

Fraud Investigation Report

**Port of Seattle
King County
May 1, 2002 through March 4, 2014**

INVESTIGATION SUMMARY

The Port of Seattle Director of Accounting and Financial Reporting notified our Office regarding a potential loss of public funds, as required by state law.

We initiated an investigation and determined a misappropriation of revenue at the Sea-Tac Airport Credential Center between April 24, 2007 and March 3, 2014 totaling \$116,629. A loss of revenue due to checks not being deposited during this same time frame totaled at least \$2,801. We also reviewed available records from May 2002 to April 23, 2007 and found additional potential losses totaling \$26,415.

The Port has filed a report with the Port of Seattle Police Department, which is investigating this case. The King County Prosecuting Attorney's Office has also been notified of this case.

BACKGROUND AND INVESTIGATION RESULTS

The Port of Seattle Credential Center, located at Sea-Tac airport, issues security badges to personnel working at the airport and collects fines for lost badges and security violations. The Credential Center is staffed by nine people including one manager, seven specialists, and one receptionist. The manager is responsible for reconciling revenue collected with the Center's cash receipting system, preparing and making deposits, and submitting system-generated receipting reports of daily payment activity to the Central Accounting Department.

The loss was detected when Port accountants gained read-only access in early 2014 to the Center's receipting system to reconcile the system-generated receipting reports of daily payment activity with bank records. Port accountants identified cash transactions; however, the last cash deposit had been made in August 2012.

Our investigation focused on cash receipting and revenues for lost badges and security violations.

Prior to March 3, 2014, payments for lost badges and security violations collected by the specialists were given to the manager for deposit. The manager provided the specialist a receipt documenting the transfer of funds. It was the manager's responsibility to then deposit the funds. The Credential Center had arrangements with an armored car to transport the deposits to the Port's bank. At the end of each month, the manager would submit system-generated reports of daily receipting activity to the Central Accounting

Department. The report was exported into a spreadsheet or word-processing document and could easily be altered.

We compared receipts recorded in the Center's system to amounts deposited into the Port's bank account. We performed this analysis for the timeframe of April 24, 2007 through March 3, 2014. Because of the bank's records retention schedule, detailed bank records were not available for dates prior to April 24, 2007. We determined that a total of \$119,430 in receipts were recorded into the Center's systems, but not deposited. Misappropriated cash receipts totaled \$116,629.

In addition, we determined that \$2,801 in check payments were not deposited, which represents a loss of Port revenue. In March 2014, however, undeposited check payments were found in the shred bin in the manager's office. There is no indication that any Port employees personally benefited from these undeposited check payments.

We also reviewed information available prior to April 24, 2007, when the bank records were not available, and found additional potential losses. We compared revenue reported in the Center's receipting system to the Port's accounting records going back to May 2002. We relied on the accounting revenue records because they had been reconciled by accounting to the bank deposits. Receipts recorded in the Center's system exceed the revenues by \$26,415.

To determine who was responsible for the misappropriation, we reviewed system cashier records, fund transfer receipts, and transmittal reports submitted to central accounting. The retained fund transfer receipts show a total of \$60,110 in cash and checks that were signed by the manager between January 2010 and March 2014, of which \$57,195 was not deposited. We obtained the transmittal reports submitted to central accounting by the manager between January 3, 2007 and January 31, 2014. We reconciled the cash and check transactions from these reports to the Center's receipting system and determined a majority of the reports had been altered to remove cash transactions, while others reflected cash transactions that were not deposited. Through this review, we determined the Center's manager was responsible for at least \$89,024 of the cash misappropriation. The remaining misappropriated transactions fit the same pattern.

In order to determine if additional misappropriations occurred, we examined systems to which the Credential Center manager had access. We reviewed payroll, travel card charges, petty cash, and noncash system adjustments and did not find indications of additional misappropriation.

In March 2014, the Port of Seattle Police Department interviewed the Credential Center manager, who was then placed on paid administrative leave for nine days. As of the time of our report, the manager was on unpaid administrative leave.

