

Washington State Auditor's Office
Fraud Investigation Report

City of Seattle
King County

Investigation Period
January 1, 2011 through December 31, 2011

Report No. 1007556

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WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

April 17, 2012

City of Seattle
Seattle, Washington

Report on Governmental Fraud Investigation

Attached is the official report on a misappropriation at a non-profit organization that received grant funding from the City of Seattle.

This report contains the results of our fraud investigation at the City from January 1, 2011, through December 31, 2011. The purpose of this 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 Director of Communications Mindy Chambers at (360) 902-0091.

BRIAN SONNTAG, CGFM
STATE AUDITOR

cc: Glen Lee, Finance Director

Investigation Summary

**City of Seattle
King County
January 1, 2011 through December 31, 2011**

ABOUT THE INVESTIGATION

In accordance with state law, the Department of Social and Health Services created a Kinship and Family Caregiver Program. The Department contracts with the City to administer the program to ensure that relatives, usually grandparents, receive priority in the placement of children under the age of 19 in need of out-of-home care. It pays the City approximately \$7 million in federal and state funds annually for this program and other caregiver programs.

The City then contracts with non-profits to provide the actual services, which can include food; home furnishings to accommodate children; auto repair to allow transportation for children to appointments and activities; tutoring and counseling services; school clothes; payments to prevent a caregiver from being evicted from a rented residence and one-time rent deposits. The contract states a kinship caregiver can receive a maximum of \$1,500 per year from the program.

In November 2010, an individual approached the Aging and Disability Services Division of the City of Seattle Human Services Department with a concern that an employee of a non-profit requested the non-profit to generate payments to a fictitious vendor. Program Managers in the Division investigated and determined the concern did not have merit.

In January 2011, our Office received a whistleblower assertion regarding the same matter. We opened an investigation to review whether the Department was monitoring sub-recipients of kinship program money. We investigated and found the Department of Social and Health Services was adequately monitoring the City. Our Office reported this conclusion in Report No. 1007231 dated February 7, 2012.

During our investigation we found evidence that the initial complaint to the City had merit. At our request, City officials contacted caregivers and asked them if they received home repair services from a vendor who had been identified as the fictitious vendor. The City found these caregivers had not received services from this vendor. In March 2011, City officials notified the non-profit's management that they had a concern regarding excessive use of a single vendor. The non-profit reviewed additional documentation and determined the loss was \$90,791, and immediately notified the Seattle police, the City of Seattle and terminated the employee from the position.

Following this discovery, the City's Human Services Department Director directed her office to conduct a formal investigation. The City's investigation confirmed the loss and also noted 221 questionable transactions totaling \$119,462. It provided this information to our Office so we could perform additional procedures to determine if they were misappropriations or valid transactions.

We reviewed the City's completed investigation and determined we would perform additional investigative procedures on selected questionable transactions and other transactions selected from the non-profit's vendor payments and credit card charges. We selected transactions that were initiated or approved by the former employee, regardless of funding source. We found an additional \$42,047 was misappropriated by the former employee or others, bringing the total to \$132,838.

Our investigation also found questionable transactions totaling \$95,977. These included \$44,164 in expenses that were not supported or supported by incomplete records; \$42,200 in payments we could not confirm were valid; and payments totaling \$9,613 that were prohibited by City policy. The City did not reimburse the non-profit for all of these expenses. We did not determine the amount reimbursed by the City.

No federal money was involved in the misappropriations or questionable transactions.

RESULTS

We found that a former non-profit employee or others misappropriated at least \$132,838. We also found \$95,977 in questionable expenses.

We examined transactions totaling \$407,331 and found issues regarding transactions totaling \$228,815. This included analyzing \$43,558 in credit card charges by the non-profit employee. The charges were for repairs and modifications to personal vehicles, trips, meals, home improvements, and other miscellaneous items.

