



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Town of Naches

For the investigation period January 31, 2024 through March 29, 2024

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

March 26, 2026

Mayor and Town Council
Town of Naches
Naches, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Town of Naches. On August 20, 2025, the Office of the Washington State Auditor learned of a potential loss of public funds. Our Office learns of these potential losses based on the provisions of state law (RCW 43.09.185).

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 Assistant Director of Communications Adam Wilson at (564) 999-0799. Otherwise, please contact Special Investigations Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy, State Auditor
Olympia, WA

cc: Dorraine Bigby, Clerk-Treasurer

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FRAUD INVESTIGATION REPORT

Background and Investigation Results

In January 2024, a newly elected Mayor and subsequent staffing changes resulted in the Town hiring an interim Town Administrator and an interim Account Specialist. The interim Specialist, who worked for the Town from January to March 2024, was responsible for essential functions like processing payroll, billings, receipting and accounts payable.

In April 2024, the Town hired a new permanent Town Administrator. While reviewing payroll disbursements, the Town Administrator discovered the former Specialist had been overpaid in March 2024. The Town Administrator sent a letter on April 10, 2024, notifying the former Specialist of the overpayment, and then provided this information to the Town's attorney. The attorney performed an expanded review of all compensation the Town paid to the former Specialist.

On September 11, 2024, the Town's attorney sent a certified letter to the former Specialist notifying her that she was overpaid not only for March, but also January 2024. The letter requested repayment of \$6,680.96 to the Town. On September 27, 2024, the Town received a response from the former Specialist. In it, she said she never received the Administrator's April letter but agreed to repay the March overpayment and included a \$425 check. Between December 2024 and February 2025, she made additional repayments to the Town totaling \$1,425. After this, the former Specialists did not communicate further with the Town or make additional repayments.

In August 2025, we began a regularly scheduled accountability audit for the Town and became aware of the loss of public funds. We reviewed the Town's investigation and determined the former Specialist misappropriated \$9,357 in payroll compensation between January 31, 2024, and March 29, 2024. Our review found:

- The former Specialist started working for the Town on January 24, 2024. Two days later, the interim Town Administrator and the Specialist signed a memo saying the Specialist would be paid \$28 per hour.
- Town payroll records show the Specialist was incorrectly set up in the payroll system as salaried and paid at a monthly amount of \$6,189.67, which was more than the signed memo's hourly rate. The Town's attorney was not provided with the signed memo when initially calculating the amounts the Town overpaid the Specialist. However, during our review we used the memo to determine the correct amounts inappropriately paid to the former Specialist.

- Because the former Specialist started working on January 24, 2024, she should have only been paid for six working days of January; however, she received compensation for the entire month of January. Additionally, she resigned from employment with the Town on March 18 and should have only been paid for 12 working days of March; however, she received compensation for the entire month of March. After receiving these paychecks, the former Specialist did not notify the Mayor or interim Town Administrator of the overpayments. For these months, we determined the former Specialist inappropriately received \$7,871 in compensation.
- The former Specialist did work the entire month of February 2024. But because she was set up in the payroll system inaccurately as a salaried employee, she was compensated more than she should have been. For February, we determined the former Specialist inappropriately received \$1,486 in compensation.

On January 29, 2026, we interviewed the former Specialist who told us someone else set up her compensation in the payroll system and processed the first two months of payroll. She also said that while she signed the \$28 per hour pay-rate memo, she and the Mayor had verbally discussed paying her at the rate advertised for the Clerk-Treasurer position, but this conversation was not documented and the memo did not get corrected.

Control Weaknesses

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

- The interim Town Administrator’s review of the former Specialist’s monthly pay did not verify that the Town paid the former Specialist only for days worked and at her authorized amount.
- The Town Mayor and Council did not have adequate oversight of payroll disbursements the Town paid to employees to confirm amounts paid were appropriate.

Recommendations

We recommend the Town strengthen its internal controls over payroll to ensure proper oversight of the payroll functions. Specifically, we recommend the Town ensure employees are properly set up in the payroll system according to approved amounts and paid only for time worked.

We will refer this case to Yakima County Prosecutor’s Office for any further action it determines is necessary.

We also recommend the Town seek recovery of the remaining misappropriated amount of \$7,507 and related investigation costs of \$5,113 from the former Interim Account Specialist and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Town 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. The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Special Investigations, who can be reached at (509) 726-1886 or Brandi.Pritchard@sao.wa.gov.

Town's Response

Due to 100% staff turnover at Town Hall in January 2024, Naches was faced with onboarding and training a new interim Town Administrator and Interim Clerk/Treasurer without the ability to seek guidance from previous long-term staff. This overhaul yielded unintentional oversight of payroll deposits, specifically the interim Clerk/Treasurer.

As a result of the staff changes and without proper knowledge and training of the Town's payroll system, the interim Clerk/Treasurer was inadvertently overpaid. In April 2024, when newly hired permanent, experienced staff identified the mistake, staff notified the previous interim Clerk/Treasurer of the error and requested repayment. Since then, the previous interim clerk/treasurer has provided a few repayments to the Town over the last two years, with more payments expected in the future.

To prevent this from happening in the future, current Town staff adhere to increased internal controls related to proper handling and management of public funds, such as verification of timecards, a multi-review payroll policy by both the Clerk/Treasurer and the Town Administrator, and discussion of claims and payroll at each council meeting. Further, the Naches Mayor, Council, and Staff regularly participate in AWC RMSA fraud prevention training and standards which provide consistent administrative practices to help the Town reduce risks and prevent losses.

With the help of the State Auditor's Office recommendations, the Town of Naches is moving forward with improvements to better serve our community, as honesty, integrity, and transparency are central to the Town's mission and goals.

Auditor's Remarks

We thank Town officials and personnel for their assistance and cooperation during the investigation. We will follow up on the Town's internal controls during the next audit.

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We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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