

INVESTIGATION REPORT

Investigation Summary

On May 5, 2016, the Chief Financial Officer notified our Office regarding a potential loss of public funds as required by state law.

The College investigated and provided its file to us. We reviewed the College's investigation and determined questionable purchasing card activity occurred between July 2009 and June 2015 at the College, totaling \$33,654.

The College has filed a report with the Spokane Police Department. We will refer this case to the Spokane County Prosecuting Attorney's Office.

Background and Investigation Results

The College, located in Spokane County, operates on annual revenues of more than \$170 million. The Facilities Department typically employs six employees in the heating, ventilation and air conditioning (HVAC) division. This division ensures comfortable work and learning environments throughout various College buildings valued at more than \$150 million. The HVAC Supervisor is responsible for overseeing the division's employees and the project work performed. The HVAC Supervisor and five HVAC technicians each have a purchasing card, which grants them authority to purchase supplies and parts as needed on assigned projects. The HVAC Supervisor reviews and approves technician purchases, and the Facilities Director monitors purchases made by the Supervisor.

A change in the Facilities Director position occurred in October 2014. With this change, the division established a more detailed review over facility operations, including reviews of HVAC purchases. In July 2015, the Facilities Director identified purchasing activity on the HVAC Supervisor's purchasing card that appeared to be personal in nature. In August 2015, the Director of Facilities and the Human Resources Director met with the HVAC Supervisor to discuss the personal charges. The HVAC Supervisor's employment with the College ended in September 2015.

The College investigated, focusing on the 2009 to 2015 purchasing card activity of the former HVAC Supervisor. The College's investigation identified 174 invoices totaling \$33,654 for purchases made by the former HVAC Supervisor that it considered losses. Some examples of these purchases included:

- \$2,147 in HVAC parts and supplies that were applied to Facilities project work orders that were already closed and considered complete.

- \$2,490 in HVAC parts and supplies purchases made when he was not present at work and on sick leave.
- \$4,850 in HVAC software related purchases that the College could not account for the installation of this software on College computers. The former HVAC Supervisor initiated the purchases and personally received the software license access information.

The College felt that the majority of the former HVAC supervisor's purchases were in question, because each division technician had purchasing authority. The normal process would have been for the technicians to purchase supplies and parts themselves. Based on this expectation, the HVAC supervisor's purchase card should have had limited activity.

Our review of the invoices identified by the College's investigation found most of the items purchased were HVAC related.

We made multiple attempts to contact the former HVAC Supervisor, but he did not respond to our interview requests.

Control Weaknesses

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

- Monitoring of purchases made by the former HVAC Supervisor were not adequate to ensure charges were for valid business purposes.
- Due to the nature of the items acquired, the purchasing department responsible for reconciling purchase card activity relied heavily on the knowledge and expertise of the Facilities Director to ensure the purchases were for valid business purposes.

Recommendations

We recommend the College strengthen internal controls over the HVAC division's purchasing card activities to ensure adequate oversight and monitoring to safeguard public resources and compliance with College policies.

We also recommend the College seek recovery of the questionable transactions, as appropriate, and related investigation costs of \$4,797 from the former HVAC Supervisor and/or its insurance bonding company. Any compromise or settlement of this claim by the College 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 matk1@atg.wa.gov. The contact for the State Auditor's Office is Sadie Armijo, Assistant Director of Local Audit, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

College's Response

As a result of the State Auditor's Office investigation into the report of P-card fraud submitted on May 5, 2016 by this office as required by state law, two recommendations regarding internal control weaknesses were identified by the Auditor's Office.

