



**Washington State Auditor's Office**

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**Troy Kelley**

Independence • Respect • Integrity

# **Fraud: Case Studies and Best Practices**

**September 2012**

# Agenda

- Fraud schemes and trends
- Case studies and internal controls
  - Cash receipting
  - Payments
  - Credit cards
  - Gas card purchases and fuel misappropriation
  - Payroll

## RCW 43.09.185 – Loss of Public Funds

Requires all state agencies and local governments to immediately notify the State Auditor's Office in the event of a known or suspected loss of public resources or other illegal activity. This includes situations in which disciplinary action against an employee is being considered due to known or suspected losses of public funds, fraud, illegal acts, or noncompliance with policies or procedures related to preventing losses of public funds, misappropriation or other illegal acts.

# Losses reported and investigated

Vendor payments	Procurement card – personal use
Ghost/family employees	Contracting
Inflated hours	Court receipts
Credit card use	Cash receipting
Negative adjustments	Unanticipated revenue
Negative deductions	Utility payments/refunds
Credit card returns	Stolen assets
Gas card charges/fuel theft	Purchase of food for private use
Inappropriate purchases	Employee reimbursements
Reprinting receipts	Use of facilities

## 2012 Fraud Program statistics

During 2012, State and Local governments reported 246 known or suspected losses to our Office, totaling at least \$3,442,516.

Area	Number of losses	Amount of known loss
Loss of assets/property	74	\$207,385
Payments/credit cards	35	\$1,909,747
Cash-receipting	29	\$1,043,128
Payroll/benefits	16	\$61,081
Breaking and entering	22	\$36,570
Other/ethics	70	\$184,605

## 2011 Fraud Program statistics

During 2011, State and Local governments reported 427 known or suspected losses to our Office, totaling at least \$3,192,455.

Area	Number of losses	Amount of known loss
Loss of assets/property	183	\$966,746
Payments/credit cards	77	\$1,145,151
Cash-receipting	66	\$197,430
Payroll/benefits	23	\$416,309
Other/ethics	78	\$466,819

# 2010 Fraud Program statistics

During 2010, 406 known or suspected losses were reported to our Office, totaling at least \$2,915,976.

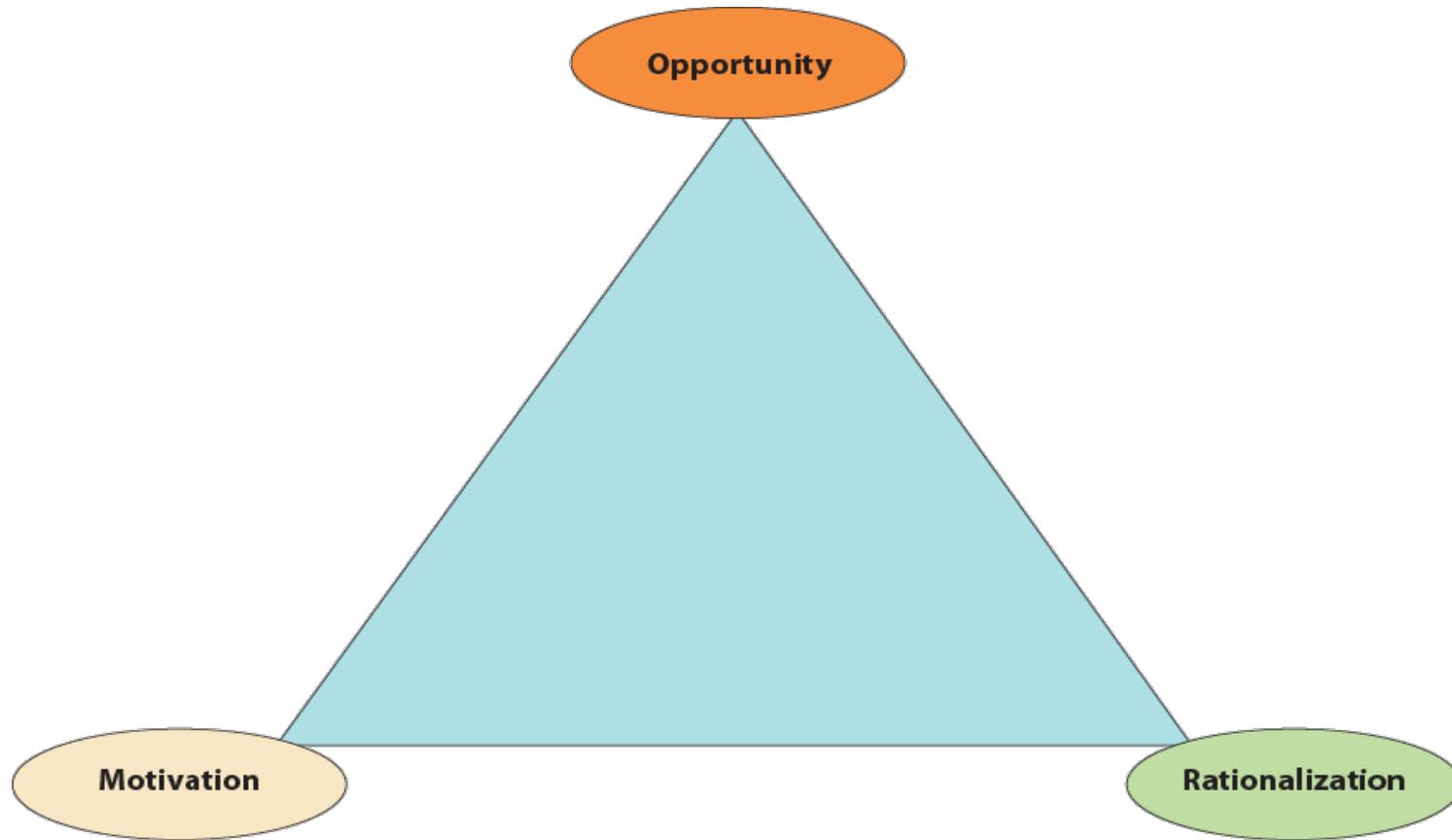
Area	Number of losses	Amount of known loss
Cash-receipting	68	\$90,529
Cash disbursements/credit cards	65	\$1,057,250
Payroll/benefits	22	\$291,206
Loss of assets/property	177	\$428,756
Other/ethics	74	\$1,048,233

# Fraud report history

Year	Cases	Amounts
1987	32	388,936
1988	26	451,122
1989	31	358,654
1990	15	120,121
1991	15	264,027
1992	20	266,629
1993	18	642,439
1994	30	903,304
1995	37	689,080
1996	48	958,805
1997	33	1,540,368
1998	31	597,479
1999	42	1,047,113

Year	Cases	Amounts
2000	30	167,363
2001	68	484,060
2002	56	1,122,328
2003	62	2,253,394
2004	47	331,803
2005	57	258,960
2006	33	611,711
2007	24	1,722,207
2008	35	548,855
2009	53	2,055,775
2010	75	1,864,652
2011	50	1,352,396
<b>Total</b>	<b>968</b>	<b>\$20,961,581</b>

# The Association of Certified Fraud Examiners Fraud Triangle



# What are internal controls?

In accounting and auditing, internal control is defined as a process effected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals and objectives. ~COSO

# Why are internal controls important?

Effective internal controls – if internal controls are established and working as designed, they will assist in:

- Safeguard public funds
- Protect employees
- Assist in fraud prevention and detection

# Designing internal controls

- It is management's responsibility to design effective internal controls
- It is management's responsibility to ensure internal controls are operating as designed
- When designing/establishing internal controls break the system into segments and for each consider:
  - Will I be able to identify a loss?
  - Will I identify the entire loss?
  - Will I be able to identify who is responsible?

# Designing internal controls

- Beware of “trusted employee syndrome”
- When designing internal controls don't forget the top of the organizational chart
  - Who typically has the easiest access to the most money?
- State Auditor's Office responsibility

# Fraud methods, utility system and cash receipting

- Two sets of receipts
- Check for cash substitution
- Cash receipts replaced with unanticipated checks
- Negative adjustments
- Lapping funds/skimming funds
- Voids
- Reprinting receipts
- Short or missing deposits

# **Fraud Investigation**

## **City of McCleary, utility system**

# City of McCleary, utility system

## Summary:

- Our investigation covered January 1, 2005 to April 10, 2010.
- Misappropriation totaled at least \$53,010.
- Questionable transactions \$403,799 local government utility system.
- Utility Account Manager had complete control over all aspects of utility operation.

## Schemes used:

- Manual warrants
- Negative cash receipts
- Negative billing adjustments
- Negative billings
- Negative credits
- Cash check substitution

# City of McCleary, utility system

How was it detected?

- The City's Clerk/Treasurer found unpaid balances in the Utility Account Manager's account which is in violation of City policy.
- City placed employee on administrative leave while it investigated.
- City notified our Office on April 16, 2010 of a potential loss of public funds.

