



**Washington State Auditor's Office**

Government that works for citizens

**Fraud Investigation Report**  
**Department of Social and Health**  
**Services**

**For the Investigation Period January 1, 2011 through April 30, 2015**

**Published August 11, 2016**

**Report No. 1017265**





## Washington State Auditor

August 11, 2016

Patricia Lashway, Acting Secretary  
Department of Social and Health Services  
Olympia, Washington

### Report on Fraud Investigation

Attached is the official report on a misappropriation at a supported living facility, overseen by the Department of Social and Health Services. On October 8, 2015, the Department notified the State Auditor's Office of potential illegal activity. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation into the former manager's unallowable activities from January 2011 through April 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 43.09.290) 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

cc: Rick Meyer, External Audit Compliance Manager

# FRAUD INVESTIGATION REPORT

## Investigation Summary

On October 8, 2015, the Department of Social and Health Services notified our Office of suspected illegal activity at a supported living agency. The Enumclaw Police Department conducted an investigation and determined an employee misappropriated more than \$58,000 in client and program funds between January 2011 and April 2015. Additionally, the police department identified more than \$24,000 in questionable transactions.

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

## Background

Friendship House (house) is a supported living agency in Enumclaw that supports four individuals with developmental disabilities. The clients, who pay the rent and the house bills, rent the house. The parents of the clients fill the roles of the Board of Directors and make the executive decisions for the program.

The house has four bank accounts. The mortgage account is funded by the clients' parents, who deposit \$500 monthly to cover shared expenses such as the rent and the utilities. The remaining accounts, which include the recreation account, the housekeeping account and the administration account, are funded by the Department for the operation of the house, including employee salaries. The money provided by the state is matched with federal money.

The house Manager (manager) is responsible for purchasing food and other necessities, completing payroll, making payments for house bills and providing the proper documentation of all expenses.

In April 2015, the manager's employment at the house was terminated for mismanagement, including paying bills late and keeping poor records. After the manager left, staff at the house who attempted to reconcile receipts, bank statements and ledgers found multiple discrepancies and suspicious transactions, including numerous checks written out to the manager. Staff at the house contacted the Enumclaw Police Department and filed a police report.

## Investigation Results

The detective who conducted the investigation concluded the manager misappropriated funds from the house over a four-year period. We reviewed the Police Department's investigation and agree with its conclusions.

During interviews, a member of the Board of Directors told the investigating detective that he got "into a bad practice" of pre-signing blank checks for the manager. He said that because he lived in a different area, he was not always available to drive back to the house to sign the

checks. He said he trusted that the manager would use them for legitimate purchases. He added that he would also sign several blank checks for the manager before going on vacation. Over the course of approximately four years, the manager used these pre-signed checks to write more than 200 checks totaling \$58,856 to herself.

In addition to the misappropriated checks, the detective identified more than \$24,000 in questionable transactions made by the manager. For example, the manager:

- Used the house credit and debit cards to make purchases for herself online and at area stores totaling \$7,248;
- Withdrew \$4,000 from house accounts at ATMs;
- Received \$5,555 for unsupported mileage claims; and
- Paid herself nearly \$8,000 in unauthorized bonuses.

In October 2014, a police detective interviewed the former manager, who said she took money from the house. She said she was living beyond her means and found she had easy access to the house money. She estimated she misappropriated less than \$10,000.

The manager was charged with five counts of theft in the first degree, one count for each of the four victims, and one count for the house. In March 2016, the manager negotiated a plea deal of one reduced charge of Theft in the second degree and a requirement to pay \$35,000 in restitution.

## **Internal Control Weaknesses and Actions Taken by the Department**

Prior to the losses being identified, we found the Department did not adequately monitor to ensure the house complied with state rules.

In October 2015, the Department's Residential Care Services (RCS) investigated and determined the House was out of compliance with state rules, and issued a statement of deficiencies. House management responded with a plan of correction, adding that the plan was instituted immediately. In November 2015, RCS conducted a follow-up inspection of the House and found no deficiencies.

The Department's Adult Protective Services (APS) separately investigated the manager on behalf of the four house clients. At the conclusion of its investigation, APS issued four findings of financial exploitation against the manager.

## **Recommendations**

We recommend the Department continue to monitor Friendship House to ensure it continues to comply with state rules.

We also recommend the Department assist the clients to ensure they are fully repaid.

## **Agency's Response**

*The Department agrees with the first recommendation to strengthen its monitoring of its contracted supported living agencies that manage client funds. The department will continue the monitoring of its contracted supported living agencies that manage client funds.*

*The department will monitor compliance of service providers when financial exploitation is substantiated.*

## **State Auditor's Office Remarks**

We thank Department 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.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>