



Office of the Washington State Auditor  
Pat McCarthy

## **Fraud Investigation Report**

# **Mason County Fire Protection District No. 12**

**For the investigation period January 1, 2017 through July 31, 2022**

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

September 20, 2022

Board of Commissioners  
Mason County Fire Protection District No. 12  
Matlock, Washington

**Report on Fraud Investigation**

Attached is the official report on a misappropriation at Mason County Fire Protection District No. 12. In September 2021, our scheduled accountability audit detected a potential loss of public funds.

This report contains the results of our investigation of the unallowable and questionable activities at the District during the period January 1, 2017 through July 31, 2022. 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 (564) 999-0800. Otherwise, please contact Special Investigations Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy, State Auditor  
Olympia, WA

cc: John Pais, Commissioner

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# FRAUD INVESTIGATION REPORT

## Investigation Summary

During a regularly scheduled audit, we identified potential losses of public funds in multiple areas of operations at the Mason County Fire Protection District No. 12. In September 2021, we began an investigation that ultimately determined misappropriations involving payroll, credit card and other disbursements occurred at the District, totaling \$68,672 between October 2017 and July 2022. Additionally, questionable amounts of \$95,093 were summarized in the same areas of operations between May 2017 and July 2022. “Questionable” means we were unable to determine whether the expenditures were for a legitimate business purpose.

The investigation found that the following District employees were responsible for the misappropriated and questionable amounts as shown in the table below:

Position	Area	Misappropriation	Questionable
Fire Chief	Payroll	\$23,337	\$40,086
	Credit Card	\$16,579	\$13,941
	Disbursements	\$18,831	\$1,940
Secretary	Payroll	\$8,839	\$5,115
Commissioner A	Payroll	\$693	\$10,100
	Credit Card	\$0	\$472
Captain	Payroll	\$0	\$2,179
	Credit Card	\$393	\$449
Unassigned	Disbursements	\$0	\$20,811
Total		\$68,672	\$95,093

On May 10, 2022, we recommended the District file a police report about the potential loss of public funds as this is our standard recommendation when entities have not already filed reports. As of August 17, 2022, the District has not filed a police report.

We will refer this case to the Mason County Prosecuting Attorney’s Office for further consideration. We will also refer this case to the Internal Revenue Service, as it has requested, for further review.

## Background and Investigation Results

The District’s annual budget for payroll, credit card payments and other disbursements increased from \$168,400 in 2017 to \$308,000 in 2022. An elected, three-member Board of Commissioners governs the District. The commissioners will be referred to as Commissioner A, B and C in this report. The Board appoints a Fire Chief to oversee its daily operations, which includes handling payroll, disbursements and credit card payments, and tracking District assets. The District employs

a Secretary to assist the Fire Chief with daily operations. The District is also served by about 10 volunteer firefighters.

Commissioner A is married to the District Secretary. The Fire Chief is their daughter. The Fire Chief is married to the Captain, a volunteer position. Commissioner B and Commissioner C are not personally related to any of the other parties.

The Fire Chief was appointed as Fire Chief pro tempore in April 2018, and then made the permanent Fire Chief in August 2018. The Board terminated her in May 2022, and then immediately appointed her as Fire Chief pro tempore. The Secretary was hired in August 2020 and resigned in March 2022.

In September 2021, we expanded from a limited assessment audit to a more in-depth and expanded-scope accountability audit for fiscal years 2017 through 2020 due to difficulties communicating with the District and delays in obtaining original source records.

In October 2021, Mason County provided District disbursement records and all supporting documents it had on file for District revenues and expenditures, including payroll, credit card payments and other disbursements. In January 2022, we issued subpoenas to multiple vendors who were paid with District credit cards. Our review of the County records and subpoena responses confirmed the Fire Chief and Captain made personal purchases on the District credit card, and the District made inappropriate payroll disbursements to the Fire Chief, the Secretary and Commissioner A.

Our investigation focused on payroll, credit cards and disbursements. The following are the results of our investigation.

### Payroll

The Fire Chief was responsible for managing the District's financial operations, including paying vendors, preparing payroll, and reporting and remitting state and federal payroll taxes. As the Fire Chief and the Secretary – her mother – were the District's only two salaried employees, the Chief was responsible for preparing her own paycheck and her mother's.

Our review of District payroll from August 1, 2018, to July 31, 2022, showed:

- The Fire Chief misappropriated \$23,337 and received \$40,086 in questionable payments. The Fire Chief:
  - Paid herself \$2,973 in September 2019 for vacation leave buyout, which was not authorized in her contract
  - Paid herself five additional paychecks in 2020 and three additional paychecks in 2021, totaling \$20,364
  - Issued several paychecks months in advance of earning them

- Received \$2,982 in unsupported payroll payments during employment.
- Received \$37,104 in payroll payments after her contract was terminated in May 2022, including two questionable severance payments totaling \$30,155
- The Secretary misappropriated \$8,839 and received \$5,115 in questionable payments. The Secretary:
  - Received two additional paychecks in 2020 and three additional paychecks in 2021, totaling \$8,839
  - Upon resigning from employment with the District in March 2022, received a buyout for vacation and sick leave totaling \$3,875, which was not adequately supported, and an additional \$1,240 in questionable pay after her resignation.
- Commissioner A misappropriated \$693 and received \$10,100 in questionable payments. Commissioner A:
  - Received three additional commissioners' meeting paychecks for unknown purposes in 2020, totaling \$693.
  - Received 10 questionable payments totaling \$10,100. Of this amount, \$5,709 was for maintenance services. The payments for maintenance services were not adequately supported to determine if the work was actually performed, dates when the work was completed, and how the compensation was calculated.
- The Captain received checks totaling \$2,179 during 2020 that were not clearly supported, and thus considered questionable.