# City of McCleary, utility system

The investigation found the former Utility Account Manager was primarily responsible for:

- Creating utility accounts.
- Receiving, depositing and posting utility payments.
- Generating and sending customer billings.
- Sending shut-off notices and collecting reinstatement fees.
- Posting adjustments to accounts.
- Making adjustments to customer's utility use.
- Writing City of McCleary checks for security deposit refunds.
- Posting security deposit refunds to accounts.
- Preparing and delivering daily deposit to the bank.
- Reconciling the cash drawer and cash-receipt journal report to utility payments.

# City of McCleary, utility system

## What did we find?

- We found the Utility Account Manager:
  - Used City money to pay her two utility accounts.
  - Wrote a City Check for a security refund, posted to a customer's account and then entered a negative adjustment to the account to take cash.
  - Entered negative cash receipt on a customer's account and took cash.
  - Entered negative adjustments to her account to reduce her balance.
  - Took shut-off fees.

# City of McCleary, utility system

Loss associated with:

- Former Utility Account Manager's accounts: \$5,724.59
- Third party confirmation on Security Refunds: \$5,198.08
- Unsupported negative cash receipts: \$41,587.23
- Shut off fees: \$500.00

**Total loss amount: \$53,009.90**

# City of McCleary, utility system

## Questionable transactions:

	2005	2006	2007	2008	2009	2010	Total
Negative cash receipts	19,319.89	18,378.44	34,893.73	21,858.64	43,157.72	3,431.33	\$141,039.75
Negative billing adjustments	58,624.46	32,181.44	30,989.10	11,540.33	25,265.62	13,812.40	\$172,413.35
Negative billing	1,443.82	14,794.57	10,416.78	8,481.27	1,843.98	590.38	\$37,570.80
Negative credit adjustments	20,230.75	0.00	25.02	0.00	196.43	0.00	\$20,452.20
	99,618.92	65,354.45	76,324.63	41,880.24	70,463.75	17,834.11	\$371,476.10
							Negative CR listed included in loss
							-\$41,587.23
							\$329,888.87
							City of McCleary checks
							\$73,910.24
							<b>Total questionable transactions</b>
							<b>\$403,799.11</b>

# Example of Evidence of Transaction 24

# Former employee utility accounts – Transaction 24

Account	Date	Tran Type	Tran Amt	Balance	Evidence No.	Payment Method	Loss Amt	Description
007240.3	2/3/2006	C/R	\$250.00	0.00	9	7922		AT Check
007240.3	2/8/2007	C/R	\$200.00	\$239.43	19	No checks	\$200.00	Neg CR \$200 – DatabasePrintout
007240.3	6/30/2007	BILL	\$72.02	\$72.02				
007240.3	7/3/2007	C/R	\$264.28	-\$192.26	24			Offset by next entry
007240.3	7/3/2007	C/R	\$-264.28	\$72.02	24			Reverse of prior entry
007240.3	7/3/2007	C/R	\$259.10	-\$187.08	24 +other acct	City check	\$259.10	259.10+280.90=540 CM cks
007240.3	7/31/2007	BILL	\$154.91	-\$32.17				
007240.3	8/21/2007	C/R	\$195.00	-\$227.17	25	City check	\$195.00	Plus city cks 390 and neg Cr 246
012135.1	6/30/2007	BILL	\$111.50	\$280.90				
012135.1	7/3/2007	C/R	\$280.90	\$0.00	24-other acct	No AT check	\$280.90	

# Evidence for Transaction 24

TRAN 24 Jul 3

CRT # Deposit Agree

Acct 007240.3	259.10	
012135.1	280.00	
	540.00	No AT cks

City of McCleary Cks

# 7973	195.00	
# 7972	195.00	
# 7974	150.00	
	540.00	

Neg Ckt (89.19)

Cash Payment	3795.83	
Disposal Sfy	3706.64	
diff	89.19	Short

	540.00	
	89.19	
	\$ 629.19	Loss

# Cash receipt journal tied to deposit detail

CITY OF MOCLERY  
Cash Receipts Journal  
07/03/2007 09:18:43  
FIRST THRU 09999.7  
07/03/2007 (H) 07/03/2007

AT Acct 7240.3 - \$259.10  
" 12135.1 - \$280.90  
649.00  
2ul3

ACCOUNT NO.	NAME	DATE	CODE						
001230.0	IMLER, KYLE AT	07/03/2007	1	ELECTRIC	.00	WATER	51.92	SEC. LIGHT	.00
		10040		SEWER	123.20	GARBAGE	.00	REFUSE TAX	.00
		C/R		PENALTY	10.11	OTHER	.00	MISC.	.00
				STORMWATER	6.60	UTILITY TAX	20.36	ENERGY CROD	.00
								TOTAL	302.19
								BALANCE	177.95
001290.1	TAKING CARE OF BEAUTY AT	07/03/2007	1	ELECTRIC	236.30	WATER	23.60	SEC. LIGHT	.00
		10009		SEWER	49.24	GARBAGE	.00	REFUSE TAX	.00
		C/R		PENALTY	.34	OTHER	.00	MISC.	.00
				STORMWATER	.00	UTILITY TAX	.97	ENERGY CROD	.00
								TOTAL	305.53
								BALANCE	236.45
002060.1	CATFELIN, JEFF AT	07/03/2007	1	ELECTRIC	190.90	WATER	.00	SEC. LIGHT	.00
		10017		SEWER	.00	GARBAGE	.00	REFUSE TAX	.00
		C/R		PENALTY	.00	OTHER	.00	MISC.	.00
				STORMWATER	.00	UTILITY TAX	.00	ENERGY CROD	.00
								TOTAL	190.90
								BALANCE	63.65
002060.1	CATFELIN, JEFF AT	07/03/2007	2	ELECTRIC	.00	WATER	.00	SEC. LIGHT	.00
		10053		SEWER	27.50	GARBAGE	23.25	REFUSE TAX	.52
		C/R		PENALTY	.00	OTHER	.00	MISC.	.00
				STORMWATER	.00	UTILITY TAX	12.20	ENERGY CROD	.00
								TOTAL	63.65
								BALANCE	.00
002125.0	VERMILLION MARK AT	07/03/2007	1	ELECTRIC	212.02	WATER	23.60	SEC. LIGHT	.00
		10067		SEWER	.00	GARBAGE	.00	REFUSE TAX	.00
		C/R		PENALTY	.00	OTHER	.00	MISC.	.00
				STORMWATER	3.30	UTILITY TAX	14.39	ENERGY CROD	.00
								TOTAL	254.11
								BALANCE	.00
003100.6	MICHELSON GARY AT	07/03/2007	1	ELECTRIC	75.05	WATER	23.60	SEC. LIGHT	.00
		10034		SEWER	61.60	GARBAGE	20.00	REFUSE TAX	1.01
		C/R		PENALTY	.00	OTHER	.00	MISC.	.00
				STORMWATER	3.30	UTILITY TAX	11.60	ENERGY CROD	.00
								TOTAL	203.00
								BALANCE	1.32
003150.0	KOHNEY, HENRYTH AT	07/03/2007	1	ELECTRIC	113.28	WATER	23.60	SEC. LIGHT	.00
		10054		SEWER	45.20	GARBAGE	10.99	REFUSE TAX	.65
		C/R		PENALTY	.00	OTHER	.00	MISC.	.00
				STORMWATER	3.30	UTILITY TAX	12.32	ENERGY CROD	.00
								TOTAL	210.37
								BALANCE	.00

CA 449.51

# Cash receipt journal tied to deposit detail

CITY OF MCCLERRY											
Cash Receipts Journal											
07/03/2007 09:18:43											
FIRST THRU 099999.7											
07/03/2007 HRU 07/03/2007											
AT										PAGE	5
ACCOUNT NO.	NAME	DATE	CODE								
007240.3	TAYLOR ARDYCE AT	07/03/2007 10030 C/R	1	ELECTRIC SEWER PENALTY STORMWATER	233.30 .00 .00 3.30	WATER GARBAGE OTHER UTILITY TAX	23.60 .00 .00 4.00	SEC. LIGHT REFUSE TAX MISC. ENRGY CRDT TOTAL BALANCE	.00 .00 .00 .00 264.28 192.26-		
007240.3	TAYLOR ARDYCE AT	07/03/2007 10000 C/R	2	ELECTRIC SEWER PENALTY STORMWATER	264.28- .00 .00 .00	WATER GARBAGE OTHER UTILITY TAX	.00 .00 .00 .00	SEC. LIGHT REFUSE TAX MISC. ENRGY CRDT TOTAL BALANCE	.00 .00 .00 .00 264.28- 72.02	offset	
007240.3	TAYLOR ARDYCE AT	07/03/2007 10201 C/R	3	ELECTRIC SEWER PENALTY STORMWATER	226.12 .00 .00 3.30	WATER GARBAGE OTHER UTILITY TAX	23.60 .00 .00 4.00	SEC. LIGHT REFUSE TAX MISC. ENRGY CRDT TOTAL BALANCE	.00 .00 .00 .00 259.10 187.08-		
007350.2	HARRIS EILEEN AT	07/03/2007 10002 C/R	1	ELECTRIC SEWER PENALTY STORMWATER	.00 103.33 9.50 6.60	WATER GARBAGE OTHER UTILITY TAX	.00 56.08 .00 21.69	SEC. LIGHT REF-USE TAX MISC. ENRGY CRDT TOTAL BALANCE	.00 2.02 .00 .00 199.42 190.53	CA	
007360.0	DAY, RONALD AT	07/03/2007 10003 C/R	1	ELECTRIC SEWER PENALTY STORMWATER	62.29 61.60 .00 3.30	WATER GARBAGE OTHER UTILITY TAX	23.60 10.99 .00 10.17	SEC. LIGHT REFUSE TAX MISC. ENRGY CRDT TOTAL BALANCE	.00 .00 .00 .00 180.65 .00	X	
007400.0	REED, DAVID AT	07/03/2007 10025 C/R	1	ELECTRIC SEWER PENALTY STORMWATER	101.74 46.20 .00 3.30	WATER GARBAGE OTHER UTILITY TAX	23.60 18.99 .00 11.63	SEC. LIGHT REFUSE TAX MISC. ENRGY CRDT TOTAL BALANCE	.00 .00 .00 .00 285.14 .00	X	
007490.1	SCOTT KATHLEEN AT	07/03/2007 10012 C/R	1	ELECTRIC SEWER PENALTY STORMWATER	.00 86.32 8.16 .00	WATER GARBAGE OTHER UTILITY TAX	.00 56.08 .00 18.84	SEC. LIGHT REFUSE TAX MISC. ENRGY CRDT TOTAL BALANCE	.00 2.02 .00 .00 171.42 171.63	CA	

