

# Office of the Attorney General

## *General*

*Code:* S1AttorneyGeneral-FD17  
*Name:* Office of the Attorney General  
*Group:*  
*Type:* S1-Agency, Commission, or Board  
*Location:* State  
*Scope:*

## *Team*

*Lead:* Stephanie Sullivan  
*Manager:* Sarah Walker

## Procedures

### A.1.PRG - TeamMate Administration

*Procedure Step:* Audit Set Up  
*Prepared By:* SRS, 8/15/2018  
*Reviewed By:* SMW, 4/26/2019

Purpose/Conclusion.*
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**Purpose / Conclusion:**

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Set up TeamMate audit file in accordance with TeamMate Protocol.

## Testing Strategy:

All of the following steps are required in order to properly set up the TM file except for the optional step to set up global tickmarks. If the budget is less than 100 hours, auditors may skip steps 4-6 (filling out the profile and sending to TC) until the end of the audit.

1. **Add the audit team to the project** - To do this, go to the Planning tab and select Team. Then select the team from the TeamStore by clicking the "get" button.
2. **Set Project Manager and Lead** - Select the Lead and Manager from the drop down menus in the Team Tab of the Profile. The "Lead" should be the Auditor-In-Charge of the audit, and the "Manager" should be the Assistant Audit Manager supervising the audit.
3. **Fill out initial information in the Profile** - The Project Profile captures general information about the audit for the TeamCentral database. Access the Profile from the Planning tab and populate as many of the required fields in the Profile as possible at this stage of the audit. A description for each required field can be found in the TeamMate Protocol document.
4. Go to <http://saoapp/TMDV/ViewProjectErrors.aspx> and enter the project code then "Validate" to check your project for errors.
5. **Resolve any TMDV errors** - The TeamMate Data Validation (TMDV) application performs a series of edit checks on data in your project to ensure accuracy and conformity to protocol. If TMDV identifies errors for your project, resolve the errors and send to central again (if distributed) until TMDV displays that there are no records to display.

Exceptions could indicate either errors in the TeamMate profile or issue data or errors in other SAO databases. If you have confirmed that information in TeamMate is correct, contact the TeamMate Administrative Group to initiate corrections to our other databases.

6. **Set up your favorite global tickmarks (optional)** - Global tickmarks are available throughout the audit file and do not change from workpaper to workpaper. You can access the global tickmarks screen from the Planning tab.
7. **Initialize Audit** – Attempt to sign off on this step, which will trigger a dialog box asking if you would like to initialize the audit. After initialization of the audit, you may continue to add users or global tickmarks, but cannot delete any.

## Policy/Standards:

See TeamMate Protocol document

## Record of Work Done:

1. Added the audit team to the project
2. Set the Project Manager and Lead

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3. Filled out the audit profile
4. All projects - Checked Data Validation System for errors
5. Resolved all TMDV Errors
6. Set up my favorite global tickmarks, if needed
7. Initialized the audit file

## A.1.PRG - TeamMate Administration

*Procedure Step:* Project Review & Finalize  
*Prepared By:* SRS, 4/23/2019  
*Reviewed By:* SMW, 4/26/2019

Purpose/Conclusion:

### **Purpose/Conclusion:**

To ensure that audit documentation complies with TeamMate Protocol, the audit file is ready for finalization and archiving, and that any files outside of TeamMate are completed and reviewed.

Testing Strategy:

### Replicas

Ensure that all replicas are merged into the master file and discard any replicas that will never be merged.

### Review of workpapers

Review workpapers to ensure they are completed and properly signed off. You can use the Procedure Status Viewer (for all procedure steps) or the Schedule Status Viewer (for procedure summaries and attachments) to see the status of steps and attachments in the audit file. *The Viewers can be accessed from the buttons on the Navigation Bar at the bottom of the screen.*

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## Coaching Notes

Verify that all coaching notes have been addressed and cleared. You can use the Coaching Notes Viewer to see the status of all Coaching Notes in the audit file. *The Coaching Note Viewer can be accessed by from the button on the Navigation Bar at the bottom of the screen.*

During the finalization process, coaching notes will be deleted. If you want to keep these notes you will need to create a report using the Reports wizard and save it outside of the TeamMate file.

## Hardcopy Files and External Data

Ensure that hardcopy files referenced by the audit are completed and reviewed. Also ensure that any unnecessary documentation or files, including databases with any confidential or sensitive information, are appropriately disposed. If files or databases are needed for future periods, ensure these are appropriately secured. *See the SAO Administrative Policy on Data Security and Access.*

## Project Profile

Review and update the Profile information. See the TeamMate Protocol document for definitions and instructions for each required field. *The Protocol document can be accessed from your Start Menu | All Programs | State Auditor's Office or on the Intranet on the TeamMate page.*

## EIS Entity Profile

Review and update the entity profile in EIS.

## Issue Review

Ensure issue content is exactly what was presented to the client per the Exit Document, Management Letter, or Finding. There should only be one issue for each finding, management letter item and exit comment. Additional information or notes about the issue can be documented in the "notes" tab. Any other documented issues (that were communicated verbally, at pre-exits or were later combined or dropped) should be either deleted or marked as "verbal recommendations."

Check that all required issue fields are completed and correct. See the TeamMate Protocol document for definitions and instructions for each required field. *The Protocol document can be accessed under Help | Local Guidance or on the Intranet on the TeamMate page.*

## Issue Sign-Off

All issues must be reviewed and signed off by a Supervisor and/or Manager, per Protocol. The finalization process will require all issues to have a state of "reviewed."

Resolve any TMDV errors - The TeamMate Data Validation (TMDV) application performs a series of edit checks on data in your project to ensure accuracy and conformity to protocol.

- Go to the Status and Milestones tab in the profile and change project status to "Post Fieldwork"
- Go to <http://saoapp/TMDV/ViewProjectErrors.aspx> and enter the project code then "Validate" to check your project for errors.

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- If TMDV identifies errors for your project, resolve the errors and check web site until TMDV displays that there are no records to display.

Exceptions could indicate either errors in the TeamMate profile or issue data or errors in other SAO databases. If you have confirmed that information in TeamMate is correct, contact the TeamMate Administrative Group to initiate corrections to our other databases

### Change Project Status

Go to the Status and Milestones tab in the profile and change project status to "Post Fieldwork"

- Enter the report date in the "Post Fieldwork draft report)" actual date field.
- REMINDER - Do NOT change the status of the project to "Issued" or the project will not get archived.

### **NOTE - DO NOT CHANGE THE STATUS OF THE PROJECT TO ISSUED.**

### Complete/Finalize Project

After the audit report has been sent to OS the audit should be finalized by the Manager. To do this, go to Project | Finalize. The finalization process will:

- Halt the process if any issues have not been reviewed;
- Warn the Manager of unreviewed workpapers and/or steps;
- Check for uncleared coaching notes;
- Finalize the project, which prevents any further changes from being made to the file.

*Note: if the project is finalized and the team subsequently needs to add or modify the documentation, contact the TeamMate Administrator for assistance.*

Policy/Standards.*
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See TeamMate Protocol document
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Record of Work Done.*
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All of the following steps have been completed for this audit file:

- All outstanding replicas are merged.
- All workpapers have been reviewed.
- Coaching notes have been addressed and cleared.

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- Hardcopy files have been completed and reviewed.
- Unnecessary files and databases have been appropriately disposed of, and any files or databases needed for future periods have been appropriately secured in accordance with SAO's administrative policy on Data Security and Access.
- The audit profile has been completed.
- EIS Entity profile has been updated.
- Issue content has been reviewed and required fields completed.
- All issues have been signed off as reviewed.
- All TeamMate Data Validation errors are resolved.
- Project Status has been changed to Post Fieldwork

The audit will now be finalized.