Finally, our review of District payroll disbursements, revealed that the District has not reported or remitted quarterly payroll tax payments to the federal Internal Revenue Service since December 2018.

### Credit Cards

The Fire Chief was responsible for making credit card purchases, reconciling charges and paying statement balances.

Our review of the District's credit card activity from January 1, 2017, through May 29, 2020, showed that the District had not made a payment on its account since in January 2020. The District had an outstanding balance of \$36,841 when the credit card company closed the account for non-payment on May 29, 2020. Additionally, we found:

- The Fire Chief misappropriated \$16,579 and is responsible for \$13,941 in questionable credit card charges. As a result of our subpoena to multiple vendors, we found the Fire Chief used the District credit card to purchase items including:

- Household groceries, clothing, holiday dishware, and personal items including jewelry, hairspray and school supplies;
  - A total of \$1,994 worth of plastic kitchen products from a direct sales company to be delivered to members of her family;
  - Televisions, movie and music streaming services
- Commissioner A’s credit card had questionable pre-paid cellular cards and flooring supply purchasing, totaling \$472.
  - The Captain’s credit card had misappropriation of \$393 and questionable purchases of \$449. These included personal purchases such as wireless earbuds with a cartoon mouse design case, five phone cases in floral and animal print designs, a child-themed tablet case, and a temperature-controlled smart mug.

### Disbursements

The Fire Chief was responsible for preparing all voucher claims for the District, including recording the transactions within the accounting system, and presenting all transactions to the Board for approval with associated supporting documentation. The Fire Chief was also responsible for submitting the approved warrant register, which is a list of payments the District will ask the County to make on the District’s behalf, to the County. The Fire Chief was also responsible for remitting warrants to the vendor or employee.

We reviewed disbursement activity from January 1, 2017, to July 31, 2022. We determined:

- The Fire Chief misappropriated \$18,831 in employee reimbursements and received \$1,940 in questionable reimbursements. The Fire Chief paid herself employee reimbursement warrants that were unsupported. For example, the payment description for one reimbursement totaling \$2,000 said only “wildland supplies.” The description for a second reimbursement for \$500 said only “picnic supplies.” No supporting records were provided for these costs.
- We identified \$20,811 in questionable payments to a cellular vendor. The Fire Chief purchased six cellular phones and six smart watches from this vendor. The Fire Chief, Commissioner A and Commissioner B could not demonstrate these assets were in the District’s possession, nor could they demonstrate a business purpose for monthly service charges for 13 of 16 phone lines listed on the District’s account.

To determine if any additional misappropriations occurred, we examined cash receipting. While we did not find additional misappropriation, we issued separate recommendations in this area in our accountability audit report.

## Interviews with subjects of the investigation

In April 2022, we interviewed the Fire Chief, Commissioner A and Commissioner B about the payroll, credit card and disbursement procedures and other activity that occurred during the investigation period.

We requested an interview with the Secretary in April 2022 but never received a response to our requests. We also attempted to reach the Captain by emailing the Fire Chief and Commissioner B in July 2022, but the District did not provide his contact information. We also attempted to reach Commissioner C through email in April 2022, but received no response.

Here is what the Fire Chief, Commissioner A and Commissioner B told us during interviews on some of the matters above.

### Payroll

- The Fire Chief acknowledged processing payroll, but could not explain how or why she received more paychecks per month than was typical or why some paychecks were issued in advance. She said she prepared employee W-2s using District software, but had not reported payroll or paid applicable taxes and withholdings to the IRS on behalf of the District.
- Commissioner A said he did not know the Fire Chief received extra paychecks in 2020 and 2021, or that the Secretary received extra paychecks in 2021. He said sometimes the Fire Chief would deposit his paychecks for him.
- Commissioner B said employees are paid monthly, and advance paychecks are not allowed. He could not explain why the Fire Chief received more than one paycheck a month at times.
- Both Commissioner A and B were not aware that the District payroll taxes and withholdings were not reported or paid to the IRS.

### Credit Cards and Disbursements

- The Fire Chief said she bought groceries for holiday parties and a summer barbecue. When we pointed out that the purchases were not during holidays or summer, and that the items were a small enough number to indicate they were individual household grocery items rather than party supplies, she said the groceries were actually for Saturday drills and snacks kept at the station and in the vehicles.
- The Fire Chief said that she may have used her husband's (the Captain's) District credit card for some purchases.
- The Fire Chief said the credit card balance was paid in full each month, and that usually one commissioner reviewed the credit card statement before Board meetings. She said that she did not know why the District stopped using credit cards and she did not know the credit card had an outstanding balance or that the account was closed by the credit card company.

