

Special Report

Washington State Auditor's Office 2007 Fraud Investigations Summary



June 17, 2008



Washington State Auditor Brian Sonntag, CGFM

www.sao.wa.gov

A letter from State Auditor Brian Sonntag



**Brian Sonntag, CGFM
Washington State Auditor**

The State Auditor's Office maintains an exceptional program of fraud prevention, detection and education.

In 2007, we reported on 24 cases totaling more than \$1.7 million at state agencies and local governments. In 2006, we reported on 33 cases totaling \$611,000.

Under the supervision of our Fraud Investigations Manager, who monitors all fraud cases throughout the state, we have made fraud prevention and detection an integral part of our risk-based audit approach. The fraud training we provide for our own staff and for financial managers in state agencies and local governments has real value. Annually, we train more than 2,500 government employees on fraud prevention and detection.

We work closely with state and local governments to promptly report suspected cases of misappropriation. Our audit teams use risk-based audit approaches to detect misappropriation during financial audits. While it is difficult to quantify how much fraud is prevented by these efforts, our program results indicate it is a significant amount.



A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, written in a professional style.

Mission Statement

The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure the efficient and effective use of public resources.

About the program

The State Auditor's Office Division of Special Investigations encompasses the Fraud, State Employee Whistleblower and Citizen Hotline programs.

Our Special Investigations Manager monitors and coordinates the efforts of 17 fraud-detection specialists that our Office employs throughout the state and monitors all cases of suspected fraud and misappropriation that our Office investigates.

Over the years, we have seen the number of cases of suspected fraud and misappropriation grow, an indication that our training has helped with early detection, which keeps losses to a minimum. We receive reports of potential frauds from our own audit work, governments that detect potential frauds within their own organizations and from citizens and Whistleblowers.

Citizens can refer cases of suspect fraud, waste and abuse — or cases of government efficiency — to the State Auditor's Citizen Hotline. The hotline is accessible on our Web site at www.sao.wa.gov. The toll-free phone number is:



Program Results

Washington State Auditor's Office Reports Disclosing Fraud January 1 - December 31, 2007

Entity Name	Issue Description	Amount
Washington State University Heart Study	An employee reported a potential conflict of interest transaction resulting in a personal benefit to a Principal Investigator directing the Spokane Heart Study.	\$59,014
Department of Labor and Industries Crime Victims Compensation Program	The Medical Treatment Adjudicator received calls from medical providers asking where their payments were. Research showed the checks were deposited in an employee's personal account. The former employee had circumvented controls to misappropriate cash disbursements over a seven-year period.	\$431,376
Kitsap County Health District	At least five District employees misappropriated funds through a flexible benefits program by claiming false expenses.	\$49,405
Columbia County Golf Course	The Columbia County Commissioners reported that revenues from the contractor who operated the golf course did not seem reasonable when comparing them to the prior year revenues.	\$14,118
Pierce County Public Transportation Benefit Area Corp.	During our audit of Pierce County Fire Protection District No. 18, we found the former acting Fire Chief was being paid on-the-job, injury-related benefits by Pierce Transit while working at the Fire District. We notified the Transit and its investigation showed it paid the employee when the employee was not eligible to receive the benefits.	\$11,560.64
Military Department	After reviewing telephone records, the Department made two reports of long-distance calling card abuse by employees. Fourteen calling card numbers had been compromised, which were subsequently cancelled to prevent further abuse.	\$30,463
Clark County Tri Mountain Golf Course	The contractor in charge of operating the County's golf course noticed deposits were missing from the course. An employee stated he had taken the money. The Sheriff's Office investigated and we performed follow-up work to determine amount of the loss.	\$23,333.32
Pierce County Fire Protection District No. 17	After terminating its secretary, the District reported the discovery of a bank account that should have been closed. The Auditor's Office investigation found the former secretary misappropriated the funds.	\$843,118
Office of Administrative Hearings	A new finance manager reviewing payroll records for the Office noticed the payroll clerk received more pay than was authorized.	\$55,360

Program Results

Washington State Auditor's Office Reports Disclosing Fraud January 1 - December 31, 2007