### B.1.PRG - Planning

*Procedure Step:* Reported Loss  
*Prepared By:* SRS, 8/15/2018  
*Reviewed By:* SMW, 8/29/2018

Purpose/Conclusion:

#### **Purpose/Conclusion:**

To document the initial reported loss and preliminary assessment completed.

Testing Strategy:

**Investigators are required to complete steps 1-3** (Also see ""Overview of Loss Reporting Process" flow chart of possible process scenarios and for consideration of budgeting/time planning purposes ):

1. Make initial contact with the client (within 5 business days of initial loss report date) and discuss loss with audit manager.

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2. Complete a Preliminary Assessment Worksheet (PAW). Complete Team level review and submit to Team Fraud for review within 10 business days of initial loss report date. Please use the PAW review library to upload and document reviews completed and notification for Team Fraud's review. Link to PAW review library:

<http://saosp/TeamSites/Fraud/PAWs/Forms/AllItems.aspx?InitialTabId=Ribbon%2ERead&VisibilityContext=WSSTabPersistence>

3. **Required: Based on Team Fraud's review of the completed PAW next investigation steps will be determined.** Choose one of the following based on assessment:

**A) Open-** We will review risk in the current audit. We gave consideration to the estimated time-frame/fieldwork completion date, budget, and staffing resources and will incorporate any review work into the current audit budget. We will document our review within the fieldwork section of the current audit [\[add link to related section\]](#) and also any key communication items related to the reported loss within our current audit documentation.

**Note:** If the work is to be performed in the current audit, please use [GENL budget](#) for the work or discuss with Team Fraud the need for FRAD hours. In addition, planning investigation plan step, fieldwork section, and concluding section can be deleted from the TM file steps since this work is to be documented in the linked accountability section.

OR

**B) Review the external investigation completed.** (Please consider the estimated time-frame/fieldwork completion date, budget, and staffing resources and propose via email to the Fraud Manager a total budget for approval)

OR

**C) Develop a Fieldwork Plan** that considers the following elements

Policy/Standards:

### **SAO Audit Policy 1410**

Record of Work Done:

#### **Investigation Procedures:**

1. Initial contact was made with the client on **July 17, 2018** and discussed with the audit manager. The AGO provided a summary memo of the concerns for discussion: [AGO Summary of Concerns Memo](#)

2. No PAW was completed based on Team Fraud's triage determination, instead action was to: **Draft a Fieldwork Plan** See our established investigation plan and budget here: [AG Investigation Plan](#)

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## B.1.PRG - Planning

*Procedure Step:* Investigation Plan

*Prepared By:* SRS, 8/15/2018

*Reviewed By:* SMW, 8/29/2018

Purpose/Conclusion:

### **Purpose/Conclusion:**

To develop and document an investigation plan that addresses the anticipated investigation strategy, scope, staffing and budget.

Testing Strategy:

**Note:** This section can be deleted if performing work within the current audit.

To develop the plan, investigators are **required** to:

1. Based on the PAW and triage brainstorm, either (A) complete an external review of investigation completed or (B) draft an Investigation fieldwork plan.

- *Reminder: When developing a investigation work remember to consider the following elements:*
- *Approach and testing strategies*
- *Initial scope of the investigation (time frame and areas examined)*
- *Procedures to determine if scope should be expanded ("what else" question)*
- *Procedures to understand internal controls, if necessary*
- *Whether interviews need to be conducted and, if so, the timing, nature of the questions, and who will lead the interviews.*
- *Estimated time-frame/fieldwork completion date, budget, and staffing resources.*

### **The plan must be approved by Team Fraud.**

2. Request the set up of an audit number and budget in TABS. **Budget requests are expected to be approved by the Fraud Manager** who then forwards the approved request to Lois Buldis for audit number setup and budget tracking within EIS.

- (option A) For work performed in the current audit, please use GENL budget unless you need to request FRAD hours. In this case, discuss with Team Fraud.
- (option B) For external review work, please send an email budget request to the Fraud Manager for approval. Example budget request emails can be found on the Team Fraud sharepoint site.



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- (option C) For draft investigation plan, the budget will be documented in the approved plan. After the Fraud Manager has approved the plan, the Fraud Manager will email the total budget amount to Fiscal for updating in EIS.
3. Obtain and document advance approval from Team Fraud for any significant modifications throughout the investigation. **Required significant modifications must be documented on the plan.**

Policy/Standards:

### **SAO Audit Policy 1410**

Record of Work Done:

**Step 1. It was determined a Fieldwork Investigation Plan would be drafted.** The following elements were considered when developing the plan:

- Approach and testing strategies
- Initial scope of the investigation (time frame and areas examined)
- Procedures to determine if scope should be expanded ("what else" question)
- Procedures to understand internal controls, if necessary
- Whether interviews need to be conducted and, if so, the timing, nature of the questions, and who will lead the interviews.
- Estimated time-frame/fieldwork completion date, budget, and staffing resources.

**Step 2. We drafted and obtained approval for the attached Fieldwork Plan AG Investigation Plan.**

**Step 3. Set up audit number and budget in TABS.** We gave consideration to the estimated time-frame/fieldwork completion date, budget, and staffing resources. We also considered if there were any other audits currently going on or planned for in the near future that the investigation risks including what else areas identified could impact. An overall budget of 160-220 hours was approved.

**Step 4. We discussed the investigation costs** with Mike Melroy, AGO representative. We obtained a signed MOU agreeing to the budgeted hours, see: [ATG MOU](#) . We will document any further key communication items within the fieldwork communications step throughout the investigation.

### **B.1.PRG - Planning**

*Procedure Step:* SAO Policy

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*Prepared By:* SRS, 8/15/2018  
*Reviewed By:* SMW, 8/29/2018

Purpose/Conclusion:

**Purpose/Conclusion:**

To review and certify adherence to applicable audit standards, objectives, and policy with regard to the SAO investigation.

Testing Strategy:

Policy/Standards:

SAO Audit Policy 1410

Record of Work Done:

**Investigation Objectives:**

To determine the amount of loss and whether responsibility for losses can be fixed to a particular person or persons.

**Authority and Policy:**

Our investigation is conducted under authority of the Washington State Auditor's Office to examine the financial affairs of local and state governments (RCW 43.09.260 and 310 respectively) and to inspect, at our discretion, the records of any person charged with receipt, safekeeping or disbursement of public monies (RCW 43.09.050).

Our investigation will be conducted in accordance with Audit Policy 1410 *Fraud Investigations*.

**Planned Strategy, Scope, Staffing and Time frame:**

In developing the fieldwork plan, we considered all known information about the loss as summarized in the Preliminary Assessment Worksheet. We also considered factors such as the following in determining our strategy, staffing and time frame:

- Potential subjects
- Potential methods used to perpetrate fraud

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- Potential time frame of fraud and assets or funds at risk of loss
- Availability, qualifications and independence of DSI and team staff
- Qualifications and independence of any client staff or third parties that may be available to conduct or assist with parts of the investigation
- Whether the subject matter or planned strategy necessitates the assistance of specialists

### Staffing, Supervision and Independence:

We have determined that assigned personnel have the requisite training and proficiency to perform the anticipated procedures. We have also planned staffing to ensure that all staff are adequately supervised.

In addition, we have determined that assigned staff are independent with respect to the client and client personnel involved in the investigation.

### B.2.PRG - Fieldwork

*Procedure Step:* Summary  
*Prepared By:* SRS, 2/21/2019  
*Reviewed By:* SMW, 2/26/2019

Purpose/Conclusion:

#### **Purpose/Conclusion:**

To summarize the results of fieldwork and assess whether evidence is sufficient and appropriate to support conclusions.