AT 259.10

CA 370.84

# Cash receipt journal tied to deposit detail

CITY OF McCLEARY									
Cash Receipts Journal									
07/03/2007 09:18:43									
FIRST THRU 099999.7									
07/03/2007 THRU 07/03/2007									
AT	PAGE 13								
ACCOUNT NO.	NAME	DATE	CODE						
015300.5	ANDERSEN TOM AT	07/03/2007	1	ELECTRIC	.46	WATER	47.20	SEC. LIGHT	.00
		10039		SEWER	123.20	GARBAGE	37.98	REFUSE TAX	1.36
		C/R		PENALTY	12.70	OTHER	.00	MISC.	.00
				STORMWATER	6.60	UTILITY TAX	24.52	ENRGY CRDT	.00
								TOTAL	250.02
								BALANCE	206.85
TOTAL ACCOUNTS	85			ELECTRIC	5,991.68	WATER	1,537.47	SEC. LIGHT	.00
				SEWER	3,213.99	GARBAGE	1,287.62	REFUSE TAX	44.31
				PENALTY	363.59	OTHER	.00	MISC.	.00
				STORMWATER	224.40	UTILITY TAX	979.45	ENRGY CRDT	.00
								TOTAL	13,642.51

\$13,642.51

*Payments*  
 Total Cash 3,795.83 CA  
 Neg CR (89.19) shorted Deposit  


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 3,706.64 Deposit Slip Amt

AT Acct  
 007240.3 259.10  
 012135.1 280.90  


---

 \$540.00

City of McCleary Cks  
 # 7973 195.00  
 # 7972 195.00  
 # 7974 150.00  


---

 \$540.00

# Deposit detail tied to cash receipt journal

24  
3/3

\$13,642.51

## Sterling Savings Bank

We are happy to provide you with a copy of the items you requested.

<p>CK# , Acct# 51460102857, Amt. \$13,642.51</p>	<p>Sorry, this item's image is not available. If needed, please call the above customer service phone number.</p> <p>CK# , Acct# 994870000, Amt. \$0.25</p>
<p>CASH IN DEBIT McCLEARY 07/25/07 \$2,706.64</p> <p>CK# , Acct# 4309, Amt. \$2,706.64</p>	<p>4146 \$175.90 City of McCleary ONE HUNDRED SEVENTY FIVE AND 90/100 Michael J. Mallonee</p> <p>CK# 4146, Acct# 709160404909, Amt. \$175.90</p>
<p>13907 \$206.14 City of McCleary Two Hundred Six and 14/100 Doreen J. Gabel</p> <p>CK# 3907, Acct# 709169215645, Amt. \$206.14</p>	<p>3344 \$103.34 John G. Graham One Hundred Three and 34/100 Doreen J. Gabel</p> <p>CK# 3344, Acct# 59990020267, Amt. \$103.34</p>

# Deposit detail tied to cash receipt journal

## Sterling Savings Bank

We are happy to provide you with a copy of the items you requested.

WALTER H. COOPER  
SITAMIA M. COOPER  
DORIS J. COOPER  
11715  
6-22-07  
City of McLary \$176.52  
BAC Homebased Security Svc and Fee  
WSECU  
26 Lakes Rd. Waltham, MA  
13251810287 104001650720 11715

CK# 11715, Acct# 109001650720, Amt. \$176.53

WARDEN RENTALS  
4027  
July 2, 2007  
City of McLary \$344.80  
First of Bank of the Pacific  
PACIFIC BANK  
10340 270 13251810287 51460100909

CK# 4027, Acct# 51460100909, Amt. \$344.80

CITY OF McCLARY  
7973  
4/28/07  
City of McLary \$198.00  
STERLING BANK  
1007973 13251819408 51460102657

CK# 7973, Acct# 51460102657, Amt. \$198.00

CITY OF McCLARY  
7974  
6-29-07  
City of McLary \$150.00  
STERLING BANK  
1007974 13251819408 51460102657

CK# 7974, Acct# 51460102657, Amt. \$150.00

total \$540  
No names found agree to athletic acc'ts

CITY OF McCLARY  
7972  
4/28/07  
City of McLary \$195.00  
STERLING BANK  
1007972 13251819408 51460102657

CK# 7972, Acct# 51460102657, Amt. \$195.00

CITY OF McCLARY  
7971  
6-28-07  
City of McLary \$195.00  
STERLING BANK  
1007971 13251819408 51460102657

CK# 7971, Acct# 51460102657, Amt. \$195.00

# Sample of negative credit schedule

## Loss \$41,587 of the \$141,040

Utility Account	Date	Transaction Type	Transaction Amount	Misappropriation
001040.0	6/11/2008	C/R	(256.23)	(256.23)
001130.3	1/19/2010	C/R	(195.00)	(195.00)
001170.1	5/4/2007	C/R	(27.35)	(27.35)
001170.5	12/15/2005	C/R	(40.00)	
001170.5	1/11/2007	C/R	(20.00)	
001170.5	6/10/2008	C/R	(20.00)	
001185.0	10/18/2005	C/R	(355.57)	
001185.0	11/3/2006	C/R	(45.15)	(45.15)
001240.0	4/3/2008	C/R	(12.56)	(12.56)
001240.1	4/20/2009	C/R	(317.95)	(317.95)
001240.1	6/4/2009	C/R	(226.50)	(226.50)
001250.0	9/9/2009	C/R	(669.18)	(669.18)
001270.0	3/17/2006	C/R	(1,776.96)	
001270.0	8/24/2009	C/R	(180.00)	
001270.5	2/8/2007	C/R	(200.00)	(200.00)
013450.1	7/3/2007	C/R	(89.19)	(89.19)

# City of McCleary, utility system

The following internal control weaknesses allowed the fraud to be concealed:

- Allowed multiple cashiers to use the same cash drawer, which makes it difficult to determine who is responsible when a misappropriation occurs.
- Did not properly segregate duties. One person received cash, prepared the deposit, delivered the deposit to the bank and posted payments to the utility accounts.
- Did not write receipts showing the type of payment (cash and check) received. Therefore the City could not determine the total cash and checks that should have been in the drawer at any given time.

# City of McCleary, utility system

- Did not make daily deposits.
- Did not perform adequate month-end bank reconciliations.
- Did not ensure that a person independent of utility activity printed and reviewed adjustment reports, creating the risk of unapproved adjustments to accounts.
- Did not properly make or review adjustments to accounts. The former Utility Account Manager used negative cash receipts which would not show up in a normal adjustment report and therefore may go undetected.

# City of McCleary, utility system

The following are some of the accounting system weaknesses that helped conceal the fraud:

- Billing statements contained limited information for customers – what is owed with no information regarding previous balance, adjustments or payment made.
- CRJ reports could not be regenerated once printed.
- No exception reports generated when adjustments made to accounts.
- Inactive Utility accounts could be made active and then inactive.
- No backup of system.

# City of McCleary, utility system

What happened to the employee?

- The former Utility Account Manager was terminated from her position.
- Investigation was forwarded to the Grays Harbor County Prosecuting Attorney's Office and Sheriff Office.

# City of McCleary, utility system

## Lessons learned:

- The former employee was a trusted employee who had been with the City for more than 14 years as a clerk or the Utility Account Manager.
- The former employee had full control over all utility accounts, collection, write-offs, adjustments, daily reconciliations, writing City checks, payroll processing and unrestricted computer system access and authority to perform any function.
- No cross-training – wanted complete control.
- Ensure system reports are run daily and system back-ups are performed.
- Former and Current City Clerk Treasurer provided limited oversight and monitoring.

