

Washington State Auditor's Office Fraud External Investigation Review Checklist



Fraud Case Number	F-20-F20-277
Client	Fort Worden Public Development Authority
Fraud Specialist	Christine MacIntyre/ Melinda Seibert
Date of Investigation Review	January 2021


Objective:

Audit Policy 1410 may allow all or a portion of an investigation to be performed by a client, law enforcement agency (LEA) or other third party. In such cases, fraud investigators will review this work using the external fraud review checklist to determine if the investigative methods and conclusion can be relied on or if additional procedures are needed.





Investigators will contact Team Fraud, if you have questions or concerns during your review.



Notification of Suspected Loss		
1	When was our Office notified of the suspected loss? If we identified the suspected loss, when and how?	The Authority submitted a loss through our website 8/20/2020. The Authority did not report an amount however they believed a former CFO may have misappropriated funds using A/P payments and moving money from one fund to another without explanation or board approval.
2	What was the amount or potential amount of the suspected loss?	Unknown when loss submitted.
3	What is the suspected method used to perpetrate the loss?	Cash was moved between funds without approval and the board is unsure of how the funds were used. Additionally, two suspicious invoices were identified and it is believed the former CFO used the A/P system to pay fraudulent invoices.
4	If there is assigned responsibility? If so, does the subject of the investigation have access to other accounting and financial systems? If yes, describe.	Yes, Dianne Moody, former CFO is assigned responsibility. Dianne resigned and no longer has access to accounting and financial systems however as CFO she had a lot of access and permissions.
5	Was the subject placed on administrative leave (date)? What is their current employment status?	Employee has separated from the PDA by signing a separation agreement in July 2020.
6	Who conducted the investigation? Name, Title	Internally, Sonya Baumstein, Finance Director based on her work the PDA hired Linda L. Saunders, CFE, CPA Certified in Financial Forensics by the AICPA.
7	In your judgment, is the individual investigating able to conduct an objective investigation? If no, describe.	Yes, Ms. Saunders has professional designations that speak to her qualifications. She was a former State Auditor and has years of auditing experience.

		<p>Here qualifications and resume are included in her report. Exhibit 1 (pgs 6-8 in report)</p> <p> Forensic Accountant Report with exhibits</p>
8	Does the individual have the experience and/or knowledge necessary to conduct the investigation? If no, describe.	Yes, she has had 26 yrs as a professional forensic accounting consultant after working as a Revenue Agent for the IRS and then as a Special Agent with the IRS Criminal Investigation Division. She has also testified in Court as an expert. (see report as noted in response to question 7).
9	Has our Office had any prior concerns working with the individual investing? If yes, describe.	No, not that we are aware of.
10	Has the investigation been reviewed by the client?	Yes, the client reviewed the investigation and agrees with the conclusions.
Scope, Methodology, and Evidence		
11	What was the scope and methodology of the investigation? Please describe.	<p>The scope was limited to a review of two invoices in accounts payable and determining if they were fraudulent invoices. Ms. Saunders conducted a review of A/P documentation and interviewed staff to gain an understanding of the A/P process and controls over the A/P process. Two checks totaling \$10,054 paid to TJ Construction had been brought to her attention by PDA staff. Invoice 301, \$4,822.16 and invoice 307, \$5,232.</p> <p>Ms. Saunders reviewed the payments to TJ Construction and Quickbooks audit trail for the entry, approval and subsequent issued checks for payment of the invoices. QB allows an invoice to be scanned and accessed to tie to payment. There was only an invoice in the Quickbooks system for one of the invoices. This was invoice #301 was entered by the CFO on a Saturday which is not a normal work day for her (9/15/19) and cut the check on a Sunday dated 9/16/2019 in the amount of \$4,822.16. (PDA0044 page 21 in report)</p> <p> Forensic Accountant Report with exhibits</p> <p>)</p> <p>The invoice is not approved per PDA policy with signatures which includes use of a stamp and then coding, adding job, memo and authorized signature (refer to exhibit PDA0045, pg 22 of report). The invoice (#307) is not attached in QB as a pdf nor was it retained as a hard copy. There was no support for this invoice. This appears to have been entered in the system on 11/19/19 and a check printed on 12/6/19.</p> <p>Mr. Saunders report explains she was able to independently verify Ms. Moody was the employee who wrote the checks based on the QB Audit Trail (Exhibit 5, pg 16) which tracks transactions by each employee with passwords to access QuickBooks.</p>

		<p>Ms. Saunders verified with the Secretary of State's Office that TJ Construction was owned by Ms. Moody's husband Thomas James and that Ms. Moody was the registered agent for the company. Ms. Moody's address in QB and TJ Construction address per SOS office are the same. Also, the company was administratively dissolved per SOS 3/16/2019. (see Exhibits 7 & 8, pgs 17-19)</p> <p>The check #6192 in the amount of \$4,822.16 shows a bank endorsement and was deposited into the same bank that Ms. Moody's payroll is deposited to as verified by QB information. (see Exhibit 11, page 23 of report)</p> <p>Check #6408 does not show a bank endorsement however the check was cashed as the check image was obtained from the bank.</p>
12	Did the individual investigating address the "what else" question?	<p>No, the investigation was focused on determining if the two invoices identified by the PDA were valid expenditures of the PDA. However, page 3 of the report notes it is highly likely the two check written by Ms. Moody were not the only checks or funds taken by the CFO as Ms. Moody easily overrode internal controls.</p> <p>The report also states Ms. Saunders work is ongoing however it is our understanding that once the PDA decided to have SAO handle the audit the forensic accountant did not perform additional work.</p>
13	Were any subpoenas issued? If yes, describe.	Not to date. Ms. Saunders report suggests subpoenas for both Ms. Moody's and her husband's bank accounts as well as for her personal computer she used to conduct PDA business.
14	Describe analytical procedures performed. Are any other analytical procedures necessary?	<p>Sonya Braumstein former PDA Finance Director completed a QuickBooks search and found TJ Construction with Ms. Moody's husband's email as the contact. Sonya completed the initial review as documented in an email that is Exhibit 2, pgs 9-11 in the report.</p> <p>Ms. Saunders was then contracted to review and determine if there was an issue/extent of issue.</p> <p>Ms. Saunders obtained the cancelled checks, invoice #301, TJ Construction A/P report and a Quickbooks audit trail from Carolyn Zepieto, Bookkeeper and Sonya Braumstein. As described in her report at</p> <p> Forensic Accountant Report with exhibits</p>