CONTROL WEAKNESSES

Internal controls at the Port were inadequate to safeguard public resources. We found the following weaknesses that allowed the misappropriation to occur:

- Summary reports for reconciliation of revenue were editable and only accessible by the Credential Center manager and her supervisors; accounting did not have direct access to these reports until February 2014.
- The Credential Center manager was solely responsible for preparing deposits and reconciliation of revenue to the system.
- The Port had inadequate oversight of Credential Center operations.
- Payments for lost badge fees and violation fines were turned in by Credential Center specialists to the Credential Center manager, who was responsible for preparing all deposits. Though the Credential Center manager provided a handwritten receipt to employees for the funds received, these were not provided to central accounting or reconciled to bank deposits.

During our investigation, we found that since the Port's Central Accounting Department gained access to the receipting system-generated daily payment reports, more effective revenue reconciliations are performed. The Port has also communicated a number of internal control changes related to cash handling in the Credential Center, which we will follow up on during our next audit.

RECOMMENDATION

We recommend the Port continue to strengthen internal controls over Credential Center revenue reconciliation to ensure adequate oversight and monitoring to safeguard public resources and compliance with Port policies.

We also recommend the Port seek recovery of the misappropriated funds, additional losses, as appropriate and related investigation costs of \$23,918 from the former Credential Center manager and/or its insurance bonding company. Any compromise or settlement of this claim by the Port must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or matk1@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) 902-0362 or Sadie.Armijo@sao.wa.gov.

PORT'S RESPONSE

The Port of Seattle Police Department is working closely with the State Auditor's Office and King County Prosecuting Attorney's Office, Fraud Division, to pursue this matter.

The Credential Center is a part of the Aviation Security Department at the Port of Seattle. The department is responsible for compliance with Transportation Security Administration (TSA) regulations to ensure the highest level of safety and security at the airport, for which the department has continuously met all TSA comprehensive audit requirements. The department is also responsible for ensuring compliance with all federal, state and local laws, including the Seattle-Tacoma International Airport Tariff No. 1 and Port of Seattle airport rules and regulations. The department administers identification and access security badges at the airport.

The Port's Accounting & Financial Reporting Department consistently completes daily bank reconciliations for the Port as a whole. After the accounting department gained direct independent access to the badging system payment data and reports, the funds accountability issue was identified and affirmed. Port Police and the Aviation Security Department were immediately engaged, which prompted the investigation along with engaging the State Auditor's Office.

Port management also took immediate steps to strengthen controls:

- To mitigate the exposures inherent with handling cash and after affirming that payments via credit cards fully meet operational requirements, the Port immediately ceased accepting cash or checks at the Credential Center. Also, payments via credit cards were expanded to include AMEX, along with VISA and MasterCard. Signage was also visibly posted notifying customers that cash and checks are not accepted at the Credential Center, only credit cards.*
- The Port's central accounting and information technology departments provided training to all Credential Center staff and management on proper payments handling procedures, including compliance with Payment Card Industry – Data Security Standards (PCI-DSS) when handling credit card payments. It was also emphasized during the training that no cash or checks are to be accepted. The Credential Center will continue this training for all new employees prospectively.*
- The Port's central accounting department will continue to have direct access to the badging system's payment data and reports, which facilitates strengthened payments monitoring and reconciliations independent of the Credential Center operations.*
- The Credential Center has implemented new daily checks that also compare credit card payment receipts with the badging system's daily journal and monthly report. Standard policies and procedures are being developed/refined with the assistance of Aviation's training department, and later reviewed by the Port's accounting department.*
- The Credential Center's Aviation Security Compliance Specialist performs spot checks through daily and monthly audits.*

The Aviation Security Department will continue to enhance the controls environment:

- *A new badging system is currently being implemented and will go live in early October 2014. The system will also provide new accounting reports that have been developed in coordination with the Port's accounting department which will also continue to have direct access to all payment transactions data.*
- *Reports will only be generated out of the badging system for Credential Center staff in .PDF format. Download into editable formats using Excel and Word by the Credential Center will not be allowed.*
- *Annual recurring training on payments processing will be a requirement for all Credential Center staff.*

Port of Seattle management takes this situation very seriously. We have immediately and will continue to take all necessary steps to ensure the existence and operation of strong internal controls and proper safeguarding of public funds.

The Port of Seattle expresses its sincere appreciation to the State Auditor's Office for their professionalism and valued assistance in this matter.

STATE AUDITOR'S OFFICE REMARKS

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