## Summary

- Our investigation covered September 2008 – June 2011
- Misappropriation totaled at least \$16,175.
- Questionable transactions of \$31,531.

## How was it detected?

- Our Office received a whistleblower assertion that parking garage attendants were not depositing all money collected in College accounts.
- In November 2010, the community college installed a computerized parking system and in June 2011 installed video equipment in the parking booth.
- During our review of the parking system and video, we found one parking attendant voided parking tickets and kept an equivalent amount of cash.
- We found a second parking attendant reprinted tickets that had already been sold to customers and sold them a second time to a different customer. He kept an equivalent amount of cash.

## What was found?

- We found the first parking attendant misappropriated \$13,110 in a five week period.
- We found the second parking attendant misappropriated \$3,065 in a single day.
- We could not confirm additional misappropriations due to our reliance on the computer records and video which were only recently installed. However, we estimate a loss of \$31,532 between September 2008 through November 2010.

# Community College – Evidence of Voids

Host: Jay Ticket#6034	IBER.PRT 06/06/2011 9:28 AM 60035	
Daytime Parking (Void)Daytime Parking	-10.00 -10.00	
Subtotal	0.00	
Parking T6 Total	0.00	
The Buzz Thank you! Come Again!		
--- Check Closed --- 1701 Broadway #BE1143 Seattle, WA 98122		
Host: Jay Ticket#6035	06/06/2011 9:41 AM 60036	
Subtotal	0.00	
Parking T6 Total	0.00	
The Buzz Thank you! Come Again!		
--- Check Closed --- 1701 Broadway #BE1143 Seattle, WA 98122		
Host: Jay Ticket#6036	06/06/2011 9:47 AM 60037	
Daytime Parking (Void)Daytime Parking	-10.00 -10.00	
Subtotal	0.00	
Parking T6 Total	0.00	
The Buzz Thank you! Come Again!		
--- Check Closed --- 1701 Broadway #BE1143		

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*Handwritten notes:*

- ← this one is @ ~~9:33:2~~ 9:33:2
- Void #3 makes a mark
- \$10 parking tickets issued and given to customers, then voided.
- 9:52:10 @ 41 void.
- 9:52:42
- Void #4
- open drawer manually car there makes a mark. 9:53:32

# Community College – Evidence of Reprints

1 - Seattle CC Auxiliary Services  
1701 Broadway #BE1143  
Seattle, WA 98122

**Audit Report**  
Date of Business: 06/25/2011

Page 1  
06/09/2011 — 1:02 PM  
64.80

Time	Type	Transaction
10:03 AM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6004 Chk:60005 Printed 1 time(s)
10:17 AM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6005 Chk:60006 Printed 1 time(s)
12:05 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6019 Chk:60020 Printed 1 time(s)
12:28 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6023 Chk:60024 Printed 1 time(s)
12:30 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6027 Chk:60028 Printed 1 time(s)
12:54 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6030 Chk:60031 Printed 1 time(s)
05:16 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6032 Chk:60032 Printed 1 time(s)
05:20 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6033 Chk:60035 Printed 1 time(s)
05:20 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6034 Chk:60035 Printed 1 time(s)
05:21 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6035 Chk:60038 Printed 1 time(s)
05:22 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6037 Chk:60038 Printed 1 time(s)
05:23 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6038 Chk:60039 Printed 1 time(s)
05:24 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6039 Chk:60040 Printed 1 time(s)
05:25 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6041 Chk:60042 Printed 1 time(s)
05:26 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6042 Chk:60043 Printed 1 time(s)
05:30 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6043 Chk:60044 Printed 1 time(s)
05:31 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6044 Chk:60045 Printed 1 time(s)
05:32 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6045 Chk:60046 Printed 1 time(s)
05:33 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6046 Chk:60047 Printed 1 time(s)
05:35 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6047 Chk:60048 Printed 1 time(s)
05:37 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6050 Chk:60051 Printed 1 time(s)
05:37 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6051 Chk:60052 Printed 1 time(s)
05:39 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6052 Chk:60053 Printed 1 time(s)
05:39 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6053 Chk:60054 Printed 1 time(s)
05:39 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6054 Chk:60055 Printed 1 time(s)
05:39 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6055 Chk:60056 Printed 1 time(s)
05:39 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6056 Chk:60057 Printed 1 time(s)
05:39 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6057 Chk:60058 Printed 1 time(s)
05:39 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6058 Chk:60059 Printed 1 time(s)
05:39 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6059 Chk:60060 Printed 1 time(s)
05:39 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6060 Chk:60061 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6061 Chk:60062 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6062 Chk:60063 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6063 Chk:60064 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6064 Chk:60065 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6065 Chk:60066 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6066 Chk:60067 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6067 Chk:60068 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6068 Chk:60069 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6069 Chk:60070 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6070 Chk:60071 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6071 Chk:60072 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6072 Chk:60073 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6073 Chk:60074 Printed 1 time(s)
05:40 PM	PRINT CHECK	Emp: 8396 MAX printed Ticket#6074 Chk:60075 Printed 1 time(s)

A parking ticket is generated and purchased by a customer. Later, parking attendant reprints the ticket and sells them for cash. This ticket was reprinted 46 times.



How was the fraud concealed?

- The previous supervisor did not monitor parking revenue nor did he put internal controls in place to ensure parking revenue was appropriately deposited.
- A new supervisor was promoted to manage the parking garage. Under his supervision, the installation of the parking system and the video equipment occurred. These changes made it possible for us to identify the theft.

## What happened to the employees?

- The first parking attendant was terminated from his position after he confessed to the theft.
- The second parking attendant did not confess to the theft, but based on the evidence and his temporary employment status, he was also terminated from his position.

## Thurston County Cemetery District No. 2

# Thurston County Cemetery District No. 2

## Summary

- Cash receipts, credit card charges, and payroll
- Our investigation covered October 1, 2001 to April 30, 2011
- Misappropriation totaled at least \$62,068

# Thurston County Cemetery District No. 2

## How was it detected?

- Citizen contacted our Office with a concern that the Cemetery Superintendent was using District resources for personal use and was using public money to advertise his personal business.
- The Thurston County Treasurer's Office, which is the bank for the District, also informed us that the Superintendent was depositing personal checks into the cemetery account.

# Thurston County Cemetery District No. 2

## What did we find?

- We found the Superintendent deposited District funds into his personal checking account. When he did deposit money due to the District, he would use a personal check and did not deposit the full amount into the District's account.
- In addition, the Superintendent gave himself an unauthorized pay increase, employee benefits and credit card reimbursements.

Method	Amount
Cash receipts not deposited	\$41,925
Credit card reimbursement double payments	\$1,011
Unauthorized pay increase	\$1,612
Unauthorized employee benefit payments	\$17,520
<b>Total</b>	<b>\$62,068</b>

# Thurston County Cemetery District No. 2

## How was the fraud concealed?

- The former District Superintendent kept two sets of receipt books. One set belonged to the District. He used the other for his monument and headstone business.
- He deposited District funds in a personal checking account then used personal checks to deposit District funds with the County Treasurer. However, he did not deposit the full amount due to the District in its account.

# Thurston County Cemetery District No. 2

## What happened to the employee?

- The former District Superintendent was terminated.
- Investigation were forwarded to the Thurston County Prosecuting Attorney's Office.

# Thurston County Cemetery District No. 2

## Lessons learned:

- Former District Superintendent used the cemetery office and ground for both District business and his personal business.
- There was a lack of Board oversight and monitoring.
- The District had no formal policies and procedures in place to cover daily operations such as cash receipting, purchases, employee reimbursement, credit cards, and payroll. It operated on verbal agreements.

# Other investigations, cash receipting

- Voided and reprinted parking tickets
- Voided court order restitution
- Lapping of receipts
- Shorting deposits
- Unanticipated receipts

# Cash receipting internal controls

- Compare bank deposits to cash receipt records and verify the mode of payment agrees.
- Review voided transactions to ensure they are supported and legitimate.
- Perform surprise cash counts.
- Get a handle of unanticipated revenues.
- Look for missing deposit slips.
- Look for unusual void activity by employee or department.

# Cash receipting internal controls

- Create and review error reports
- Look for unusual journal entries
- Follow up on unusual over/short cash receipting activity
- Review for inventory discrepancies. Verify inventory records reconcile with use
- Look for deposits not made daily or intact
- Cash deposits differ from normal patterns
- Know the universe of what you are reviewing

# Cash receipting internal controls

- Preliminary vs. final reports: know what you are reviewing.
- Call your software company and inquire about known system weaknesses (receipt posting dates, ability to reprint receipts, etc.)
- Understand what could happen with software weaknesses – test them yourself.
- Look for negative cash receipts.
- Look for billing and credit adjustments.
- Look for hidden rows/columns.
- Know who is receiving calls regarding account/billing/receipting complaints.