		<p>Ms. Saunders was able to tie check #6192 to invoice #301. The invoice was scanned and attached to the transaction in QB</p> <p>Ms. Saunders had interviewed the bookkeeper and Finance Director and was aware of the controls and procedures over A/P. She was able to determine the proper approval was not shown on the face of the invoice as required. The PDA was unable to provide an invoice #307 in support of the second payment made with check #6408.</p> <p>The bank supplied copies of the cancelled checks and Ms. Saunders was able to see the bank endorsement on the backside as well as the account number the check was deposited into. Ms. Saunders checked to see what bank account Ms. Moody's paychecks were direct deposited to and found the bank listed on the check where it was deposited and the bank where Ms. Moody's payroll is deposited matched. The second check #6408 does not show an endorsement however since the check copy was obtained from the bank the check was cashed.</p> <p>As an example, Ms Saunders received an invoice that had been properly approved and provided this as Exhibit 10 pg22.</p> <p>Sonya Braumstein reported she had discussed the invoices and supposed work done with maintenance and facilities staff D. Costello, D. Beckman and J. Morris and none were aware of any work completed by TJ Construction. This is disclosed the report and Exhibit 2 on page 10.</p> <p>Additionally, Ms. Saunders reviewed the AP account for TJ Construction and saw there were only two transactions which represent the two invoices paid. She also reviewed the Quick books audit trail which documents Ms. Moody entering the invoices and processing the checks. Ms. Moody's signature is on both checks as the only authorizer for the check disbursements.</p> <p>Ms. Saunders checked the Secretary of State website and saw that although TJ Construction had been registered the business was dissolved effective March 3, 2019. Invoice #301 was dated 9/13/2019 six months after dissolution.</p> <p>Ms, Saunders analytical procedures were adequate in relation to the two invoices the PDA was concerned about.</p> <p>However, Ms. Saunders report also explains there is most likely more issues and her investigation was limited.</p> <p>We concluded additional procedures are needed to</p>
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		determine if there are any other A/P issues including credit card purchased.
15	Were tests of transactions conducted using the lowest possible original source documents?	Yes, source documents include cancelled checks, invoice 301 showing lack of proper approval, Quickbooks audit trail, TJ Construction A/P account report, documentation obtained from Sec. State website.
16	Were interviews conducted of entity personnel?	Yes. September 15, 2020, Ms. Saunders conducted interviews of former Finance & Administration Director, Sonya Baumstein and current Bookkeeper, Carolyn Zipeto as documented on pgs 2-3 of the report.
17	Was the subject interviewed or given the opportunity to respond to the allegations? In cases where the individual is not interviewed, is the justification documented?	It is our understanding Ms. Moody was not interviewed as part of Ms. Saunders investigation.
18	How did the subject respond to the key interview questions? Did they take responsibility for the misappropriation? If yes, when and how much?	N/A
19	Is there an overall summary including a schedule of the fraudulent activities and amounts misappropriated? Is the summary supported by work performed? Please describe what and how much you tied to support.	Yes, the forensic accountant who completed the review of the fraudulent invoices provided a report describing her work along with exhibits supporting her work and conclusions. We reviewed her support for the two fraudulent invoices and were able to tie both to support. See report   Forensic Accountant Report with exhibits
20	Is there fixed responsibility? Do you agree with the methodology used to assign fixed responsibility?	Yes, Diane Moody, former Chief Financial Officer.
21	When did the individual investigating complete the investigation?	The investigation was a 20 hr review conducted in September 2020 with the report provided 9/24/2020.
22	What are the results of the investigation and the amount of the loss? (If not already described above, summarize the results of the investigation here.)	Ms. Saunders determined that in her forensic accounting opinion Ms. Moody took \$10,054 in funds that were unauthorized. Ms. Saunders also stated more investigation was needed as well as recommended law-enforcement action. (see page 4 of investigation report   Forensic Accountant Report with exhibits
23	Have any restitution agreements been signed?	No.
24	Who received the results of the investigation? When?	The Board of Directors, Interim Executive Director, and other management staff. Approximately, September 24, 2020.
Conclusions		
25	Do you have any concerns about the work or evidence obtained? If yes, describe.	No concerns about the work or evidence related to the review of TJ Construction A/P account and the two identified invoices. However, concerns exist there may be other A/P transactions (including credit card purchases) that may represent additional misappropriation.
26	Do you agree with the conclusions? If no, describe.	Yes.

27	Document how any concerns noted during this review will be resolved. If you think additional procedures should be performed, please describe and contact Team Fraud to discuss and obtain approval for the investigative plan and budget.	We have discussed and drafted an investigation plan with the assistance and review of the AAM and Stephanie Sullivan. We have obtained approval for a budget of 100 fraud hours. We have also determined to include some work in our accountability audit. See   Fraud Fieldwork Plan Template
28	E-mail Team Fraud members to notify them that this checklist is complete, reviewed at the team level and available in TeamMate for review.	Done.