

FRAUD INVESTIGATION REPORT

Investigation Summary

On January 22, 2015, the Vice Chancellor for Finance and Technology notified our Office regarding a potential loss of public funds, as required by state law.

We initiated an investigation and determined there was a procurement card misappropriation at Seattle Colleges, totaling \$50,712.09 between July 1, 2009 and January 31, 2015. In addition, we determined \$46,169.04 of questionable procurement card activity occurred during this same period of time.

This report is being referred to the King County Prosecuting Attorney's Office.

Background and Investigation Results

Seattle Colleges, a district of four colleges located in King County, operates on an annual budget of approximately \$201 million, including approximately \$6.3 million in credit card expenditures. It has 254 credit cards issued.

Seattle Colleges' procurement department identified questionable activity during a review of activity on a credit card issued to the former Director of Distance Learning (former Director). On January 30, 2015, Seattle Colleges leadership held a meeting with the former Director. According to Seattle Colleges' investigation summary, when the former Director, who had served in that position since 1993, was asked about the questionable activity, the former Director acknowledged that purchases had been made for personal use.

Our investigation focused on the former Director's credit card purchase activity. To determine if misappropriation occurred, we compared credit card statements to available supporting documentation for transactions. There were 1,651 credit card transactions, totaling \$163,675, from July 2009 through January 2015, according to the bank statements. There were 1,094 unsupported transactions identified during our testing. We issued subpoenas to five vendors for supporting credit card records. We reviewed the additional documentation and incorporated it into our investigation.

During our investigation we identified 701 transactions, totaling \$50,712.09, that involve the purchase of goods or services that do not appear to be for a legitimate business purpose and are categorized as misappropriation. Examples of purchases made include:

- Gift cards
- Fitness activity trackers
- Nutrient extracting blender

- Makeup and beauty products
- Clothing
- Watches and jewelry

In addition, we identified 457 transactions, totaling \$46,169.04, that were either unsupported or contained the purchase of goods or services that were questionable.

In order to determine if any additional misappropriations occurred, we examined systems to which the former Director had access. We reviewed payroll and timesheet approval access, access to personnel files and use of travel cards. We did not find additional misappropriation in these areas.

We also examined the use of leave during travel periods. We compared travel documents that were found by the Colleges in the former Director's office to payroll records to determine if leave was properly used during times of travel. We identified 13 days where travel documents indicated the former Director was out of town and either partial or no leave was taken. It is unclear whether work was performed on these days.

We requested an interview from the former Director through multiple sources, including personal e-mail and phone numbers on file with the College, and received no response.

Control Weaknesses

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

- The Supervisor of the Distance Education Department did not adequately review credit card transactions of the former Director to ensure transactions were for legitimate business purpose.
- Seattle Colleges' Procurement and Accounting Departments were not adequately monitoring the review and approval of credit card transactions by individual departments to ensure that transactions were legitimate, reviewed and approved prior to payment of the credit card.

Recommendations

We recommend Seattle Colleges strengthen internal controls over review of credit card activity to ensure adequate oversight and monitoring to safeguard public resources and compliance with its policies.

We also recommend Seattle Colleges seek recovery of the misappropriated \$50,712.09 and related investigation costs of \$20,240.98 from the former Director and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the College must be

approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.330). 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.

Colleges' Response

The Seattle Colleges thanks the State Auditor's Office for responding to our request for a thorough investigation and agrees with the internal control recommendations. The Seattle Colleges will work with the appropriate law enforcement officials to seek restitution of the misappropriated amounts and the investigation costs.

Seattle Colleges' Procurement Department has put into place additional controls to prevent this type of fraudulent activity from occurring in the future. These include:

- *An additional staff position devoted to credit card program training, audit and management.*
- *Additional restrictions on allowable Merchant Category Codes (MCC). An MCC is a 4-digit number assigned by a merchant's charge card processor according to category or type of business a merchant conducts.*
- *Regular review of the credit card program to ensure compliance with the Washington State Administrative & Accounting Manual Chapter 45 – Purchase Cards.*
- *Increased controls to ensure cards are reconciled on a regular basis. These include the revocation of department card privileges for non-compliance.*
- *Regular audits of department credit cards.*
- *Regular training for credit cardholders and administrators.*

State Auditor's Office Remarks

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