# Cash receipting internal controls

- Safeguard and limit access to receipts awaiting deposit. How long has it been since the safe combination was changed?
- Know if electronic key access – who?
- Perform a periodic “look back” of revenues. Do they make sense given your understanding of the operations?
- Review receipt sequence. Are receipts used in sequential order? Are all the receipt numbers accounted for?
- Review bank reconciliations. Are they timely? Do reconciling items make sense? Why so many outstanding items?

# Cash receipting internal controls

- Spot check customer accounts, such as utilities. Are payments posted timely to the correct account in the correct amount?
- Customer billings should detail the prior balance, payments made, adjustments to the account and the current amount due.
- Review security deposit refunds.
- Review employee account activity.
- Review or spot check security footage.

# Payments

- Account payable/vouchers
- Manual warrants
- Electronic transfers
- Employee reimbursements
- “Other” accounts
  - Advance travel account
  - Revolving/Imprest account

## Summary

- Payments
- Our investigation covered August 1, 2006 to July 31, 2011
- Misappropriation totaled at least \$73,086

## How was it detected?

- The Association's Executive Director retired in June 2011. The newly hired Executive Director reorganized and reduced the Association's staffing structure.
- We were contacted by the Association's new Executive Director who found possible irregularities in the accounting system.
- We found the former Financial Operations Manager had written and printed five checks to herself totaling \$4,957.

# Washington Association of County Officials

## What did we find?

- We compared information from the Association's accounting system to the actual redeemed checks dating back to 2006. We found checks totaling \$67,086 that the former Financial Operations Manager wrote to herself, endorsed and deposited into her personal account.
- We found \$6,000 was misappropriated from the Association's non-profit scholarship fund using the same method.

Year	Amount
2007	\$2,714.37
2008	\$21,694.23
2009	\$28,924.17
2010	\$14,796.27
2011	\$4,957.15
<b>Total</b>	<b>\$73,086.19</b>

## How was the fraud concealed?

- The former Financial Operations Manager wrote checks to herself and then either voided the checks or changed the vendor names in the accounting system.
- Some signatures on the checks were not authentic. Each of the five checks written in 2011 contained the signature of the new Executive Director, who examined the signature and stated he had not signed the checks.

## What happened to the employee?

- Law enforcement officers informed our Office the former Financial Operations Manager stated she had misappropriated funds but had not forged signatures.
- The former Financial Operations Manager faces charges of first-degree theft and will be arraigned in Thurston County Superior Court.

# Washington Association of County Officials

## Lessons learned:

- The former Financial Operations Manager was given complete and exclusive control of the Association's finances with almost no oversight or independent review.
- The former Executive Director signed blank checks for the former Financial Operations Manager with no review of the supporting documentation.
- During Association conferences, cash and checks for the scholarship fund were handed to the former Financial Operations Manager who did not account for the money with a donor receipt or any other method.

## Summary

- Our investigation covered January 1, 2008 to June 30, 2011
- Misappropriation totaled at least \$132,838
- Questionable transactions of \$9,613

## How was it detected?

- In November 2010, a citizen contacted the City with information about the fraud. The City conducted an initial investigation and could not find merit to the complaint.
- In January 2011, a citizen contacted our Office regarding the same matter. We asked the City to conduct another investigation. The City's investigation found a loss of \$90,791 and \$119,462 in questionable transactions.
- We reviewed the City's investigation and performed additional procedures and found misappropriations of \$132,838 and \$95,977 in questionable transactions.

## What was found?

- We found an employee (without detection):
  - Established fictitious vendors
  - Created fictitious invoices to generate home repair payments for clients that didn't exist. Company "owner" is employee's friend.
  - Altered personal vehicle repair invoices (customer name & license plate number) and submitted for payments on behalf of clients that didn't exist.
  - Altered owner names on print screens of Assessor's website to generate and support payments to a fictitious landlord on behalf of clients that didn't exist. Fictitious landlord is employee's friend.
  - Purchased several \$200 gift cards for fictitious clients and used them for personal purchases.
  - Credit card was used for personal expenses, including meals, car payments and gasoline purchases.

## What was found?

- We found the Program Manager misappropriated funds by authorizing payments and using his work credit card to pay:
  - A fictitious vendor \$90,791.62
  - For vehicle repairs of \$16,658.87 to repair his personal vehicle and vehicles of his spouse, a friend and a relative.
  - A friend \$13,000 for rent on behalf of clients when a friend did not own the property.
  - \$4,473.16 to vendors for client assistance. This included \$2,220 characterized as rent for an individual who had been incarcerated the last 14 years.

## What was found?

- \$3,004.42 for personal car payments.
- A friend \$2,500 to perform repairs on his home.
- \$167.80 in airfare for a relative's personal trip.
- For gasoline totaling \$2,242.01 when he was not in travel status.

# City – Evidence of fictitious vendor

**INVOICE**

**A & F Quality Service**  
*If It Isn't Quality It Isn't A&F!*  
 6824 19<sup>th</sup> St. West.  
 PMB# 207  
 University Place, Wa. 98466  
 Phone: (206) 731-9301  
 aandfqualityservices@hotmail.com

INVOICE # 4469  
 DATE: 09/8/10

TO Kinship Program  
 Fax: (206) 448-5748  
 Customer ID :Kinship1

PAYMENT METHOD	PAYMENT TERMS	JOB
	Due on receipt	

QTY	ITEM #	DESCRIPTION	UNIT PRICE	DISCOUNT	LINE TOTAL
1		Fence repair 22` (lumber not provided) Complete yard once over ( mowing, weed removal, 4 bags of bark, brush removal- 2 truck load) Replaced shower wall (Master bathroom) Painted master bathroom (paint provided)	\$1480.37		\$1480.37
<b>TOTAL DISCOUNT</b>					
<b>SUBTOTAL</b>					
<b>SALES TAX</b>					
<b>TOTAL</b>					<b>\$1480.37</b>

A&F Quality Services is not a valid company – Invoices were created.

Always close to \$1,500 limit per client. This one is \$1,480.

# City – Evidence of vehicle repairs

**Cascade's Auto Repair**  
 3100 Beacon road S  
 Renton, WA 98058  
 Phone: (206) 271-1246  
 Fax: (206) 271-1246  
 Inspection - Maintenance - Repair  
 European \* Japanese \* All US made

**Estimate**  
 Number: E198  
 Date: May 19, 2009

*falsified 1/4* → **CARMEN PHILLIPS**  
 1123 n 5TH Place  
 Renton, WA 98056

*deleted* → *Where quality-satisfaction  
 And cost less.*

YEAR - MAKE - MODEL	LICENSE No.	ODOMETER	WRITTEN BY
2003 Ford Taurus Wagon	...	135K+	

DESCRIPTION OF PARTS & LABOR	QUANTITY - HOURS	PRICE	TAX	AMOUNT
REPLACE COIL SPRING CONVERSION KIT, WITH EXCLUSIVE EAS OVERRIDE MODULE, PART AND LABOR	1.00	1,499.00	✓	1,499.00
HAZARDOUS MATERIALS + SHOP SUPPLIES	1.00	11.50	✓	11.50

*falsified* → **Thank you for your business..**

NEED DEPOSIT \$ 500

Sub-Total	\$1,510.50
State Tax 9.50% on 1,510.50	143.50
<b>Total</b>	<b>\$1,654.00</b>

... WE DO NOT GUARANTEE THE QUALITY OF REPAIR WORK TO BE DONE UNLESS WE ARE THE ASSIGNED CONTRACTOR AND WE HAVE OBTAINED YOUR APPROVED WORK PERMITS AND PERMISSION TO OPERATE THE CAR, TRUCK OR VEHICLE THEREIN. WE ARE NOT RESPONSIBLE FOR ANY DAMAGE TO YOUR VEHICLE OR TO THE PERSONS OR PROPERTY OF ANY OTHER PERSONS. WE ARE NOT RESPONSIBLE FOR ANY DAMAGE TO YOUR VEHICLE OR TO THE PERSONS OR PROPERTY OF ANY OTHER PERSONS. WE ARE NOT RESPONSIBLE FOR ANY DAMAGE TO YOUR VEHICLE OR TO THE PERSONS OR PROPERTY OF ANY OTHER PERSONS.

Original invoice altered to show the name of a client.

Original invoice altered to show a fabricated license plate.

# City – Evidence of vehicle repairs

## Cascade's Auto Repair

3100 Benson road S  
 Renton, WA 98058  
 Tel: (425) 271-7228  
 Fax: (425) 271-7246  
 Inspection – Maintenance – Repair  
 European \* Japanese \* All US made

## Invoice

Number: 5157  
 Date: May 21, 2009

SHANE WILSON  
 11503 SE 169TH ST  
 RENTON WA 98055  
 206-240-4578

Where quality-satisfaction  
 And cost less.

YEAR - MAKE - MODEL	LICENSE No.	ODOMETER	WRITTEN BY
99 RANGE ROVER 4.6	069-VDJ	135K+	

DESCRIPTION OF PARTS & LABOR	QUANTITY - HOURS	PRICE	TAX	AMOUNT
REPLACE COIL SPRING CONVERSION KIT, WITH EXCLUSIVE EAS-OVERRIDE MODULE, PART AND LABOR	1.00	1,499.00	✓	1,499.00
HAZARDOUS MATERIALS + SHOP SUPPLIES	1.00	11.50	✓	11.50

Thank you for  
 your business..

