

Washington State Auditor's Office
Fraud Report

Washington Counties Risk Pool
Thurston County

Report No. 1001789

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July 20, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



Washington State Auditor Brian Sonntag

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Board of Directors
Washington Counties Risk Pool
Thurston County
Olympia, Washington

Report on Government Fraud Investigation

Attached is the official report on a misappropriation at the Washington Counties Risk Pool. On July 28, 2008, the Risk Pool's attorney notified the State Auditor's Office of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of misappropriation of real property occurring in January 2003. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

Questions about this report should be directed to Fraud Manager Jennifer Forsberg at (360) 480-1103, or Director of Special Investigations Jim Brittain at (360) 902-0372.

BRIAN SONNTAG, CGFM
WASHINGTON STATE AUDITOR

BS: lcb

Investigation Summary

Washington Counties Risk Pool Thurston County January 1, 2001 through September 30, 2008

ABOUT THE POOL

The Washington Counties Risk Pool was established to provide its member counties with programs and services, including self insurance, purchasing of insurance and contracting for or hiring personnel to provide administrative services, claims handling and risk management. The Risk Pool is governed by a Board of Directors consisting of one director designated by each member county. The Board-appointed Executive Director administers day-to-day operations with oversight from an 11-member Executive Committee and the Board. The Risk Pool has an annual operating budget of approximately \$1.7 million and nine employees.

ABOUT THE INVESTIGATION

On July 28, 2008, the Risk Pool contacted our Office and the Mason County Sheriff's Office regarding a potential loss of public funds and we began an investigation.

Along with the Risk Pool, we reviewed dozens of real property files and payment records to determine whether the misappropriation, which occurred through a real property transfer, was an isolated occurrence. We did not find evidence of further misappropriation. However, our review was only able to go back seven years because the Risk Pool is not required to keep documentation any longer under the state records retention schedule.

During the Risk Pool's regularly scheduled audit of 2008, we reviewed current internal controls over safeguarding of public resources. No significant concerns were noted as the Pool has begun using new procedures for these types of transactions.

The Mason County Sheriff's Office also performed an investigation into the property transfer. We reviewed the investigation and agreed with its results and conclusions.

RESULTS

Our review found a former employee of the Risk Pool circumvented internal controls and misappropriated real property that the Risk Pool had obtained through a lawsuit. Without the knowledge of Risk Pool administrators, the former employee transferred the property, valued at \$231,229.43, to a relative for \$12,500 in January 2003. The former employee did not have the authority to act on behalf of the Risk Pool to transfer real property owned by it. Records related to the property damage lawsuit and settlement are missing. In addition, we reviewed the Risk Pool's bank records but were unable to locate receipt of the \$12,500 payment that was due for the property.

The former employee pleaded guilty to first-degree theft in Mason County Superior Court on May 26, 2009. Sentencing is scheduled for August 3, 2009.

RECOMMENDATION

We recommend the Risk Pool continue to follow internal controls, including oversight and monitoring, over real property to adequately safeguard public resources.

We recommend the Risk Pool seek recovery of the real property from the former employee. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260. Assistant Attorney General Traci Friedl is the contact person for the Attorney General's Office and she can be reached at (360) 586-1912 or tracif@atg.wa.gov. The contact for the State Auditor's Office is Jan Jutte, Director of Legal Affairs and she can be reached at (360) 902-0363 or juttej@sao.wa.gov

Bond coverage for Pool employees is as follows:

Insurance Company:	Travelers
Type of Policy:	Commercial Crime
Policy Number:	105221544
Amount of Coverage:	\$3,000,000
Period of Coverage:	January 11, 2009 until cancelled

POOL'S RESPONSE

Thank you for the opportunity to respond to the government fraud investigation recently conducted by your office. The efforts your investigative team put forth and the assistance, guidance and understanding that they have provided since this matter arose are appreciated. While we could take exception with a few minor details conveyed in the Investigation Summary compiled by your office, the breach of trust and authority on the part of a former employee of the Washington Counties Risk Pool ("Pool") that led to a substantial theft of real property noted in the Summary did in fact occur and must not be ignored.

The Mason County Prosecuting Attorney, as you are aware, pursued the former employee with criminal charges. The former employee has already pled guilty and is awaiting sentencing, the hearing for which has unfortunately been continued more than once and is now scheduled August 3rd at 8:30 AM. At the hearing, we will ask on behalf of the Pool, its Board of Directors, its staff, and the citizenry and taxpayers that they serve, that the Court give great weight to the breach of trust by a public official demonstrated by the former employee's crime in setting the sentence to be imposed.

The Pool submitted a restitution request to the Court seeking recovery of the large amount paid by the Pool to settle the dispute and acquire the property, or for reconveyance of the real property that was fraudulently conveyed by the former employee without (fair market) payment. The Pool's restitution request was recently amended to include the approximate \$7,500 in costs it has incurred from the special investigations into this matter. The Court has set the Restitution Hearing concurrent with

the Sentencing Hearing noted earlier. If the payment or reconveyance being sought is not forthcoming from the criminal proceedings, the Pool is poised to address recovery through civil legal actions.

This incident will impact the Pool for years, probably forever, but certainly longer than the sentence that will be imposed by the Court upon the former employee. This is due to the need, both expressed and perceived, for the Pool to change its operations and/or establish better controls now that this incident has happened. Not only does that impose even more direct costs on the Risk Pool's operations which will ultimately be a cost to taxpayers, but it is already resulting in an obvious degradation of the trust that formerly existed among the Pool's member counties, its Board, and its employees. More simply put, when those who were associated with the Pool operated in a professional, honest and trustworthy manner, its operations were more efficient, friendlier, and less expensive. Now the Pool must adopt, implement and monitor more bureaucratic controls that will further burden its operations. We must be suspicious of everyone and double-check their conduct. As a result, there will be greater costs and with obviously less trust. These are losses beyond those of the theft which are the result of the former employee's conduct.

Again, we appreciate the investigative efforts of your office and staff. And thank you for this opportunity to comment on the Investigation Summary your office has produced.

STATE AUDITOR'S OFFICE REMARKS

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

Contacts

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