

Special Investigation

Franklin County
January 1, 1996 through January 30, 2012

INVESTIGATION SUMMARY

On January 9, 2012, as required by state law, the Franklin County Auditor notified our Office regarding a suspected loss of public funds. The County Auditor stated he had determined that the Public Works Department had been paying a company that had gone out of business in December 2001.

We initiated an investigation and determined the former Public Works Accounting Director misappropriated \$1,786,232.95 between January 1, 2002 and January 30, 2012. We also identified questionable payments totaling \$1,029,266.80 between January 1, 1996 and December 31, 2001. We could only question these payments because the County no longer had supporting documentation due to state records retention requirements.

The County terminated the Accounting Director's employment on February 8, 2012.

Our investigation identified two fictitious vendors the former Accounting Director used in the misappropriation. The County began doing business with the first vendor in at least 1989. This vendor was bought out by another company in December 2001. The former Accounting Director used the out-of-business vendor's name on invoices he submitted to the County for payment. He created a second fictitious vendor and submitted three invoices from that vendor to the County.

The County filed a report with Pasco Police Department, which is investigating the case. The Franklin County Prosecuting Attorney's Office and Washington State Attorney General's Office are proceeding with both a civil and criminal case in this matter. The Franklin County Superior Court has set a trial date for the criminal prosecution for January 2013.

BACKGROUND

Our investigation focused on expenditures by the Franklin County Public Works Department. The Department's annual operating budget for 2003 through 2012 ranged from \$8 million to \$12 million.

In 2010, due to a pending Internal Revenue Service (IRS) rule change, the County Auditor's Office began requesting and certifying tax identification numbers for all vendors the County had done business with in the past two years. The Office sent IRS forms requesting tax identification information to these vendors. The form it sent to one vendor came back "return to sender". The County Auditor sent additional requests to other addresses it had for this vendor that also were returned or unanswered.

The County Auditor's Office started researching the returned IRS forms in November 2011. On January 6, 2012, the County Auditor's Office staff called the telephone

number on a recent invoice from the vendor. The number belonged to a trucking equipment company that informed the County Auditor's Office that it had purchased the vendor's assets in December of 2001. Although the vendor was no longer in business, the County determined payments had been made to the vendor.

The County Auditor reported this to our Office on January 9, 2012. The County contacted the Pasco Police Department regarding the possible misappropriation on January 13, 2012.

The Pasco Police Department obtained a search warrant to examine the activity in a bank account in which the checks to this vendor from Franklin County were deposited. The Police Department determined the former Accounting Director opened the bank account in the name of the two fictitious vendors in 1990, 10 months after he was hired.

On February 2, 2012, a Pasco Police Officer interviewed the former Accounting Director. He told law enforcement that he created invoices on his work computer and submitted them as Public Works Department vendor invoices to the County for payment. Our investigation found 45 invoices on the former Accounting Director's work computer that were paid by the County Auditor.

INVESTIGATION RESULTS

Our investigation compared payments recorded in the County's vendor payment system to available bank records and invoices. We identified a total of \$1,786,232.95 in misappropriated public funds paid to two vendors. The following chart provides the misappropriated payments by year:

Vendor 1	
Year	Amount
2002	\$ 184,280.60
2003	\$ 157,200.50
2004	\$ 196,983.44
2005	\$ 208,929.69
2006	\$ 196,668.86
2007	\$ 220,211.83
2008	\$ 188,033.88
2009	\$ 152,207.43
2010	\$ 125,825.82
2011	\$ 122,874.82
2012	\$ 10,242.94
Vendor 2	
2004	\$ 7,910.24
2006	\$ 14,862.90
Total Misappropriation	\$ 1,786,232.95

We also identified questionable transactions regarding Vendor 1 from County Auditor's reports on payments. Due to records retention requirements, the County did not retain supporting documentation for these transactions that would allow us to identify when

they took place and what was purchased. We are questioning these payments because the account used for depositing the misappropriated payments was opened in 1990. The following chart shows the annual questionable payments:

Year	Amount
1996	\$ 147,028.15
1997	\$ 153,938.81
1998	\$ 170,757.22
1999	\$ 190,903.27
2000	\$ 197,631.40
2001	\$ 169,007.95
Total Questionable	\$ 1,029,266.80

The investigation reviewed all processes in the Public Works in order to determine if any additional misappropriations occurred. We also considered all systems to which the former Public Works Accounting Director had access. We did not find additional misappropriation.

CONTROL WEAKNESSES

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

- There was not adequate oversight of the decentralized Public Works accounting department.
- The former Public Works Director, who supervised the former Public Works Accounting Director, did not perform an adequate review of expenditures.
- The Public Works employee responsible for monitoring Public Works inventory was not given a report showing all the vendor payments by fund.
- Warrants were given to Public Works Department after being processed by the County Auditor’s Office. This gave the former Accounting Director the opportunity to take the vendor payments.

Since the detection of the misappropriation, the County has improved internal controls by establishing procedures and moving the accounting functions from Public Works to the County Auditor.

RECOMMENDATION

We recommend the County continue to strengthen internal controls over payments to ensure adequate oversight and monitoring to safeguard public resources and compliance with County policies.

We also recommend the County seek recovery of the misappropriated \$1,786,232.95, and related investigation costs of \$32,606.69 from the former Public Works Accounting Director and/or its insurance bonding company, as appropriate. Any compromise or

settlement of this claim by the County must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Sharon Payant is the contact person for the Attorney General's Office and can be reached at (360) 586-1912 or sharonp1@atg.wa.gov. The contact for the State Auditor's Office is Jan Jutte, Director of Legal Affairs, who can be reached at (360) 902-0363 or jan.jutte@sao.wa.gov.

COUNTY'S RESPONSE

Franklin County would like to thank the State Auditor's Office for their response to our request for an investigation into vendor irregularities that occurred in the Motor Vehicle Fund at the Public Works Department. Franklin County made immediate changes concurrent with notification to the SAO and started reviewing, changing and updating process and procedures specific to Accounting. The Franklin County Auditor staff's initial review resulted in the following changes:

- *The County is consolidating accounting personnel under the Auditor's Office to assure accounting processes and procedures are reviewed and evaluated by other accountants. A new position was created for a Director of Auditor Service to develop and support a countywide "Control Environment."*
- *The Public Works Department has been reorganized to separate the Public Engineer function and the Public Works Director function.*
- *A new Public Works Department Administrative Policy and Procedure Statement was developed and implemented. Emphasis includes:*
 - *Segregation of Duties*
 - *Authorization and Approval*
 - *Review and Reconciliation*
- *The Franklin County Auditor's Office created a New Vendor Form that requires a department head signoff for new vendors and address changes. Additionally, each vendor's tax identification number is verified through the IRS by an employee not responsible for the vendor set-up.*
- *The County Auditor mails the Public Works warrants directly to the vendors.*
- *The County has committed to and is installing new financial software. The software is a tool to automate many of the controls and provide improved transparency of county budgeting.*

The County is implementing a control environment culture to address the audit findings. We take this task very seriously. We will follow through with the State Auditor's recommendations to strengthen controls to best protect public resources.

STATE AUDITOR'S OFFICE REMARKS

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