Sub-Total \$1,510.50  
 State Tax 9.50% on 1,510.50 ~~143.50~~  
 Total \$1,654.00

I HEREBY AUTHORIZE THE ABOVE REPAIR WORK TO BE DONE ALONG WITH THE NECESSARY MATERIALS, AND HEREBY GRANT YOU AND/OR YOUR EMPLOYEES PERMISSION TO OPERATE THE CAR, TRUCK OR VEHICLE HEREIN DESCRIBED ON 5-TREES, HIGHWAY OR ELSEWHERE FOR THE PURPOSE OF TESTING AND/OR INSPECTION. AN EXPRESS MECHANIC LIEN IS HEREBY ACKNOWLEDGE ON ABOVE CAR, TRUCK OR VEHICLE TO SECURE THE AMOUNT OF REPAIR HEREON.

WE ARE NOT RESPONSIBLE FOR PERSONAL ITEMS LEFT IN CAR FROM FIRE OR THEFT AT THE TIME CAR, TRUCK OR VEHICLE DROP OFF FOR SERVICE.

AUTHORIZED BY:

\$ 1500.00

DALD

COPY

Real invoice obtained from vendor showing real customer and real license plate. Name is subject's spouse.

# City – Evidence of vehicle repairs

Washington Dept of Licensing - Vehicle Records and Public Disclosure

Page 1 of 1

Department of Licensing shows the owner of the vehicle with license plate is subject's spouse

```
WADP069VDJ
LIC: 069VDJ EXP-DT: 04082011 ISSUE-DT: 052006 YR/MK: 1999/LNDR
P/USE:GPAS DEPR:1 TAX: VYR/VCDE:1999 057000. SERIES:ROVSW MOD:HSE BT:4R
SCALE: 04960 GWT: 000000 MG: 00 GWT-EXP: 00000000 GVWR:2 TL:1103951010
DRJ: CO/AG:40 00 XFERDT:05102006 SPCL LIC: VIN:SALPV1444XA410932
REMARKS:
TABE IS V827663 11 REGISTERED OWNER:
PREV TAB M146873 10 WILSON, SHANE
CENTENNIAL PLATE 10805 E 32ND AVE
WA 992067100

LEGAL OWNER:
WFS FINANCIAL INC
PO BOX 19733
IRVINE CA 92623

CUR ODOMETER PREV REGIS OWNER OPT MAIL ADDRESS
A 0086552

CURR VIN: SALPV1444XA410932 TITLE #: 1103951010 SGT/DATE: WA 02/09/2011
PREV VIN: SALPV1444XA410932 TITLE #: 0613023935 SGT/DATE: WA 08/11/2006
DATE: 09/07/2011 TIME: 16:19
PLATE: 069VDJ V E H I C L E B R A N D S
JURIS DESCRIPTION INCIDENT DATE SOURCE
```

# City – Evidence of rent payments

Mary Dillon  
12050 Seventh Ave NW  
Seattle, WA 98177

## Notice to Pay Rent or Quit

September 2, 2008

To Mary Dillon

and all other tenants in possession of the hereinafter described premises:

PLEASE TAKE NOTICE that the rent is past due on said premises which you currently hold and occupy. Your rental account is delinquent in the amount itemized as follows:

Rental period:	7/01/08 – 7/31/08	Rent due: \$1,100.00
Rental period:	8/01/08 – 8/31/08	Rent due: \$1,100.00
Total rent due:	\$2,200.00	
Less partial payment of:	\$800.00	
Total balance due:	\$1,400.00	

Pursuant to written lease dated Tuesday April 3, 2007 you are hereby required to pay said rent on said premises or you are hereby required to deliver up possession of the premises, within 7 days after service on you of this notice, to the undersigned or the undersigned will institute legal proceedings against you, to declare a forfeiture of the lease under which you occupy said premises and to recover possession thereof, including rents and damages.

Aaron Reader  
2211 S Starlake Rd  
Federal Way, WA 98003

Fabricated Notice to Pay Rent or Vacate – Address is 12050 7<sup>th</sup> Ave. Seattle.

Landlord represented as Aaron Reader

# City – Evidence of rent payments

HOME NEWS SERVICES DIRECTORY CONTACT Search

## King County Department of Assessments

Fair, Equitable, and Understandable Property Valuations  
You're In: Assessments == Online Services == Real Property

New Search Property Tax Bill Map This Property Glossary of Terms Area Report Property Detail

**PARCEL**

Parcel Number: 093000-0380  
Name: DILLON LAWRENCE V+MARY ELLE  
Site Address: 12050 7TH AVE NW 98177  
Legal: BONNIE VIEW PARK ADD

*Any relation to Aaron Reader?*

**BUILDING 1**

Year Built	1937
Total Square Footage	1000
Number Of Bedrooms	2
Number Of Baths	1.75
Grade	6 Low Average
Condition	Good
Lot Size	6120
Views	Y
Waterfront	



**TOTAL LEVY RATE DISTRIBUTION**

Tax Year: 2011 Levy Code: 0010 Total Levy Rate: \$9.05803 Total Senior Rate: \$7.09580

City 3.06056 31.56%  
School 2.36509 24.26%  
EMS 0.30000 3.11%  
Fire 0.16276 1.14%  
Consolidated 3.01172 28.76%

26.63% Voter Approved

**TAX ROLL HISTORY**

Valued Year	Tax Year	Appraised Land Value	Appraised Imps Value	Appraised Total	Taxable Land Value	Taxable Imps Value	Taxable Total
2010	2011	\$198,000	\$79,000	\$272,000	\$198,000	\$78,000	\$272,000
2009	2010	\$198,000	\$78,000	\$272,000	\$198,000	\$78,000	\$272,000
2008	2009	\$200,000	\$160,000	\$360,000	\$200,000	\$160,000	\$360,000
2007	2008	\$176,000	\$141,000	\$319,000	\$176,000	\$141,000	\$319,000
2006	2007	\$159,000	\$124,000	\$283,000	\$159,000	\$124,000	\$283,000
2005	2006	\$151,000	\$116,000	\$266,000	\$151,000	\$115,000	\$266,000
2004	2005	\$140,000	\$107,000	\$247,000	\$140,000	\$107,000	\$247,000
2003	2004	\$140,000	\$131,000	\$271,000	\$140,000	\$131,000	\$271,000
2002	2003	\$135,000	\$126,000	\$260,000	\$135,000	\$126,000	\$260,000
2001	2002	\$123,000	\$113,000	\$236,000	\$123,000	\$113,000	\$236,000
2000	2001	\$108,000	\$102,000	\$210,000	\$108,000	\$102,000	\$210,000

King County Assessor's Office states owners of 13211 15<sup>th</sup> Ave. is Lawrence and Mary Dillon.

# City – Evidence of missing gift cards



**Washington State Auditor  
Brian Sonntag**

July 15, 2011

Lola Blocker  
149 SW 160th St No. 36  
Burien, WA 98166

Dear Ms. Blocker:

We are investigating a matter involving public funds paid to Senior Services of King County. Specifically, we are determining whether it properly accounted for gift cards. Please answer the question below and return this in the self-addressed pre-stamped envelope by **July 31, 2011**.

I received a Walmart \$200 gift card on or around October 14, 2008.

Yes, that is correct.  
 No, that is not correct.

If you have any questions about this request, please call Kim Hurley, Special Investigations Manager at (360) 725-5352. Thank you for your assistance.

Sincerely,

**JIM BRITTAIN, CPA**  
DIRECTOR OF SPECIAL INVESTIGATIONS

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388  
FAX (360) 753-0646 • <http://www.sao.wa.gov>

Many clients answered confirmations indicating they did not receive gift cards.