Testing Strategy:

Summarize the results of fieldwork including a schedule of the fraudulent activities and amounts which are cross-referenced to supporting work.

Assess the overall sufficiency and appropriateness of evidence obtained throughout the investigation. In assessing the sufficiency of evidence, consider whether there is enough evidence to persuade a knowledgeable person that the conclusions are reasonable. In assessing the appropriateness of evidence, consider its relevance, validity and reliability.

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Policy/Standards:

## SAO Audit Policy 1410

Record of Work Done:

A summary of the results of fieldwork is **below**:

On **August 8, 2018**, the Attorney General's Office notified our Office regarding a potential loss of public funds as required by state law.

**We initiated an investigation** and determined a **grant disbursement misappropriation** had occurred by a contracted vendor (WCCVA). The investigation identified misappropriation totaling \$199,978 between June 2015 to June 2017. The WCCVA provided a refund check to the AGO on 4/9/18 for \$50,316 related to expenses never incurred but reimbursed in August 2017.

**The entity has not** filed a report with law enforcement.

**Conclusion:** Our results are summarized here: [2015 2017 AGO Disbursements Review](#)

### B.2.PRG - Fieldwork

*Procedure Step:* Interviews

*Prepared By:* SRS, 3/7/2019

*Reviewed By:* SMW, 3/28/2019

Purpose/Conclusion:

Testing Strategy:

Consult with the Fraud Manager on whether interviews need to be conducted and, if so, the timing, nature of the questions, and who will lead the interviews.

Document interviews conducted. If the entity conducted interviews, get a copy of the notes or records.

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Policy/Standards:

## SAO Audit Policy 1410

Record of Work Done:

### Procedures:

During SAO's investigation, interviews were conducted by SAO with:

- Greg Welch, former bookkeeper 11/29/18- We spoke with Greg briefly over the phone who explained he was at the WCCVA for a very short time only to prepare the reimbursement packets to submitted to the AGO for reimbursement. He was asked by Cody and did it only as a favor to her. He also looked at it as a good opportunity to show his daughter how a non profit worked since she was starting college. He explained that Cody provided him with all the invoices and the expense report to include in the reimbursement packets. He was only aware of one bank account held by WCCVA, but could not remember the bank name. He did not handle anything else besides the reimbursement packet since he was filling in during a transition between WCCVA accountants. He would prepare a word document to bill for his services to include in the reimbursement packets. Cody would write him a check for payment.
- 12/3/18 via phone
  - Jacqueline Hatfield, Former Accountant [Jacqueline WCCVA](#)

She had prepared the June 2016 reimbursement packet for the Organization remotely as she had recently moved out of state. The former Executive Director provided the invoices to her that she needed to include in this reimbursement packet and represented these had been expenses incurred. She provided email documentation supporting this understanding. [Email support from Jaqueline](#)[Email support from Jaqueline](#)

- Greg Wright, Board President [Greg WCCVA](#)
- Greg Wright, Board President met in person with Stephanie Sullivan, Assistant Fraud Manager at the SAO Wenatchee Office on December 21, 2018 from 1-2:30pm. [The purpose of the meeting was to collect from Greg any of the records that Cody had indicated she had provided him based on our request for information. Greg indicated Cody had sent some records, but that he didn't bring them with him today. He was still working on a few other items from the request. He did have the paypal account log in and log out information. During the meeting Stephanie walked Greg through some of the invoices flagged as expenses not actually incurred but submitted and reimbursed in the June 2015, 2016, and 2017 reimbursement packets. These were submitted by WCCVA to AGO and that AGO had provided reimbursement. For each invoice we attached the reimbursement packet, the copies of the bank statements for the related time period and demonstrated how the expense amount never cleared the WCCVA bank account or did clear but it was for a different amount. We showed him email communication that demonstrates Cody's awareness of submitting](#)

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invoices for reimbursement when the expense had not been incurred. We also pointed out that she represented to the bookkeeper "they were all purchases made in June" and should be included in the reimbursement packet. See this email [Email support from Jaqueline](#) [Email support from Jaqueline](#). I explained to him that this appears to look like misappropriation. He said no on personally benefited and the entire organization has no employees at the moment. Clearly we were focusing more on the services and thought we were watching to make sure the expenses were being paid properly and allowable. Didn't really notice the money in the bank like that. This is why we fired Cody. This is all a big mess and she needed to go. It was her job to make sure these things were getting done and we the Board thought they were.

- Jeri Costa, Costa Consulting (contracted vendor) [JeriCosta WCCVA](#)
- Cody Benson, via phone 12/5/18 and 12/7/18 [Cody WCCVA](#)
- Rebecca Podzsus, former AGO grant manager via phone 2/1/19 (involved with WCCVA grant from 2013 to about March 2015.) [2.1.19 InterviewFormerAGOGrantManager](#). On 3/4/19 [3.4.19 Email from Rebecca](#), we received an email from Rebecca mentioning that Mike Webb, Chief of Staff at AGO had contacted her on 3/28/18 asking questions about what SAO had asked her and what she had shared. According to Rebecca he told her that her name would be mentioned in our report. We documented this discussion here: [3.7.19 Mtg FormerAGOGrantManager](#). During this conversation, Rebecca mentioned that Cody had shared with her that there was a personal relationship going on between Mike Webb and Rose Torgerson. Rebecca was not sure of when this relationship occurred because she had not been aware of it while working at the AGO. Rebecca in an email after our phone call, sent a copy of a letter she had sent to the WCCVA board in April 2018 that mentions established payment protocol for WCCVA vouchers. See here: [FormerGrantManager letter 4.12.18FormerGrantManager provided Support](#)
- Rose Torgerson, former Director of Training (2011 to 2015) and contracted service in 2017 on 3/26/19 via skype : [3.26 Rose WCCVA](#). She explained for one of the invoices SAO identified as billed for more than actually expensed, she did not invoice the WCCVA for \$8,500, but instead \$5,500.
- Angela Pratt, CPA via phone 2/4/19 (person who performed the financial statement audits for 2015, 2016, and 2017). She explained that she focused on comparing the reimbursement amounts submitted to the AGO compared to what WCCVA records showed in Quickbooks. She identified in the June months of the years 2015 and 2016 where amounts in Quickbooks were significantly lower in expenses compared to what was reimbursed by the AGO. She turned on the Quickbooks audit trail report and identified where some expenses submitted and reimbursed by the AGO had been deleted in WCCVA quickbook records and were not expenses incurred. Using this information is how she developed the total question cost amounts. She explained that she spoke to Greg Wright about the severity of the issue and that this would need to be paid back to the grant. She said if they were operating on a cost reimbursement basis, then you wouldn't have expected them to have a fair amount of cash as they did sitting in the bank. This should have been the red flag to them. Angela explained that Cody Benson was not very available to answer her questions and at one point she

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wasn't sure if Cody really existed. When she was working on site at the WCCVA office, she said it was a big open room with barely anything inside. There was a desk, phone, and a copier but nothing much more than that. She never saw Cody, but did meet Levi who communicated to her he was there to answer phones. Angela explained that the phone maybe rang once while she was. Angela has a box of WCCVA files and has been unable to get an answer from Greg or Cody for where to get them the files. Also she said something she found additionally odd besides the office setup was that Cody never acknowledge that Levi was her son. The bookkeeper was the one who had told her this and she did not ask Cody about it.

### B.2.PRG - Fieldwork

*Procedure Step:* Investigation Plan Step 1-2- Background info  
*Prepared By:* SRS, 2/21/2019  
*Reviewed By:* SMW, 2/26/2019

Purpose/Conclusion:

**Purpose:**

To complete investigation plan step procedures.

