



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigations Report

City of Spokane and Washington State Health Care Authority

For the investigation period August 1, 2022 through October 31, 2022

Published November 16, 2023

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

November 16, 2023

Mayor and City Council
City of Spokane
Spokane, Washington

Susan Birch, Director
Health Care Authority
Olympia, Washington

Report on Fraud Investigations

Attached is the official report on questionable activities at the City of Spokane and Washington State Health Care Authority. On October 3, 2022, and October 11, 2022, the City and the Health Care Authority, respectively, notified the Office of the Washington State Auditor of potential losses of public funds. These notifications were submitted to us under the provisions of state law (RCW 43.09.185).

Our investigations were 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: Michelle Murray, Director of Accounting, City of Spokane
Kari Summerour, External Audit and Compliance Manager, Health Care Authority

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FRAUD INVESTIGATIONS REPORT

Background and Investigation Results

On October 3, 2022, and October 11, 2022, the City of Spokane and Washington State Health Care Authority (HCA), respectively, notified our Office regarding potential losses of public funds, as required by state law (RCW 43.09.185). In September 2022, the City and HCA discovered that a person was simultaneously employed full time at both agencies.

The City investigated and determined it made questionable payroll disbursements totaling \$11,552 between August 1, 2022, and September 23, 2022. HCA also investigated and found no questionable payroll costs. However, HCA determined the employee violated its administrative policies for outside employment and personal conduct.

We reviewed the City's and HCA's investigations and concluded that the amount of work the employee performed while employed full time at both agencies was questionable. However, we cannot quantify the extent of time loss for either agency, because we cannot confirm the amount of overlap in actual time worked. The investigations and our review found:

- On September 26, 2022, HCA contacted the City after learning the employee might be working at the City as a Procurement Specialist at the same time she was working for HCA. HCA informed the City that it had hired the employee as a Contract Specialist effective August 1, 2022.
- The employee had worked for the City since 2015, and specifically as a Procurement Specialist since 2017. During the COVID-19 pandemic, the employee's workplace shifted to a hybrid environment, with some work in person and some work remote. HCA's Contract Specialist position was fully remote.
- Between the start of her employment with HCA on August 1, 2022, and September 23, 2022, the employee reported 300 regular salary and leave hours with the City, and the City determined it paid \$11,552 in related payroll compensation. During the same period, she reported 340 regular salary hours and earned about \$11,737 in gross wages as HCA's Contract Specialist.
- As the City's Procurement Specialist, she had a set work schedule from Monday through Thursday from 7 a.m. to 5 p.m. As HCA's Contract Specialist, she had a set work schedule of Monday through Friday from 8 a.m. to 5 p.m. between August 1, 2022, and August 15, 2022. This schedule shifted to Monday through Thursday from 6 a.m. to 4:30 p.m. between August 16, 2022, and September 23, 2022. Given the significant overlap in work schedules, the employee could not have performed full-time work for both the City and HCA during this time.
- The employee's supervisors at HCA noted no significant gaps in online availability to indicate she was not working an appropriate amount of time on HCA-related duties.


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 HCA_Martinez, Micaela investigation re


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Commented [AT(3)]: Confirmed at: B.1.8


 Martinez schedule change

Commented [AT(4)]: Reviewed at: B.1.9

 Martinez pay stubs

Commented [AT(5)]: Reviewed at B.1.3 and B.1.8

 HCA_Investigation Attachments

 Martinez schedule change

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 HCA_Martinez, Micaela investigation re

- The City's computer log-in records did not have enough information to confirm the amount of time she did or did not work.

On September 26, 2022, HCA interviewed the Contract Specialist to ask if she was currently working for any employers other than HCA. She acknowledged that she was also employed by the City but said she had not produced work for the City since July 28, 2022, and was merely receiving vacation leave pay. Immediately following the interview, the employee resigned from her position at HCA, and she notified her supervisor at the City that she had been employed simultaneously by both employers. On September 27, 2022, the City placed her on administrative leave.

On October 14, 2022, the City notified the employee of a pre-disciplinary hearing scheduled for October 26, 2022. On that date, the City interviewed the employee, who acknowledged that she had been simultaneously employed by both entities. She was subsequently terminated from her City job.

