

FRAUD INVESTIGATION REPORT

Investigation Summary

On August 8, 2018, the Chief Financial Officer for the Attorney General's Office (AGO) notified our Office regarding a potential loss of public funds as required by state law.

We investigated and determined a nonprofit organization under a grant agreement contract with the AGO misappropriated state grant funds totaling \$199,978, between June 2015 and June 2017.

We will refer this case to the Thurston County Prosecuting Attorney's Office and recommend the AGO file a report with law enforcement.

Background and Investigation Results

The Attorney General's Office (AGO), located in Thurston County, operates on an annual budget of about \$153,633,500 including \$353,000 in administered state grant funds.

In July 2013, the AGO, through a Legislature directive, was tasked with the administration of a state grant specifically to a particular nonprofit organization to fund training, certification and technical assistance for crime victim service center advocates. Under a grant agreement contract with the AGO, a nonprofit organization was required to submit its expenditures for reimbursement from these grant funds. Signed grant agreements were in place between the AGO and the organization from July 2013 to June 2015, July 2015 to June 2017, and from July 2017 to June 2019. These agreements were not signed by the AGO before the grant period. The delay in signing ranged from 2 months to 7 months.

In February 2018, the AGO identified concerns with the organization's compliance with the grant agreement. The organization did not obtain required annual financial audits for fiscal years 2015 and 2016. The AGO instructed the organization to obtain these audits, and in March 2018, the organization hired a CPA firm to perform the outdated financial statement audits. During the CPA firm's review, the firm identified that some invoices submitted to and reimbursed by the AGO contained expenses the organization did not actually incur.

From April 2018 to June 2018, the AGO communicated concerns to the organization's board president and other members, which included numerous emails, phone calls, and certified mailings to the entire governing board. On April 5, 2018, the organization provided a refund check to the AGO for \$50,316 related to invoices submitted in the June 2017 reimbursement packet and later paid by the AGO on August 5, 2017. The organization had not yet paid these expenses and therefore should not have requested reimbursement.

On April 20, 2018, the AGO conducted a site visit at the organization's office. During the visit, the AGO identified additional concerns related to subcontractor agreements, unfiled taxes, lapsed business license requirements and questionable payroll disbursements to the Executive Director.

In June and August 2018, the organization's financial statement audit reports were published. The reports contained findings for fiscal years 2015 and 2016 and discuss a total of \$119,910 in invoices the organization submitted for grant reimbursement, but for which the organization had not actually incurred the expenses.

Our investigation focused on grant funds reimbursed by the AGO to the organization for expense reimbursement packets dated January 2015 through July 2017. For these months, the AGO had disbursed a total of \$842,474 in grant funds to the organization. We determined:

Grant Agreement (July 2015 to June 2017)

The grant agreement clearly describes terms and conditions. The relevant portion of the contract states:

- Advance payments prohibited. No payment in advance of or in anticipation of goods and services to be provided under this agreement shall be made by the AGO.
- The organization "shall maintain books, records, documents, data and other evidence relating to this agreement and performance of the services described herein, including but not limited to accounting procedures and practices that sufficiently and properly reflect all direct and indirect costs of any nature expended in the performance of this agreement."

The grant scope of work clearly describes deliverables and performance expectations. The relevant portion of the contract states:

- This Grant is not a benefit or entitlement to the organization. The principle purpose of the grant is to provide funding for the organization to accomplish a public purpose.
- 90 percent of invoices must be accurate.
- 90 percent of required reports will be submitted on time.
- 100 percent of required audits will be completed on time.

Grant expenditures

- The organization's reimbursement packets included copies of invoices and all supporting documentation (receipts, expense summaries, payroll registers, supplier invoice, and accounting system expense by vendor detail reports) to support funds requested. The organization's Executive Director certified the reimbursement packets. The organization significantly delayed submission of the reimbursement packets for the AGO to process. The number of days between the final day in an expense month compared with the date submitted and reimbursed ranged from 21 to 282 days.
- We reviewed invoices included in the organization's reimbursement packets and submitted to the AGO between January 2015 and July 2017. We compared these invoices with the organization's bank statements and accounting system records. This included reviewing copies of cleared checks and system adjustment reports. Invoices totaling \$190,117

submitted to the AGO were for expenses not incurred by the organization. Of these invoices, \$14,716 had been deleted in the organization's accounting system records. We further identified invoices totaling \$7,637 where the organization submitted expenses at an amount greater than the actual amounts the organization paid. The table below summarizes the loss by period:

Reimbursement packet month	Date reimbursed	Invoice expense not actually incurred	Overbilled invoices
June 2015	Aug. 18, 2015	\$53,923	\$0
June 2016	Aug. 9, 2016	\$63,794	\$3,000
July 2016	May 9, 2017	\$3,000	\$1,637
August 2016	May 9, 2017	\$3,000	\$0
June 2017	Aug. 4, 2017	\$66,400	\$3,000
Total		\$190,117	\$7,637

- We obtained billing and payment records from two of the organization's subcontractors and compared this information with the invoices submitted for reimbursement to the AGO. Records show the organization skipped two invoice payments for one subcontractor in July and August 2016, leaving an outstanding balance of \$6,154 owed by the organization to its subcontractor. However, the organization inappropriately submitted the related invoices to the AGO for reimbursement, and the AGO paid the organization on August 9, 2016.

Assets

- The organization spent \$2,224 on IT assets and was reimbursed using grant funds. According to the grant agreement, those assets become AGO property and shall be surrendered to the AGO upon completion, termination, or cancellation of the agreement. As of January 2019, the assets are unaccounted for. Documents show the Executive Director ordered, received and submitted the asset expenses for reimbursement.

Interviews

In December 2018, we interviewed the Executive Director, a former bookkeeper, former subcontractors, and the organization's Board President. During the interviews, all parties agreed that the organization's bookkeeper position was responsible for recording and preparing monthly expenses to be paid. This position was also responsible for preparing the expense reimbursement packets submitted to the AGO. All parties acknowledged the Executive Director was responsible for signing checks to pay subcontractors and other

expenses. This position was also responsible for reviewing and approving all expense reimbursement packets and submitting them to the AGO.

Executive Director shared the following:

- Invoices were included for reimbursement multiple times when the expense had not actually been incurred yet by the organization, but this was always approved in advance by the AGO.

We asked the Executive Director and the Board Chairman for, but did not receive, documentation to support any pre-approval by the AGO.

- The untimely submission of reimbursement packets was due to change in the bookkeeping position at the organization and the lack of signed grant agreement contracts by the AGO. The organization could not submit reimbursement packets until a grant agreement was signed.
- The invoices submitted in June 2015 were for a planned training that was subsequently canceled. The organization didn't think to repay the AGO.

Control Weaknesses

The AGO relied on the organization to submit invoices for expenses already incurred. The grant agreement clearly stated advance payments were prohibited; however, the AGO did not have internal controls in place to verify that expenses had been incurred before issuing payment.

Recommendations

We recommend the AGO continue to improve its internal controls over grant administration monitoring to ensure adequate oversight and monitoring to safeguard public resources. Considerations for the AGO include:

- Obtain supporting payment documentation to compare with invoice records received to validate invoice information and billed amounts for services.
- Ensure a grant agreement deliverables and terms are met before disbursing state administered grant funds.

We also recommend the AGO seek recovery of the misappropriated \$149,662 and related investigation costs of \$23,517.05 from the Organization and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Agency must be approved in writing by the State Auditor as directed by state law (RCW 43.09.330). The contact for the State Auditor's Office is Brandi Pritchard, Assistant Director of Local Audit, who can be reached at (360) 489-4591 or Brandi.Pritchard@sao.wa.gov.

AGO's Response

The State of Washington and the Attorney General's Office (AGO) are the victims of fraud perpetrated by the Washington Coalition of Crime Victim Advocates (WCCVA). The AGO discovered this fraud and asked the State Auditor's Office (SAO) to conduct a fraud investigation. After receiving the initial draft of the investigation report, the AGO referred this matter for criminal investigation to law enforcement. The AGO is doing everything in its power to recover the misused grant funds that were a product of WCCVA's fraud.

Unfortunately, an organization whose mission is to advocate on behalf of crime victims perpetrated fraud upon taxpayers and the victims they claimed to represent. The Legislature singularly appropriated funds to this organization – not directly, but by name, in statute, through the AGO. This organization defrauded my office – and by extension, taxpayers – out of nearly \$200,000. The fraud was perpetrated by an Executive Director who lied to the AGO, lied to her Board, falsified documents, and made false declarations under penalty of perjury.