**Conclusion:**

We performed a review of the initial loss information and drafted an investigation plan based on the information and discussions held.

Testing Strategy:

Expectations:

- Use Secure File transfer for receiving investigation files
- Use TeamMate to document your work
- Exercise good communication- keep your Manager and Team Fraud informed, regarding the status of the investigation and document dates in the fraud database activity log.
- Ensure your documentation is clear, concise, understandable, and relevant
- Ensure work is complete, well thought out, and timely

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Policy/Standards.

Record of Work Done.

**Step 1-2 Plan:** 1- Meet with Mark Melroy, CFO Financial Services and get initial information and support. 2-Review AG's information and draft proposed plan.

**Investigation Procedures:**

1. We met with Mark Melroy, CFO Financial Services and Melanie Nevares, AGO staff to discuss the concerns on 7/19/18 and 8/6/18. A summary was provided documenting the concerns, including some attachments see here: [AGO Summary of Concerns MemoAttachment A Audit Portion of Research and Request v.2Attachment A ResearchSummary](#)
2. We obtained multiple files from the AGO's office related to the concern. Included in these files were the signed contract agreements discussing the guidance for use and monitoring of the state grant funds.
  - [July 2013 to June 2015 WCCVA Contract Agreement Amend July 2013 to June 2015 contract](#)
  - [July 2015 to June 2017 Grant Contract K5073July 2015 to June 2017 contract](#)
  - [July 2017 to June 2019 WCCVA Contract Agreement Amend July 2017 to June 2019 contract](#)

**Conclusion:** Based on the information provided, we drafted an investigation plan here: [AG Investigation Plan](#) and obtained a signed MOU here: [ATG MOU](#)

### B.2.PRG - Fieldwork

*Procedure Step:* Investigation Plan Step 3 - CPA review

*Prepared By:* SRS, 2/4/2019

*Reviewed By:* SMW, 2/6/2019

Purpose/Conclusion.

**Purpose:**

To complete investigation plan step procedures.



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## **Conclusion:**

From review of the 2015-2017 WCCVA's financial statements we noted internal control weaknesses over financial reporting, grant compliance, and inventory tracking. According to WCCVA's responses to the findings over financial reporting in 2015 and 2016, they describe these to be the result of change in key staff positions responsible for preparing grant expense reimbursement packets for the AGO. Further in 2016, invoices were actually paid electronically, they just cannot locate the entire inventory for these two orders (note: per our review of these invoices compared to WCCVA bank statement disbursement activity we confirmed these invoices were never paid with WCCVA funds). The claim that these were paid electronically is not true the invoice expenses were never paid for based on SAO review. The audit reports identified overall \$119,910 in questioned costs. From our review of these amounts we determined \$4800 should be reduced from the total because we confirmed the expense did occur. CPA audit total should be \$115,110.

## Testing Strategy:

### Expectations:

- Use Secure File transfer for receiving investigation files
- Use TeamMate to document your work
- Exercise good communication- keep your Manager and Team Fraud informed, regarding the status of the investigation and document dates in the fraud database activity log.
- Ensure your documentation is clear, concise, understandable, and relevant
- Ensure work is complete, well thought out, and timely

## Policy/Standards:

## Record of Work Done:

**Step 3 Plan:** Review audit work files and financial statements worked on by the CPA firm.

## **Investigation Procedures:**

1. We obtained the final financial reports from the AGO for fiscal years ending December 31, 2015, 2016, and 2017. See: 2015-12 WCCVA 2015-12 WCCVA

2016-12 WCCVA2. We reviewed all three years reports and noted the following information:

- 2015 and 2016 financial reports were finalized June 19, 2018 by the contracted CPA firm. 2017 was completed August 9, 2018.
- WCCVA note 1- explains it was founded in 1984 as a Washington nonprofit corporation. The organization exists to support and strengthen victim rights, services, and systems, through collaboration, outreach, awareness, and education.

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- Contribution Revenue- all years 2015 through 2017 reported no in-kind contributions.
- Note 3- The organization receives almost 100 percent of its revenue from one state grant.
- Note 5- identifies expenditures that must be returned to the AGO for expenses submitted for reimbursement to the AGO that were not paid by the Organization. The following were identified by year:

2015: \$51,316

2016: \$68,594 (\*We spoke to the CPA Firm who identified in this total \$4,800 related to a payment to June 2016 payment to Jacqueline Hatfield, that based on

SAO's review, this payment did clear the WCCVA bank account as an expense on 7/11/16. There for the CPA firm's amount should be reduced to \$63,794)

2017: \$0

- 2015 Finding: A finding over internal controls on financial reporting and compliance. Grant expenses submitted to the AGO that were not actually expenses incurred by the organization and needed to be returned to the AGO, caused the financial statements to be materially misstated and resulted in noncompliance with the grant. The WCCVA's response to the finding explained that the reason for the inaccurate billing was due to a transition between accountant positions. During the transition, one accountant canceled the transactions, but did not issue a reimbursement check to the AGO.
- 2016 Finding: A finding over internal controls on financial reporting and compliance. Grant expenses submitted to the AGO were not actually expenses incurred, which resulted in a need to repay the AGO and again caused the financial statements to be materially misstated. The WCCVA's response to the finding explained that the expenses identified were orders placed online, payment was provided electronically, and confirmation of receipt was received. The receipt was subsequently included with the WCCVA voucher for reimbursement from the AGO. WCCVA's accountant and office manager were both transitioned out of their positions and WCCVA's Executive Director (Cody Benson) was on emergency leave when the end of year deliveries were made to the office. WCCVA volunteer administrative support unpacked all incoming orders and stocked them, not realizing two orders were missing. The missing orders were discovered the following training and outreach season, which is when the office manager checked inventory.
- We spoke with Angela Pratt, CPA who performed the audit. We documented key notes from that conversation in the Interviews Step.

3. We reviewed the WCCVA's website ([www.wccva.org/](http://www.wccva.org/)) and noted the following:

- 800+ WCCVA members throughout Washington. To become a member there are 4 types of memberships with costs ranging from \$10 to \$150 to join. The website does not indicate if the membership fee is a one time fee or not. The fee can be paid online using a link provided on their website. The link directs payments to be processed using the vendor PayPal.
- Donations, pledges, googlesearch revenue, buy & sell ebay items, and merchandise sales are all other ways to support WCCVA. Some of this information is no longer posted on the WCCVA website as of September 2018, however, when the AAG's office started looking into the concerns, they saved screen shots of the WCCVA website where these items were listed.
- We obtained paypal information from Greg Wright, Board President. We observed a recorded total sales amount of \$1,370 between 7/10/14 to 7/27/18. A balance of \$140.91 is currently available in the account as of 1/2/19. Paypal Transacation

## Office of the Attorney General

Activity Report 1.1.14to1.2.19Based on available bank records were were able to trace \$977 in bank transfers from the paypal account out to the WCCVA bank account. Other revenue streams for WCCVA appear minimal.

**Conclusion:** From review of the 2015-2017 WCCVA's financial statements we noted internal control weaknesses over financial reporting, grant compliance, and inventory tracking. According to WCCVA's responses to the findings over financial reporting in 2015 and 2016, they describe these to be the result of change in key staff positions responsible for preparing grant expense reimbursement packets for the AGO. Further in 2016, invoices were actually paid electronically, they just cannot locate the entire inventory for these two orders (note: per our review of these invoices compared to WCCVA bank statement disbursement activity we confirmed these invoices were never paid with WCCVA funds). The claim that these were paid electronically is not true the invoice expenses were never paid for based on SAO review. The audit reports identified overall \$119,910 in questioned costs. From our review of these amounts we determined \$4800 should be reduced from the total because we confirmed the expense did occur. CPA audit total should be \$115,110.

