

## Fraud Investigation Preliminary Assessment Worksheet

<b>Fraud Case Number</b>	F-20-277
<b>Client</b>	Fort Worden Public Development Authority
<b>Fraud Specialist</b>	CHRISTINE MacIntyre (macintyrec@sao.wa.gov)
<b>Loss Notification Date</b>	8/20/2020
<b>Initial Contact with Entity Date</b>	8/21/2020
<b>Assessment Completion Date</b>	8/25/2020
<b>Team Review Name</b>	Port Orchard
<b>Team Review Date</b>	08/26/2020
<b>Fraud Manager Review Date</b>	8.31.2020
<b>Action/Next Step</b>	Perform external review

The preliminary assessment worksheet summarizes the pre-planning information needed for the triage meeting. An assessment does not need to be completed on loss reports that do not require action per policy (losses resulting from breaking and entering or property vandalism normally handled by a law enforcement agency or by the entity, or other losses such as reasonable cash-receipting overages/shortages, reasonable inventory shortages or other de minimus losses).

Reported Loss Information		
1	Description of suspected loss or illegal activity	The Interim Executive Director contacted SAO and indicated that the former CFO (resigned) may have misappropriated funds. The ED indicated that the former executive director and the CFO inappropriately made payments and moved funds from one fund to another without explanation or board approval.
2	How loss was detected and reported	through review of the financial statements
3	Type of loss (e.g. cash receipts, disbursements, payroll)	Other
4	Reported amount of loss	\$10,054.16 however PDA believes there is more.
Information from EIS and Audit Manager		
5	Entity liaison name	David Timmons
6	Entity liaison title	Interim Executive Director
7	Entity liaison phone number	360-531-0066
8	<input checked="" type="checkbox"/> Related audit exceptions in EIS 1) The PDA received finding and adverse opinion due to late filing and multiple errors in multiple submitted versions of the FY16 and FY17 financial statements. The PDA submitted financials for FY18 the submission for 2018 are the FY2017 statements. (2) Exit item for not reporting fraud to SAO when \$722 in change funds went missing. (3) Exit item Credit Card transactions due to three of 75 transactions lacking receipts and lack of detailed receipts for five of 20 restaurant receipts tested; (4) Exit item for not having procedure in place to ensure a secondary review of all month-end and year-end journal entries.	
9	If yes, what was level of reporting (exit item, mgmt letter, or finding)?	Finding, and exit items see detail above

10	If applicable, summarize your review of TeamMate audit work related to area of reported loss.	The total amount and areas of loss are yet to be determined. See question 4 above.
11	Summarize any audit manager's concerns about client and reported loss.	<p>The concerns we have for this entity were expressed to the Executive Board in March 2020. During the audit for the 2016 and 2017 audit, we determined that the CFO appeared not to understand how to correctly complete, the financial statements. We also noticed that the CFO was moving funds among the accounts without sufficient support or approval.</p> <p>We also noted that the CFO was very protective of information and did not allow the audit staff to have complete and full access to the PDA financial staff.</p> <p>In addition, the CFO was difficult to reach via email and by phone. Any corrections SAO requested often took up to 2 weeks to complete and were often incorrect when provided. The adverse opinion on the financial statements outline the concerns and findings SAO noted to the board. We are also concerned at what appears to be a lack of supervision by the prior Executive Director and a lack of oversight by the Executive Board.</p>
12	Normal audit scope and cycle for client?	Accountability Cycle: 1-year; Financial Cycle: 1-year; Single Audit Cycle: None
13	Accountability audit budget?	105
14	Is the audit team currently conducting an audit? If yes, what is the status and scope (financial, single or accountability)? If not, when is the audit scheduled to start?	No. The audit team completed and issued financial and accountability audit reports for 1/1/2016 -12/31/2017 on 2/24/2020. The PDA has not provided our office with financial reports for FY2018 or FY19.
15	Any other relevant information?	The PDA has not been able to close the books for FY2019 nor for any month in FY20 according to acting COO, David Timmons. He assumes FY18 is the same.
<b>Information from Client</b>		
16	<input checked="" type="checkbox"/> The individual suspected in the loss has access to other accounting/financial systems or bank accounts. Yes, the CFO/General Manager had full access to accounting / financial systems.	
17	If yes, list those systems and accounts.	Cash & Investments, Receivables, A/P, Payroll, Capital Assets, small & attractive assets, Internal Activities, liabilities, credit cards.
18	<input checked="" type="checkbox"/> The client has properly secured records or evidence related to the loss Yes., the client has records of the checks issued to TJ Construction for work that was never contracted or performed. TJ Construction was created by the former CFO. No- for additional potential information: David Timmons explained he learned from PDA IT Dept the CFO/GM was using her personal laptop for PDA business and that it is in her possession as well as PDA financial information that the PDA has been unsuccessful retrieving. The PDA doesn't know what that information is just that she let them know she has PDA financial information/documents.	
19	<input checked="" type="checkbox"/> Potential for additional loss or other areas of risk for loss - "What Else"	
20	If yes, summarize.	Based on initial conversation there are a lot of "what else" considerations. Cash including EFT transactions, payroll and benefit transactions, A/P disbursement and credit card transactions. JE's and override of controls. See relevant notes at bottom document for more details.

