



Washington State Auditor's Office

Troy Kelley

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Fraud Investigation Report

Tacoma-Pierce County Health Department

For the Investigation Period March 1, 2013 through December 31, 2013

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Washington State Auditor Troy Kelley

November 3, 2014

Board of Health
Tacoma-Pierce County Health Department
Tacoma, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Tacoma-Pierce County Health Department. On December 20, 2013, the Department 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 budget and accounting coordinator's unallowable activities at the Department from March 1, 2013 through December 31, 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 Fraud Manager Sarah Walker at (509) 454-3621.

TROY KELLEY

STATE AUDITOR

cc: Mr. Christopher Schuler, Business Manager

Fraud Investigation Report

Tacoma-Pierce County Health Department March 1, 2013 through December 31, 2013

INVESTIGATION SUMMARY

On December 23, 2013, the Department's business manager notified our Office regarding a loss of public funds, as required by state law. This notification was not timely, as required by state law, and occurred after the Department conducted an investigation.

We reviewed the Department's investigation and agree refund payments were used to misappropriate \$16,920 between March 2013 and December 2013.

The Department has filed a report with the Tacoma Police Department, which has investigated this case. The Pierce County Prosecuting Attorney's Office has also been notified of this matter and the case is before the courts.

BACKGROUND AND INVESTIGATION RESULTS

The Department, located in Pierce County, operates on an annual budget of approximately \$34 million, including about \$9 million in the Environmental Health and Treatment Services programs. The Department issued 268,069 permits and food worker cards and provided medical assistance to 1,334 people in 2013. These programs paid out 243 refunds totaling \$83,001 in 2013.

After discovering discrepancies in one refund the Department initiated an investigation and determined four refund payments were misappropriated, totaling \$16,920, between March 1, 2013 and October 31, 2013.

We reviewed the Department's investigation and agree with its conclusions. The investigation found:

- Two misappropriated refunds, totaling \$5,375, were filed for medical assistance.
- Two misappropriated refunds, totaling \$11,545, were filed for pre-paid permit fees.
- The four refunds' supporting documentation were photocopies of previously processed legitimate refunds changed slightly and included approval signatures that were not authentic.

The Tacoma Police Department traced the four refund checks generated into a bank account controlled by the former budget and accounting coordinator.

In order to determine if any additional misappropriations occurred, the Department examined systems to which the former budget and accounting coordinator had access. It reviewed payments to “one time” vendors, payments on contracts, and payments made to vendors where there was no purchase order and did not find additional misappropriation.

CONTROL WEAKNESSES

We found the following weaknesses allowed the misappropriation to occur:

- The Department did not have adequate internal controls to monitor the check process. The refund checks were obtained by the budget and accounting coordinator, who had approved these payments, instead of being mailed.
- The budget and accounting coordinator signed required approvers’ names without detection.

RECOMMENDATION

We recommend the Department strengthen internal controls over refunds and disbursement to ensure adequate oversight and monitoring to safeguard public resources and compliance with Department policies. We further recommend the District immediately report known and suspected losses in accordance with state law.

We also recommend the Department seek recovery of the misappropriated \$16,919.50 and related investigation costs of \$1,794 from the former budget and accounting coordinator and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Department 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 mattkl@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.

DEPARTMENT’S RESPONSE

Had the existing procedures and controls been followed, they would have been sufficient to detect and prevent fraud of this type. However, it was possible for the employee in this lead position to circumvent the controls during position vacancies. While acting as back-up to the primary reviewer of refund claims, the compensating controls were not followed and allowed fraudulent payments to be processed.

Immediately after detection, the Department put in place additional safeguards and controls to prevent similar attempts of fraud. Further steps were taken to ensure staff was fully educated on their responsibility to alert the Department of any deviation of procedure.

STATE AUDITOR'S OFFICE REMARKS

We thank Department 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.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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