

FRAUD INVESTIGATION REPORT

Investigation Summary

During the regular annual accountability audit, we identified overtime costs for two employees in the Housing Authority's Solid Waste Division that appeared excessive. We reviewed detailed time cards and building access card data and determined the employee building entries were not consistent with start and end times identified on the timecards. We notified Housing Authority management of the suspected loss.

The Housing Authority's internal fraud investigator conducted an investigation into the two Solid Waste employees' overtime charges between January 1, 2011 and July 31, 2014. The investigation concluded the employees received at least \$130,853 of overtime pay with limited benefit to the Housing Authority. The conclusion is based on the investigator's reconciliation of employee time cards to building access activity, Housing Authority system activity and phone activity.

Background and Investigation Results

The Housing Authority, located in King County, operates on an annual budget of approximately \$197 million. During fiscal year 2013 the Housing Authority spent \$30.67 million in payroll for approximately 500 employees.

The Housing Authority's internal fraud investigator reviewed overtime for the former Solid Waste operations manager and former Solid Waste administrative specialist II from January 1, 2011 to July 31, 2014. The former operations manager was hired in 1997 and promoted to supervisor in 2004. The administrative specialist was hired in 2010 and authorized to work from home from September 12, 2012 to April 3, 2013.

To determine if a loss occurred, the investigator compared time card activity, regardless of whether overtime was paid, to building access activity for both former employees. In addition, for the former operations manager, the investigator compared electronic messaging and phone call activity for weekends and holidays where overtime was paid.

The former operations manager served on the Seattle Public Utilities Solid Waste Advisory Committee (SWAC) from 2005 to 2012. The manager claimed overtime to attend SWAC meetings. The investigator compared time card activity to SWAC attendance records recorded in public meeting minutes of the committee.

The investigator performed a review of the former operations manager's computer hard drive and cell phone history and determined violations of Housing Authority human resource policies occurred.

The investigator reviewed fuel card activity for the former operations manager from January 2012 to September 1, 2014 and determined no additional risk existed.

The Housing Authority's investigation concluded the following losses occurred:

- The former operations manager received overtime pay of \$103,292 where inequitable benefit to the Housing Authority occurred.
- The former operations manager violated a number of human resource policies, including misuse of Housing Authority property.
- The former administrative specialist II received overtime pay totaling \$27,561, which appeared beyond the needs of the position.

We reviewed the Housing Authority's investigation and agree with the conclusions reached. After review of the Housing Authority's investigation we expanded our review of the former operations manager's overtime since being promoted to supervisor and determined the annual amount of overtime was consistent with the years reviewed by the internal investigator as follows:

Summary of former Solid Waste Operation's Manager by year

Year	Overtime Pay	Regular Pay	Overtime Pay/ Regular Pay
2004	\$ 27,656.85	\$ 58,968.42	46.9%
2005	\$ 24,254.47	\$ 61,136.14	39.7%
2006	\$ 25,602.66	\$ 61,422.45	41.7%
2007	\$ 28,901.14	\$ 65,055.78	44.4%
2008	\$ 32,937.71	\$ 66,208.02	49.7%
2009	\$ 38,178.81	\$ 71,217.61	53.6%
2010	\$ 35,227.81	\$ 69,836.82	50.4%
2011	\$ 26,466.80	\$ 71,241.62	37.2%
2012	\$ 35,946.48	\$ 73,257.65	49.1%
2013	\$ 37,114.21	\$ 73,950.55	50.2%
2014 through 7/31/14	\$ 3,765.15	\$ 49,991.46	7.5%
Grand Total	\$ 316,052.09	\$ 722,286.52	43.8%

To determine if additional loss occurred, we examined other areas accessible by the former operations manager and administrative specialist II. We performed a high-level review of petty cash activity and determined there was no significant risk of loss. We reviewed purchasing card activity and determined that, based on purchases made by the former operations manager, there was potential for additional loss.

We reviewed purchases made by the former operations manager occurring from January 1, 2012 through September 30, 2014. We selected and attempted to locate 54 small-and-attractive assets purchased by the former operations manager. Of the assets that current employees were unable to locate, we inquired if the assets were a reasonable business expense or if anyone remembers seeing the asset at the Solid Waste office. Results of our test were:

Description	Number of Items	Value
Items selected for testing	54	\$4,854.59
Items located	12	\$1,246.48
Items not located	42	\$3,608.11
Items current employees indicate never seeing	2	\$ 498.95

The Authority's internal investigator interviewed the former operations manager and former administrative assistant II, who stated the overtime earnings were for valid Authority business performed.

Control Weaknesses

Internal controls at the Housing Authority were not adequate to safeguard public resources. We found the following weaknesses allowed the loss to occur:

- The Solid Waste operations program administrator did not effectively monitor the operations manager's overtime activity or ensure the operations manager effectively monitored department employee timecards for overtime recorded.
- The operations program administrator did not adequately monitor the former operations manager's purchasing card activity to ensure small-and-attractive asset purchases were properly safeguarded from loss.
- The Housing Authority does not have policies and procedures for safeguarding of small-and-attractive assets.

Recommendations

We recommend the Housing Authority strengthen internal controls over payroll, purchasing cards and safeguarding of small-and-attractive assets to ensure adequate oversight and monitoring to safeguard public resources and compliance with Housing Authority policies.