21	When was the individual hired by the client?	Month ? Year 2015
22	<input type="checkbox"/> The individual has been in different job positions with the client and there have been employment history issues No, was hired as CFO. Things were in disarray when she was hired. Did not do background investigation prior to hiring. Issues followed her from Astoria Oregon, where she had been Finance Director of a transit also worked at Shore Bank.	
23	If yes, list the position, time-period and issues.	
24	What is the current employment status of the individual (e.g. administrative leave on XX date)?	Placed on leave then separation agreement. Doesn't believe anything in agreement related to criminal or civil action. More language of non disparagement against her. Executive Director put agreement together with Enduris Insurance. Didn't use PDA attorney or HR Director. Or approval from the Board
25	<input checked="" type="checkbox"/> The client conducted an investigation Yes and hired an external investigator to perform a review of PDA files.	
26	If yes, summarize results.	The client conducted an initial investigation to determine if there was any misappropriation and discovered the former CFO/GM husband's Construction Company was listed as a vendor. The PDA staff reviewed payments and found two payments \$4,822.16 & \$5,232 in the system. One with an invoice and one without. The invoices were paid by check the same day as entered by former CFO and signed by same. Staff looked into this and determined no work was ever completed by the construction company nor were there any contracts. The PDA has not looked further although there is belief more issues exist.
27	<input checked="" type="checkbox"/> A police report has been filed	
28	<input type="checkbox"/> Law enforcement is investigating Port Townsend PD is seeking advice from WA State Patrol.	
29	<input type="checkbox"/> Another outside party (FBI, OIG, LEAs or other investigator) is conducting an	
30	<input checked="" type="checkbox"/> The client has established a time table of events that occurred up to the reported loss. (If not, recommend they document the key events.) The PDA has a time table for the two construction invoices. Other areas still need reviewed.	
31	<input checked="" type="checkbox"/> There is a fixed responsibility Diane Moody, CFO/ General Manager	
32	Who within the client has been notified of the loss (commissioners, board, elected officials, etc.)?	Board, ED, HR director, Finance Director Sonja, Aslyn Hosiptiality Director and former assistant.
33	<input type="checkbox"/> The County Prosecutor has been notified Not yet- PDA believe Police will notify at proper time	
34	Has legal counsel has been obtained by the individual?	Unknown
35	<input type="checkbox"/> The client has entered into restitution agreements no , separation agreement only	
36	Any other relevant information?	Please see narrative documented below

We spoke with acting Chief Operations Officer, David Timmons who reported the loss to our office. He is the former City Manager of the City of Port Townsend and was part of establishing the Fort Worden Public Development Authority back in 2011. He has known the executive director of the PDA for over 20 yrs and was asked to look into the finances after the FY16-17 SAO audit report was released in March 2020. **The following information was explained by David Timmons during our conversation:**

- PDA agreement was that the State Park would divest from the management of the parks and would go to the PDA. This was never factored into the PDA finances which are now getting desperate.
- Acting COO contacted PDA insurer Enduris regarding the situation and was told the CFO was never bonded. The PDA has a blanket honesty bond of \$2,500. Theft of property would cover any loss of cash.
- Former CFO would report everything was OK to Board but year end would show deficit. Last audit report was stunning. Finances didn't look correct. Executive Director asked for help getting handle on finances. David Timmons came in as a consultant. Looked at financial reports and could see there was a problem as they didn't make sense. He had never seen an accounting report,, like the CFO's and it didn't match BARS. CFO was defensive and he claims she said GAAP didn't use BARS.
- D. Timmons, acting COO reviewed report to be presented to Board which was generated by the CFO a few mins before meeting . He saw it was riddled with errors or omissions. Plug numbers used. It didn't add up. David Timmons, acting COO recommended the Board put her on leave and initiate an investigation. Executive Director would not do it. So, went around him to Board who agreed.
- Acting COO hired Mike Bailey, MRSC – prior finance director City of Redmond, CPA; he reviewed at the current cash balance but he identified two pages of transactions that should be looked in to also Jan-May transferred over 1.2 mill moved from capital fund to operating and payroll accounts with out Board knowledge or approval. He started to look at this since CFO was telling different story to the Board. At this point acting COO instructed HR Director to determine if bogus or fake employees. None currently identified.
- Staff relayed stories about drunk and disorderly conduct at work including , degrading attitude toward employees. Complaints about husband from employees when encountered at restaurants.
- CFO was terminated after being put on leave when it was discovered she moved \$185K of \$500K that had been gifted after she had been specifically instructed by the Board not to move the money. Finance Manager blew the whistle when she saw the \$185K moved in to the operations account.
- CFO had PDA issued AMEX Credit card with balance of approximately \$100K. It appears it was being used as line of credit to pay bills for the PDA. Some review completed and appears payments to legitimate vendor accounts. Most A/P accounts are aged over 90 days. Licenses not renewed, contract payments not made. COO believes problems are systemic.
- Financial condition is unknown. CFO tried to cut acting COO out of communication with executive director. Numbers given to the Board were misleading. CFO did not report on transfers. \$1.2 deficit in operations never reported to Board. Major capital projects are in process . How can you go forward without knowing if \$ to pay for it.
- Cash flow struggling to keep operations afloat. Lots of expenses. PDA is like driving car without a gas gauge. PDA does not know why there was a \$1.2 million operating deficit at beginning of year. Discovered \$1-1.5 over budget on capital and behind in payments to contractors.
- Dave Timmons explained the PDA was not in a good financial position pre-COVID 180 employees now down to 10. Due to hosting groups and events.