### B.2.PRG - Fieldwork

*Procedure Step:* Investigation Plan Step 4- Bank Statement review

*Prepared By:* SRS, 2/28/2019

*Reviewed By:* SMW, 3/28/2019

Purpose/Conclusion.*
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**Purpose:**

To complete investigation plan step procedures.

**Conclusion:**

Our review, identified a total of \$190,117 in invoice expenses submitted for reimbursement by the WCCVA that were for expenses not actually incurred between 6/30/2015 to 6/30/2017. The WCCVA provided a refund check to the AGO on 4/9/18 for \$50,316 related to expenses never incurred but reimbursed in August 2017. Further, we identified a total of \$7,637 in invoice expenses submitted for reimbursement by the WCCVA that were for overbilled services. Expenses submitted for reimbursement were not actual amounts incurred per WCCVA bank records. We also noted that the Executive Director received a total of \$36,000 in additional compensation during May 2015, June 2016, and June 2017 that was billed and reimbursed under the grant and a total of \$2,224 in asset purchases by the WCCVA that were reimbursed using grant funds. Per the grant agreement, these assets are property of the AGO. Total misappropriation found included \$197,754 in invoices and \$2,224 in assets (\$199,978).

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### Testing Strategy:

#### Expectations:

- Use Secure File transfer for receiving investigation files
- Use TeamMate to document your work
- Exercise good communication- keep your Manager and Team Fraud informed, regarding the status of the investigation and document dates in the fraud database activity log.
- Ensure your documentation is clear, concise, understandable, and relevant
- Ensure work is complete, well thought out, and timely

### Policy/Standards:

### Record of Work Done:

**Step 4 Plan:** Review disbursements and banking records (MOU scope ATG MOU: to review January 1, 2015 to December 31, 2017 records)

**1.** Obtain a summary listing of all disbursements paid by AGO to WCCVA for July 2013 to June 2018.

We obtained disbursements listing information from Melanie Nevares.

- September 2013 to July 2015 Expenditure Activity, August 2015 to August 2017 Expenditure Activity, March 2018 to July 2018 Expenditure Activity

We compiled the listing of disbursements paid by the AGO here: 2013 to 2018 DisbursementsListing For the period we reviewed, the AGO disbursed to the WCCVA \$842,474. When concerns were identified the AGO withheld from reimbursement approximately \$205,000 for the period August 2017 to June 2018. The number of days between the final day in an expense month compared to the date submitted and reimbursed ranged from 21 to 282 days. Using this information we completed steps 2 & 3 below.

**2.** Review disbursements and supporting records maintained by the AGO for expenditures paid to WCCVA. Review the information for date of service reference and compare that to the date of reimbursement by the AGO. **3.** Trace disbursements paid by AGO to the WCCVA bank account records to ensure what the AGO paid was what cleared WCCVA's bank. If necessary, select some vendors for confirmation that the goods/services were provided.

**A.** We obtained WCCVA bank statement copies from the AGO. This included July 2013 to March 2018, however, we identified the following

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missing statements:

- May 2014, November 2014, December 2014
- January 2017 to December 2017
- April 2018 to June 2018

*\*Note- missing statements were all later located except the month of December 2017.*

**B.** Before the missing statements were located, we first used the WCCVA bank statements we obtained all the bank withdrawal data for January 2016 to March 2018. This is located here: WCCVA bank transacations Using the AGO disbursement packets, we obtained all vendors invoiced and paid by the AGO for January 2016 to July 2017. This is located here: AGO vendor transacations

**C.** We determined since we had an entire year of bank statements for the year 2016, we would use this as our base year to review records & trace disbursements paid by the AGO to the WCCVA bank records. We documented our review here: 2015 2017 AGO

Disbursements Review. **Results:** We found in the June 2016 packet, there were three invoices (4Imprint & Flashbay) totaling \$63,793.96 were billed for services not provided and three vendor disbursements were overbilled by \$7,637.36 when compared to actual expenses paid by the WCCVA.

**D.** The AGO was able to locate the missing January 2017 to November 2017 WCCVA bank statements. We expanded our review of records & traced disbursements paid by the AGO to WCCVA bank records from January 2015 to December 2015 and January 2017 to July 2017. Based on review work for 2016, we narrowed our focus in these months for tracing disbursements to items listed under "contractor" expenses. These expenses are typically larger lump sum payments. We discussed this narrowed scope with Melanie 9/6/19 who agreed with this approach. Further it should be noted, that the AGO only paid disbursements to WCCVA through July 2017. Reimbursements submitted by WCCVA to the AGO for August 2017 to December 2017 are being held from disbursement by the AGO. We documented our review of 2017 contractor expenses here: 2015 2017 AGO Disbursements Review

**E.** We reached out to two vendors (Tower LTD and Phillip Burgees) and obtained copies of their billing and payment records

PhillipBergessInvoicesBradTowerInvoices. We compared the billing and payment records provided to WCCVA payment records and invoices submitted for reimbursement to AGO by WCCVA. Records show WCCVA skipped two invoice payments for Tower LTD in July and August 2016 leaving an outstanding balance of \$6,154 owed by WCCVA. However, WCCVA had submitted these invoices to the AGO in reimbursement packets and were reimbursed for them. For Phillip Burgess, the last four billings from May to August 2018 had not been paid by WCCVA. This left an outstanding balance owed of \$12,000. However, these invoices relate to expenses that occurred in May 2018 to August 2018, which is a period that has not been reimbursed by the AGO and is not a focus by SAO reviews. 2015 2017 AGO

Disbursements Review

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**F.** Our review period from 1/1/15 to 12/31/17 identified a total of \$190,117 in expenses submitted for reimbursement not actually incurred. We also found \$7,637 in overbilled expenses. For the months we identified an exception we have included the bank statements to support that the expenses were not incurred by the WCCVA: Bank Statement May 1 to May 31 2015 Bank Statement June 1 to June 30 2015 Bank Statement June 1 to June 30 2016 Bank Statement July 1 to July 31 2016 Bank Statement Aug 1 to Aug 31 2016 2017 June bank stmt 2017 July bank stmt. During our interviews WCCVA Executive Director she explained that invoices were included for reimbursement multiple times when the expense had not actually been incurred yet by the organization, but this was always approved in advance by the AGO, specifically that she had spoken with Mike Webb at the AGO. On 12/6/18 we spoke to Melanie Nevares about the Executive Director's comment and asked if she could find any supporting documentation or emails where Mike Webb may have approved the advance payment being submitted. On 12/10/18 in an email Mike Webb explained that he had no recollection of approving any trainings, or being asked to review trainings for approval. See here: FW WCCVA Training Approvals by Mike Webb. Further, we made multiple attempts to obtain records to support the advance payment approvals on 1/2/19, 1/10/19, and 1/23/19 but did not receive any of the records requested. See Request to WCCVA for records.

**G.** During our review, we identified questionable payroll compensation to the WCCVA Executive Director, Cody Benson. We compared AGO payroll related disbursements to WCCVA bank withdrawal data for January 2016 to July 2017. This is documented here: Payroll Review. We noted during our payroll review that Cody received \$12,000 additional compensation in May 2015 Voucher #37457.May2015, June 2016 Voucher #51854.June2016, and June 2017 Voucher #67297.June2017. This totaled \$36,000. Per interviews with Cody this was referred to as a salary adjustment. Per discussion with the Board President Greg Wright, this was approved in the budget. We compared the total amount reimbursed by the AGO for payroll (\$210,859) to the grant budgeted expectation (\$210,710) and to WCCVA actual expenses (\$210,849) and did not identify a significant variance between all three.

