



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Kennewick Public Hospital District

No. 1

(TRIOS Health)

Benton County

For the Investigation Period October 1, 2015 through March 1, 2016

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Report No. 1018631





**Office of the Washington State Auditor
Pat McCarthy**

February 13, 2017

TRIOS Health
Kennewick, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the TRIOS Health. On March 1, 2016, the District 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 Purchasing Agent's unallowable activities at the District from October 26, 2015 through February 25, 2016. 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.

Pat McCarthy
State Auditor
Olympia, WA

cc: Ms. Martha Herrera, Controller

FRAUD INVESTIGATION REPORT

Investigation Summary

On March 1, 2016, the Chief Financial Officer notified our Office regarding a potential loss of public funds as required by state law.

The District initiated an investigation and determined a credit card misappropriation of \$11,510 occurred between October 26, 2015 and February 25, 2016.

We reviewed the District's investigation and agree with its conclusions.

The District has filed a report with the Kennewick Police Department, which is investigating this case. We will refer this report to the Benton County Prosecuting Attorney's Office.

Background and Investigation Results

The District, located in Benton County, operates on an annual budget of approximately \$155 million and has an elected, seven-member Board of Commissioners who govern the District operations. The Board appoints management to oversee the District's daily operations as well as its 915 full- and part-time employees.

The District has 14 credit cards issued to various employees throughout different District departments. District annual credit card expenses average \$413,489. A former Purchasing Agent working in the Materials Management department was responsible for handling medical equipment and medical supply purchases for this department using a District-issued credit card.

The District's investigation focused on credit card purchases made by the former purchasing agent for the Materials Management department. The District reviewed credit card statements from October 1, 2015 to March 1, 2016, including supporting documentation to determine if purchases were for an allowable business purpose. The District determined through its investigation:

- A total of \$11,510 in District funds was misappropriated through personal use of the District credit card between October 26, 2015 and February 25, 2016.
- Items purchased included airfare, personal cell phone service, veterinary care and fuel.

The District interviewed the former Purchasing Agent on February 29, 2016, who acknowledged the misuse of the credit card.

Control Weaknesses

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

- Credit card statements were not reviewed in a timely manner by the accounts payable department.
- Supporting documents were not retained to validate District expenditures.

Recommendations

We recommend the District strengthen internal controls over credit card purchases and expenditure approvals to ensure adequate oversight and monitoring to safeguard public resources and compliance with District policies. We further recommend the District retain public records in compliance with records retention schedules.

We also recommend the District seek recovery of the misappropriated \$11,510 and related investigation costs of \$1,400 from the former Purchasing Agent and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the District 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. 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.

District's Response

The issue with credit card purchases has been discussed with AP clerk about reviewing monthly and making sure detailed receipts are received timely. If receipts are not attached, A/P clerk will notify the Controller so the Controller can contact the responsible individual. If the employee still does not provide the required receipts, then the Controller will escalate the matter to the appropriate executive and employee will be responsible to repay purchases.

The District will contact our Bonding company to explore the possibility of reimbursement of the loss. At that point we will determine if Trios or the Bonding company will pursue the recovery as appropriate. If we are not successful in recovery from the Bonding company, we will pursue recovery directly from the former purchasing agent. We will seek approval from both the Attorney General and the State Auditor's office before any settlement of compromise is agreed to.

State Auditor's Office Remarks

We thank District officials and personnel for their assistance and cooperation during the investigation.

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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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