



# Washington State Auditor's Office

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## Fraud Investigation Report

# City of Oak Harbor

Island County

**For the Investigation Period January 1, 2012 through March 31, 2016**

**Published November 21, 2016**

**Report No. 1017795**





# Washington State Auditor

November 21, 2016

City of Oak Harbor  
Oak Harbor, Washington

## Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Oak Harbor. On March 30, 2016, 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 Senior Center Travel Coordinator's unallowable activities at the City from April 23, 2012 through March 31, 2016. The purpose of our investigation was to determine if a misappropriation had occurred.

We performed our investigation 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. Patricia Soule, Finance Director

# FRAUD INVESTIGATION REPORT

## Investigation Summary

On March 30, 2016, the City of Oak Harbor's City Administrator notified our Office regarding a potential loss of public funds as required by state law.

The City initiated an investigation and provided its files to us. We reviewed the City's investigation, performed an expanded review and determined a misappropriation of \$33,919 in Senior Center travel commission revenue occurred between April 23, 2012 and March 31, 2016.

We will refer this report to the Island County Prosecuting Attorney's Office.

## Background

The City, located in Island County, operates on an annual budget of approximately \$138 million, including \$442,152 in operating budget for the Senior Center for fiscal year 2015. The Senior Center is managed by an Administrator and includes full-time and volunteer staff members. The Travel Coordinator position is responsible for organizing day and overnight trips for participating members as well as other administrative functions. The Travel Coordinator was not expected to travel along during the overnight trips, and if they did attend they were to use their own money for any trip expenses.

As part of the services available to the members, the Senior Center organizes domestic and international trips through various travel agencies. As part of its agreements with the travel agencies involved, the Center earns an organizing commission of 8 percent to 10 percent of the total cost of the trips.

In March 2016, a newly hired Senior Center Administrator (Administrator) identified that the department was not receiving the expected amount of travel agency commission revenue. Through further review, she identified e-mail correspondence in which the Travel Coordinator requested the travel agencies apply the earned commission revenue to the cost of her personal participation on the trips. On March 28, 2016, the Administrator met with the Travel Coordinator. During this meeting, the Administrator asked the Travel Coordinator if she understood that she was using City funds for the personal trips, and she said that she did. The former Travel Coordinator officially retired on March 31, 2016.

## Investigation Results

Our investigation focused on reviewing the controls over tracking and use of Senior Center travel commission revenue, and testing to determine the amount of revenue that was used to fund the former Travel Coordinator's trips. We also reviewed the former Travel Coordinator's timesheets to learn if she received regular pay for any time during the duration of the trips. From this investigation, we found the following:

- For all nine overnight trips the Senior Center organized from January 2012 through March 2016, we found the former Travel Coordinator used the earned travel commission revenue to personally participate in the trip. A total of \$31,429 of earned commission revenues were used to cover the former Travel Coordinator's portion of the trip. Some travel destinations included Ireland, Italy, the Black Sea and Scotland.
- A total of \$2,490 in payroll compensation was inappropriately paid to the former Travel Coordinator during the time of travel for some of the overnight trips.

To determine if any additional misappropriations occurred, we examined systems to which the former Senior Center Travel Coordinator had access, which included accounts payable, cash receipting, event ticket purchases, employee travel reimbursements, customer refunds and petty cash. We did not find additional misappropriation. However, we identified other control deficiencies that make it difficult to determine if any other misappropriation occurred; these deficiencies specifically related to the safeguarding of event tickets and controls over customer refunds.

## **Control Weaknesses**

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

- The Senior Center did not have independent oversight of the commission revenue to ensure the Center is receiving the appropriate amount noted in the contract.
- The Senior Center did not have a detailed travel policy related to the overnight travel expectations for the Travel Coordinator position.
- Neither the City nor the Senior Center had a detailed contract with the travel agencies that specifically outlines the commission amount that would be received by the City.
- Neither the City nor the Senior Center had a policy regarding the appropriate uses of the travel commission revenue.

We also identified other control deficiencies that make it difficult to determine if any other misappropriation has occurred:

- There is no independent review of the customer refunds that the Senior Center processes to ensure the refunds are appropriately supported and issued to legitimate customers. The Administrator has full control of the refund process for the membership fees, and other employees issue travel refunds without independent review and approval.

- The Center does not have a control to ensure all of the pre-purchased event tickets are appropriately safeguarded. The City also does not have a policy regarding tickets that were not sold by the Senior Center.

## **Recommendations**

We recommend the City strengthen internal controls over travel agency commission revenue, monitoring of leave use, customer refunds and event tickets to ensure adequate oversight and monitoring to safeguard public resources and compliance with City policies.

We also recommend the City seek recovery of the misappropriated \$33,919 and related investigation costs of \$4,935 from the former Senior Center Travel 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 Matthew Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or [Mattkl@atg.wa.gov](mailto:Mattkl@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).

## **City's Response**

*We are in the process of assessing the internal controls over cash- which includes revenue, receipting, commissions received, and refunding to customers; timekeeping- which includes recording of work time, time off, and how to ensure that has been approved before it is submitted; staff travel; and how we are securing, distribution and reconciling tickets purchased in advance for trips and events.*

*This will involve rewriting or adding policies and training staff on new procedures to implement controls to cover the weaknesses noticed by the auditor's office. This is a priority and the work has begun on the above mentioned areas of concern.*

*The City will continue to collaborate with the Washington State Auditor's office to proceed with steps necessary to recover both the misappropriated \$33,919 and related investigation costs of \$4,935.*

*Finally, the City would like to thank the time and attention the State Auditors put to this issue and their professionalism throughout the audit process.*

## **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 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.

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

<b>Contact information for the State Auditor's Office</b>	
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<b>Toll-free Citizen Hotline</b>	(866) 902-3900
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