



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report
Thurston County Public
Transportation Benefit Area
(Intercity Transit)

For the Investigation Period January 1, 2013 through March 31, 2017

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

December 28, 2017

Intercity Transit
Olympia, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Intercity Transit. On March 9, 2017, the Transit Authority 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 review of the former Accounting Assistant's unallowable activities at the Transit Authority from January 1, 2013 through March 31, 2017. The purpose of our investigation review was to determine if a misappropriation had occurred.

Our investigation review was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

If you are a member of the media and have questions about this report, please contact Assistant Director for Communications Kathleen Cooper at (360) 902-0470. Otherwise, please contact Fraud Manager Sarah Walker at (509) 454-3621.

Pat McCarthy

State Auditor

Olympia, WA

cc: Ms. Ann Freeman-Manzanares, General Manager
Ms. Suzanne Coit, Finance Manager

FRAUD INVESTIGATION REPORT

Investigation Summary

On March 9, 2017, the former Director of Finance and Administration of Intercity Transit (Transit Authority) notified our Office regarding a potential loss of public funds as required by state law.

The Transit Authority contracted with a forensic accounting firm, which investigated and provided their files to us. We reviewed the forensic accounting firm's investigation and agree with its conclusions. The investigation determined a cash receipting misappropriation totaling \$77,179 occurred between July 2013 and March 2017.

The Transit Authority filed a report with Olympia Police Department, which investigated this case. We will refer this report to the Thurston County Prosecuting Attorney's Office for any further action it determines is needed.

Background and Investigation Results

The Transit Authority, located in Thurston County, has a \$40 million annual operating budget and an \$18 million annual capital budget. The Transit Authority is governed by a nine-member Board of Directors and has 321 employees. The Transit Authority provides public transportation to the cities and urban areas of Olympia, Lacey, Tumwater and Yelm. Services include fixed-route bus operations, van services, specialized transportation for people with disabilities and commuter services, including ride matching and vanpools.

The former Accounting Assistant was responsible for reconciling vanpool program receipts and payments, preparing agency bank deposits and preparing Treasurer's receipts for deposit. The Accounting Assistant position was eliminated during a reorganization of the Finance Department. On the former Accounting Assistant's last day of employment, she left Intercity Transit early. After her departure, the Finance Manager stopped by her desk and discovered that the drawer where deposit funds were kept prior to being taken to the bank was unsecured and there was \$600 in cash inside a Key Bank deposit bag. The Finance Manager looked for a receipt for the funds but was unable to find one. The Finance Manager inquired with a Vanpool Coordinator about the funds. The Vanpool Coordinator explained that she had given the Accounting Assistant \$630 in cash the day prior and that she had provided the Accounting Assistant with \$1,015 in cash that afternoon. The Finance Manager returned to the Accounting Assistant's desk to search for the \$1,015 but could not find the cash or a receipt showing the funds had been prepared for transfer to the bank.

The Finance Manager contacted the former Accounting Assistant about the missing funds. The former Accounting Assistant said she had planned to tell the Finance Manager about the \$600 in the drawer and that she had deposited the \$1,015 in the bank on her way home from work. The

Finance Manager instructed the former Accounting Assistant to bring in the bank deposit slip the following Monday. The former Accounting Assistant agreed. Shortly after the call ended, the former Accounting Assistant called the Finance Manager back stating she had the \$1,015 and that it must have been stuck between books when she packed up her desk. The following Monday, the former Accounting Assistant returned the \$1,015.

The Finance Manager initiated an internal audit of vanpool receipts for January 2017 and February 2017 and discovered several significant discrepancies totaling about \$5,500. The Transit Authority initiated a full investigation, including the forensic audit conducted by the forensic accounting firm.

The forensic accounting firm reviewed all transactions included in the vanpool database between January 2013 and March 2017. They compared the information in the database with vanpool receipts and actual bank deposits made. During the forensic audit, the firm identified altered, duplicate and destroyed receipts for which the former Accounting Assistant had initialed or signed the original document. The results of the forensic audit concluded that \$77,179 in Intercity Transit vanpool cash payments were received but not deposited from July 2013 through March 2017. We consider this amount misappropriated. The forensic accounting firm also reviewed cash payments from January 2013 through June 2013 and did not identify any differences between vanpool receipts and deposits.

We obtained the police report from the Olympia Police Department, dated July 28, 2017, and verified the former Accounting Assistant was interviewed on July 13, 2017. During the interview, she acknowledged taking the money.

Control Weaknesses

Internal controls at the Transit Authority were not adequate to safeguard public resources. We found the following weakness allowed the misappropriation to occur:

- There was no independent reconciliation of vanpool receipts to bank statements to ensure all money received was deposited.

Recommendations

We recommend the Transit Authority strengthen internal controls over vanpool cash receipts to ensure adequate oversight and monitoring to safeguard public resources and compliance with Transit Authority policies.

We also recommend the Transit Authority seek recovery of the misappropriated \$77,179, \$73,041 in forensic audit costs and State Auditor's Office investigation costs of \$1,116 from the former Accounting Assistant and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Transit Authority 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 mattk1@atg.wa.gov. The contact for the State Auditor's Office is Sadie Armijo, Assistant Director of Local Audit, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

Transit Authority's Response

Intercity Transit concurs with the summary of the fraud finding and would like to thank the staff at the State Auditor's Office for their assistance. We take the mishandling of public funds very seriously. We immediately added stronger safeguards to ensure additional internal controls are in place.

Intercity Transit promptly responded to the potential fraud by immediately informing the State Auditor's Office as required and by filing a report with the Olympia Police Department. A forensic audit firm was hired to conduct the audit. The case was turned over to the Thurston County Prosecutor who pursued the former employee with criminal charges. The former employee plead guilty and was charged with a felony for first degree theft. She was sentenced on December 6, 2017 to time in jail and full restitution including audit fees. The loss was covered by insurance.

Intercity Transit appreciates the assistance from the State Auditor's Office with this matter. We would also like to recognize the efforts of our staff in gathering information and records in support of the investigation.

State Auditor's Office Remarks

We thank Transit Authority officials and personnel for their assistance and cooperation during the investigation and will follow up on the status of these items during our next scheduled audit.

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.

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