



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report
King County Drainage District No. 5

For the Investigation Period May 1, 2012 through January 15, 2019

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King County Drainage District No. 5
Enumclaw, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at King County Drainage District No. 5. On November 27, 2017, the City of Enumclaw's attorney notified the State Auditor's Office of a potential loss of public funds.

This report contains the results of our investigation of the Commissioner and Secretary's unallowable activities at the District from May 24, 2012, through January 15, 2019. 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 Director of Communications Kathleen Cooper at (360) 902-0470. Otherwise, please contact Fraud Manager Sarah Walker at (509) 454-3621.

Pat McCarthy
State Auditor
Olympia, WA

FRAUD INVESTIGATION REPORT

Investigation Summary

In November 2017, the City of Enumclaw's attorney filed a police report with Enumclaw Police Department and then a hotline complaint with our Office over concerns relating to invoice expenditures paid by King County Drainage District No. 5.

Enumclaw Police Department completed its investigation on January 18, 2019. The Police Department reported its conclusions to the King County Prosecutor's Office and provided its files to us for review. We reviewed the investigation files, performed additional procedures, and concluded a payment misappropriation totaling \$413,323 occurred at the District between May 2012 and December 2017. We also found \$66,035 in questionable transactions between May 2013 and January 2019.

We will refer this report to the King County Prosecuting Attorney's Office.

Background and Investigation Results

The District, located in King County, operates on an annual budget of about \$75,000. The District sets the annual budget, which it reports to the King County Assessor's Office for allocating to 756 property parcels in the District. The purpose of the District is to provide storm water drainage services to reduce the probability of flooding in the Enumclaw area. The District is supposed to be overseen by an elected, three member Board of Commissioners; however, the Board has been operating with only two Commissioners. Commissioner A indicated he has been on the board for at least 35 years, and Commissioner B indicated he has been on the board for about seven years. When the District incurs expenses, it submits payment voucher requests to King County for preparing checks. Once checks are prepared, the County sends the checks back to the District to mail payments to vendors.

In November 2017, the City of Enumclaw's contracted attorney was researching the development of a City storm water utility tax. The City attorney submitted a public records request for the District's expenditure records relating to ditch maintenance. The District responded to the public records request on November 7, 2017, by providing invoice records from March 2016 to October 2017. Review of the invoice records by the City's attorney identified concerns with one contractor the District hired to perform ditch maintenance and repair services. As a result, the City's attorney filed a police report on November 14, 2017.

City's investigation and interviews

Enumclaw Police Department completed its investigation on January 18, 2019. Its investigation identified payments made from the District to a business owned by Commissioner A's son and determined the payments were fraudulent. In an interview on November 22, 2017, the son said his father helped him start a business to perform ditch maintenance services for the District. The son

together with Commissioner A's wife opened a business bank account in May 2012. He explained that he performed two jobs for the District, both in 2012. The business address on the invoices was the personal residence of Commissioner A's mother-in-law. Department of Revenue records show the business opened on November 1, 2010, and closed on June 30, 2013. Bank records show that all cash withdrawals and requests for cashier checks from the account were made by Commissioner A's wife. Bank transfers out of the account traced to Commissioner A's joint checking account with his wife. Further, the investigation found checks paid out of the account to businesses selling livestock food, which was delivered to Commissioner A's personal farming business.

Our review and additional procedures

In March 2019, we reviewed law enforcement's completed investigation and performed additional procedures. We focused on all payments made by the District from May 2012 to January 2019, which totaled \$500,510. Of this amount, \$413,323, or 83 percent, was paid to the business identified in law enforcement's investigation. We focused on this business's invoice records and determined:

- Commissioner A's wife signed the voucher payment requests submitted to the County for processing and was listed as the contact.
- A review of the business's bank account activity showed that every time an invoice payment from the District was deposited into the business account, Commissioner A and his wife withdrew personal payments from that account adding up to almost the same amounts of the invoice payment, either the same day or within days after the funds were deposited.
- We analyzed the business banking account payment and deposit activity from the time it was first opened in May 2012 to the last check disbursed by the County in December 2017. We found that most of the deposits were payments from the District and the withdrawal activity was personal in nature. The following is a majority listing of withdrawal categories and amounts paid out of the business account:
 - \$142,358 in checks made payable to vendors who provided livestock food supplies
 - \$115,867 in checks made payable to Commissioner A's personal farm business
 - \$71,445 in cash withdraws signed by Commissioner A's wife
 - \$48,273 in bank transfers to Commissioner A and his wife's personal bank account
 - \$24,019 in checks paid for Commissioner A and his wife's property taxes
 - \$12,100 in checks paid to Commissioner A
 - \$3,000 in checks paid to Commissioner A's wife
 - There were no payments identified that related to business operations and no sales revenue payments to Department of Revenue out of this account for the business.

- Invoice descriptions of completed services lacked enough detail to understand the service area and how the amount billed was calculated. Sales tax amounts applied to the invoices were incorrectly calculated and always higher than what should have been collected.
- Invoices paid from 2013 to 2018, totaling \$11,192, were paid to a sand and gravel vendor. Based on law enforcement's investigation, we could not determine if the supplies ordered were used for Commissioner A's personal farming business or the District. We consider these payments questionable.
- In October 2018 and January 2019, the District made two payments totaling \$54,843 to a new vendor for drainage services. Again, the invoices lacked key details of the type of work performed and the calculation for the amounts invoiced. We searched for this new business at the Secretary of State, Department of Revenue and Department of Labor and Industries websites, but could not find it as a registered business or licensed contractor. We reviewed the back of the cleared checks and found the funds were deposited into an unknown bank account. We contacted the owner of this business in April 2019, who initially agreed to meet with us, but when the meeting date came, he did not show and is no longer returning our requests for an interview. We consider these expenditures to this new vendor questionable.

Interviews

On April 11, 2019, we interviewed both District Commissioners and Commissioner A's wife. During the interview, Commissioner A acknowledged setting up a business with his son. He explained that he would direct his son on the work to perform for the District. Commissioner A's wife explained that any time money was transferred out of the business bank account to their personal bank account or when she withdrew cash, it was to pay for her stepson's bills or to give him cash. Commissioner A further explained that checks made payable to his farming business were for rental equipment used by his son's business for District service work. They also said that some of the payments were for their son's rent. Checks made payable to the livestock company were for his son's cows that he kept at his personal farm. Commissioner B explained that he had no involvement with the finances of the District, saying this was handled by Commissioner A and his wife.

On April 29, 2019, we interviewed Commissioner A's son, who explained that he set up a business with his father for cleaning ditches. He performed two jobs and then stopped because he was working on the family farm business. He said his stepmom – Commissioner A's wife – maintained the business bank account checkbook and created the business invoices. He did not touch any of the money in the business account so he has no idea where any of the money that was deposited came from or how it was being used.

Control Weaknesses

Internal controls at the District were not adequate to safeguard public resources. We found one of the individuals responsible for governing the District and managing the District funds allowed the misappropriation to occur because they directly benefited from the misappropriation.

Recommendations

We recommend the District comply with governing board requirements and strengthen internal controls over payments to ensure adequate oversight and monitoring to safeguard public resources.

We also recommend the District seek recovery of the misappropriated \$413,323, questionable costs of \$66,035, as appropriate and related investigation costs of \$24,066 from Commissioner A and his wife. Any compromise or settlement of this claim by the District 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 matk1@atg.wa.gov. 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.

District's Response

A District response will not be included. At the time of the investigation, the District had only two Commissioners. In May 2019, both Commissioners resigned.

Auditor's Remarks

The results of this investigation are serious. We strongly recommend the District meet its legal responsibilities, the expectations of its community and the broader Washington public.

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.

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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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