



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Fort Worden Public Development Authority

For the investigation period January 1, 2015 through December 31, 2020

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

December 23, 2021

Board of Directors
Fort Worden Public Development Authority
Port Townsend, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Fort Worden Public Development Authority. On August 20, 2020, the Authority notified the Office of the Washington State Auditor of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

Our investigation was 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.

Olympia, WA

cc: David Timmons, Executive Director

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FRAUD INVESTIGATION REPORT

Background and Investigation Results

On August 20, 2020, the Authority notified our Office regarding a potential loss of public funds, as state law (RCW 43.09.185) requires. In July 2020, the Authority's Chief Operations and Finance Officer (CFO) resigned after the Authority identified a bank account transfer she attempted without a documented explanation or board approval. After she left employment, the Authority reviewed financial records and identified additional unusual transactions.

The Authority hired an outside accounting consultant to investigate this potential loss. The consultant completed its investigation on September 24, 2020. The Authority then filed a police report with the Port Townsend police department and provided the investigation files to us for review. We also investigated further and determined a misappropriation totaling \$10,054 occurred at the Authority between September 15, 2019 and December 6, 2019.

The consultant's investigation found:

- On Saturday, September 15, 2019, the CFO entered an expenditure of \$4,822 payable to a construction business into the Authority's electronic payment system. An invoice supporting this payment did not provide specific details about the work that the business did, and it did not include the typical signature documenting departmental approval. On Sunday, September 16, 2019, the CFO printed and signed a check for payment.
- On November 19, 2019, the CFO entered an expenditure of \$5,232 for repair expenses payable to the same construction business into the Authority's electronic payment system. On December 6, 2019, the CFO printed and signed a check for payment. The Authority did not have an invoice supporting this expense.
- Based on records from the Secretary of State and Department of Revenue, the CFO's husband owns the construction business, and the CFO is listed as a registered agent for the business. Records also show the business was administratively dissolved on March 3, 2019, which is more than six months before the CFO recorded and made the first payment to the business.

To determine if any additional misappropriation occurred, we examined other areas the CFO had access to, including payroll transactions, credit cards, disbursements and bank account transfers. We did not find additional misappropriation. However, we did find internal control weaknesses that are addressed in the Authority's accountability audit report.

In October 2021, we made multiple phone call attempts to reach the former CFO for an interview. She did not respond to our requests.

Control Weaknesses

The Authority's internal controls were inadequate for safeguarding public resources. We found the the Authority had insufficient monitoring and lacked a secondary review process for all payments staff entered into its accounting system. The former CFO was able to create new vendor profiles in that system and enter, prepare and sign checks without any oversight.

Recommendations

We recommend the Authority strengthen its internal controls over the accounts payable process to ensure adequate oversight and monitoring to safeguard public resources. This should include monitoring the vendors staff enter into the accounting system and establishing an independent secondary review of all invoices staff enter into the system for payment.

We will refer this case to the Jefferson County Prosecuting Attorney's Office for any further action it determines is necessary.

We also recommend the Authority seek recovery of the misappropriated \$10,054 and related State Auditor's Office investigation costs of \$21,000 from the former CFO and/or its insurance bonding company. Under state law (RCW 43.09.260), the Attorney General and State Auditor must provide written approval of any compromise or settlement of this claim by the Authority. Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office. He can be reached at (360) 586-0740 or Matthew.Kernutt@atg.wa.gov. The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Local Audit and Special Investigations. She can be reached at (360) 489-4591 or Brandi.Pritchard@sao.wa.gov.

Authority's Response

We appreciate the thoroughness of the work that was done to complete this report. While it is disappointing and disturbing to know this occurred, we appreciate the finding that no other evidence of misappropriation was discovered following this extensive review.

We want to note also that as a part of the Authority's own separate investigation that it uncovered other actions of the former CFO that should be reviewed for possible additional violations of law and require additional restitution for consideration by the Prosecuting Attorney. The Authority believes these additional actions demonstrate a clear case of a breach of a public official's duty by the former CFO. The Authority also documented that the financial harm done is significant to the Authority's finances and public trust in the Authority's current and future fiduciary responsibilities. The Authority requests that the Prosecuting Attorney review the totality of this matter when it deliberates on a course of action.

The Authority concurs with the results and recommendations and will continue to implement changes to prevent any future events. The Authority wishes to also request additional restitution

for its direct cost to this investigation which includes two independent investigations leading to this report and a significant amount of staff time to produce supporting documentation in assistance to those investigations.

Again, we wish to acknowledge the efforts and support of all involved in this matter. Actions and steps have been taken to ensure that what occurred here and elsewhere is greatly reduced.

Auditor's Remarks

We thank Authority officials and personnel for their assistance and cooperation during the investigation. We will follow up on the Authority's internal controls during the next audit.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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