

Washington State Auditor's Office
Fraud Investigation Report

Benton County Fire Protection District
No. 6

Investigation Period
January 1, 2008 through May 31, 2012

Report No. 1011458

Issue Date
March 17, 2014



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

March 17, 2014

Rolland Watt, Fire Chief
Benton County Fire Protection District No. 6
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Report on Fraud Investigation

Attached is the official report on a misappropriation at the Benton County Fire Protection District No. 6. On March 7, 2012, the District notified the State Auditor's Office of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the former District secretary's unallowable activities at the District from January 1, 2008 through May 31, 2012. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

Questions about this report should be directed to Fraud Manager, Sarah Walker at (509) 454-3621.

**TROY KELLEY
STATE AUDITOR**

Fraud Investigation Report

Benton County Fire Protection District No. 6 January 1, 2008 through May 31, 2012

INVESTIGATION SUMMARY

On March 7, 2012, the District Fire Chief notified our Office regarding a potential loss of public funds, as required by state law.

The District performed a preliminary investigation and determined that between April 8, 2011 and January 6, 2012, the secretary purchased items that were not for a District purpose, totaling \$5,397.33. We reviewed the District's investigation, performed an expanded review and found that between January 1, 2008 and May 31, 2012 the secretary misappropriated \$6,557.30 in purchases for items that were not for a District purpose. We also found questionable payments totaling \$12,527.49, of which \$11,451.77 lacked sufficient documentation.

The District has filed a report with the Benton County Sheriff's Office. The Benton County Prosecuting Attorney's Office has also been notified of this case.

BACKGROUND AND INVESTIGATION RESULTS

The District, located in Benton County, operates on an annual budget of approximately \$846,588, including \$413,484 in operating expenditures. An elected, three-member Board of Commissioners appoints a Fire Chief to oversee daily operations and hired a secretary to perform financial services, which includes processing payments. The secretary was employed by the District from 1999 through May 2012.

The secretary established a petty cash checking account that should have been used to pay incidental District expenses. The District used this account to order supplies and pay recurring monthly expenses that should have been paid through the accounts payable process. Both the secretary and the Fire Chief were signatories and made payments from this account. The District secretary maintained all District financial records, which he kept at his residence. He made purchases and had the items delivered directly to his residence. He was the sole reviewer of bank statements and performed all bank reconciliations. He processed all payroll transactions and signed his own paychecks. At times, the secretary transferred funds from the payroll account to the petty cash account.

The District's investigation noted purchases made by the secretary of items totaling \$5,397.33 that were not for a District purpose. These included but were not limited to a tablet with a two-year warranty, at least two pairs of leather boots, a color laser printer with toner, a four-terabyte storage server, a monitor, and a scanner. The secretary did not retain all of the original receipts, but scanned them using equipment that creates digital content. This increases the risk that receipts could have been altered.

After being questioned by District management about the purchases, the secretary resigned his position May 4, 2012. When management requested that the secretary

return the items that were purchased with District funds, the secretary deposited some items in his driveway and management collected them. Some of the returned items could not be used by the District. A returned laptop had been physically damaged. Other items were password and username protected so that District management could not access their own files. Data from the hard drive had been wiped and files were modified, leaving the District without financial data.

Our investigation focused on payroll and purchases made by the secretary. We reviewed available bank records to follow up on payments he made. We determined through our investigation and our review of the District's investigation that the secretary made payments totaling \$6,557.30 for items that were not for a District purpose. These items include but are not limited to a photo printer, photo paper, a DVD labeler, 320 gigabyte hard drive, and a global positioning system unit.

Our investigation also found questionable payments totaling \$1,075.72 for electronics and software. It is not clear if the items purchased were for District use. We also noted other payments made by the secretary totaling \$11,451.77 for which the District did not have detailed receipts to determine the items purchased.

Description	Amount
Misappropriation - Purchases not for District use	6,557.30
Questionable Purchases	1,075.72
Questionable - Unsupported purchases	11,451.77
Total	\$19,084.79

In order to determine if any additional misappropriations occurred, we examined systems to which the former secretary had access. We reviewed cell tower revenue and payroll and did not find additional misappropriation.

The former secretary declined our request for an in-person interview to discuss the purchases; however, he did provide information by e-mail on the payments he made, but did not have any records to support his statements. He did not respond to our last request for additional information on specific purchases.

