



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Washington State Beef Commission

For the investigation period June 1, 2017 through August 31, 2018

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**Office of the Washington State Auditor
Pat McCarthy**

February 6, 2020

Board of Commissioners
Washington State Beef Commission
Renton, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Washington State Beef Commission. On August 23, 2018, the Commission notified the Office of the Washington State Auditor of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the former Office Manager's unallowable activities at the Commission from November 10, 2017 through June 5, 2018. 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.

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 Investigation Manager Sarah Walker at (509) 454-3621.

Pat McCarthy

State Auditor

Olympia, WA

cc: Patti Brumbach, Executive Director

FRAUD INVESTIGATION REPORT

Investigation Summary

On August 23, 2018, the Commission notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185).

The Commission investigated and determined a credit card misappropriation occurred. The Commission filed a report with Renton Police Department, which opened an investigation and found that additional misappropriation occurred.

We reviewed the Commission and Police Department investigations and concluded a credit card and cash receipting misappropriation, totaling \$35,007, occurred at the Commission between November 10, 2017 and June 5, 2018.

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

Background and Investigation Results

The Commission, located in King County, operates on an annual budget of about \$1.7 million. The Commission's funding primarily consists of checkoff assessments, which are a \$1.50 per head assessment on all cattle sold in Washington. Beef producers pay the assessment at collection points throughout the state and remit to the Commission.

In 2018, the Commission made about \$37,843 in credit card purchases, and currently has two full-time employees, two part-time employees, and four credit cards. The Office Manager was issued a Commission credit card and was responsible for opening the Commission's mail and processing invoices.

Commission staff identified the credit card misappropriation during the financial statement closing process for the fiscal year ending June 30, 2018. The Commission's financial statement auditor performed an external investigation of the loss. Their investigation identified missing checkoff assessment receipts. Further, a Renton Police Department Detective identified the owner of the bank account into which the missing checkoff assessment receipts were deposited. We reviewed the investigation results and supporting documentation and determined:

- The Office Manager, from November 10, 2017 through June 5, 2018, misappropriated a total of \$22,887 in Commission funds through personal use of a Commission credit card. Purchases included airfare, entertainment, lodging and various other personal charges. The personal charges were removed from the credit card statements presented to the Executive Director for review. The Office Manager also printed and sent two checks from the Commission's bank account to US Bank to pay down her personal charges on the Commission credit card.

- A total of \$12,120 from two checkoff assessment checks was deposited into the Office Manager's personal bank account. The two checks were deposited in March 2018 and May 2018.
- The Office Manager resigned from employment in August 2018.

To determine if any additional misappropriations occurred, we examined systems the Office Manager could access. We reviewed an audit trail report from the Commission's accounting software and did not find additional misappropriation.

In June 2019, a Renton Police Detective interviewed the Office Manager, who acknowledged misuse of the Commission credit card and that she deposited the checkoff assessment into her personal bank account.

Control Weaknesses

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

- No one reconciled credit card transactions using original statements obtained directly from the bank in a timely manner. Accounting software user access permissions were insufficient to ensure adequate segregation of duties.
- No one reconciled expected assessment revenue receipts per collection point to actual assessment receipts per collection point in a timely manner.

Recommendations

We recommend the Commission strengthen internal controls over credit card purchases and revenue tracking to ensure adequate oversight and monitoring to safeguard public resources and compliance with Commission policies.

We also recommend the Commission seek recovery of the misappropriated \$35,007 and related investigation costs of \$7,870 from the former Office Manager and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Commission 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 matk1@atg.wa.gov. The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Local Audit, who can be reached at (360) 489-4591 or Brandi.Pritchard@sao.wa.gov.

Commission's Response

The Washington State Beef Commission has reviewed the control weaknesses and recommendations made by the SAO regarding the Fraud Investigation Report conducted by your office. We have already strengthened our controls as recommended. The accounting improvements made in September 2018 include:

- 1. The reconciliation of credit cards is done using original statements obtained directly from the bank. The external bookkeeper performs reconciliation using the reconciliation function in QuickBooks.*
- 2. Expected revenue from collecting points is reviewed and confirmed monthly by accountant.*
- 3. QuickBooks access is limited to outside accountant and passwords are changed regularly.*

We appreciate your review of this unfortunate situation and believe that our accounting controls are robust.

Auditor's Remarks

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

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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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