



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

City of Blaine

For the investigation period December 1, 2020 through July 1, 2022

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

April 24, 2023

Mayor and City Council
City of Blaine
Blaine, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Blaine. On July 12, 2022, 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: Daniel Heverling, Director of Finance

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FRAUD INVESTIGATION REPORT

Background and Investigation Results

On July 12, 2022, the City notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). In June 2022, during a review of credit card transactions, the City Manager questioned a purchase made by the Public Works Director (Director). A City accountant determined the purchase was unusual.

The City investigated all of the Director's credit card purchases, and found misappropriation totaling \$4,151 occurred at the City between March and July 2022. The misappropriation included various purchases of books, tools, and equipment for personal home repairs and maintenance.

We reviewed the City's investigation and agreed with the amount identified as misappropriation. We also examined the Director's credit card purchases and other disbursements and identified additional questionable transactions totaling \$4,535 between June and November 2021. These questionable transactions include the purchase of a book, license renewal, training fee and equipment that is uncertain was ever accounted for at the City. We were unable to determine if these expenditures were for a legitimate business purpose.

In July 2022, the City interviewed the Director, who acknowledged that he used the City's credit card to make personal purchases. The Director repaid the City for those purchases, and resigned from the job on July 12, 2022. The City has not filed a police report regarding the misappropriation and questionable transactions.

Control Weaknesses

The City's internal controls over credit card purchases and asset tracking were inadequate for safeguarding public resources. The following weaknesses allowed the Director to misappropriate public funds and make questionable purchases:

- The City Manager did not always review the Director's credit card transactions. When secondary reviews were performed, they were not detailed enough to ensure purchases were for a legitimate business purpose.
- The City did not have an adequate process to reconcile and inventory purchases, such as through an asset tracking listing, to ensure they were properly accounted for.

Recommendations

We recommend the City evaluate and improve its internal control process for reviewing credit card transactions to ensure purchases are for allowable business purposes. In addition, we recommend the City improve its monitoring processes to ensure purchases are properly tracked and accounted for in a timely manner, and to ensure all purchases have a valid business purpose.

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

We recommend the City seek recovery of the questionable amounts, as appropriate, and related investigation costs of \$9,240 from the former Public Works Director and/or its insurance bonding company. 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. 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.

City's Response

The City Manager will review all department head credit card transactions and will sign and date the credit card summary to show that the review has taken place. Any questionable costs will be followed up with the employee immediately. This will ensure all costs are for a legitimate business purpose. The City will improve the inventory purchasing policies and procedures to ensure that all inventory purchases are reconciled and tracked with an asset listing, which will ensure that all items are properly accounted for.

The City will pursue legal charges with the Whatcom County Prosecutors office.

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 the next audit.

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The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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