



Washington State Auditor's Office

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Fraud Investigation Report

Snoqualmie Pass Utility District

Kittitas County

For the Investigation Period March 1, 2007 through December 31, 2013

Published July 13, 2015

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Washington State Auditor

July 13, 2015

Snoqualmie Pass Utility District
Snoqualmie Pass, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Snoqualmie Pass Utility District. On February 17, 2015, the State Auditor's Office became aware of a potential loss of public funds through the course of the District's accountability audit.

This report contains the results of our investigation of the General Manager's unallowable activities at the District from March 2007 through December 31, 2013. 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.

Questions about this report should be directed to Sarah Walker, Fraud Manager, at (509) 454-3621.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

cc: Mr. William Powers, Commissioner Chair

FRAUD INVESTIGATION REPORT

Investigation Summary

During the District's accountability audit, we found purchased assets that could not be located nor did the General Manager provide legitimate documentation of sale or surplus. We performed additional testing and identified similar concerns.

We initiated an investigation covering 2007 through 2013 and determined the General Manager misappropriated District assets with a value of at least \$20,515. We also identified questionable transactions related to assets totaling \$8,812. Further, we reviewed purchases for pipe and related materials that appeared questionable.

In addition, the General Manager purchased personal computer software totaling \$123 with District funds. We could not ascertain whether forty-seven other purchases, totaling \$4,226, were legitimate. Five of these purchases were delivered to the General Manager's personal residence or private business and 42 purchases did not have support to prove the validity of the transactions.

We will refer this report to the Kittitas County Prosecutor's office.

Background and Investigation Results

The District, located in Kittitas County, operates on an annual budget of approximately \$650,000. In 2011, 2012, and 2013, the District spent approximately \$165,000 for asset purchases and \$41,610 on credit card payments. Between May 2011 and December 2014, the District sold assets totaling more than \$87,000 through an on-line auction. Also, the District maintains a revolving fund checking account with an authorized balance of \$5,000. The District has one General Manager, two full-time employees, one part-time employee, and one seasonal employee. The General Manager is the only person responsible for the purchase and sale of assets and the only employee who has a credit card.

Our investigation focused on safeguarding of assets and credit cards. Also, as part of our accountability audit, we reviewed purchases, including those made with the revolving fund checking account.

During our review of assets, we identified many items that could not be located. Upon several inquiries and further procedures, we identified that the following seven items, with a purchase price totaling \$20,515, were misappropriated:

- The District purchased a Trail Max Trailer in 2009 for \$3,750 and a John Deere Tractor in 2012 for \$5,800. This equipment has not been available for employee use as they have

not been on District property. During our audit the trailer and tractor were located at the General Manager's personal residence, which is in another City. Neither asset was on the list of District insured equipment. Also, at the time of purchase the trailer was immediately registered in the General Manager's name, rather than the District's.

- The District purchased a Jeep Cherokee for \$2,020 in 2007. In 2009, this vehicle's registration was transferred to the General Manager's family member. The General Manager was unable to provide documentation that the District received any payment for the vehicle sale.
- The District purchased two snow-cat blades in 2012 for \$400. According to the General Manager, these blades were given away to a vendor and the District did not receive anything in value.
- The District purchased an International Flatbed Truck in 2008 for \$8,020. According to the Washington State Department of Licensing, this vehicle was registered directly into a vendor's name and was never registered by the District. According to the General Manager, the District traded it for other equipment; however, there is no record of this transaction and the other "traded" equipment is located on the vendor's property.
- In 2008, the District purchased a rototiller for \$250 and rock rake for \$275. Neither of these assets were located at the District or available for employee use. Also, the District does not have a valid business purpose to purchase this type of equipment.
- We inquired with one of the District's vendors regarding sale and exchange of equipment. The vendor's owner mentioned he had paid the Manager cash for District equipment. The vendor's owner did not comment on the timing or amount. There is no record of a District cash receipt from this vendor. When we inquired with the General Manager, he responded the only cash he had ever received from the vendor was \$80. He said those funds were not receipted and deposited, instead they were kept in a desk drawer.

In addition, 12 assets with a purchase price totaling \$8,812 were used for personal purposes, not available for inspection or did not have adequate evidence to verify whether the items were sold and money collected for the sale. For example:

- The District purchased an iPad 2 in 2011 for \$768 that was delivered to the General Manager's personal business and located at the General Manager's home.
- The District purchased an iPad Air in 2013 for \$633. According to the General Manager, his wife was using the District's iPad and the General Manager was using his wife's iPad. However, both iPads were used for personal purposes and were located at the General Manager's home.

