

Washington State Auditor's Office
Fraud Investigation Report

City of Bellevue
King County

Investigation Period
June 11, 2012 through October 23, 2013

Report No. 1012843

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Washington State Auditor
Troy Kelley

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City of Bellevue
Bellevue, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Bellevue. On November 8, 2013, the City 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 Recreation Program Coordinator's unallowable activities at the City from June 11, 2012 through October 23, 2013. 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

cc: Mr. Brad Miyake, City Manager
Ms. Jan Hawn, Finance Director
Ms. Sara Lane, Assistant Finance Director
Ms. Diane McPherson, Accounting Manager and liaison

Fraud Investigation Report

**City of Bellevue
King County
June 11, 2012 through October 23, 2013**

INVESTIGATION SUMMARY

On November 8, 2013, the assistant finance director, notified our Office of a potential loss of public funds, as required by state law.

The City and the Bellevue Police Department initiated an investigation and determined procurement card purchases were used to misappropriate funds from the City's Parks & Community Services department. The investigation identified a loss totaling \$117,410 between June 11, 2012, and October 23, 2013.

The King County Prosecuting Attorney's Office was notified of this case. In May 2014, the recreation program coordinator was charged with 19 counts of second degree theft. On August 13, 2014, the coordinator pled guilty to nine counts of second degree theft in King County Superior Court and was subsequently sentenced to 90 days.

BACKGROUND AND INVESTIGATION RESULTS

The City, located in King County, operates on an annual budget of approximately \$647 million, including \$3.6 million in procurement card charges in 2013. The City's Parks & Community Services department manages an integrated system of parks and open space and offers recreational, cultural and human service programs.

The City's investigation found the recreation program coordinator, who was in a supervisory role, created a fictitious t-shirt company on PayPal and used her subordinates and manager's procurement cards to make purchases to the fictitious vendor. It is reasonable for the department to purchase t-shirts given the nature of its activities. The coordinator was employed with the City for 10 years and in the supervisory role since October 1, 2006. The coordinator resigned on January 16, 2014.

The investigation also determined that a recreation assistant, who was a subordinate, used her personal bank account for the fictitious PayPal account. Money would be deposited into the subordinate's personal bank account and then withdrawn and given to the recreation program coordinator.

On January 22, 2014, a detective from the Bellevue Police Department interviewed the recreation program coordinator. The coordinator stated she created a fictitious t-shirt business. She stated she used her subordinates' procurement cards without their knowledge and since she was their supervisor, was responsible for reconciling their credit card purchases monthly. Further, the detective interviewed the subordinates and one

individual, who had the t-shirt purchases on his procurement card, told the detective he did not know he was issued a City procurement card.

The police investigation determined there were 81 transactions, involving seven procurement cards, made to the fictitious account.

In order to determine if any additional misappropriations occurred, we examined systems to which the former recreation program coordinator had access. We did not identify other systems the coordinator had access to that would result in additional misappropriation. However, for the seven cards with charges from the fictitious vendor, we reviewed the City's investigation of all procurement card charges to determine if there were other misappropriations in addition to the t-shirt business. None were identified.

We also reviewed the City's Procurement Card Application and Procurement Card Cardholder Agreement for the subordinate who was unaware he had a City issued procurement card. We compared the signatures on both forms against the subordinate's personnel file and determined that the signatures on the procurement card forms did not appear authentic.

CONTROL WEAKNESSES

Internal controls at the City were not adequate to safeguard public resources. The following weaknesses allowed the misappropriation to occur:

- Parks & Community Services management did not consider the reasonableness of procurement card purchases to the fictitious t-shirt company. The department normally purchased t-shirts from a separate vendor and no others. Therefore, purchases made from the previously unknown vendor should have alerted management that those purchases could be unreasonable.
- Subordinates, who were part-time, temporary employees, were not required to review their own procurement card activity reports before they were reviewed by the recreational program coordinator. The Parks & Community Services manager allowed the coordinator to use the manager's procurement card when the manager should have been the only one using it to make purchases.
- The Parks & Community Services department did not adequately monitor its budgets. Upon discovery of the misappropriation, a budget report was generated and there were significant increases in spending for 2011, 2012 and 2013.
- The Finance Department accepted inadequate supporting documentation in its audit of credit card transactions.
- The City allowed immediate supervisors the authority to authorize procurement cards be issued to subordinates. The investigation found that the department manager was under the impression that the coordinator did not have procurement

card signature authority and was unaware the subordinates, who were seasonal employees, had procurement cards.

- The ProCard system allowed authorized users to perform both the cardholder and reconciler certifications.