I wish to highlight the following points not sufficiently covered by the SAO report:

- *The AGO uncovered this fraud and reported it to the SAO;*
- *The AGO scrutinized invoices and obligated the organization to swear to the accuracy of invoices “under penalty of perjury”; and*
- *The AGO is committed to making taxpayers whole.*

The AGO uncovered this fraud and reported it to the SAO.

Every year, my office uncovers millions of dollars in taxpayer fraud. This is another example of my office uncovering fraud. In this case, however, the fraud was perpetrated against my office.

As soon as my team began to suspect impropriety, they launched an immediate and extensive investigation that demanded hundreds of hours of labor. While my team investigated, we stopped payments to this organization, even in the face of political threats from Board Members and the Executive Director. (In April 2018, the AGO flatly refused to allow disbursement of grant funds to compensate personnel involved in the then-suspected misappropriation of funds. WCCVA representatives responded to this action by threatening that services to the Crime Victims' Community of Washington State would be jeopardized. This threat was conveyed specifically in regard to a then-upcoming training event that, per WCCVA, would need to be cancelled. While the AGO was troubled by these threats, my staff directly consulted third party providers involved in the upcoming training event. The providers described that WCCVA personnel were not necessary for the training. The AGO took the unusual step of directly coordinating with the third party to ensure that funds would not be conveyed through WCCVA but that the services would continue.)

At the time the AGO referred this matter to the SAO, we handed over extensive evidence and background information to aid in the analysis. SAO representatives acknowledged this fact in the first interagency meeting. In response, the SAO audited my office.

The SAO would not have known about this fraud had it not been for my office. Moreover, by the time the SAO learned of the matter from my office, the AGO had already put a stop to the fraud.

As a control measure, the AGO contractually obligated the Executive Director to certify invoice materials “under penalty of perjury”.

The AGO carefully scrutinized all invoice packets with supporting documentation provided by the organization. The Executive Director signed the disputed invoice packages “under penalty of perjury”.

Additional checks were also in place. For example, the AGO knew the organization’s board, consisting of esteemed former elected officials and other prominent community members would also oversee the organization’s spending.

As the SAO noted in a recent investigation (SAO Report #1020143), it is very difficult for an agency to discover problems with an outside vendor’s invoices and supporting documentation when this vendor is committing outright fraud.

While we would like to believe that compliance would have been achieved had the auditor’s recommended controls been in place – bank records as an example – our experience does not support this theory. As soon as we became aware of concerns, we pursued documentation that would help us get to the truth of what occurred. Our efforts to obtain requisite audits and bank records were met with significant resistance and obfuscation. Compliance with these requirements was not attained until my office stopped any payments supporting WCCVA staff who were involved in the mismanagement of public funds. To date, despite the best efforts of both of our staffs and nearly a year of work, certain bank statements remain missing.

Finally, the Executive Director implored us to keep our costs low in order to facilitate her organization’s success – further evidence of the extent of the deception.

The AGO is committed to making taxpayers whole.

On March 5, 2019, we referred this matter to law enforcement. We have recovered approximately \$50,000 of the misappropriated money. We’re not done. We intend to see taxpayers made whole, and ensure those responsible for committing fraud are held accountable.

We will be tracking the developments in the criminal matter closely. It is likely the matter will conclude with a court order to restore the missing funds as restitution. If it does not, we intend to file a civil action to recover the remaining \$150,000 in misappropriated funds.

We have experience combating fraud. Since 2012, my office has recovered \$146 million in stolen taxpayer dollars. The public expects us to do everything we can to recover stolen tax dollars. We intend to live up to that expectation.

State Auditor's Office Remarks

State law requires all governments to report potential losses of public funds to our Office. As we acknowledge in the first sentence of the report, the AGO followed the law. Notably, the law does not exempt the practices of the reporting entity from scrutiny. This report reflects our typical misappropriation investigation, which is not an audit but rather an independent examination of all relevant information that could reveal how that loss may have occurred. Our duty is to recommend improvements to any area that can lead to better fraud prevention, including changes the reporting entity should make.

Robust internal controls go a long way to ensuring any government, including the AGO, has adequate oversight and monitoring of public resources. We recognize the efforts AGO officials have made to recover the missing public funds, and we appreciate their cooperation in this investigation.