



Washington State Auditor's Office

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Investigation Report **Pierce County**

For the Investigation Period January 1, 2010 through May 11, 2015

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Washington State Auditor's Office

March 31, 2016

Pierce County
Tacoma, Washington

Report on Investigation

Attached is the official report on questionable expenditure activity at Pierce County. On May 11, 2015, the County 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 Veterans Bureau Program Manager's questionable activities at the County from January 1, 2010 through May 11, 2015. The purpose of our investigation was to determine if a loss 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 Sarah Walker, Fraud Manager, at (509) 454-3621.

JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

cc: Mr. Thomas Taylor, Internal Auditor

INVESTIGATION REPORT

Investigation Summary

On May 11, 2015, Pierce County notified our Office regarding a potential loss of public funds as required by state law.

The County contracted with a consultant to perform an investigation. The consultant reviewed specific transactions and determined the former Veterans Bureau Program Manager is responsible for authorizing a minimum of \$36,600 in expenditures that failed to comply with County policy. The investigation found there was no record that any veteran benefited from these expenditures and it appeared likely the Program Manager received personal benefit because some of these payments were found to be given to his friend and the business of his spouse.

The County Sheriff's Department sent this case to the Pierce County Prosecutor's Office on February 9, 2016. The Pierce County Prosecutor's Office referred this case to the Thurston County Prosecutor's Office for review on March 16, 2016.

We reviewed the consultant's investigation and performed an expanded review of the former Program Manager's expenditures since he was hired and found another \$26,008 in questionable payments in 2014 and 2015. We found no documentation that these payments were for allowable purposes.

Background and Investigation Results

In 2015, Pierce County operated on an annual budget of approximately \$934 million, including approximately \$1 million for the Veterans Relief Fund.

The Pierce County Veterans Bureau (PCVB) provides emergency assistance to indigent veterans and their spouses, widows/widowers, and minor children through the Veterans Relief Fund. A contract between Pierce County and the Pierce County Veterans Advisory Council (PCVAC) provides direction for assistance policy and general operations in three key areas; appeals, budget, and program policies and procedures. The Veterans Bureau's largest funding source is from local property taxes. The largest expenditures are for salaries and wages, administration, and relief services.

The former Program Manager was hired as the Program Coordinator on December 20, 2010, and promoted to the Program Manager on August 18, 2014. He was placed on administrative leave on May 11, 2015, and his employment was terminated on June 23, 2015.

We reviewed the consultant's investigation and agree with its conclusions. The consultant's investigation focused on interviewing Veterans Bureau staff, members of the County Veterans Advisory Council and reviewing general disbursements, payroll, gift cards, travel

reimbursements and asset donation. The consultant's review discovered the following questionable expenditures authorized by, or approved by the former Program Manager:

- A \$6,000 check on 1/13/15 to a local consignment store where his wife worked. No documentation was found to support that any veteran benefited from this payment.
- Four \$6,000 checks to a vendor and these checks were endorsed by his friend. No documentation was found to support that any veteran benefited from these payments. These payments do not appear to relate to a properly authorized or documented Pierce County expenditure.
- Signed for a total of \$ 6,600 in prepaid cards, this was made up of thirty \$100 grocery store Gift cards (\$3,000) and eighteen \$200 prepaid Visa cards (\$3,600) starting in mid-2014 to give out at veteran's events. The investigation found that several gift cards issued to the former Program Manager were cashed within a very short period of time. No documentation was found to support that veterans actually received the gift cards and prepaid Visa cards from the former Program Manager.
- Directed the donation of a vehicle made to the vehicle veteran's relief to his step-son in January 2015. This violated the County policies regarding conflict of interest and his family personally benefited from the donation. According the donation receipt, the estimated value of the vehicle is \$1,500. Kelly Blue Book value for the vehicle is \$2,223.
- Operated a private business while working full-time at the Veterans Bureau, which violates the County policy and brings into further question the reasonableness of hours reported to the County. In addition, no vacation or sick leave was taken for multiple absences when the former Program Manager was not performing Pierce County Veterans Bureau official duties.
- Claimed \$507.65 for mileage reimbursements in January 2014. He submitted copies of tentative agendas from the sponsoring organization's website, but did not submit documentation of registration, attendance, lodging, or per diem. Due to the lack of supporting documentation, the County cannot confirm whether the former Program Manager actually attended the January 2014 conferences for which he was paid mileage expenses. By not obtaining prior authorization for out-of-state travel, he failed to follow the County travel policies and procedures.

