of Coverage:	<b>\$500,000 with \$250,000 Self-Insured Retention</b>
Periods of Coverage:	<b>September 1, 2002 – August 31, 2003</b> <b>September 1, 2007 – August 31, 2008</b> <b>September 1, 2008 – August 31, 2009</b>

## ***DISTRICT'S RESPONSE***

*The Ridgefield School District would like to thank the Washington State Auditor's Office for the opportunity to respond to the Special Investigation Report reviewing the misappropriation of public funds from July 1999 through April 2009.*

*Once the Ridgefield School District Administration learned of the fraudulent activity, the Superintendent and Director of Business Services immediately notified the school attorney, city and county law enforcement agencies, and the State Auditor's Office to investigate the potential loss. The City of Ridgefield's Police Department facilitated the police investigation and ultimately the case was transferred to the Federal Bureau of Investigation. The Ridgefield School District fully cooperated with all agencies throughout this investigation. The State Auditor's Office and Federal Bureau of Investigation collected school district financial records from the school district and Educational Service District 112.*

*At the end of the 2007-2008 school year, the Ridgefield School District hired a full time employee as Director of Business Services and discontinued the part time business manager position from the Educational Service District 112. During the 2008-2009 school year, the Ridgefield School District began changing personnel and payroll job responsibilities.*

*Following the discovery of the fraud and securing the immediate resignation from the assistant business manager, who had misappropriated funds for ten years, the Ridgefield School District further reorganized the personnel and payroll operations.*

*The following actions are now in place to create more efficient and effective accountability measures and to strengthen internal controls, oversight, and monitoring:*

- 1. The Ridgefield School District eliminated the assistant business manager and hired a payroll/accounting specialist. In addition, the school district reorganized job responsibilities within the department creating checks and balances between payroll accounting and personnel accounting. This change has created a greater system of accountability by the separation of these job duties. Thus, two individuals will review payments and records, with oversight by a third individual – the Director of Business Services.*
- 2. The Ridgefield School District converted from the WISE financial system to the updated WESPAC finance system that provides greater controls and system efficiency.*

3. *School office personnel have completed extensive professional development through the Educational Service District 112 on the WESPAC System and sound business practices.*

*The Ridgefield School District is committed to improving their business practices through on-going professional development and networking services with regional and state organizations.*

### **STATE AUDITOR'S OFFICE REMARKS**

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