The first recommendation was that the College strengthen internal controls over the HVAC division's purchasing card activities. As a result of the identification of what appeared to be fraudulent charges on the HVAC Supervisor's P-card in 2015, immediate steps were taken by the new Facilities Director to mitigate the opportunity for such fraud in the future. The following procedures were put into practice:

- 1. An original receipt is required for every purchase made with a P-Card. Every transaction receipt attached to the P-card transaction log, is reviewed by the supervisor and a determination is made if the item bought is applicable to the work accomplished.*
- 2. The P-card approving authority (Director of Facilities Maintenance), reviews every receipt and looks for anomalies, dates, times, and patterns that are suspicious or incongruent with department purchases for open work orders. Suspicious activity is questioned and craftsman/employee involved must justify the purchase. This review and question process reinforces the understanding among employees that receipts are being scrutinized, and that improper use of the purchase card will most likely be identified.*
- 3. Work orders that were previously closed by the supervisor or administrative staff are now required to be closed by the craftsman/employee assigned to the work order. This prevents work orders from remaining open and allowing purchases to be made against them once the work is complete.*

In addition, the Community Colleges of Spokane (CCS) has a second level of control over purchasing card transactions which occurs in the P-card department. These control procedures occur for every P-card transaction from every department throughout the CCS District. The control procedures are to help enforce CCS Administrative Procedure 5.30.05-G Purchase and Travel Cards. In addition, all P-card holders, custodians and reconcilers are required to complete P-card training as provided by the P-card department at CCS. These control procedures require the following:

Ability to be issued a P-card:

- 1. Request for a P-card and training is sent to Expense Accounting Supervisor*
- 2. Training is set up, 1 CCS training in Canvas, 2 trainings on ethics/small purchases from DES which are required by State law*

3. *Upon completion of training (tracked by Expense Accounting Supervisor), the P-card application is submitted for issuance of a P-card. Application for new card requires limits and approval signature of department Administrator.*

Cardholder Responsibilities:

1. *Make purchases according to purchasing policy and procedures*
2. *Request a complete, detailed receipt*
3. *Keep written log of P-card transactions*
4. *Inspect the shipment and verify goods when received*
5. *Resolve any discrepancies with vendor*
6. *Submit original receipts to the reconciler of the P-card*

Reconciler Responsibilities:

1. *Review transactions in ctcLink computer system, and process with proper chart string, verify that a receipt is attached, tax been charged, and a category code is entered*
2. *Budget check the transaction in the system*
3. *Mark as verified in the system*

Approving Official Responsibilities:

1. *Establishes procedures for keeping card secure*
2. *Reviews the cardholder's monthly statement and log (verifies receipts for compliance)*
3. *Signs the purchaser's monthly log*
4. *Ensures timely reconciliation of transactions and submission of monthly paperwork to P-card office*
5. *Takes appropriate action for P-card violations*
6. *Informs Expense Accounting Supervisor of termination/transfer of card*
7. *Collects card from employee upon termination of employment*

Expense Accounting Responsibilities:

1. Review each P-card transaction in ctcLink to confirm there is an appropriate chart string, category code, sales tax status, that the receipt is attached, and that this is an appropriate purchase according to State and grant policy
2. Mark the transaction as approved
3. Receive monthly statement, log & original receipts in the office (deadline is the 10th of the month)
4. Logs receipt of documents on Statement Tracking spreadsheet
5. Review packet to confirm all appropriate documentation and approval signatures for the month have been included
6. Monthly packet is filed in office

Expense Accounting Supervisor Responsibilities:

1. Review daily transactions that appear in PaymentNet for compliance to policy and purchasing guidelines

The second recommendation was that the College seek recovery of the amounts related to the questionable transactions as appropriate, plus recovery of all investigation costs. To this end, the College has filled all appropriate police reports and secured all documentation. At this time, CCS is waiting on notification from the Spokane Prosecuting Attorney's Office as to whether charges will be filed against the former HVAC Supervisor. Upon notification, CCS will assist the Prosecuting Attorney's Office in the prosecution and recovery of questionable transaction amounts.

State Auditor's Office Remarks

We thank College officials and personnel for their assistance and cooperation during the investigation. We will review the status of the College's corrective action during our next audit.