CONTROL WEAKNESSES

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

- There was a lack of segregation of duties for purchasing, receiving shipments, making payments, and reconciling the bank account. The secretary was solely responsible for all these duties.
- The secretary had possession of all District records and stored them at his residence, which was not accessible by other District staff.
- Original receipts were not always provided to the Board for approval of all expenditures, nor were they retained in District records.
- The Board approved the replenishment of the petty cash account without reviewing the detailed receipts of the purchases made from that account.

RECOMMENDATION

We recommend the District strengthen internal controls over the approval and payment of expenditures to ensure adequate oversight and monitoring to safeguard public resources and comply with District policies. We recommend the District safeguard District records and comply with records retention requirements.

We also recommend the District seek recovery of the misappropriated \$6,557.30, questionable purchases, as appropriate, and related investigation costs of \$5,308.60 from the former secretary and/or its insurance bonding company. Any compromise or settlement of this claim by the District must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Sharon James is the contact person for the Attorney General's Office and can be reached at (360) 586-1912 or Sharon.James@atg.wa.gov. The contact for the State Auditor's Office is Sadie Armijo, Deputy Director of Local Audit, who can be reached at (360) 676-2165 ext. 108 or Sadie.Armijo@sao.wa.gov.

DISTRICT'S RESPONSE

Benton County Fire Protection District 6 (BCFD6) Commissioners and staff value the trust that the Citizens of our Fire District place in us. This trust includes providing the best possible service in times of emergency, to be good stewards of the funding provided and to follow the rules and laws of the State of Washington.

It was this valued trust that compelled the Commissioners and staff to follow the appropriate guidelines in reporting the appearance of misappropriation. BCFD6 requested the Washington State Auditor's Office, Benton County District Attorney and the Benton County Sheriff's Office to investigate, provide a finding and assist with the legal aspects of this case. Benton County Fire Protection District 6 does not dispute the findings of the Washington State Auditor's Office in this matter. BCFD6 intends to vigorously pursue recovery of all associated losses.

Benton County Fire Protection District 6 has improved our methods of accounting and records retention. The Control Weaknesses identified in the Fraud Investigation Report have been addressed in the following manner:

- ***“There was a lack of segregation of duties for purchasing, receiving shipment, making payment and reconciling the bank account. The Secretary was solely responsible for all these duties.”***
 1. *BCFD6 has hired a new District Clerk. The employee does not have independent authority to purchase or make direct payments.*
 2. *The previous Revolving Account (petty cash) and Payroll Account have been closed and there is no direct access to District funds by BCFD6 staff. All funds are maintained by Benton County and can only be accessed through a voucher process that requires review and approval by the District Board of Commissioners.*
 3. *The cash accounts were replaced by a Washington State Purchasing Card which has an itemized monthly bill for every transaction. The card is*

regulated and monitored by the issuing bank and has been blocked from certain types of purchases and cash withdrawals.

4. *The District has established checks and balances in the voucher approval process. The Secretary prepares the vouchers and submits the vouchers with appropriate documentation to the Fire Chief. The Fire Chief reviews the vouchers and documentation prior to the Board of Commissioners final review and approval of the vouchers.*
- ***“The Secretary had possession of all District records and stored them at his residence, which was not accessible by other District staff.”***
 1. *All District records are now stored “on-site” at our main station.*
 - ***“Original receipts were not always provided to the Board for approval of all expenditures nor were they retained in District records.”***
 1. *By dissolving the two checking accounts and converting to a Washington State purchasing card, the ability to make purchases without documentation has been eliminated. The purchasing card statement includes an itemized list of all expenditures. The voucher system requires that an original statement be present for Commissioners to review and approve. The Secretary is required to provide appropriate documentation for all District expenditures and the Fire Chief and Board of Commissioners review such documentation prior to approving the vouchers on a monthly basis.*
 2. *The Secretary and the Chief ensure that all documents are placed in the appropriate storage location once the voucher approval process has been completed.*
 - ***“The Board approved the replenishment of the petty cash account without reviewing the detailed receipts of the purchases made from that account.”***
 1. *As previously stated, all cash accounts have been dissolved and the funds deposited with Benton County. There is no direct access to District funds by any single District employee or volunteer.*

On behalf of the Commissioners, staff and citizens of Benton County Fire Protection District 6 we would like to thank the Washington State Auditor’s Office for investigating this matter, providing a report, identifying the full extent of this issue and providing helpful pointers to improve our accounting system. The auditing staff that assisted us was professional, courteous and provided excellent guidance during this trying ordeal.

STATE AUDITOR’S OFFICE REMARKS

We thank District officials and personnel for their assistance and cooperation during the investigation.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

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