Control Weaknesses

Internal controls at the City and HCA were inadequate for safeguarding public resources. The investigations found the following weaknesses allowed the questionable activity to occur:

- The City does not have established policies and procedures regarding outside employment.
- HCA relied on the employee to comply with its administrative policies and procedures regarding outside employment and did not validate information the employee represented regarding her employment with the City.
- The City and HCA relied on the employee to perform her assigned duties while working in-person and remotely.
- The City lacks sufficient internal controls to verify employees are performing an adequate amount of work that aligns with their regular hours. Additionally, they did not have sufficient controls to ensure employees were not conducting non-work activity during their scheduled work hours.

Recommendations

We recommend the City consider establishing policies and procedures addressing requirements for outside employment. We also recommend the City and HCA monitor employees to ensure adequate safeguarding of public resources and compliance with their policies and procedures, as applicable.

Considerations for the City and HCA include continuing to:

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 HCA_Investigation Attachments

- Improve their monitoring of employees' work activity to confirm they are performing an adequate amount of work in line with time reported
- Improve their monitoring of payroll to include proper supervision and establishing expectations that managers know what work employees should have performed to ensure they are not engaged in dual employment that conflicts with their work schedules
- Communicate and train staff on policies and procedures applicable to general ethics and conflicts of interest

We will refer this case to the Washington State Executive Ethics Board for any further action it determines is necessary.

City's Response

Control Weaknesses

- *The City's Human Resources Department will develop policies and procedures outlining guidelines with respect to outside employment.*
- *The city will also institute non-compete agreements to ensure that employment out side of the city sphere does not conflict with employee(s) current employment with the city.*
- *The City managers will establish employee job expectations and regularly verify work is being performed in accordance with those expectations. The City's Human Resource Department will enforce the existing Administrative Policy ADMIN 0620-06-11 Performance Evaluation and Eligibility for Step Increases which is the policy of the City to keep its employees apprised of their performance level by regular feedback. The city will develop policies and procedures surrounding alternative work schedules.*
- *The City's Human Resources Department will develop a new and/or enforce current policies and procedures that will set expectations of employment with the City under a hybrid work environment. The policy will include an attestation form that the employee(s) and the City agree upon that details and the expectations that employees are not to be conducting non-work activity during their scheduled work hours.*

Recommendations

- *The City's Human Resources Department will develop and or enforce existing policies that have monitoring methods that establish employee work expectations and requirements to perform regular accountability reviews.*
- *The City's Human Resources Department will develop policies and procedures that will identify city employment expectations and will design attestation forms for the employee and employer to agree so expectations are explicit.*
- *The City's Human Resources Department will provide manager training that will include expectations of payroll review.*
- *The city will require annual training on ethics and conflicts of interest of all city employees and this will be administered by the Human Resources Department. The City's Human*

Resources Department will develop a training program that is traceable and includes a statement acknowledgment of understanding from all employees.

HCA's Response

The Health Care Authority (HCA) concurs that the employee was employed at HCA between August 1, 2022, and September 23, 2022, during which the employee was employed with and scheduled to work essentially identical hours for the City.

- The HCA does not concur with the identified control weaknesses; specifically, the employee indicated they would be using accrued vacation leave but not working for the City after beginning work with HCA. The employee was provided HCA's Outside Employment Authorization policy and request form to report any additional compensated work on the employee's first day of work with HCA and did not report any additional outside employment. The HCA relied on the employee to perform assigned duties and the employee's supervisor appropriately monitored the employee's training and productivity in the role, noting that the employee was a high performer with no unusual gaps in productive time or responsiveness while working remotely.*
- The HCA does not concur with the identified recommendations; specifically, the employee's supervisor provided an appropriate amount of oversight with the employee's work production and time and as noted, the employee was observed to have been a high performer and accomplished an appropriate amount of work while employed. The HCA ensures that new employees receive training on reporting outside employment, including what constitutes a conflict of interest, as well as state ethics rules and use of state time.*

Auditor's Remarks

We reaffirm our control weaknesses described within this report and our conclusion that the employee's hours worked were questionable. We thank City and HCA officials and personnel for their assistance and cooperation during the investigation. We will follow up on the City's and HCA's internal controls during their next audits.

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