- Commissioner A and B did not know why the District no longer used the credit cards, or that the account was closed for non-payment.
- Commissioner A said the Fire Chief did not always include supporting documentation for warrants with the warrant register, but those documents were available if anyone asked for them. Further, if an employee or commissioner was being reimbursed for District expenses, he said, they turned in receipts for reimbursement.
- Commissioner B said all commissioners sign the warrant registers to approve them. They only review the warrant register, and will ask for supporting documents if they have questions. The Fire Chief verbally answers the questions, but he said the support is available if they want it. He said the District should not need to reimburse commissioners and employees for purchases very often, because the District has open accounts at businesses for most purchases.

## Control Weaknesses

Noncompliance with state laws and a lack of adequate monitoring by District management and the governing officials was due, in part, to nepotism within the District. One of the commissioners is married to the District Secretary. The Fire Chief is their daughter. The Fire Chief and Secretary are the District's only employees. The Fire Chief is under the Board's supervision and authority, and the Secretary is under the Fire Chief's supervision and authority.

These relationships led the Board to trust District employees even more unquestionably than it ordinarily would. The District either did not have adequate policies and controls in place, or disregarded procedures designed to ensure compliance with state laws and the adequate safeguarding of public resources from misappropriation or misuse. And because the Board trusted its employees implicitly, it neither questioned nor remedied the lack of policies, controls or procedures.

Other causes of the misappropriation and questionable spending include:

- The full Board of Commissioners did not consistently approve the warrant register reports as District policy required. Most warrant register reports were signed by the Fire Chief and one Commissioner.
- Controls over credit card payments and other disbursements were not adequate to ensure payments were allowed, supported by receipts or invoices, and for a business purpose. The Board did not dedicate sufficient time or effort to ensure District expenditures were allowable, supported, and legitimate business expenses.
- Payroll controls were not adequate to ensure wages and leave payouts were calculated correctly, earned, and paid in compliance with employment contract terms.
- The Fire Chief did not maintain accurate or complete accounting records in order to provide reliable financial reports to the Board in a timely manner, if at all.



- The Board did not ensure the Fire Chief submitted applicable reports, taxes and withholdings to the IRS and the State of Washington.

## Recommendations

We recommend the District:

- Establish a nepotism policy and adequate controls so that immediate family members do not have the authority to appoint, supervise, discipline or remove other relatives from their District employment absent a compelling business purpose
- Strengthen internal controls over payroll and disbursements, including oversight and monitoring, in order to safeguard public resources and comply with employment contract terms, state laws and District procedures
- Strengthen internal controls over monitoring financial accounting records to ensure accurate and complete financial reports are provided to the Board of Commissioners
- Implement controls to ensure timely submission of quarterly income tax reports and payroll tax amounts owed to the IRS and the State of Washington

We further recommend the District seek recovery of the misappropriated \$68,672, including questionable amounts of \$95,093, as appropriate, and related investigation costs of \$48,500 from the former Fire Chief, former Secretary, Commissioner A and Captain, as specified in the Investigation Summary table above, 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 Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or [Matthew.Kernutt@atg.wa.gov](mailto:Matthew.Kernutt@atg.wa.gov). The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Local Audit and Special Investigations, who can be reached at (360) 489-4591 or [Brandi.Pritchard@sao.wa.gov](mailto:Brandi.Pritchard@sao.wa.gov).

## District's Response

*The Board of Commissioners of Mason County Fire Protection District No. 12 is committed to operating transparently and in full compliance with the law. We appreciate the Auditor's efforts in identifying areas of concern and the District is working to further investigate and address the allegations contained in this report.*

*Given the short deadline for providing a response to this report, and not having access to the Auditor's supporting documentation, the District is unable to provide a detailed factual response within the constraints of the Audit report format. The District is following the recommendation of the Auditor to investigate the allegations, is retaining an attorney to assist with further investigation into the allegations and the District will take appropriate action if it determines that any of the allegations are sustained.*

*The Board of Commissioners recognizes that Auditor's report of misappropriation and questionable expenditures is based primarily on an absence of supporting records. The Board of Commissioners is working to implement better record keeping processes and is working to improve its process of reviewing and approving expenditures to avoid similar issues in the future.*

*The Board has already begun working with the IRS to bring the District into full compliance with all reporting requirements.*

*The Board believes that once it has the chance to further investigate the allegations contained in the report the majority of the Auditor's concerns will be addressed by the District's investigation and the District is confident that the investigation will determine that no fraud occurred.*

## **Auditor's Remarks**

Our investigation was based on an audit of the District's financial activity using the District's own records. When the District could not provide records it should have had, we subpoenaed credit card statements and vendor activity reports to identify inappropriate transactions. Our determination of misappropriation is based on an overall assessment of the financial transaction, not merely on an absence of supporting records. The Office of the Washington State Auditor reaffirms its findings and will follow up on the District's internal controls during the next audit.

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