- The District purchased a Super Grader in 2007 for \$1,500. According to the General Manager it was scrapped for payment; however, the District cannot provide evidence that it collected any money for this scrap metal. Also, the District does not have any valid business purpose to purchase a grader.

We also reviewed invoices totaling \$12,506 for purchases in 2008 for pipe and related materials. Some of them included plastic pipe that is not typically used by utility districts. There was a purchase of 18 inch culvert pipe totaling \$1,421 charged to the District's spray field. We are not aware of a reason to install culvert pipe in a spray field, nor did we see it while onsite. Further, we did not see significant projects noted in the District's minutes that would necessitate a majority of these purchases.

During our review of credit card and the revolving fund checking account purchases, we tested 207 credit card transactions totaling \$41,611 and 185 revolving account transactions totaling \$51,753 and identified the following:

- Seventy-three credit card transactions, totaling \$11,154 did not have support such as an invoice or itemized receipt to determine the validity of the transactions when we performed our initial testing. The General Manager subsequently located support for 38 transactions totaling \$8,918, leaving \$2,236 unsupported.
- Thirty-four revolving account transactions, totaling \$11,003 did not have support such as an invoice or receipt to determine the validity of the transactions when we performed our initial testing. The General Manager subsequently located support for seven transactions totaling \$3,272. Twenty transactions totaling \$7,250 were for electronic postage charges. The District could not provide support for the remaining seven checks for unknown items totaling \$481.
- The General Manager purchased computer software for \$123 to be used for his personal business.
- There were five questionable transactions totaling \$1,509 that were for items delivered to the General Manager's business or home, both of which are located in another City.

To determine if any additional misappropriations occurred, we examined systems to which the General Manager has access. We reviewed payroll and did not find additional misappropriation.

Control Weaknesses

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

- The General Manager was given complete and exclusive control over the District's finances with almost no oversight or independent review.
- The General Manager purchased equipment on a regular basis, regardless of whether the District was in need of the equipment. If the equipment could not be used, the General Manager sold the equipment at auction, without Commissioner approval or knowledge.
- The District did not maintain a complete, up-to-date listing for its assets. It only maintained a list of assets for insurance purposes.
- The District did not have procedures in place to account for all assets. Example procedures include recording the serial numbers/location and performing periodic physical inventory.
- The District did not have a policy prohibiting personal use of public assets and there was no oversight to ensure assets were used only for business purposes.
- The Commissioners did not approve all surplus or sold assets. Between May 2011 and December 2014, the General Manager sold 65 assets totaling \$87,804 through an on-line auction without Commissioner approval. The Commissioners approved surplus resolutions for four of these assets after the sales occurred.
- No one ensured that the all credit card receipts and revolving fund payments were submitted to the District Secretary before payment and that all transactions were appropriate or were received by the District.

Recommendations

We recommend the District strengthen internal controls over safeguarding of assets and approval of expenditures to ensure adequate oversight and monitoring to safeguard public resources and compliance with District policies.

We also recommend the Commissioners establish a value of misappropriated equipment and questionable transactions, as appropriate. For example, basis for value should consider factors such as use, purchase price, District necessity and salvage value. Also, the Commissioners should follow up on missing items or cash.

We further recommend the District seek recovery of the misappropriated funds and related investigation costs of \$13,895 from the General Manager 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 mattk1@atg.wa.gov. The contact for the State Auditor's Office is Sadie Armijo, Deputy Director of Local Audit, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

District's Response

The District responds to the Fraud Investigation Report as follows:

- 1. The District accepts the Auditor's recommendations the District strengthen internal controls over safeguarding of assets and approval of expenditures to ensure adequate oversight and monitoring to safeguard public resources and compliance with District policies. The District will be working with counsel and accounting consultants to review existing policies to prepare, adopt and implement policies by resolution to address these concerns.*
- 2. Following any investigation by the District or other authorities, if the Auditor's findings of misappropriation of equipment and inappropriate transactions are confirmed, the District will attempt to establish a value of such misappropriations and transactions.*
- 3. Following any investigation by the District or other authorities, if the Auditor's findings of misappropriated funds are confirmed, the District will seek recovery of the misappropriated funds and related Auditor's investigation costs from the General Manager and/or its insurance bonding company, as appropriate. The District will also obtain the written approval and consent of the Attorney General and the State Auditor of any compromise or settlement of any claims the District may have against the General Manager regarding misappropriation of funds.*

State Auditor's Office Remarks

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

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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