- Maker Square project of \$ 14 million with \$2 million tax credit funded with grants and gifts. Problematic the PDA can't produce f/s. This creates issue working with bank to secure tax credit structure. Counting on grants. Discovered \$500K in arrears with construction company. PDA received 2 more bills now total of \$1.5 million and contractor sent notice if not paid by 9/4 will shut down which could affect grants and affect tax credit. COO described this as house of cards, severe situation. He is trying to enlist help to sort it all out.
- Staff has identified a suspicious payroll account for the purchase of alcohol. Large sums of alcohol were purchased. Not reviewed yet.
- Former CFO was able to sign checks or initiate other financial transactions including wire transfers up to \$25,000 with only her own signature or authorization.
- Former CFO requested her salary be capped at \$80K so didn't go above tax bracket. In lieu of pay she requested the PDA pay for husbands benefits. Acting COO believes this included medical but not sure what else.
- Acting COO explained he learned through conversation with staff that employees could not communicate with each other without going through her. She restricted staff to certain specific areas. Current Finance Director was restricted to only working on capital and isolated with respect to daily operations. Staff not allowed to look beyond their role. Employees are scared according to David.
- Former CFO would become belligerent when questioned about finances.
- Executive Director refused to deal with CFO. Said he couldn't do it so HR manager had to place her on leave. When HR Director stepped in to address the issue, she was informed the Executive Director was coming to her office to get the CFO file and pull out complaints about her drinking and staff complaints about her husband. HR Director was instructed by ED to shred the complaints.
- The former CFO wanted to go into her office and close out some things but was denied. The executive director wanted to get her into her office so acting COO has locks rekeyed. Executive Director started pressuring staff to let the now separated CFO have access to her old office. She was never allowed access.
- Acting COO was informed that during a staff retreat the former CFO was completely drunk and ranting and raving.
- Human Resource Director was asked by former CFO last winter to fill out federal immigration forms related to bringing her nephew over from Ireland. The form required it be reported if any staff had been laid off during past six months. The PDA had laid off staff but HR Director was pressured to report no layoff as "no one would ever know". HR Director refused. Executive Director then tried to force her to do it but HR Director would not.
- Acting COO became aware the former CFO had two wage garnishments during 2018. The first was from the State of OR Dept of Revenue for \$37K, The PDA never garnished her wages but the garnishment was somehow just taken care of. The second was discovered when staff found served papers for another garnishment this time going after the PDA for non- response to requests for \$2,800 and that was somehow taken care of. Staff informed acting COO the former CFO would not allow anybody to see the mail until she saw it first. She would then distribute the mail to staff..

- The former CFO arranged to pick up her personal things and came to PDA drunk and yelling I own it but I did it with permission.
- Due to lack of action and bizarre behavior related to dealing with the CFO, the acting COO recommended the Executive Director be placed on administrative leave or have restricted access. This was recommended by SAO. The Board held executive session to review ED performance related to these issue but COO did not know outcome but possible change in future at the PDA.
- Former CFO informed the PDA she had PDA financial information at her home. She has cancelled four planned times to return the information to the PDA. The PDA sent someone to her house to retrieve the information but no one would answer door. IT Dept informed COO the former CFO used her personal laptop for financial and PDA work. The PDA does not know what financial information she has.

Acting COO is looking for guidance in what to do next. Doesn't believe staff has time or expertise to conduct investigation. He is more focused on financial condition.