# City – Evidence of improper use of card

**WELLS FARGO**

WELLS FARGO BUSINESS DIRECT  
PO BOX 90003  
SALT LAKE CITY UT 84109

**RECEIVED**  
MAR 17 2011  
prop code

MAR 26  
By KM (at)

Account Number [REDACTED]  
Statement Date 03/11/11

INFORMATIONAL ONLY STATEMENT  
DO NOT PAY

GREGORY TOWNSEND  
SENIOR SERVICE  
12208 2ND AVE STE 100  
SEATTLE WA 98121-2055

Please return to A/P by 3/24/11

No receipts attached

Post Date	Tran Date	Reference Number	Transaction Description	Amount
02-16	02-13	051004210044100020102890	CHEVRON 6000114 RENTON WA	40.01 ✓
02-16	02-12	05104811041800018300236	ISLAND SOUL, LLC SEATTLE WA	148.20 ✓
02-18	02-17	05190771040200055100302	LA TAQUERIA OLYMPIA WA	40.07 ✓
02-18	02-17	05110011040142001520030	WAL-MART #2518 RENTON WA	59.10 ✓
02-20	02-10	054101010400120010724194	CK5508KHITON 1000216 RENTON WA	67.00 ✓
02-21	02-17	0550979104011010000132298	CAPITOL CAMPUS PARKING OLYMPIA WA	3.00 ✓
02-21	02-17	054101010401101000013234	DELLAMATEK DALLAS TX	4.95 ✓
02-21	02-17	05500001040010000010507	JASMINE MASSAGE KIRKLAND WA	12.00 ✓
02-21	02-10	05421251051100100710287	V.HAK NOODLE BAR AND L SEATTLE WA	29.70 ✓
02-21	02-17	2554700104100000983171026	SHANGRILA SPA & MASSAG BELLEVUE WA	40.00 ✓
02-21	02-17	255212510101000114610403	FOOT MASSAGE LACEY WA	85.00 ✓
02-21	02-17	0510000104100000010575	JASMINE MASSAGE KIRKLAND WA	110.00 ✓
02-21	02-17	054101010401100200210110	PUGET SOUND ENERGY ROTHSEL WA	293.00 ✓
02-21	02-21	26400201000100001000011	CIRCLE K 01802 Q47 RENT WA	03.00 ✓

95410.11 [Signature]

STATEMENT DATE 03/11/11	ACCOUNT NUMBER 5569-1900-0008-5218	ACCOUNT SUMMARY
CUSTOMER SERVICE CALL 1-877-727-4801		PURCHASES AND OTHER CHARGES 940.11
TO REPORT LOST / STOLEN CARDS CALL 1-877-727-4801		CASH ADVANCES 0.00
		CASH ADVANCE FEE 0.00
		CREDITS 0.00
		STATEMENT TOTAL ✓ 940.11
		TOTAL IN DISPUTE 0.00
		CREDIT LIMIT 2,500.00

PAGE 1 OF 1

- Gas - \$40
- Island Soul \$149
- LaTaqueria \$40
- Wal-Mart \$59
- Jasmine Massage \$122
- Noodle Bar \$24
- Shangrila Spa \$40
- Circle K \$63
- Foot Massage \$45
- Utilities \$283

# City, WA USA

- We also found questionable transactions initiative or approved by the Program Manager including:
  - Gift cards valued at \$51,272 could not be confirmed as being given to a valid client. Several clients who were documented as being given gift cards valued at \$9,480 confirmed they did not get them.
  - \$3,647.17 in meals when he was not in travel status. Meals included prime rib and steaks for four guests totaling \$122.00.
  - \$10,131.64 in payments characterized as client assistance. There were no indications that clients received items purchased, such as professional photographs and new household appliances.
  - \$3,687.07 in vehicle-related expenses with no indications that clients benefited from payments.

# City, WA USA

- Vehicle rental charges and taxi fares of \$1,867.13 when he was not in travel status.
- \$3,782.55 in purchases in which no business purpose was identified, such as a \$479 camcorder, \$109 in men's clothing, flower arrangements totaling \$125.82, a \$254.01 payment to a collections agency, and a \$270 charge at a pet supply store.
- Hotel charges of \$614.59 when he was not in travel status and the hotel was less than 30 miles from his residence.
- \$587 for massage services.
- A payment to a friend of \$2,295 for which the friend was not able to remember the nature of the work.
- We also found some checks payable directly to clients of \$9,613 which is prohibited by policy.

## How was the fraud concealed?

- The Program Manager was a trusted employee no one questioned.
- Credit card statements and payment requests were not reviewed by a supervisor.
- There was a lack of segregation of duties.

## What happened to the employee?

- The Program Manager was terminated from his position.
- Investigation was forwarded to the King County Prosecuting Attorney's Office.

## Summary

- Payment
- Our investigation covered June 2009 to April 2011
- Misappropriation totaled at least \$52,382.24

## How was it detected?

- The Consortium Accounting Technician while paying approved invoices, noticed a fictitious vendor.
- Further review of the account indicated that an invoice had been paid and voided.

## What did we find?

- The former CFO created a fictitious vendor and invoice from that vendor and authorized \$52,382.24 electronic payments to his personal bank account.

## How was the fraud concealed?

- The former CFO created a vendor and a fictitious invoice and authorized payment.
- He attempted to alter and/or delete the transaction from the accounting system.

## What happened to the employee?

- Former CFO's CPA license was revoked.
- A fine of \$5,000 plus \$1,000 investigative and legal costs was assessed by the Washington State Board of Accountancy.
- Case was referred to the Pierce County Prosecuting Attorney.

## Lessons learned:

- The former CFO supervised and had access to the accounts payable, payroll and all other accounting functions.
- He also was responsible for performing bank reconciliations and reviewing payroll and vendor reports before checks were issued.

## Summary

- Vendor payments
- Our investigation covered January 1, 1990 to January 9, 2012
- Misappropriation totaled at least \$1.5 million
- Questionable transactions totaling at least \$1.7 million

# Payment internal controls

- Scanned documents, know what you are looking for.
- Review bank reconciliations in a timely manner.
- Ensure voided transactions are truly voided.
- Only pay original invoices.
- Ensure payments made outside normal process are approved, supported and for a public purpose.
- Establish policies and procedures and ensure they are enforced (practice=policy)

# Payment internal controls

- Review vendor lists for unusual vendors or excessive payments (W-9's/confirmations).
- Review for transactions that are out of the ordinary.
- Look for unusual or excessive reimbursements to one employee.
- Ask questions and get as supported answer. Confirm with a third party if necessary.
- Create and review error reports (example: same bank account number or address).
- Look for unusual journal entries, such as entries to cash.

# Payment internal controls

- Review for inventory discrepancies. Verify inventory records reconcile with purchases and use.
- Know the “universe” of what you are reviewing.
- Lock up unsecured check stock.
- Require detailed expense reports with original receipts and documentation attached.
- Review employee reimbursements for expenses claimed on days the employee did not work.
- Look for payments or employee reimbursements approved by someone outside the department. These are high risk.

# Payment internal controls

- Ensure items purchased were received and are onsite.
- If you use positive pay, make sure you know what the bank is verifying.
- Preliminary vs. final reports: know what you are reviewing.
- Call your software company and inquire about known system weaknesses (ability to change vendors/payees after entry, inability to detect duplicate payments, etc.)
- Review for expenses that end in round numbers.

# Payment internal controls

- Review accounts payable transactions for excess goods and services.
- Have an expectation of reasonable expenses and compare it to actual payments entered into the system and what cleared the bank.
- Look for unusual endorsements.
- Review for expenses that exceed budgeted amounts or prior year totals.
- Warrants/checks should never go back to the department or person that initiated the payment.

# Credit card expenditures

- Travel
- Personal purchases
- Purchase/returns
- Abuse of power

## Summary

- Procurement card and travel purchases, duplicate reimbursements and unearned leave
- Investigation covered June 2008 to August 2010
- Misappropriation totaled at least \$252,059

How was it detected?

- Management noticed unusual transactions on the Department's Corporate Travel Account while the former employee was on vacation. It determined the charges were personal charges.

## What did the University find?

- The former Administrative Manager used a University-issued procurement card and department corporate travel account for personal use.
- He falsified records and requested reimbursement for personal travel and previously reimbursed expenses to another individual.
- He falsified documents to give the appearance he had paid the travel expenses for another individual. However, the other individual paid his own travel expenses and was already reimbursed by the University.
- He was paid for 201 hours of annual leave that he had not earned.

# University of Washington

## What did we find?

- We reviewed the University's investigation and agree with its conclusion.
- The former employee misappropriated funds using the following methods.

Method	Amount
Procurement card purchases	\$204,340
Travel card purchases	\$39,350
Reimbursements for personal or already reimbursed charges	\$1,612
Unearned leave	\$6,757
<b>Total</b>	<b>\$252,059</b>

# University of Washington

How was the fraud concealed?

- The former Administrative Manager's job responsibilities were not segregated. He was responsible for approving, processing, monitoring, and reconciling transactions which included procurement card and corporate travel charges.
- The former employee circumvented controls by sending a falsified email to the University's procurement card office on behalf of the Chief Financial Officer of the Medical Center requesting an increase to his procurement credit limit.
- The University's online procurement card system allowed any authorized user to perform both the cardholder and reconciler certification that charges were appropriated. As a result, the Administrative Manager routinely performed both certifications.

What happened to the employee?

- Former employee was charged with seven counts of first-degree theft and 12 counts of second-degree theft.
- At the time of hire, the former employee was facing felony theft charges in King County related to a 2004 incident in which he was alleged to have purchased \$1,073 in artwork using cancelled credit cards.

## Lessons learned:

- The Medical Center Administration did not sufficiently oversee and review the Administrative Manager's procurement card activities.
- No one reviewed or reconciled his procurement card or travel purchases to supporting documentation.
- The Administrative Manager's job responsibilities were not segregated. He was responsible for approving, processing, monitoring, and reconciling transactions.
- Department should require employees to submit leave slips when taking time off and ensure that the leave is recorded on the timesheets, reconciled to leave slips and deducted from leave balances.

