

FRAUD INVESTIGATION REPORT

Investigation Summary

On August 10, 2018, the County Auditor notified our Office regarding a potential loss of public funds as required by state law.

The County investigated and provided its files to us on Sept. 24, 2018. We reviewed the County's files, performed additional procedures, and determined a payment misappropriation totaling \$1,384,407 occurred at the County between January 24, 2007, and December 5, 2016.

The County filed a report with the Spokane Police Department on August 9, 2018. We will refer this report to the Spokane County Prosecuting Attorney's Office.

Background and Investigation Results

The County operates on an annual budget of about \$648 million. The Risk Management Department comprises 1.76 percent of that, or \$11 million. The Department processes an average of \$3.1 million in claim liability expenses each year and provides adjudication services, comprehensive safety training, and occupational health services. A Director oversees the Department's daily operations, including three Loss-Control Specialists, two Workers Compensation Claims Adjudicators, a Liability-Claims Adjuster, Property-Claims Technician, Security Coordinator, and an Administrative Assistant.

The Department manages and disburses first-party claims, which relate to property damage. First-party claims should not be made payable to the individuals that encountered property damage, but rather, to businesses that provided repair services related to the damage. The Risk Management Department submits a payment voucher to the County Auditor's Office. Although the County Auditor's Office would typically require invoices to support each payment voucher, they do not require invoices on first-party claims, as the invoices contain information protected under medical privacy laws. The County Auditor's office then processes the payment. In contrast to first-party claims, the Washington Counties Risk Pool manages and disburses payment for most of the County's third-party claims. Third-party claims are typically made payable to an individual and typically involve more than property damage.

In August 2018, the County Auditor's Office was reviewing outstanding (uncashed) checks, including one related to a property claim payment dated December 5, 2016. The County contacted the payee, and the individual said they had never filed a property claim with the County. The County investigated and found that a former Property Claims Technician had misappropriated funds. The technician was employed in the Risk Management Department from April 2001 until her employment was terminated in May 2018 for an unrelated matter. It is unclear why this check, that ultimately led to the County discovering the misappropriation, was not cashed.

We reviewed the County's investigation, which identified:

- A misappropriation of \$1,311,180 occurred between January 24, 2007, and December 5, 2016.
- Inappropriate payments were made payable to at least 45 people related to the technician, including her grandmother, deceased father, brother, cousin, daughter-in-law, son's friends, and multiple personal acquaintances.
- Records showed the technician created fictitious claims with fake or repeated claim numbers.
- The technician was processing third-party claims to individuals, even though it was not part of her responsibilities after 2010.
- The technician then was allowed to pick up the checks in person from the Auditor's Office, which made it easier for her to misappropriate the funds.
- Every year, the County Auditor's Office prepares a list of people who received certain types of payments from the County during the year, and determines whether the County needs to send those people a tax reporting form summarizing the payments. The technician reviewed the names on this list for the Risk Management Department's liability fund and indicated people who did not need to receive the tax form. As part of this process, the technician had indicated that at least 43 payees associated with misappropriated payments did not need a tax reporting form. As a result, the County Auditor's Office did not prepare tax forms for the 45 payees. The purpose of the form is to communicate total payments made with both the payees and the IRS, which might have eventually led to a red flag at the IRS for inaccurate reporting.
- If those payees had received that form, they should have used it to claim the payments as income on their personal federal tax returns.
- The technician manually adjusted a year-end claims report before providing it to the Director. She removed inappropriate claim payments from the report and rolled those total amounts into valid claim numbers on the report to conceal her misappropriation.

We tied \$824,942 of the County's investigation total to supporting records and agree with its conclusions. We expanded our review to include other individual claim payments prepared by the technician. During our review, we identified an additional \$73,227 in misappropriation. This includes an additional payee, bringing the total to 46.

A summary of the total misappropriation by year is in the table below:

Year	Total
2016	\$ 89,167
2015	\$174,458
2014	\$212,130
2013	\$177,727
2012	\$119,152
2011	\$ 73,227
2010	\$104,428
2009	\$177,054
2008	\$176,892
2007	\$ 80,173
Total	\$1,384,407*
<i>*Total is \$1 off due to rounding</i>	

Neither the County's investigation nor our subsequent review found any misappropriated payments in 2017 or 2018.

In November 2018, we interviewed County employees including the Director, two Loss Control Specialists and an Administrative Assistant. The Loss Control Specialists and Director said the technician would submit payment request forms to the Loss Control Specialists for approval when the Director was unavailable. Their review and approval process focused on whether the dollar amount and name information on the payment request form was consistent with the underlying records. They did not check whether the claim number used was valid or if the name matched the claim tracking records.

In January and February 2019, we interviewed two people identified as payees of \$121,691 in inappropriate payments. Both people said they cashed the check, kept \$100 to \$300 for each check cashed, and gave the remaining cash to the technician. We interviewed a third person who was not a payee, but said he assisted some of the payees with the check-cashing process. He said he also retained \$100 to \$300 per cashed check.

In May 2018, the technician's employment was terminated for reasons unrelated to the misappropriation, which was discovered three months later, in August 2018.

In January 2019, we scheduled an interview with the former Property Claims Technician. She initially agreed to meet with us and answer our questions, but never returned our follow-up phone calls to confirm the meeting.

Control Weaknesses

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

- The former Property Claims Technician was allowed to pick up checks from the County Auditor's Office, instead of the payments being mailed.
- The Risk Management Department did not perform an independent, thorough review of claim payments processed by the County Auditor's Office.
- Employees authorized to approve claim payments when the Director was not available did not have access to the claims management database or tracking records to confirm the claim voucher information was valid and accurate.
- The former Property Claims Technician was responsible for identifying who should receive tax forms summarizing payments totals, without an independent review.

Recommendations

We recommend the County strengthen internal controls over the claims payment process to ensure adequate oversight and monitoring to safeguard public resources. This should include an independent, thorough review of all Risk Management Department payments processed by the County Auditor's Office.

We also recommend the County seek recovery of the misappropriated \$1,384,407 and related investigation costs of \$26,656 from the Former Property Claims Technician and/or its insurance bonding company. Any compromise or settlement of this claim by the County 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 Brandi Pritchard, Assistant Director of Local Audit, who can be reached at (509) 662-0440 or Brandi.Pritchard@sao.wa.gov.

County's Response

Spokane County is committed to ensuring all necessary controls are implemented to protect the public's assets. Spokane County has reviewed this report and agrees with all the recommendations presented by the State Auditor's Office.

In response to the State Auditor's recommendations:

- *Upon discovery of the embezzlement and notification to the State Auditor, Spokane County enhanced its internal control procedures over this area in October 2018. These enhancements include:*
 - *Departmental Payment Authorization and Signatory Policy that:*

- *Enhance procedures to verify the validity and accuracy of liability payment vouchers.*
 - *Establishes the Risk Management Department Director as the primary approver of liability payment vouchers.*
 - *Limits when the designated backup may approve liability payment vouchers.*
 - *The County Auditor's Office implemented additional documentation requirements for liability vouchers and prohibits the initiator of the payment request from picking up the warrant.*
 - *The Risk Management Department Director must document review of all voucher request and credit card payments for the preceding month.*
 - *The Risk Management Department Director must annually provide written verification for all Tax Reporting Forms issued in regard to liability voucher payments.*
- *Spokane County filed a loss claim under its Crime/Employee Dishonesty policy. This claim was accepted by the insurance company and is currently in the claims adjustment process.*
 - *Spokane County will seek restitution from the parties involved upon completion of the on-going criminal investigation and prosecution.*

State Auditor's Office Remarks

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