The following is the detail of the misappropriation, questionable expenditures and purchases, and expenses that were not in accordance with policy:

Misappropriations by the non-profit's former employee or others:

- \$90,791.62 paid to a fictitious vendor. The former employee fabricated names and addresses of caregivers and their need for home repairs. These records were combined with fictitious invoices to generate the vendor payments.
- \$16,658.87 paid for personal vehicle repairs. The former employee fabricated caregiver names and their need for vehicle repairs. The invoices associated with these transactions appeared to have been falsified because the customer name, address and vehicle license plate number were in a different font than the rest of the invoice. We contacted the vendors and obtained a copy of the original invoices, which revealed the customers were the former employee, his spouse, a friend or a relative.
- \$13,000 paid to an individual who was represented in the payment documentation as a caregiver's landlord. Records were created to indicate the caregiver and the children in their care would be evicted if they did not pay rent that was due, including false eviction notices. In addition, printed property ownership records obtained from the County Assessor's Office were altered to show this individual was the landlord when he was not. We used official County Assessor records to determine that the individual who was paid the \$13,000 did not own the properties.

- \$4,473.16 paid to vendors for what was characterized as “Assistance to Clients”. This included paying \$2,220 for rent to an apartment complex for an individual represented as a caregiver. We learned that the caregiver named in the documentation has been incarcerated for the last 14 years. We obtained the tenant’s name and found that she was not in the kinship caregiver client file as a caregiver.
- \$3,004.42 in car payments for the former employee’s privately owned vehicle.
- \$2,500 paid to a friend of the former employee who was represented in payment documentation as performing home repairs for caregivers. We interviewed this individual and he stated he was paid to perform work on the former employee’s personal residence, including doing work on a deck, gardening and painting. The friend was also paid an additional \$2,295, but he could not remember whether he worked for the former employee or for a caregiver. This amount is questioned below.
- \$167.80 in airfare was paid for an individual with the same last name as the former employee to fly to Las Vegas where the former employee attended a business conference. The documentation supporting the payment is an altered flight confirmation showing the former employee as the only passenger. However, we found a scanned document in the former employee’s “Deleted” e-mail that was identical to the air travel confirmation, including the alpha-numeric confirmation number, which shows two passengers, the former employee and the other individual.
- \$2,242.01 in gasoline was purchased with the former employee’s non-profit credit card while he was not in travel status. The non-profit does not purchase gas for its employees’ personal vehicles; rather, its policy allows only reimbursement for miles driven.

Questionable expenditures and purchases initiated or approved by the former employee:

- The non-profit purchased \$140,072 in gift cards. Of that, \$79,320 was acknowledged by caregivers as received. Caregivers identified as receiving \$9,480 in gift cards told us they did not receive them. Many of them stated they were not caregivers. This loss cannot be attributed to any particular employee. Gift cards valued at \$51,272 could not be confirmed as going to a valid caregiver due to a lack of internal controls.
- \$3,647.17 in meals and other food items were purchased by the former employee when he was not in travel status. The non-profit organization’s policy requires meals be pre-approved and for a business purpose. None of these meals were pre-approved and no business purposes were noted. Meals included pizza ordered after work hours and prime rib and steaks for four guests totaling \$122 at a Seattle restaurant.
- \$10,131.64 in payments characterized as “Assistance to Clients”. This included a \$1,500 payment to a law firm on behalf of a caregiver. We contacted the law firm which told us it did not have a client of that name. Also included were several charges to the non-profit credit card assigned to the former employee for

utilities, professional photographs and new appliances with no documented caregiver names.

- \$3,687.07 in vehicle-related expenses was paid by the non-profit including \$2,043 at a tire store with no supporting caregiver information.
- \$1,867.13 in vehicle rental charges and taxi fares in Seattle/King County were paid for using the former employee's assigned non-profit credit card while not in travel status.
- \$2,782.55 in purchases for which no business purpose was identified. This included a \$479 camcorder; \$109 in men's clothing; flower arrangement purchases totaling \$125.82; a \$254.01 payment to a collections agency; and a \$270 charge at a pet supply store.
- \$614.59 in hotel charges with the former employee's assigned non-profit credit card when the former employee was not in travel status. The hotel was less than 30 miles from his residence.
- \$587 was paid for massage services with the former employee's assigned non-profit credit card.
- \$2,295 paid to the former employee's friend for home repairs for which he was not able to remember the nature of the work.