4. Subpoena WCCVA missing bank account statements and other identified bank accounts or supporting records - We did not perform this step.

**Conclusion:** Our review, identified a total of \$190,117 in invoice expenses submitted for reimbursement by the WCCVA that were for expenses not actually incurred between 6/30/2015 to 6/30/2017. 2015 2017 AGO Disbursements Review The WCCVA provided a refund check to the AGO on 4/9/18 for \$50,316 related to expenses never incurred but reimbursed in August 2017. Further, we identified a total of \$7,637 in invoice expenses submitted for reimbursement by the WCCVA that were for overbilled services. Expenses submitted for reimbursement were not actual amounts incurred per WCCVA bank records. We also noted that the Executive Director received a total of \$36,000 in additional compensation during May 2015, June 2016, and June 2017 that was billed and reimbursed under the grant and a total of \$2,224 in asset

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purchases by the WCCVA that were reimbursed using grant funds. Per the grant agreement, these assets are property of the AGO. Total misappropriation found included \$197,754 in invoices and \$2,224 in assets (\$199,978).

### B.2.PRG - Fieldwork

*Procedure Step:* Investigation Plan Step 5- WCCVA quickbooks

*Prepared By:* SRS, 2/21/2019

*Reviewed By:* SMW, 2/26/2019

Purpose/Conclusion.:

#### **Purpose:**

To complete investigation plan step procedures.

#### **Conclusion:**

We identified two deleted/voided transactions occurring in June/July 2016 directly related to expenses we have identified as invoices paid when expenses were not actually incurred by the WCCVA. This totals \$14,715.77. It is unclear who processed these transactions.

Testing Strategy.:

Expectations:

- Use Secure File transfer for receiving investigation files
- Use TeamMate to document your work
- Exercise good communication- keep your Manager and Team Fraud informed, regarding the status of the investigation and document dates in the fraud database activity log.
- Ensure your documentation is clear, concise, understandable, and relevant
- Ensure work is complete, well thought out, and timely

Policy/Standards.:

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Record of Work Done:

**Step 5 Plan:** Review WCCVA quickbooks records for system voids or unusual adjustments related to disbursements paid by the AGO.

## **Investigation Procedures:**

1. We had limited access to quickbook records, however, we were able to obtain a 2016 voids and deleted transaction report. See here: [2016 void.deleted transaction report](#)
2. We reviewed the 2016 voids and deleted transaction report and noted the following:
  - Check 3003, Vendor: 4Imprint \$11,715.77, transaction added to QB 7/30/15 and then voided 7/09/16.
  - Check 3060, Vendor Tower Limited \$3,000, transaction added 6/22/16 for January 2016 billing expense and then deleted 6/22/16.
3. During our interviews, according to the WCCVA Executive Director quickbooks was installed on one computer which was reserved for the bookkeeper/accountant to use for preparing WCCVA financial. The bookkeepers handled recording the transactions into the system. Regarding any adjustments made in the system that would have been handled by the bookkeeper/accountant employed at the time. During the timeperiod (June/July 2016) when the above identified transactions were processed, the WCCVA was in a transtition period of accountants. Jacqueline Hatfield had moved out of state the end of June 2016 and prepared the June 2016 reimbursement packet submitted to the AGO remotely. The invoices she included during this month were based on information provided from Cody. [Email support from Jaqueline](#) [Email support from Jaquelines](#)see interview step for links to write-ups and further details.

**Conclusion:** We identified two deleted/voided transactions directly related to expenses we have identified as invoices paid when expenses were not actually incurred by the WCCVA. This totals \$14,715.77.

## **B.2.PRG - Fieldwork**

*Procedure Step:* Investigation Plan Step 6 - Contracts  
*Prepared By:* SRS, 2/28/2019  
*Reviewed By:* SMW, 3/28/2019



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Purpose/Conclusion:

**Purpose:**

To complete investigation plan step procedures.

**Conclusion:**

We documented key language from the contract as it relates to the identified loss.

Testing Strategy:

Expectations:

- Use Secure File transfer for receiving investigation files
- Use TeamMate to document your work
- Exercise good communication- keep your Manager and Team Fraud informed, regarding the status of the investigation and document dates in the fraud database activity log.
- Ensure your documentation is clear, concise, understandable, and relevant
- Ensure work is complete, well thought out, and timely

Policy/Standards:

Record of Work Done:

**Step 6 Plan:** Review the contracts in place between the AGO and WCCVA.

- Document key information related to billing and payment requirements
- If time permits complete the following:

Compare budget summary information discussed in the agreements to actual fiscal year information.

Select key sections (Payroll compensation, Donations, Billing & Payment, Insurance, Records Maintenance, Subcontracting, Conflict of interest 42.52, Duplicate payment) of the grant agreement to ensure grant compliance through review of underlying supporting documentation.

**Investigation Procedures:** We performed a limited work for this investigation step.

1. We reviewed the contracts in place for the period, July 2013 to June 2015 (signed 6/23/14) July 2013 to June 2015 WCCVA Contract Agreement Amend, July 2015 to June 2017 (signed 12/14/15) July 2015 to June 2017 Grant

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Contract K5073, and July 2017 to June 2019 contract (signed 6/26/18) July 2017 to June 2019 WCCVA Contract

Agreement Amend. Note when we originally started the investigation we were provided with the above contract agreements. The 7/2013 to 6/2015 and 7/2017 to 6/2019 agreements provided were the amended contracts that had been signed at later dates than the original agreements. In February 2019, we were provided copies of the original signed agreements that had occurred before the amended agreements.

See these copies: 7/2013 to 6/2015 (signed 9/13/13) 7.1.13 to 6.30.15 K 3497 Contract and 7/2017 to 6/2019 (signed

2/1/18) 7.1.17 to 6.30.19 WCCVA Agreement.

We noted contract agreements were not signed prior to the beginning of the grant agreement period. Agreements were signed anywhere from 2 months to 7 months after the agreement period started.

2. From review of the contracts we noted the following key language in contracts

Special Terms & Conditions:

Item 1 Purpose- The purpose is for the grantee to provide training, certification, and technical assistance for crime victim service center advocates.

General terms and conditions:

- Item 2 Advance payments prohibited- No payments in advance of or in anticipation of goods or services to be provided under this Agreement shall be made by AGO.
- Item 30 Subcontracting- Neither the grantee or subcontractor shall enter into subcontracts for any of the work contemplated under this agreement without obtaining prior written approval of AGO.
- Item 36 Treatment of Assets- Title to all property furnished by the grantee for the cost of which the grantee is entitled to be reimbursed as a direct item of cost under this agreement, shall pass to and vest in AGO.

3. During our review of payroll compensation we compared the budgeted amount to actual expenses for 1/1/16 to 7/31/17. We found the amounts budgeted to the amounts expended appeared within reason. Payroll Review We did identify where the Executive Director received additional compensation of \$12,000 during the months of June 2016 and June 2017. However, when we review the payroll records submitted in the reimbursement packet and when we compare total compensation expenses to the budget, this compensation appears built in to the budget.

### B.3.PRG - Concluding Procedures

*Procedure Step:* Reporting

*Prepared By:* SRS, 4/24/2019

*Reviewed By:* SMW, 4/26/2019

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Purpose/Conclusion.:

## **Purpose/Conclusion:**

To determine how to report the results of the investigation and prepare a draft report or letter.

