



Washington State Auditor's Office

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Fraud Investigation Report

Snohomish County Emergency Radio System (SERS)

For the Investigation Period January 1, 2012, through October 31, 2015

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Washington State Auditor

October 6, 2016

Snohomish County Emergency Radio System
Marysville, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Snohomish County Emergency Radio System (SERS). On November 6, 2015, SERS 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 Director's unallowable activities at SERS from January 1, 2012, through November 30, 2015. 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 Sarah Walker, Fraud Manager, at (509) 454-3621.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

cc: Mr. Jon Wiswell, Director

FRAUD INVESTIGATION REPORT

Investigation Summary

On November 6, 2015, the Snohomish County Emergency Radio System (SERS) Board President along with another board member notified our Office regarding a potential loss of public funds as required by state law (RCW 43.09.185).

A report was filed with the Lynnwood Police Department on October 28, 2015, and an investigation was opened. We performed our own investigation and reviewed the Police Department's completed investigation.

Our investigation identified misappropriation totaling \$192,280 and questionable expenditures totaling \$45,676 between January 2012 and October 2015 as follows:

Summary of Results		
Area of Investigation	Misappropriation	Questionable Expenditures
General disbursements	\$118,911	\$15,746
Credit cards (Visa and two home improvement stores)	\$67,088	\$24,020
Fuel card purchases	\$1,281	\$5,910
Surplused assets	\$5,000	\$0
TOTAL	\$192,280	\$45,676

Background

SERS, which is located in Snohomish County, operates on an annual budget of approximately \$2.6 million and is responsible for the operation, maintenance and repair of the emergency radio system consisting of 21 communication towers located across the county. SERS was created through an inter-local agreement and is governed by an 11 member Board of Directors appointed by the local cities and County. The Board appoints a Director to oversee daily operations, as well as its seven employees, consisting of two administrative staff, one facilities and grounds services coordinator, one lead technician and three communication specialists.

The Board of Directors promoted the lead technician to the role of Interim Director in August 2013 and ultimately to Director of SERS in October 2013. From September 2001 through his promotion to Interim Director, he predominantly managed operations in the field, including working on tower repair and maintenance projects. As a lead technician, he had the authority to make purchases as he felt necessary based on operational needs. Once promoted to Interim Director, his responsibilities transitioned into an administrative role, with less lead technician duties. SERS hired a new lead technician in January 2014, and the Director's responsibilities became strictly

administratively focused. The Director's purchasing responsibility was to be limited to office-related expenses and reviewing and approving all SERS purchases.

The Director was placed on administrative leave October 1, 2015, and his employment was terminated October 8, 2015. The Board appointed an Interim Director on October 13, 2015, who identified concerns with some expenditures. The Interim Director, Board President and one other Board member worked with SERS staff to further identify questionable purchases made by the former Director and compile a list of SERS property that was not returned by the former Director after his employment was terminated. The Board President sent a letter dated October 23, 2015, to the former Director requesting that he return SERS property that was still in his possession. Attached to this letter was a specific list of property. In response to this letter, the former Director returned numerous pieces of SERS property, including some heavy equipment, such as a skid steer with trailer and various attachments.

SERS staff continued reviewing payments and identified more questionable credit card and fuel card expenses as well as purchases of large quantities of top soil and gravel, welding supplies, various home improvement items, two surveillance systems, and an excessive amount of small tool purchases.

On October 28, 2015, SERS filed a theft report with the Lynnwood Police Department. On November 11, 2015, the Lynnwood Police Department arrested the former Director, interviewed him and issued a search warrant for his personal residence. Items that police recovered from the former Director's personal residence were linked to SERS general disbursements, credit card charges and surplus assets. Police issued two additional search warrants during their investigation, further linking SERS purchase records to items recovered at the former Director's personal residence.

