



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Public Utility District No. 2 of Grant County

For the investigation period January 1, 2015 through March 3, 2020

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June 8, 2021

Board of Commissioners
Public Utility District No. 2 of Grant County
Ephrata, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at Public Utility District No. 2 of Grant County. On July 22, 2020, the District 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: Dmitriy Turchik, Manager of Internal Audit

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FRAUD INVESTIGATION REPORT

Background and Investigation Results

On July 22, 2020, the District notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). In January 2020, during an inventory of the Security Department assets, District staff found that certain assets were missing. The Security Manager notified the District's Manager of Internal Audit, who opened an investigation and filed a police report with the Ephrata Police Department.

The District investigated and determined asset misappropriation totaling \$13,787 occurred at the District sometime between January 25, 2018 and June 14, 2018.

We reviewed the District's investigation and agree with its conclusions. The investigation found:

- After leaving employment with the District on January 25, 2018, a Security Supervisor maintained possession of multiple Security Department assets for personal use. Further, some of these assets appear to have been delivered by the vendor several months after the former Security Supervisor left employment. Invoice shipping details listed the former Security Supervisor as the recipient of the shipment at a District address.
- The assets the former Security Supervisor had in his possession included a military grade ballistic helmet, advanced target laser, and night vision goggles. These had a total value of \$13,787.
- The former Security Supervisor eventually returned these assets to the Ephrata Police Department in March 2020.

On January 27, 2020, the Ephrata Police Department interviewed the former Security Supervisor who acknowledged to having in his possession the Security Department assets and to having used them personally for training where he now lived, which is a different state.

On February 7, 2020, the Ephrata Police Department interviewed the former Security Manager who left employment with the District on November 1, 2018, and had supervised the Security Supervisor. The former Security Manager believed the ballistic helmets, which appear to have arrived after the former Security Supervisor left employment, may have actually arrived in the fall of 2017 and would have been provided to the former Security Supervisor at that time.

Control Weaknesses

The District had an annual inventory process. However, the Security Department did not complete this process in 2018 and 2019. In addition, the District had no formal process to confirm that assets issued to Security Department employees were properly returned prior to leaving employment. This created weaknesses in internal controls at the Security Department that were not adequate to safeguard public resources.

Recommendations

We recommend the District improve the inventory monitoring process at the Security Department to include a secondary independent review to confirm annual inventories have occurred and employees leaving employment have properly return issued assets.

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

We also recommend the District seek recovery of the related investigation costs of \$1,260 from the former Security Supervisor and/or its insurance bonding company, as appropriate. 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 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.

District's Response

Grant PUD thanks the staff of the Washington State Auditor's Office for their professionalism and partnership during this investigation. In June 2019, the Internal Audit department reviewed Grant PUD's compliance with the small and attractive asset policy and published its report along with a number of recommendations. One of the recommendations was related to establishment of centralized oversight and monitoring of small and attractive asset program. Starting in late 2019, every department is required to perform annual self-audit of small and attractive assets and share the results with the Accounting Department. Assets that were reported as missing to SAO were identified as a result of implementing this change. Departments that do not possess any small and attractive assets are required to certify that no such purchases were made in the past year. In addition, the Accounting Department performs a high-level review and reconciliation of self-audit results and assets lists to ensure completeness and accuracy. The Accounting Department performs a follow-up meeting with departments that reported missing assets or departments that did not submit results of self-audits by the established deadline. Departments are required to immediately notify the Auditor and the Controller when assets are identified as missing. In addition, Grant PUD will update its policies and procedures, establishing proper safeguards to ensure collection of all assets prior to an employee leaving employment with Grant PUD.

Auditor's Remarks

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

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.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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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