



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

City of Seattle

King County

For the Investigation Period January 2009 through November 2015

Published May 31, 2018

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May 31, 2018

City of Seattle
Seattle, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Seattle. On April 24, 2017, 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 Seattle Shares Program Coordinator's unallowable activities at the City from January 2009 to November 2015. 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.

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. Janice Marsters, Director, Citywide Accounting and Payroll

FRAUD INVESTIGATION REPORT

Investigation Summary

On April 24, 2017, the Director of Citywide Accounting and Payroll notified our Office regarding a potential loss of public funds as state law requires.

The City contracted with an investigative firm and provided the City a summary report of its investigation. We reviewed the investigative firm's investigation report and agree with its conclusions. The investigation determined that funds collected by the City between January 2009 and November 2015 for the employee giving and volunteer program were not deposited or turned over to the charities, resulting in questionable activity totaling \$20,978.

Background and Investigation Results

The City, located in King County, operates on an annual budget of about \$5.1 billion including \$1.1 billion for the general fund. The City has implemented an employee giving and volunteer program, Seattle Shares, that facilitates employee philanthropy by offering ways for employees to give to charities. The most common method that employees use to contribute is through payroll deductions; employees also may give one-time gifts of cash or checks during department fundraising events.

The Seattle Shares Program Coordinator started with the City in March 2008. Her job duties included entering donor information into the Human Resources Information System's payroll database (EV5), answering customer questions and presenting funds for deposit to the Treasury Department. Employees also had the option to submit their charitable donations directly to the Treasury Department. A separate employee handled any donations made through a payroll deduction.

On November 9, 2016, while the Program Coordinator was on extended paid leave, two city employees discovered boxes at the Program Coordinator's workspace that contained over \$15,000 in cash and checks along with donation forms indicating the funds were charitable contributions. The boxes contained checks dating from 2009 to 2014. The Seattle Department of Human Resources then initiated a personnel investigation with the help of an investigative firm.

The investigative firm's investigation included:

- A review of the funds and documentation discovered in the workspace of the Program Coordinator
- A review of the charity database and deposit history
- A determination of whether the loss was due to the Program Coordinator's failure to perform her job duties or whether the loss was due to inadequate policies and procedures.

Additionally, the investigation included interviews with several City employees, including the Program Coordinator. During the investigative firm's interview with the Program Coordinator on December 6, 2016, she delivered an additional \$4,500 of undeposited funds from her residence. Of the \$4,500, all but \$55 was in cash. According to the Program Coordinator, part of the reason for not depositing the funds was the enormity of her workload in the 2015 fall Seattle Shares event.

The results of the investigation concluded the total known employee donations that the Program Coordinator failed to deposit or turn over to the intended charities was \$20,476. Of that amount, \$15,976 in cash, coins, and checks were discovered in a cabinet at the Program Coordinator workspace and \$4,500 was produced during her interview. The investigative firm was able to identify the intended charities for all but \$1,321 of the \$20,476. The investigative firm further identified events for which donations were reportedly raised but not deposited, in the amount of \$502.

Control Weaknesses

Internal controls at the City were not adequate to safeguard funds held in trust by the City. We found the following weaknesses allowed the misappropriation to occur:

- Duties were not segregated: The Program Coordinator handled all aspects of the cash receipting process.
- The City did not perform an independent reconciliation of donations to the payroll database or bank statements to ensure all money received was recorded and deposited.

Recommendations

We recommend the City strengthen internal controls over cash receipts to ensure adequate oversight and monitoring to safeguard funds held in trust by the City and compliance with City policies.

We also recommend the City seek recovery of the undeposited \$502 and related investigation costs of \$1,735 from the former Seattle Shares Program Coordinator and/or the City's 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 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.

City's Response

The City of Seattle appreciates the State Auditor's Office recommendation on this matter. The City understands that inadequate controls exist that allowed this type of misappropriation. The City has taken steps to correct their procedures. This is awaiting a review by the Citywide Accounting Division's Compliance Manager.

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.

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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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