Investigation Results

Our review of SERS's general disbursements, credit card charges, fuel card charges and the surplus of assets found the following:

- **General disbursements** – We reviewed vendors used by SERS from January 2012 through November 2015. We evaluated and selected vendors for further review based on our understanding of SERS' operations and the former Director's responsibilities. We identified a total of \$118,911 that was misappropriated, with \$15,746 in questioned purchases. Some of the larger purchases related to:
 - The purchase of a new skid steer and trailer on a rent-to-own payment agreement totaling \$41,905. The former Director initiated this agreement, which included a 20 percent cost increase due to the rent-to-own nature of the contract. Monthly payments were less than the threshold requiring formal Board approval. The first payment occurred in July 2014, with a final payment made in December 2014. In

addition to the cost of the skid steer and trailer, the former Director initiated and approved the purchase of multiple attachments for the skid steer totaling \$15,688. Invoice documentation presented to the Board for approval indicated the skid steer was being rented for a specific time period and not a rent-to-own purchase.

- The purchase of various tractor parts totaling \$12,400, which the former Director initiated and approved. Police confirmed these tractor parts had been attached to a riding lawn mower returned by the former Director after his employment was terminated. SERS staff were unaware this tractor was SERS property. It does not appear SERS funds were used to purchase the tractor, but instead to purchase all the tractor parts.
- The purchase of gravel, topsoil and turf mix totaling \$16,343 which the former Director initiated and approved. Law enforcement confirmed these materials were used at the former Director’s personal residence to build a gravel road sometime between February and August 2015. About \$11,300 of these purchases occurred between September 2014 and November 2014, before the former Director began to build the gravel road, and about \$2,700 of these purchases occurred between June 2015 and September 2015, during the time period the road was confirmed to have been built.
- The purchase of various wildland fire clothing totaling \$3,921 and a fire shelter that cost \$1,037 which the former Director initiated and approved.
- **Credit Cards** – We reviewed all credit card transactions made by the former Director from January 2012 through November 2015 and identified a total misappropriation of \$67,088 and questionable purchases totaling \$24,020 on credit cards issued by the following vendors:

Summary of results		
Credit card issuer	Total misappropriation	Total questionable expenditures
Visa	\$24,219	\$20,929
Home Improvement Store 1	\$18,563	\$1,372
Home Improvement Store 2	\$24,305	\$1,720
TOTAL	\$67,087	\$24,021

Our review of the Visa credit card statements identified purchases made and approved by the former Director that were not valid business purchases for SERS. For example, he purchased a Blu-ray player with high definition video cables and adapters, various farm and ranch supplies, a drone with accessories, and motorcycle speakers.

Our review of both home improvement stores credit card statements identified non-business related purchases made and approved by the former Director. Items included: a Princeton shed, flood lighting, ceiling fans, landscape lighting, decorative lighting, a kitchen faucet, three garage door openers, welding equipment, and other items related to home improvement and irrigation projects.

During their investigation, police found multiple items at the former Director's personal residence that were matched to SERS credit card purchase records.

- **Fuel Cards** – We reviewed invoices for two fuel vendors used by SERS from January 2012 through November 2015 and identified \$1,281 as misappropriated fuel charges by the former Director. We identified purchases as misappropriations when either more fuel was bought than SERS would have had a business need for during a one-time transaction, or the fuel was not a kind used by SERS equipment. Our review also identified \$5,910 in questionable fuel purchases.
- **Surplus of Assets** – We reviewed the replacement of five SERS-owned generators placed out of commission between September 2010 and October 2014. We confirmed that one generator was inactive at a SERS tower site. In October 2014, according to SERS records, four of the five generators were fully depreciated and had no value on SERS' books. Police identified that the former Director installed one generator at his personal residence and gave the other three generators to an acquaintance. The acquaintance sold two of the generators for \$3,000 and the third was traded with an assessed value of \$1,000. Police recovered the generator located at the former Director's personal residence and assessed its value at \$1,000.

To determine if any additional misappropriations occurred, we evaluated other functions to which the former Director had access. We reviewed SERS controls over payroll, specifically leave accrual and usage, and did not find additional misappropriation; however, we did identify certain control weaknesses that we communicated to management in a separate document.