Testing Strategy.:

*Investigators are responsible for reviewing any work performed by auditors. Prior to deciding level of reporting, documentation must be reviewed by Team Fraud. Typically during Team Fraud's review, they propose level of reporting. This is sometimes brainstormed with the team.*

It is often helpful to **Brainstorm** with Team Fraud on how to frame the investigation report. Considerations include:

- How to best "tell the story" in the report.
- The status of employment of the individual
- Work performed by the entity or external parties
- How the fraud was detected
- Any agreed-upon restitution including the cost of the investigation
- The length of the fraud

**If a report** will be issued, use ORCA to draft the report. **If a letter** will be issued, obtain the Fraud Letter Template from the TeamStore. Use ARL for the review and approval process.

**Share** the approved draft report or letter with the audit manager and determine if the audit manager will attend the exit conference. Also, if reporting with a formal investigation report, notify Team Fraud to see if they wish to attend the exit meeting. If a fraud letter will be issued, a formal exit conference is not required; instead, contact the client to discuss the results of our investigation with them before giving/sending the letter. Just a reminder, it is a best practice to use SFT to send the draft reports or deliver in-person.

**Attach the final report or letter with cross-references to the supporting work in TeamMate. The fraud letter should also be documented as an audit issue in TeamMate, with an issue level of "Management Letter".**

Policy/Standards.:

## **SAO Audit Policy 1410**

Record of Work Done.:

Auditor procedures:

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1. We brainstormed with the Fraud manager and determined to report our results we would issue an investigation report. Grant Administration
2. **We shared** the approved draft investigation report with the audit manager and determined the fraud manager will attend the exit conference.
3. **Attached is the final approved to the TeamMate file.** AGO Fraud Investigation Report 22585 FINALFinal Report

### B.3.PRg - Concluding Procedures

*Procedure Step:* Exit Conference

*Prepared By:* SRS, 7/2/2019

*Reviewed By:* SMW, 7/2/2019

Purpose/Conclusion:

#### **Purpose/Conclusion:**

To communicate the results of our investigation with the client.

Testing Strategy:

Conduct an exit conference with the client to discuss the approved draft report – this may be in person or via phone. Depending on significance, other attendees may include the Fraud Manager and Audit Manager. Document the following:

- Where the meeting was held or if it was conducted via phone
- When the meeting was conducted.
- Who attended the meeting.
- Significant discussion points

If a fraud letter will be issued, a formal exit conference is not required; instead, contact the client to discuss the results of our investigation with them before giving/sending the letter. Just a reminder, it is a best practice to use SFT to send the draft reports or deliver in person. Document this communication including who, when, and any significant discussion points.

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Policy/Standards:

## **SAO Audit Policy 1410**

Record of Work Done:

### **Exit Conference 2/5/19:**

At 10:30am we sent via secure file transfer a draft copy of the report to Mark Melroy and Melanie Nevares. The following people attended the exit conference on February 5, 2019 at 11:30am, via phone:

- Mark Melroy, CFO AGO
- Melanie Nevares, Financial Services AGO
- Ed Dicker, AGO
- Shane Esquibel, Deputy Attorney General
- Marci Phillips, AGO
- Stephanie Sullivan, Assistant Fraud Manager
- Sarah Walker, Fraud Manager

We went over the results of the investigation and control weaknesses identified. We recognized the efforts AGO officials had made to recover the missing public funds. However, Mark Melroy requested some language edits because the AGO felt SAO's report did not give enough perspective to the efforts by the AGO. However, that was not the focus of SAO's investigation. The focus of the investigation was on the loss of public funds. The focus was on the WCCVA original bank account records compared to expenditures submitted to the AGO and reimbursed by the AGO. Control weaknesses in the AGO's monitoring of the grant were identified during the review of records. Proposed edits were provided on 2/7/19. SAO reviewed and considered the proposed edits. Changes were discussed with SAO Legal Director, Assistant Director for Local Audit, Director for State Audit, and Fraud Manager. A second meeting was held.

**Additional Meeting 2/28/19:**A meeting was held on February 28, 2019 at 10:30-11:30am at the AGO Olympia office. Attendees included:

- Sarah Walker, Fraud Manager
- Sadie Armijo, Director of State Audit
- Al Rose, Director of Legal Affairs
- Stephanie Sullivan, Assistant Fraud Manager (via phone)
- Mark Melroy, CFO AGO
- Melanie Nevares, Financial Services AGO
- Shane Esquibel, Deputy Attorney General
- Marci Phillips, AGO
- Melanie Griffith, AGO

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The draft report was discussed including the requested edits by the AGO. Some minor word adjustments were agreed to and most of the other requested edits, SAO encouraged the AGO to incorporate into their response that would be included in the report. An updated draft based on the 2/28/19 meeting was sent to Melanie Nevares via secure file transfer on 3/6/19. The AGO requested time to prepare a response for the report. It was agreed the AGO would provide a response to SAO for the report on 3/20/19.

On 3/11/19, Melanie Nevares requested an extension of time to provide SAO with a response by the AGO for the report. The AGO requested an extended date to 4/4/19.

On 4/4/19, the AGO provided their response for the report, see: [4-4-19 AGO Response email](#). The AGO contacted us and requested to make a minor change to their response and provided us with a final version response on 4/22/19. See [4-22-19 AGO revised Response email](#) [AGO Audit Response 4-22-19](#)

SAO included the AGO's response into the final report and prepared a response to the AGO's response [reiterating](#) that State law requires all governments to report potential losses of public funds to our Office and the law does not exempt the practices of the reporting entity from review. When we discover areas for improvement, it is our duty to recommend those changes.

Note: After we held the exit, we met with Shane Esquibel and shared information we found out during our interview with Rose. He talked to Mike Webb about the concerns and Mike sent our office this memo: [M.Webb memo](#)

### **B.3.PRG - Concluding Procedures**

*Procedure Step:* Quality Control Assurance Certification

*Prepared By:* SRS, 4/22/2019

*Reviewed By:* SMW, 4/22/2019

Purpose/Conclusion.\*

#### **Purpose/Conclusion:**

To certify adherence to the expectations set forth in the Audit Policy Manual.

Testing Strategy.\*

## Office of the Attorney General

This step must be signed-off by the Investigator and Fraud Manager.

Policy/Standards:

### **SAO Audit Policy 3430 - Quality Assurance Certification**

Record of Work Done:

I certify the following expectations were met and Audit Policies that are common to all types of SAO engagements:

1. I am independent and exercised objective and impartial judgment on all issues associated with conducting this investigation and reporting on the results. *Audit Policy 3110 - Independence and Ethics*
2. I used reasonable care and professional skepticism throughout this investigation. *Audit Policy 3130 – Professional Judgment*
3. Work was performed by staff who collectively possesses adequate professional competence. *Audit Policy 3140 – Competence and CPE*
4. If applicable, assistants on the investigation were informed of their responsibilities and objectives of the procedures they were to perform, and their work was reviewed to ensure it was properly performed and documented. *Audit Policy 3160 – Supervision and Review*
5. Documentation, including any evidence maintained in a paper file, was reviewed and coaching notes were resolved. *Audit Policy 3160 – Supervision and Review*
6. Work was sufficiently documented to enable a knowledgeable person, who has had no previous connection with the investigation, to ascertain that the information collected and the work performed support significant judgments and conclusions. *Audit Policy 3310 – Standards for Documentation*