RECOMMENDATION

We recommend the City strengthen internal controls over its procurement card program to ensure adequate oversight and monitoring to safeguard public resources and compliance with City policies. As a result of the misappropriation, the City contracted with an independent certified public accounting firm to perform a city-wide audit of its procurement card system and usage.

We also recommend the City seek recovery of the misappropriated \$117,410 and related investigation costs of \$5,350 from the former recreation program coordinator and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the City 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 Deputy Director of Local Audit Sadie Armijo, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

CITY'S RESPONSE

The City concurs with the summary of the fraud and the weaknesses presented above. Following is a summary of the City's response to the fraud:

The City promptly responded to the potential fraud once identified. Immediately following the identification of a potential loss by City of Bellevue staff and notification of the loss to the State Auditor and Bellevue Police Department, the Finance Department reviewed pro-card policies and procedures to identify areas of weakness and implemented changes to the policies and procedures addressing the weaknesses noted in this report. These actions strengthened internal controls over its procurement card program to ensure adequate oversight and monitoring to safeguard public resources and compliance with City policies. In addition, the City contracted with an independent certified public accounting firm to perform a city-wide audit of its procurement card system and usage. Immediately following the outcome of that audit, the City implemented several additional changes to policy and procedure addressing recommendations from the independent audit that were not previously addressed. Bellevue Police Department completed their investigation of the loss and turned the case over to the King County prosecutor. The perpetrator pleaded guilty and has been sentenced by the King County Superior Court to 90 days incarceration, one year supervised probation, full restitution, and rehabilitation treatment.

The City has taken the following specific actions in response to this fraud:

1. Move administration of ProCard Program into Procurement Services Division

- *ProCard Administrator and Procurement Services Manager to jointly audit monthly charges.*
- *Provide backup coverage for ProCard Administrator*
- *Procurement Services Manager to review and approve final invoice.*
- *Procurement Services Manager to provide secondary audit with monthly sample review and verification that goods were received with approvers.*

➤ ***Completed - November 2013***

2. Audit/review of ProCard Program at least every 3 years by either an internal or external review.

➤ ***Completed – Clark Nuber Completed Full Review May 2014***

3. Hire Clark Nuber to provide annual ProCard data mining report that sorts data into several views for more targeted testing to assist identify future potential fraud.

➤ ***Completed – Clark Nuber Provided Data Mining Report February 2014***

4. Clarify and communicate Roles & Responsibilities for each staff person within process:

- *Clarify roles for cardholder, reconciler, and approver. Communicate expectations to users.*

➤ ***Completed – Issued Financial Advisory Bulletin (FAB) to staff in February 2014.***

5. Update ProCard Policies and Procedures Manual and Card Holder Agreement to add:

- *Restrict on-line reconcilers from also approving and signing off on ProCard materials.*
- *Require itemized receipts rather than summary receipts.*
- *Strengthen language and scrutiny over description and statement of public purpose.*
- *Update manual to require additional vetting of any 3rd party processor (such as PayPal) to ensure payee is a valid business.*
- *Update the manual to instruct employees on what they should do if they suspect fraud or abuse in the program; include instructions on who to contact.*

- *Modify cardholder agreement to require employees to acknowledge understanding of the Business Expense Policy and Guide to Procurement and their role*

➤ ***Completed – January 2014***

6. *Departments will continue to distribute monthly budget monitoring reports to Managers for tracking expenditures at both the line-item and program area levels. Supplement this information with quarterly procurement card analytic reports which include transaction detail at the individual and vendor levels.*

➤ ***Completed – April 2014***

GENERAL INTERNAL CONTROL ACTIONS

1. *Fraud Awareness, Detection, and Prevention Training provided by the SAO Local Government Performance Center and available to all fiscal staff*

➤ ***Completed – May 2014***

2. *Collaborative “Internal Control Forum” for all finance department staff to provide focus and opportunity to raise concerns about any areas of potential internal control weakness. The forum reinforced the importance of internal controls, and the important part that our processes play in maintaining those controls.*

➤ ***Completed – June 2014***

3. *City wide review of the Signature Authority Matrix (delegations of authority)*

➤ ***Completed – July 2014***

4. *Use of Clark Nuber to perform independent computer aided audit techniques on Payroll and AP data to identify any potential irregularities.*

➤ ***Completed – September 2014.***

5. *Evaluations underway in all Finance Divisions to address areas of concern identified by staff in the Internal Control Forum.*

➤ ***Work in progress – completion anticipated by 12/31/2014***

STATE AUDITOR’S OFFICE REMARKS

We thank City 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 as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

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