



**Washington State Auditor's Office**

**Troy Kelley**

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## **Fraud Investigation Report**

# **Port of Walla Walla**

**Walla Walla County**

**For the Investigation Period January 1, 2009 through October 15, 2014**

**Published December 29, 2014**

**Report No. 1013100**





## Washington State Auditor Troy Kelley

December 29, 2014

Board of Commissioners  
Port of Walla Walla  
Walla Walla, Washington

### Report on Fraud Investigation

Attached is the official report on a misappropriation at the Port of Walla Walla. On January 3, 2014, the Port 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 potential misappropriation of fuel at the Port from January 1, 2009 through October 15, 2014. 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: Ms. Donna Watts, Auditor/Treasurer, Port of Walla Walla  
Mr. Jim Kuntz, Executive Director Port of Walla Walla  
Ms. Jennifer Skoglund, Airport Manager, Port of Walla Walla  
Mr. Mike Fredrickson, Commissioner, Port of Walla Walla  
Mr. Ron Dunning, Commissioner, Port of Walla Walla  
Mr. Peter Swant, Commissioner, Port of Walla Walla

# **FRAUD INVESTIGATION REPORT**

## **Investigation Summary**

On January 3, 2014 the Port of Walla Walla executive director notified our Office regarding a potential loss of public funds as required by state law.

We initiated an investigation and determined internal controls were not adequate over the aviation fuel system at the Port, which led to a loss totaling at least \$185,156 between January 1, 2009 and October 15, 2014.

The Port has filed a report with the Walla Walla County Sheriff's Department, which is investigating this case. The Walla Walla County Prosecuting Attorney's Office has also been notified of this case.

## **Background and Investigation Results**

The Port, located in Walla Walla County, operates on an annual budget of approximately \$11.7 million, including \$600,000 in aviation fuel. It provides both 100LL and Jet A fuel to commercial and non-commercial aircraft.

The Port of Walla Walla contracts with a vendor to deliver aviation fuel to customers. The vendor pumps the fuel from the fuel tank to Port owned fuel delivery trucks. When the fuel is pumped, the vendor uses customer credit or prepaid cards to pay for the fuel delivered to customer aircraft, or its own credit card for purchases of fuel for resale. Aircraft customers can also pull up to the fuel terminal to pump their own fuel and pay with a card. The vendor is also responsible for required fuel quality tests and does not pay for the fuel pumped for the tests, which usually require about a gallon of fuel. To pump the fuel for the tests, the vendor can unlock and open the pump terminal to switch to manual mode, which requires no payment.

The Port identified continuing losses on the sales of aviation fuel that appeared to span several years. The decline in revenue from the sales of fuel did not correspond to the volume of fuel purchased by the Port. On January 3, 2014, the Port contacted our Office to report a suspected loss.

We initiated an investigation focused on aviation fuel. To determine how fuel could be misappropriated and the amount of loss, we reviewed the Port's internal controls over its aviation fuel inventory and how the fuel pump terminal operates. We also reviewed fuel system event logs, the contract with the outside company, meter readings provided by the outside company and documentation provided by the Port for fuel inventory purchases.

We determined through our investigation that aviation fuel could be pumped, or otherwise extracted, from the inventory without requiring payment and the Port was unable to identify the loss in a timely manner. From January 1, 2009 through October 15, 2014, we identified a total misappropriation of 49,659 gallons of 100LL and Jet A aviation fuel with an estimated cost of \$185,156. The amount of loss is calculated based on the last fuel price paid by the Port for each year.

We shared the results of our investigation with Port managers and they installed cameras near the fuel pump terminal to determine who was responsible for the losses. In May 2014, the Port detected a loss of 344.7 gallons of Jet A fuel. Review of the time-stamped surveillance footage shows an employee of the fuel vendor walking to the fuel kiosk with keys to the kiosk head, connecting a grounding cable to the fuel truck, connecting the Jet A fuel hose to the fuel truck, walking into the kiosk hut (actions in kiosk hut cannot be seen), then walking out of the kiosk hut with the keys, disconnecting the jet hose and removing the cable. The Port detected further losses of 251.55 gallons of Jet A in September 2014, 406.74 gallons of 100LL in September 2014 and 499.96 gallons of Jet A in October 2014. The surveillance footage at the time of these additional losses shows actions similar to those on the May 2014 footage.

In October 2014, Walla Walla County Sheriff's Department deputies interviewed the owner and employees of the outside company contracted to deliver aviation fuel to customers. The employees said when the prepaid fuel card did not have enough funds to fill the tank to meet customer demands the employees obtained approval from the owner to manually override the system and fill the fuel delivery trucks. To do so, they would use the key to open the kiosk, switch the pump to manual and pump the needed fuel from the tank to the truck. The employees would then leave documentation for the owner to reconcile the difference with the Port. The owner confirmed the procedure but said the overrides have occurred only four or five times over the last five years and couldn't recall when the last override took place. He stated he had no knowledge of the overrides in May or September of 2014. The owner explained that at the end of each month he sends a worksheet to the Port that includes meter readings, sales and usage. He makes a note of any override on the worksheet and adds it to the amount he owes the Port. He stated that he doesn't reconcile his inventory or balances at the end of the month, but does reconcile the fuel sales on a daily basis.

## **Control Weaknesses**

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

- The Port has not changed the standard key/lock used on the fuel pump terminal since the pumps installation in or around early 1999. It is a universal key that can operate the terminal at any airport that utilizes this type of pump.

- The Port does not adequately monitor the fuel transactions of the outside company:
  - The Port does not physically verify the meter readings provided by the outside company.
  - The Port does not verify fuel meter readings nor usage against fuel reported as pumped in the fuel system.
  - The Port does not regularly review nor compare the fuel quality testing logs to the fuel pumped without a financial transaction recorded by the fuel system.

The Port started implementing improved controls in 2014. The Port's maintenance manager does a daily meter reading and the Port's auditor/treasurer does a monthly review of meter readings, fuel purchases and fuel sold. The Port also installed a surveillance camera and changed the lock on the kiosk. We have not reviewed these controls and will follow up on it during our next audit.

## Recommendation

We recommend the Port strengthen internal controls over aviation fuel inventory and sales to ensure adequate oversight and monitoring to safeguard public resources and compliance with Port policies. We also recommend the Port seek recovery of the misappropriated \$185,156 and related investigation costs of \$5,239 from the outside company and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Port 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](mailto: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](mailto:Sadie.Armijo@sao.wa.gov).

## Port's Response

*The Port recognizes there was a weakness in its internal control systems regarding the Airport's aviation fueling system. As this report notes, the Port has implemented new internal control systems. It should also be noted that while the Port's internal control system was not as robust as it should have been, it was the Port management team that discovered the loss of aviation fuel and reported it to the State Auditor's Office.*

*The Port has commenced a civil lawsuit against the party we believe was responsible for the loss of fuel. The Port's goal is to recover the loss as outlined in this fraud report.*

*The Port is currently exploring contracting out to a third party the aviation fueling system. By doing so, the Airport would no longer be purchasing and selling aviation fuels. Instead, the Port would receive a fixed rental payment by leasing the aviation fueling assets to a third party operator. The Port would also collect a fuel flowage fee from the operator which is standard airport industry practice. We believe this business structure presents less risk to the Port and minimizes the oversight requirements of the current aviation system business model. We hope to contract out to a third party operator no later than the first quarter of 2015.*

### **State Auditor's Office Remarks**

We thank Port 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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