



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

# **Fraud Investigation Report**

## **City of Everett**

**For the investigation period January 1, 2019 through August 15, 2019**

**Published December 28, 2020**

**Report No. 1027153**





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

December 28, 2020

Mayor and City Council  
City of Everett  
Everett, Washington

**Report on Fraud Investigation**

Attached is the official report on a misappropriation at the City of Everett. On September 17, 2019, the City 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).

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 (564) 999-0800. Otherwise, please contact Special Investigations Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy  
State Auditor  
Olympia, WA

cc: Susy Haugen, Finance Director-Treasurer

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## FRAUD INVESTIGATION REPORT

### Background and Investigation Results

On September 17, 2019, the City notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). The City's Fire Marshal Office, a division of the City's Fire Department, hired a new supervisor, who identified discrepancies in a Fire Inspector's leave submittals that indicated the Fire Inspector was on vacation while indicating he was working regular hours.

The City hired a private consultant to review leave reporting, and determined the Fire Inspector did not properly submit 229 hours of leave for time, spent either on vacation or for days where there was no record of attendance. This resulted in misappropriation totaling \$12,760 between January 2, 2019 and July 17, 2019.

We reviewed the consultant's investigation and agree with the conclusions. The investigation found the Fire Inspector:

- Did not submit leave slips before or after leave he took between January 2, 2019 and July 17, 2019
- Took 22 days of leave as recorded on the Department's Outlook calendar, but that leave was not reported to the Administrative Assistant or recorded in the payroll system
- Did not work seven shifts he was assigned to and did not take leave for those absences

On October 16, 2019, the private consultant interviewed the Fire Inspector. A member of Union Counsel and the Union President were present. During the interview, the Fire Inspector denied falsifying his time cards and said he turned in his leave slips to his supervisor. He was placed on administrative leave on October 22, 2019. On January 21, 2020, the Fire Inspector resigned after agreeing to repay \$12,760, the financial equivalent of 229 hours of work.

This restitution agreement was made before consulting and receiving approval from our Office and the Attorney General's Office, as required under state law (RCW 43.09.260).

### Control Weaknesses

Internal controls at the City were not adequate to safeguard public resources. The City's investigation found the following weaknesses allowed the misappropriation to occur:

- The Fire Marshal Office controls were not adequate to confirm that employee leave slips were properly approved and turned in for processing by the Administrative Assistant, and to confirm leave usage was properly recorded in the payroll system.

## Recommendations

We recommend the City and Fire Marshal Office ensure policies regarding requesting and submitting leave are properly communicated to all staff so consistent procedures are properly applied, and the City ensure employees comply with City policy over leave requests and submissions. Additionally, we recommend the City and Fire Marshal Office strengthen processes and controls to confirm leave slips are properly turned in and leave usage is properly reported to the Administrative Assistant and recorded in the payroll system.

We further recommend the City request approval from the Attorney General and State Auditor before seeking recovery for misappropriation to ensure compliance with state law (RCW 43.09.260).

We will refer this case to the County Prosecuting Attorney's Office for any further action it determines is necessary.

We also recommend the City seek recovery of the related investigation costs of \$5,625 from the former Fire Inspector and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the City 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 [matthew.kernutt@atg.wa.gov](mailto:matthew.kernutt@atg.wa.gov). The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Local Audit and Special Investigations, who can be reached at (360) 489-4591 or [Brandi.Pritchard@sao.wa.gov](mailto:Brandi.Pritchard@sao.wa.gov).

## City's Response

*The City of Everett concurs with the audit conclusions. The following corrective measures were implemented in 2019, at the time the issue was identified:*

- *All supervisors in the Fire Marshal's office have received remedial training on the management of payroll exception slips, to include specific instruction that the supervisor is responsible for submittal of the form once it is in their possession. Policy for submittal of the form requires the supervisor to physically deliver the exception slip to the payroll clerk.*
- *A document lockbox has been installed outside the payroll clerk's office to receive slips in the absence of the payroll clerk. The clerk and the Fire Chief have the only keys.*
- *All Fire Marshal's staff are required to check in with their supervisor at the start and end of every work day.*
- *The Fire Marshal's Office tracks attendance in a calendar system that runs parallel to, but separate from, the payroll system to provide a tool for comparison.*

## **Auditor's Remarks**

We thank City officials and personnel for their assistance and cooperation during the investigation. We will follow up on the City's internal controls during our next regular audit.

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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.

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