Any compromise or settlement of this claim by the Housing Authority must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office

and can be reached at (360) 586-0740 or matk1@atg.wa.gov. The contact for the State Auditor's Office is Sadie Armijo, Deputy Director of Local Audit, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

Housing Authority's Response

Background

In late July, 2014, an Assistant State Auditor, in the course of conducting her audit testing of payroll records for purposes of the State Auditor's 2013 accountability audit of SHA, raised concerns regarding three employees in the Solid Waste program of the Impact Property Management Division of the Housing Operations Department. Her concerns arose out of the extensive overtime hours reported by these employees and by responses to her questions regarding compliance with SHA overtime policies for prior approval, documentation that the work was performed, and timekeeping procedures and approvals.

SHA's Controller and Chief Financial Officer shared the concerns and followed up immediately with other executive management staff and the fraud investigator. The Deputy Executive, the Director of Human Resources, the Director of Housing Operations and the CFO all concluded there was a verifiable concern regarding the level of continued overtime usage and the lack of adequate documentation to support the necessity for and/or supervisor oversight and approval of the reported overtime hours sufficient to undertake a formal investigation by SHA's Fraud Investigator. On August 5th, the Deputy Executive notified the Legal Division of the facts as we knew them and requested an investigation. When completed in late September 2014, the SHA Fraud Investigator's Special Report and conclusions were submitted to SAO.

Investigation: Methodology and Summary of Conclusions

SHA's Fraud Investigator undertook reviews of each of the three employee's electronic timecard records, ACAM (key card entry system) swipe records, cellphone records, incoming and outgoing e-mails, and use records of SHA computers/laptops assigned to these staff. In addition, each of the three was interviewed, as were other Solid Waste employees, and the Operations Program Administrator of IPS and supervisor of the Solid Waste Operations Manager. Further, the investigator spent time with the Director of Human Resources to review SHA personnel policies; the Director of Housing Operations for background on the operations of Solid Waste and overtime usage; and, with the Chief Financial Officer to review historical payroll information.

The investigation examined all available data covering the period January 2011 through August 2014. The investigator concluded that two of the employees – the Solid Waste Operations Manager and an Administrative Specialist II – claimed and were paid regular and overtime wages and payroll benefits for hours they apparently did not work. In addition, both individuals failed to follow SHA policies and procedures regarding overtime work and telecommuting

policies and procedures, and the Operations Manager violated other policies regarding prohibited uses of SHA equipment for personal purposes. The third individual, the Solid Waste Supervisor, was found not to have violated SHA policies regarding overtime; however, a change has been made to his regular weekday schedule, which previously required that he work from 6:00 am to 3:45 pm in order to open and close the solid waste facility.

With regard to the Operations Manager and Administrative Specialist II, SHA's Special Investigative Report did not estimate restitution amounts; however, we have cooperated with SAO in its further investigation and efforts SAO has undertaken to quantify the specific amount of public funds paid for time not worked.

Actions Taken By SHA as a Result of SHA's Special Investigation Conclusions

Personnel Actions

The Solid Waste Operations Manager was placed on Administrative Leave by the Housing Operations Director on September 11, 2014 while the investigations into his performance as an employee and manager were underway. After having been briefed on the findings to be included in the Fraud Report, on September 26, 2014, the Operations Director sent the Solid Waste Operations Manager a letter terminating him effective September 26, 2014:

"...this letter will serve as notice that your employment with the Seattle Housing Authority is terminated effective at the close of business today, September 26, 2014. There is overwhelming evidence to support a determination that you consistently failed to accurately report your work time, repeatedly exercised poor judgment, misused SHA resources and equipment, and failed to supervise and manage employees who reported to you—all of which caused financial harm and put the agency at risk. I have no confidence in your ability to continue to serve as Manager of SHA's Solid Waste Operations."

As required, the letter offered the Operations Manager the opportunity for a Loudermill hearing with the Deputy Executive. Having failed to provide SHA timely notice of his desire to continue his Loudermill hearing, the Deputy Executive notified the Operations Manager that his termination was confirmed effective October 21, 2014.

The Administrative Specialist II left SHA's employment to accept a job offer with a county prior to conclusion of SHA's investigation. Accordingly, as she was no longer an employee of SHA, SHA was unable to take disciplinary action against her. However, we did provide the results of SHA's fraud investigation with respect to the Administrative Specialist (as well as the Solid Waste Operations Manager) to SAO and law enforcement agencies, including the King County Prosecuting Attorney's Office.

The Director of Operations completed his review of the management performance of the Operations Program Administrator and determined that he had failed to effectively exercise his management oversight responsibilities over the Operations Manager and the Solid Waste operations. He does not believe that the Operations Program Administrator expressly

authorized or condoned the time theft or other misconduct at the South Operations Facility. However, these employees reported to him and he was on notice that serious concerns had been raised about accountability and the legitimacy of the amount of overtime reported by certain Solid Waste employees. Accordingly, effective November 6, 2014, his scope of job responsibilities and span of control was reduced to managing Construction Operations, Hazardous Waste, and Pest Control. The realignment of responsibilities resulted in a significant pay reduction also effective November 6, 2014.

Internal Controls Reviews

Several reviews are underway at this writing to determine compliance with existing policies and procedures, need for any policy updates or revisions, and needs for communications and training. These reviews include SHA telecommuting policies and procedures; overtime approval, documentation, and verification; purchasing card policies and procedures; and, small and attractive assets policy and procedures. All of these are expected to be completed in the 1st quarter of 2015, with substantial progress in the first two areas to be made by the end of the year.

Conclusion

SHA would like to express its appreciation for the State Auditor's cooperation in uncovering and documenting the abuses of overtime and fraudulent reporting of time worked by two SHA employees. We appreciate the SAO's advice and recommendations regarding review and strengthening of the specified internal controls.

State Auditor's Office Remarks

We thank Housing Authority officials and personnel for their assistance and cooperation during the investigation.