# Credit card internal controls

- Scanned documents
- Only pay original invoices
- Ensure payments made outside normal process are approved, supported and for public purpose
- Establish policies and procedures and ensure they are enforced (practice=policy)
- Review credit card bills and support documentation to ensure the purchases are approved, supported and for public purpose
- Take a step back and look at your credit card use. Is it appropriate and necessary?

# Gas card purchases and fuel misappropriation

- Cards that were never cancelled
- Personal use
- “Family and friends”
- Unsecured cards

# Town of Cathlamet

## Summary

- Fuel card
- Our investigation covered January 1, 2007 to September 30, 2010
- Misappropriation totaled at least \$7,705

# Town of Cathlamet

How was it detected?

- A Fire Department volunteer noted that only unleaded fuel had been purchased on one fuel card from March 2008 through August 2010.
- This activity was unusual since the Department had only one vehicle that used unleaded fuel, a seldom used back-up vehicle.
- We were contacted by the Town Clerk-Treasurer about the potential loss.

# Town of Cathlamet

## What did we find?

- The Department opened four credit cards without approval from the Town Council. Department volunteers stated one card had been missing since March 2008, but was not de-activated. Only unleaded fuel, totaling \$7,705.18, had been charged to card number 7 between March 2008 and September 2010.
- The majority of unleaded fuel purchases were made on missing card number 7.

Unleaded fuel by card	
6	\$1,826.09
7	\$8,259.75
8	\$1,299.27
10	\$1,229.03
<b>Total</b>	<b>\$12,614.14</b>

# Town of Cathlamet

## What did we find?

- The Department maintains 10 vehicles that include fire engines and ambulances that all use diesel fuel. The Department has only one rescue vehicle and various small items of equipment that use unleaded fuel.
- Unleaded fuel purchases from January 2007 through September 2010 were unreasonable compared to diesel purchases. Based on the accessibility of the cards, it is difficult to quantify the exact amount of fuel loss.

Period	Unleaded	Diesel fuel	Total
2007	\$983.89	\$3,253.07	\$4,236.96
2008	\$4,540.05	\$5,303.38	\$9,843.43
2009	\$3,764.12	\$3,814.13	\$7,578.25
2010	\$3,326.08	\$3,456.43	\$6,782.51
<b>Total</b>	<b>\$12,614.14</b>	<b>\$15,827.01</b>	<b>\$28,441.15</b>

# Town of Cathlamet

How was the fraud concealed?

- The Department obtained four credit cards without approval from the Town Council.
- The Department did not have controls or monitoring in place to oversee fuel card use and did not review monthly credit card bills or require documentation to show that all fuel purchases were for a Department-related purpose.
- The Town did not have a formal policy regarding credit card use and monitoring.

# Town of Cathlamet

What happened to the volunteer?

- The Town agreed to a settlement of \$6,000. The individual suspected in the loss pleaded guilty to felony second-degree theft and was sentenced to 35 days in jail.

# Town of Cathlamet

## Lessons learned:

- Fuel cards were left unsecured in the vehicles and shared by all department volunteers. They were not checked out nor were charges identified as related to any person or vehicle.
- Fuel invoices were paid using a departmental petty cash account and not reviewed and approved by Town Council or management prior to payment.
- No one independently reviews or monitors fuel charges on the cards.

# Public Utility District No. 1 of Douglas County

## Summary

- Payments
- Our investigation covered April 20, 2006 to December 19, 2010
- Misappropriation totaled at least \$12,384.68

# Public Utility District No. 1 of Douglas County

How was it detected?

- Two District fuel cards were missing in 2010.
- District management found fuel purchases charged to a missing fuel card.
- The District found the card had been used at the vendor's Wenatchee fueling station, which is outside of Douglas County, where most of the District's operations take place.

# Public Utility District No. 1 of Douglas County

Where did the money go?

- In November and December of 2010, a video camera used by the vendor at the East Wenatchee station caught on tape a District employee fueling a personal vehicle during a weekend. The camera recorded one transaction in November and two transactions in December, totaling \$213.20.
- The District compared fuel purchases at the vendor to that employee's leave slips and non-scheduled work time and found 68 fuel transactions had taken place when the employee was not at work.
- A former District journeyman lineman admitted to using the District's missing card to fuel his personal vehicle.

# Public Utility District No. 1 of Douglas County

What did we find?

- The District reviewed all transactions at the station going back to 2006 and found 251 questionable purchases totaling \$12,914.30
- We reviewed the District's investigation and examination of fuel card transactions. We found \$742.82 of the \$12,914.30 questionable purchases reported could not be traced to the specific employee.

# Public Utility District No. 1 of Douglas County

How was the fraud concealed?

- The former employee started in the warehouse, which provided first-hand knowledge of the District's fueling procedures.
- His job responsibilities provided access to fuel cards kept in the vehicles in the District's parking lot.
- The employee worked at different times than other employees, providing the opportunity to use fuel cards kept in vehicles without the knowledge of District staff.
- District staff does not regularly inventory fuel cards. It only logs in new cards it receives due to expirations or a change in vendor.
- District staff did not match fuel card purchases to assigned vehicles.

# Public Utility District No. 1 of Douglas County

What happened to the employee?

- The former employee was accused of first-degree theft, a Class B felony with a maximum penalty of 10 years in prison/or a \$20,000 fine.
- He was charged in May in Chelan County Superior Court. His trial is set for November 2012.

# Public Utility District No. 1 of Douglas County

## Lessons learned:

- The District writes the fuel card's PIN number on the outside of the card's sleeve and places it in the assigned vehicle.
- Employees do not retain or submit receipts for fuel purchases.
- No one reconciled between receipts and invoiced purchases.
- District department heads do not review and initial vehicle log sheets monthly.
- Employees were not trained in the appropriate use of fuel cards and in documentation requirements.

# Gas card/fuel misappropriation internal controls

- Review for inventory discrepancies. Verify inventory records reconcile with use.
- Look for fuel purchases at locations or times of the day that do not make sense given the department's operations.
- Review fuel purchase for type of fuel or grades that do not meet the department's needs.
- Look for frequent purchases or unusual trends by individuals assigned gas cards.
- Contact fuel vendors and inquire about options to restrict access after certain hours or locations.

# Gas card/fuel misappropriation internal controls

- Reconcile fuel purchases to use (mileage logs) for credit purchases and supply tanks.
- Determine if you can assign responsibility for fuel losses.

# Payroll

- Ridgefield School District – negative deductions
- DSHS Employee – two jobs
- DOT – excessive overtime
- EMS – extra paychecks
- Water District – children on payroll

# Payroll

- Extra payroll checks
- Leave buyouts
- Not reducing leave balance by amount of leave taken
- Ghost employees
- Employee family members
- Benefits
- Negative deductions

# Payroll internal controls

- Review payroll expenses for unusual fluctuations and amounts that are outside your expectation, including benefit line items and overtime.
- Use the straight-line approach for payroll processing.
- Review personnel files to verify it is a real person and they are an employee (ghost employees can be real people).
- Create and review error reports (example: same bank account number or address, negative deductions).
- Look for unusual journal entries.
- Know the “universe” of what you are reviewing.

# Payroll internal controls

- Look for employees that rarely or never take leave.
- Review payroll reports for employees that use a P.O. Box.
- Review leave reports for reasonableness.
- Preliminary vs. final reports: know what you are reviewing.
- Call your software company and inquire about known system weaknesses.

# Fraud prevention

- Establish strong policies and procedures (internal controls)
- Segregation of duties
- Mandatory vacations
- Let them know you are looking
- Cross train duties
- Establish strong policies and ensure staff are trained

# Our Office's client support program

- Can be found on the State Auditor's Office website, [www.sao.wa.gov](http://www.sao.wa.gov) under the Client Support tab.
- Contains a section on fraud prevention and internal controls.
- Show best practices and other resources in fraud prevention.
- Is part of our on-going effort to provide fraud prevention information to our audit clients.

# Fraud happens

What to do if it happens to you:

- Immediately notify the State Auditor's Office on the web at [www.sao.wa.gov](http://www.sao.wa.gov)
- Protect accounting records from loss or destruction
- Don't enter a restitution agreement with an employee (Auditor/Attorney General approval required)
- Ensure personnel action taken for violating policies and procedures, not for misappropriating public funds
- File a police report (consult our Office on timing)
- Change bank account access (credit cards, too!!)

# Fraud happens

What to do if it happens to you:

- Do not try to be the investigator. But do start a record: how it came to your attention, records and conversations, etc.
- Do not physically prevent an employee from leaving the room or leaving the building.
- Do not agree to let the employee repay money and it will all go away.

# Summary

- Remember the fraud triangle
  - You control the opportunity
- When designing internal controls, break down the system into segments and analyze:
  - If you could identify a loss
  - If you could identify who is responsible
- Beware of the “trusted employee” trap
  - Who has the most access to funds?
  - Sometimes good people do bad things
- Remember our Office doesn't review every transaction. Don't rely on auditors to find the fraud. That is your job!

# Contacts

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