To determine if any additional questionable transactions or misappropriation occurred, we expanded the review. We analyzed the payroll, revenue and expenditure trends from 2010 to 2014. We also scanned the vendor payments, travel expense claims and tested selected vendors that appeared to be unusual and found another \$26,008 in questionable payments occurring in 2014 and 2015. Due to the lack of supporting documentation, we cannot confirm if there was a valid purpose for these payments. We noted the following:

- A total of \$16,500 grocery store gift cards and prepaid debit cards were requested in 2014 and 2015. The Program Manager signed for a total of \$8,100 (this includes the \$6,600 noted by the consultant's investigation above). No documentation was found to support that veterans actually received these cards from the former Program Manager.
- A \$2,000 check on January 6, 2014 was requested to be paid for an individual/business that makes quilts for wounded warriors. There was no supporting documentation for the purpose of the payment.
- Requested five checks (from October 2014 to March 2015) totaling \$22,000 to be paid for an individual/business for incarcerated veterans counseling services. There were no supporting invoices or written contract/agreement for these services.
- Claimed \$508.78 for mileage reimbursements in August 2014. He submitted copies of tentative agendas from the sponsoring organization's website, but did not submit documentation of registration, attendance, lodging, or per diem. Due to the lack of supporting documentation, we cannot confirm whether the former Program Manager attended these conferences.

Control Weaknesses

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

- The County did not have proper review, approval and monitoring of vendor payments and gift cards purchases from the Veterans Relief Fund.
- The County does not have a central process for receiving and monitoring donations.
- The County did not monitor the Program Managers payroll and leave usage.
- The County did not have proper review, approval and monitoring process over travel expenses.

Recommendations

We recommend the County strengthen internal controls over operations. Specifically, the County should better monitor payments to ensure adequate oversight and monitoring to safeguard public resources and compliance with County policies. The County should also ensure there is segregation of duties or independent review of donations.

We also recommend the County seek recovery of the questionable payments, as appropriate, and related State Auditor's Office investigation costs of \$3,582 from the former Program Manager and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the County 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 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) 902-0362 or Sadie.Armijo@sao.wa.gov.

County's Response

Pierce County would like to thank the State Auditor's Office for the opportunity to respond to the Investigation Report regarding the questionable expenditure activity. The County concurs with the recommendations.

When the Pierce County Veterans Advisory Council (PCVAC) discovered a potential loss of public funds, the County immediately notified the State Auditor's Office pursuant to RCW 43.09.185, notified the Pierce County Sheriff's Department, placed the employee on administrative leave, and began an internal investigation.

The investigation revealed weaknesses in internal controls that allowed for the violation of Pierce County Policies and Procedures. The employee has since been terminated from County employment. The matter has been forwarded to the Thurston County Prosecutor's Office for further review.

As a result of the investigation, the County strengthened the internal controls by placing the Veteran's Bureau under the oversight the Budget and Finance Department as an interim measure. As a permanent solution, the Veteran's Bureau will become part of Pierce County's Community Connections Department. This action will ensure:

- *Appropriate segregation of duties exist.*
- *Authorization and approval requirements exist and are working as intended.*
- *Review and Reconciliations are consistently performed.*
- *Policies and Procedures are followed.*

Pierce County appreciates the thorough investigation completed by the State Auditor's Office.

State Auditor's Office Remarks

We thank County 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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

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