On November 11, 2015, the Lynnwood Police Department interviewed the former Director. During the interview the former Director acknowledged purchasing topsoil, turf mix and gravel using SERS funds from February 2015 through August 2015 and using it to build a gravel road on his personal property. He claimed the purpose was for keeping access to SERS equipment stored at his property since during the winter months when it had rained they had problems getting equipment in and out of his property. He stated these purchases were discussed with other SERS administrative and technician staff, but not the Board because the purchase prices were within his purchasing authority granted by the Board.

The former Director acknowledged buying the skid steer, trailer and various attachments. He stated, "We needed more equipment. My intention was that we would get a skid steer, a snow blower, a power mower attachment and brush attachment. And the purpose was for maintaining the sites and maintaining our roads." The former Director said he used the skid steer on his

personal property to build the gravel road. He indicated the skid steer was used at two different SERS tower site projects; however, no documentation or SERS employee could support this statement. The former Director said he performed the site work on the weekend. When police asked why this work was not performed during the work week, he offered no explanation.

Control Weaknesses

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

- The Board and budget subcommittee review of expenditures at the monthly meetings was not sufficient to ensure all purchases were allowable, for SERS business, and in compliance with SERS policy. Although the hardcopy invoices were provided at the monthly meetings, the review was limited to the invoice summary sheet, which lists basic information such as vendor name, warrant number and amount.
- The administrative staff's review of invoices, fuel purchases and credit card statements focused solely on the correct coding and evidence of approval from the former Director before processing for payment. Review of the former Director's expenses did not include ensuring the expenditure was for a valid, public purpose. SERS lacked adequate controls to ensure that supporting documentation to justify the intended business purpose of expenditures was included.
- SERS lacked adequate procedures to ensure purchases of theft-sensitive assets were monitored and safeguarded from loss.
- SERS lacked a formal policy or established procedures on the surplus of assets to ensure their proper disposal.

After SERS confirmed the misappropriation, SERS staff and the Board worked to immediately improve internal control weaknesses. We will review the updated controls during the next audit.

Recommendations

We recommend SERS continue to develop and strengthen controls over the review and approval of general disbursements, credit cards and fuel card charges. We further recommend SERS establish formal tracking procedures over assets including surplus items and equipment maintained by employees to ensure adequate oversight and monitoring for safeguarding public resources.

We also recommend SERS seek recovery of the misappropriated \$192,280 and related investigation costs of \$28,970 from its insurance bonding company, as appropriate. Any compromise or settlement of this claim by SERS 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.

Agency's Response

SERS thanks the State Auditor's Office (SAO) for responding to SERS' request for a thorough investigation and SERS agrees with the recommendations of the SAO. Prior to receiving the recommendations of the SAO, SERS through its Governing Board, its Personnel Committee and its Budget Committee, took immediate steps to address the financial inconsistencies that, upon investigation, were determined to constitute employee theft. Those steps undertaken by SERS included:

- *The SERS Governing Board immediately responded to concerns identified, and removed the administrative Director, who was the suspected employee, from fiduciary responsibilities in the organization.*
- *The SERS Governing Board shortly thereafter terminated the administrative Director for cause.*
- *SERS Governing Board requested a full scale law enforcement investigation coordinating with the State Auditor's Office and Snohomish County Prosecutors Office.*
- *The SERS Governing Board appointed an Interim Director from outside the agency to manage the operation and allow for evaluation and improvements to the organization.*
- *SERS instituted a 2 signature justification form for purchases, and required the administrative Director purchases to be approved by the Governing Board President.*
- *The SERS Governing Board initiated an internal policy and employee audit conducted by attorneys/former prosecutors Carl Blackstone and Robert Westinghouse.*
- *The SERS Governing Board contracted with JB Consulting, a human resources consultant, to re-write the SERS Employee Handbook and Policies and Procedure Manual.*
- *The SERS Governing Board is currently evaluating the proper structure and governance of the organization including being involved in the Public Safety Answering Point (PSAP) consolidation discussion.*

State Auditor's Office Remarks

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

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