## Issues

### **ISS.1 - Grant Administration**

*Prepared By:* SRS, 4/22/2019

*Issue*

## Office of the Attorney General

<i>Reviewed By:</i> SMW, 4/26/2019 <i>Type:</i> Fraud <i>Category:</i> Grants (State/Local) <i>Reporting Level(s):</i> Finding  <i>Impact</i> <i>Cost Savings:</i> <i>Questioned Costs:</i> \$0.00	<b>Investigation Summary</b>  On August 8, 2018, the Chief Financial Officer for the Attorney General's Office (AGO) notified our Office regarding a potential loss of public funds as required by state law.  We investigated and determined a nonprofit organization under a grant agreement contract with the AGO misappropriated state grant funds totaling \$199,978, between June 2015 and June 2017.  We will refer this case to the Thurston County Prosecuting Attorney's Office and recommend the AGO file a report with law enforcement.  <b>Background and Investigation Results</b>  The Attorney General's Office (AGO), located in Thurston County, operates on an annual budget of about \$153,633,500 including \$353,000 in administered state grant funds.  In July 2013, the AGO, through a Legislature directive, was tasked with the administration of a state grant specifically to a particular nonprofit organization to fund training, certification and technical assistance for crime victim service center advocates. Under a grant agreement contract with the AGO, a nonprofit organization was required to submit its expenditures for reimbursement from these grant funds. Signed grant agreements were in place between the AGO and the organization from July 2013 to June 2015, July 2015 to June 2017, and from July 2017 to June 2019. These agreements were not signed by the AGO before the grant period. The delay in signing ranged from 2 months to 7 months.  In February 2018, the AGO identified concerns with the organization's compliance with the grant agreement. The organization did not obtain required annual financial audits for fiscal years 2015 and 2016. The AGO instructed the organization to obtain these audits, and in March 2018, the organization hired a CPA firm to perform the outdated financial statement audits. During the CPA firm's review, the firm identified that some invoices submitted to and reimbursed by the AGO contained expenses the organization did not actually incur.
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	<p>From April 2018 to June 2018, the AGO communicated concerns to the organization's board president and other members, which included numerous emails, phone calls, and certified mailings to the entire governing board. On April 5, 2018, the organization provided a refund check to the AGO for \$50,316 related to invoices submitted in the June 2017 reimbursement packet and later paid by the AGO on August 5, 2017. The organization had not yet paid these expenses and therefore should not have requested reimbursement.</p> <p>On April 20, 2018, the AGO conducted a site visit at the organization's office. During the visit, the AGO identified additional concerns related to subcontractor agreements, unfiled taxes, lapsed business license requirements and questionable payroll disbursements to the Executive Director.</p> <p>In June and August 2018, the organization's financial statement audit reports were published. The reports contained findings for fiscal years 2015 and 2016 and discuss a total of \$119,910 in invoices the organization submitted for grant reimbursement, but for which the organization had not actually incurred the expenses.</p> <p>Our investigation focused on grant funds reimbursed by the AGO to the organization for expense reimbursement packets dated January 2015 through July 2017. For these months, the AGO had disbursed a total of \$842,474 in grant funds to the organization. We determined:</p> <p><u>Grant Agreement (July 2015 to June 2017)</u></p> <p>The grant agreement clearly describes terms and conditions. The relevant portion of the contract states:</p> <ul style="list-style-type: none"><li>• Advance payments prohibited. No payment in advance of or in anticipation of goods and services to be provided under this agreement shall be made by the AGO.</li><li>• The organization "shall maintain books, records, documents, data and other evidence relating to this agreement and performance of the services described herein, including but not limited to accounting procedures and</li></ul>
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	<p>practices that sufficiently and properly reflect all direct and indirect costs of any nature expended in the performance of this agreement.”</p> <p>The grant scope of work clearly describes deliverables and performance expectations. The relevant portion of the contract states:</p> <ul style="list-style-type: none"><li>• This Grant is not a benefit or entitlement to the organization. The principle purpose of the grant is to provide funding for the organization to accomplish a public purpose.</li><li>• 90 percent of invoices must be accurate.</li><li>• 90 percent of required reports will be submitted on time.</li><li>• 100 percent of required audits will be completed on time.</li></ul> <p><u>Grant expenditures</u></p> <ul style="list-style-type: none"><li>• The organization’s reimbursement packets included copies of invoices and all supporting documentation (receipts, expense summaries, payroll registers, supplier invoice, and accounting system expense by vendor detail reports) to support funds requested. The organization’s Executive Director certified the reimbursement packets. The organization significantly delayed submission of the reimbursement packets for the AGO to process. The number of days between the final day in an expense month compared with the date submitted and reimbursed ranged from 21 to 282 days.</li><li>• We reviewed invoices included in the organization’s reimbursement packets and submitted to the AGO between January 2015 and July 2017. We compared these invoices with the organization’s bank statements and accounting system records. This included reviewing copies of cleared checks and system adjustment reports. Invoices totaling</li></ul>
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\$190,117 submitted to the AGO were for expenses not incurred by the organization. Of these invoices, \$14,716 had been deleted in the organization's accounting system records. We further identified invoices totaling \$7,637 where the organization submitted expenses at an amount greater than the actual amounts the organization paid. The table below summarizes the loss by period:

Reimbursement packet month	Date reimbursed	Invoice expense not actually incurred
June 2015	Aug. 18, 2015	\$53,923
June 2016	Aug. 9, 2016	\$63,794
July 2016	May 9, 2017	\$3,000
August 2016	May 9, 2017	\$3,000
June 2017	Aug. 4, 2017	\$66,400
<b>Total</b>		<b>\$190,117</b>

- We obtained billing and payment records from two of the organization's subcontractors and compared this information with the invoices submitted for reimbursement to the AGO. Records show the organization skipped two invoice payments for one subcontractor in July and August 2016, leaving an outstanding balance of \$6,154 owed by the organization to its subcontractor. However, the organization inappropriately submitted the related invoices to the AGO for reimbursement, and the AGO paid the organization on August 9, 2016.

### Assets

- The organization spent \$2,224 on IT assets and was reimbursed using grant funds. According to the grant

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agreement, those assets become AGO property and shall be surrendered to the AGO upon completion, termination, or cancellation of the agreement. As of January 2019, the assets are unaccounted for. Documents show the Executive Director ordered, received and submitted the asset expenses for reimbursement.

### Interviews

In December 2018, we interviewed the Executive Director, a former bookkeeper, former subcontractors, and the organization's Board President. During the interviews, all parties agreed that the organization's bookkeeper position was responsible for recording and preparing monthly expenses to be paid. This position was also responsible for preparing the expense reimbursement packets submitted to the AGO. All parties acknowledged the Executive Director was responsible for signing checks to pay subcontractors and other expenses. This position was also responsible for reviewing and approving all expense reimbursement packets and submitting them to the AGO.

Executive Director shared the following:

- Invoices were included for reimbursement multiple times when the expense had not actually been incurred yet by the organization, but this was always approved in advance by the AGO.

We asked the Executive Director and the Board Chairman for, but did not receive, documentation to support any pre-approval by the AGO.

- The untimely submission of reimbursement packets was due to change in the bookkeeping position at the organization and the lack of signed grant agreement contracts by the AGO. The organization could not submit reimbursement packets until a grant agreement was signed.

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	<ul style="list-style-type: none"><li>• The invoices submitted in June 2015 were for a planned training that was subsequently canceled. The organization didn't think to repay the AGO.</li></ul> <p><b>Control Weaknesses</b></p> <p>The AGO relied on the organization to submit invoices for expenses already incurred. The grant agreement clearly stated advance payments were prohibited; however, the AGO did not have internal controls in place to verify that expenses had been incurred before issuing payment.</p> <p><b>Recommendations</b></p> <p>We recommend the AGO continue to improve its internal controls over grant administration monitoring to ensure adequate oversight and monitoring to safeguard public resources. Considerations for the AGO include:</p> <ul style="list-style-type: none"><li>• Obtain supporting payment documentation to compare with invoice records received to validate invoice information and billed amounts for services.</li><li>• Ensure a grant agreement deliverables and terms are met before disbursing state administered grant funds.</li></ul> <p>We also recommend the AGO seek recovery of the misappropriated \$149,662 and related investigation costs</p>
<b>NOTES</b>	