

Status of Resolution of Reported Fraud Findings

December 2012

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report:	1007720
Finding Number:	001
Finding:	The Fiscal Analyst performed incompatible duties related to the handling of checks and cash, preparing accounting records and completing bank reconciliations with no independent review.
Fraud Amount:	\$304,755
Recovery to Date:	\$0 (There has been no recovery to date. The individual is currently incarcerated and might not begin making restitution payments until released from prison. After release, the individual will be monitored by the Bureau of Prisons for up to 20 years to ensure restitution payments are made.)
Resolution/Status:	<p>The facility at which the fraud occurred, Frances Haddon Morgan Center (FHMC), was officially closed December 31, 2011. FHMC served residents until November 16, 2011, with the last eight employees being transferred or laid off on December 31, 2011. The misappropriation of funds was discovered during an internal audit conducted by the Department's internal audit program.</p> <p>The audit of FHMC was included in the Department's fiscal year 2011 Audit and Consultation Plan and was initiated in November 2010, covering the period from January 2010 to November 2010. During the second day of field work, one of the auditors verified irregularities in the documentation related to two accounts. Consequently, the scope of the audit was expanded and the auditors reviewed activity for all major streams of cash flow including the state's accounting system (Agency Financial Reporting System), payroll records, cash receipting records, and a residential trust fund account. The expanded scope resulted in the field work continuing through February 28, 2011.</p> <p>When the irregularities were discovered, the Superintendent of FHMC suspended the operations of the business office and placed the three staff on administrative leave. The fiscal technician and office assistant senior were subsequently brought back while the fiscal analyst was dismissed from the position. The Department's internal audit report was released in April 2011.</p> <p>The State Auditor's Office (SAO) conducted a special investigation of the misappropriation of funds at FHMC by reviewing the Department's audit and investigation. The SAO report, released in May 2012 agreed with the Department's audit scope, methodology, and conclusions. SAO recommended the Department strengthen internal controls over cash receipting and payments. The Department concurred with SAO's report and stated so in its response.</p> <p>The Department's internal audit report made several recommendations meant to improve internal controls at FHMC. The administrator of FHMC began implementing corrective actions during the course of the audit. Once the SAO audit report was released, additional corrective actions were developed</p>

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addressing segregation of banking duties, checking account activities, cash handling, and resident trust funds. Also, reconciliation and internal audits were transferred to the Rainier School Business Office. Finally, the Department implemented a centralized business process which removed some business functions from local facilities. All corrective actions were implemented at FHMC by October 2011, approximately two months before the facility was officially closed.

Personnel Action Taken: The employee was terminated on February 4, 2011.

Criminal Action Taken: The former employee who misappropriated the funds pled guilty to five counts of embezzlement, theft, and conversion of public money, property, or records. In June 2012, the individual was sentenced in U.S. District Court to 33 months in prison, three years of supervised release, and ordered to pay \$304,755 in restitution for theft of government funds.

Amount to be Recovered: \$304,755 in misappropriated funds. The audit costs were not included in the restitution order. The judge recognized the time and effort put into the case by the Department and other agencies, but chose not to include the audit costs in the restitution order.

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