Expenditures not in accordance with policy:

\$9,613 was paid by check directly to caregivers, which is specifically prohibited by policy. These transactions cannot be attributed to any particular employee.

RECOMMENDATION

We recommend the City work with the non-profit organization to determine the amount the City reimbursed the non-profit for the misappropriated or questionable transactions. We further recommend the City seek recovery of that amount from the non-profit.

We recommend the City report known or suspected losses to the State Auditor's Office including known or suspected losses of City funding granted to a sub-recipient.

We also recommend that the City monitor its sub-recipients to ensure they develop and follow policies which require internal controls, such as segregation of duties.

We will forward our report to the King County Prosecuting Attorney's Office for any action it determines is necessary.

CITY'S RESPONSE

Thank you for the opportunity to comment on the draft fraud investigation report related to the Kinship and Family Caregiver Program. The City of Seattle and Human Services Department take seriously our responsibilities both as a recipient of funds from the state and federal government and as a funder, passing those grants to community-based

nonprofit agencies to provide services to vulnerable populations. Our response to your recommendations is below.

- 1. We recommend that the City work with the nonprofit organization to determine the amount the City reimbursed the nonprofit for the misappropriated or questionable transactions. We further recommend that the City seek recovery of that amount from the nonprofit.**

Response: We support this recommendation and will begin this work immediately.

- 2. We recommend that the City report known or suspected losses to the State Auditor's Office including known or suspected losses of City funding granted to a subrecipient.**

Response: We support this recommendation. The City of Seattle and Human Services Department take seriously our responsibility as a recipient of local, state, federal and private funding. We also value the recommendations and guidance the State Auditor's Office provides us on an ongoing basis. We understand our responsibility to report known or suspected losses to the State Auditor and agree that the misappropriation concern should have been forwarded to the SAO in November of 2010. We emphasized this reporting obligation in recent training and will provide annual training, including the obligation to elevate concerns about known or suspected losses to HSD leadership consistently and in a timely manner.

- 3. We also recommend that the City monitor its subrecipients to ensure they develop and follow policies which require internal controls such as segregation of duties.**

Response: We support this recommendation. The Human Services Department (HSD) has already taken a number of steps specific to Senior Services and the Department's overall contract monitoring processes and tools both prior to and as a result of the investigation of the nonprofit. These steps include:

- Specific corrective action related to the ongoing HSD and State Auditor investigation at the nonprofit was communicated to the CEO in a letter dated July 8, 2011 from HSD Director Dannette R. Smith. Six required actions were related to strengthening internal controls and segregation of duties. The agency was given 90 days to respond. HSD conducted a site visit to the nonprofit on October 14, 2011 to review the completion status of each of the items above. The items were successfully addressed within the requested time frame and no immediate follow up was needed.
- HSD increased scrutiny of backup documentation for the contracts being reviewed as part of the State Auditor investigation starting in May 2011. Letters with requests for additional documentation or clarification of documentation were sent to the nonprofit in May, June, July, September, and November 2011. In cases where we did not receive adequate documentation, even after requesting it from the agency, we withheld payment.

- *HSD also took action on the specific contracts at the nonprofit related to the Kinship Care and Family Caregiver programs. The Kinship Caregiver Support Program and Kinship Collaboration contracts were not renewed past December 31, 2011; the Family Caregiver Support Program contract will be transitioned to other providers by June 2012 to ensure client services are not impacted.*
- *HSD continues implementation of restructure and realignment of the Department's funding, contracting and agency monitoring processes. With regard to agency program and fiscal monitoring, changes include strengthening the Department's internal coordination, communication and tools used for agency monitoring and corrective action. Changes to agency fiscal monitoring are being launched in March 2012 with a new tool and process for a comprehensive agency fiscal assessment.*

Thank you again for the opportunity to respond to the draft fraud investigation report.

STATE AUDITOR'S OFFICE REMARKS

We thank the Director's Office of the City of Seattle Human Services Department and Human Resources 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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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