

Fraud Investigation Report

Liquor Control Board August 1, 2012 through May 30, 2013

INVESTIGATION SUMMARY

The Liquor Control Board's Human Resources Department notified our Office regarding a potential loss of public funds, as required by state law.

The Board initiated an investigation and determined abuse of payroll and leave benefits had occurred at the Board between August 2012 and May 2013, which led to a loss of approximately \$32,500. Four Information Technology Specialists misused state resources by claiming pay for time not worked. Two of the employees were in supervisory positions.

We will refer this case to the Thurston County Prosecuting Attorney's Office for any further action it determines is necessary.

BACKGROUND AND INVESTIGATION RESULTS

The Board, located in Thurston County, operates on an annual budget of approximately \$83.5 million, including \$24.5 million in employee salaries and benefits. In fiscal year 2013, it had 269 full-time employees (FTEs) with 25 FTEs working in the Information Technology Services Department located in the Headquarters Office in Olympia, Washington.

In May 2013, the Board's Human Resources Director launched an investigation to address complaints that employees in the Information Technology Services Department were not available at their desk, not attending scheduled training, and not available to answer questions. As a result, the Human Resources Director audited records for all employees in the Information Technology Department, including the following:

- Key card activity logs
- Attendance records
- Training records
- Employees' electronic schedules/calendars
- Activity showing time and date the network was accessed by the employees
- Activity showing if the employees logged into their work computer

The investigation found that four employees violated agency policy and applicable administrative code provisions pertaining to leave benefits and misused state resources by claiming pay for time not worked, instead of using leave. The estimated loss to the state is computed based on the time the employees were not at the office and they could not account for through training, offsite meetings, or documentation of work performed at home.

We reviewed the Board's investigation and agree that:

- Four employees of the Board had misused payroll benefits by claiming pay for time not worked and not submitting leave slips.
- Violation of agency policy related to leave benefits occurred.
- Violation of agency directive prohibiting telecommuting from January 1, 2013 through April 18, 2013 occurred.
- The estimated loss amount including benefits was determined to be \$32,500.

The following table summarizes the estimated loss by employee:

Employee	Days	Hours	Position/Held since	Amount*
Employee 1	48	380.0	IT Specialist 3/July 1, 2012	13,422.42
Employee 2	28	118.5	IT Specialist 2/ July 1, 2012	4,060.53
Employee 3	34	235.5	IT Specialist 6/ October 1, 2011	10,833.93
Employee 4	12	90.0	IT Specialist 6/ June 1, 2007	4,182.38
TOTAL				32,499.26

**includes wages, taxes and benefits*

To determine if additional loss occurred, we considered the length of time the employees have been in their respective positions. We also reviewed documentation used to support the investigative conclusions and noted that the loss amount is based on a conservative estimate. Days with partial key card activity (swipe pattern suggests the employee was not in the building for the full duration of the work day) are not included in the above total.

The subjects of the investigation had been employed by the Board prior to August 2012, when a new key card system was implemented. Because reliable evidence is not available prior to that date, the investigation relied on records from that key card system.

All four employees denied any wrongdoing during interviews and stated they worked from home, but could not provide sufficient evidence of worked performed while not in the office.

Because of the nature of the evidence and the type of abuse, the exact amount of loss to the state is difficult to determine, and could vary from the loss estimated above.

CONTROL WEAKNESSES

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

- The Board did not have a policy on telecommuting to clearly communicate its expectations of employees and supervisors who chose to work from home. Without specific guidance, supervisors made the decision to allow telecommuting for their employees but failed to hold them accountable for the work they did.
- Supervisors who chose to telecommute were not in a position to properly supervise their subordinates and did not set specific, measurable and reasonable goals for the employees who elected to telecommute.
- Supervisors approved the time employees worked from home without obtaining sufficient proof or having knowledge of the activities performed by the employees.

RECOMMENDATION

We recommend the Board strengthen internal controls over the approval and authorization of pay and benefits. The Board should ensure that employees who are allowed to work from home are given measurable goals and held accountable for their work. Additionally, the Board should develop a policy on telecommuting to ensure adequate oversight and monitoring to safeguard public resources and compliance with Board policies.

We also recommend the Board consider recovering the losses and related investigation costs of \$4,895 from the IT Specialists and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Board must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.330). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or mattk1@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.

BOARD'S RESPONSE

Thank you for your investigation and the opportunity to respond to your Investigative Report.

The Washington State Liquor Control Board (WSLCB) takes its obligation to safeguard state resources very seriously.

As you can agree, our internal investigations were done thoroughly and resulted in the following disciplinary actions being taken:

Employee	Position	Estimated Losses	Action Taken
Employee 1	ITS 3	13,422.42	Demotion to ITS2
Employee 2	ITS2	4,060.53	Reduction in Pay
Employee 3	ITS6	10,833.93	Resigned
Employee 4	ITS6	4,182.38	Terminated
TOTAL		32,499.26	

In addition to the disciplinary actions taken above, the Information Technology Director was forced to resign while the investigation was being conducted and the Administrative Assistant, whose duty it was to ensure payroll was correct, received a reduction in pay.

In regards to the weaknesses your Investigation Report specified, WSLCB response is as follows:

- The WSLCB agrees that appropriate internal controls could have prevented the estimated loss to the state. WSLCB previously had a Flexible Work Schedule and Job Sharing Policy, which was being updated to a Telework and Flexible Work Hours Policy (#235) prior to the time the investigation began. The updated policy was being reviewed by the previous Information Technology Director for his approval of the IT component prior to his resignation. The new policy was not effective until a new IT Director was hired and the investigation was completed on November 12, 2013. This new policy sets criteria necessary for an employee to be eligible for telecommuting and the supervision required for employees who are approved to telecommute.
- Adequate internal controls are in place to ensure that leave is entered for employees that are out of the office.
- On March 1, 2014, the WSLCB changed its leave reporting tool from the I-Series shade system to Employee Self Service Leave tool, which requires more time accountability between the employee and the supervisor.

Once again, we thank the State Auditor's Office for assisting the WSLCB in continuing to meet its obligation to the citizens of Washington State.

STATE AUDITOR'S OFFICE REMARKS

We thank Board officials and personnel for their assistance in the investigation and for their cooperation during our review.