Entity Name	Issue Description	Amount
Seattle School District	The District found and reported to the Auditor's Office six cases of payroll fraud and/or overpayment, due to a lack of monitoring of the location of instructors, processing of extra time reporting forms and leave slips and verifying job application information.	\$20,318
City of Walla Walla Landfill	During the reconciliation of landfill funds, the supervising manager noted extra money in the cash drawer that did not match the supporting documentation. An investigation revealed money was misappropriated.	\$8,954.23
South Whidbey School District Primary School	While performing the December 2006 monthly reconciliation, the District Office noted a \$450 shortage at the school. An investigation by the Police Department confirmed a more significant loss.	\$ 5,400
City of Normandy Park	While reviewing checks that had cleared the bank, the City noticed some signatures appeared to be forged. Upon further review, it appeared the accounts payable clerk was making checks out to cash, cashing them and then changing the payee in the system to one of the City's vendors. The clerk also had access to cash receipts.	\$74,714.37
Jefferson County Fire Protection District No. 5	The Fire District was notified by the former secretary's bank about irregular activity in her account. The bank provided a list of checks that were deposited or cashed to the secretary's account.	\$77,153.59
Washington State University SIRTI	A part-time university security guard stated he misappropriated \$19,574 in computers and other high-tech equipment and caused \$6,887 worth of damage to the building and its contents. Only \$50 of the losses were public funds; the rest belonged to private business that rent space in the building.	\$50
City of Centralia Parks Department	The City and the Lewis County Sheriff's Office determined that a Parks Department employee used a City credit card to purchase gasoline for personal use.	\$1,478
Kennewick General Hospital	Kennewick General Hospital's internal controls were inadequate to prevent a misappropriation. Responsibility for the loss could not be determined.	\$3,161.53
Skagit County Dike District #12	Rent received did not reconcile to deposits with the County Treasurer's Office. The District could not explain the discrepancy, the cash has not been found and responsibility for the loss could not be determined.	\$4,072

Program Results

Washington State Auditor's Office Reports Disclosing Fraud January 1 - December 31, 2007

Entity Name	Issue Description	Amount
Community Colleges of Spokane Work First Program	A work-study student in the Work First program circumvented payroll polices and procedures by falsifying time sheets and misappropriating public funds.	\$1,632.80
Green River Community College	The College reported an employee circumvented normal procedures to hire her relatives for 16 hours a week. The relatives were reportedly working more than 16 hours a week and creating a bank of hours to be paid at a later date when they were not working.	\$0
Union Gap Irrigation District	After terminating an employee for not fulfilling the conditions of employment, the District found a pawn shop receipt in the glove box of a District vehicle that was wrecked by the former employee. The District contacted the pawn shop and found two District items were pawned. Those items were confiscated by the Sheriff's Office and returned to the District. The former employee stated that he used a District credit card to purchase electronics and gift cards for personal use.	\$3,431.90
City of Algona Utility Payments	The City converted from a manual system to a computerized system with stronger controls. When bills were sent from the new system, some customers complained that they had already paid their bills. The City was able to link the misappropriation to one cashier.	\$1,938.03
Bellingham Housing Authority Whatcom County Housing Authority	In August and September 2006, a review of accounting procedures was performed by the Investment Manager for the housing authorities. Several discrepancies were noted in the properties managed by one individual. This prompted a full audit of the properties by the Management group.	\$2,155
City of Kennewick City Attorney's Office	Two defendants informed the City that their public defender had accepted \$2,500 in donations to the City's Homebase Program and misappropriated the funds instead of turning in the money to the City. The FBI investigated and issued a report.	N/A
State Agencies	3 cases	\$517,199
Colleges and Universities	1 case	\$59,014
Local Governments	10 cases	\$1,128,075.15
Cases less than \$5,000	10 cases	\$17,919.26
Year to date totals:	24 Cases	\$1,722,207.41

2006 Program Results

In 2006, the State Auditor's Office reported on \$611,000 in misappropriations in state and local governments, including two incidents exceeding \$100,000 at local governments. Details are available on request.

Government Type	Number of Reports	Amount
State Agencies	4	\$47,962
Colleges and Universities	4	\$143,032
Local Governments	25	\$420,717
Total	33	\$611,711

Follow-up on Investigation Results

Government entities that suspect fraud are required by state law to report it to the State Auditor's Office. At the conclusion of our investigation, we typically ask the government entity to file a police report if they have not already done so and we forward the investigation results to the state Attorney General. We refer cases to the County Prosecuting Attorney's office when appropriate.

Contacts

Washington State Auditor

Brian Sonntag, CGFM

sonntagb@sao.wa.gov

(360) 902-0360

Director of State and Local Audits

Chuck Pfeil, CPA

pfeilc@sao.wa.gov

(360) 902-0366

Director of Special Investigations

Jim Brittain, CPA

brittaij@sao.wa.gov

(360) 902-0372

Special Investigations Manager

Jennifer Forsberg, CFE

forsberj@sao.wa.gov

(360) 600-9114

Director of Communications

Mindy Chambers

chamberm@sao.wa.gov

(360) 902-0091

Director of Legal Affairs

Jan Jutte

juttej@sao.wa.gov

(360) 902-0363

Public Records Officer

Mary Leider

leiderm@sao.wa.gov

(360) 725-5617

Main phone number

(360) 902-0370

Toll-free citizen hotline

(866) 902-3900

Web site

www.sao.wa.gov

Americans with Disabilities

In accordance with the Americans with Disabilities Act, this document will be made available in alternate formats. Please call (360) 902-0370 for more information.