Case studies and lessons learned
Mid-Columbia Chapter IIA

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March 18, 2021

Fraud trends
SAO’s Special Investigations program

- 51 fraud specialists
- 31 Certified Fraud Examiners
- 15 staff studying for their CFE

![Bar chart showing fraud submissions from 2015 to 2021.

- 2015: 811
- 2016: 401
- 2017: 109
- 2018: 461
- 2019: 40
- 2020: 5
- 2021: 107

Legend:
- Blue: Closed
- Green: Investigated]
Trends in government fraud

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investigations</td>
<td>112</td>
<td>80</td>
<td>39</td>
</tr>
<tr>
<td>Confirmed</td>
<td>$416,000</td>
<td>$9,517,888</td>
<td>$365,286</td>
</tr>
</tbody>
</table>

Trends: Payroll misappropriation

- **Scheme:** Claiming time not worked
  - Periodically compare time reported to badge scans, computer logs, calendars and emails

- **Scheme:** Persons of authority, or who process payroll: ineligible OT, using leave not earned, buying out leave not earned or when they aren’t eligible for buyout
  - Closely review payroll when one person is responsible for the entire process
Trends: Other

- Selling the government’s assets for personal gain
- Personal purchases on the credit card

Case studies
March 2021 – School District

Scheme and misappropriation
• Payroll (overpayment) - $30,947

Why it stands out
• When is it the District’s fault, and when is it misappropriation?

Lessons learned
• Establish a clear procedure for departures
• The right people should review staffing reports

January 2021 – Port District

Scheme and misappropriation
• Credit cards $945, assets $4,437

Why it stands out
• Liability when you utilize an employee-owned asset

Lessons learned
• Be cautious when using employee assets
• Consider an agreement
Pierce County Housing Authority

Entity type: Housing Authority
Period: March 2016 – July 2019
Type of loss: Wires, ACH, credit cards

$6,948,277

Detection

- Auditors discovered the fraud during a routine, 2018 annual financial statement audit
- They noticed wire transfers to a title company and an out-of-state bank that was not in our list of known banks

2018 Bank Statements:

<table>
<thead>
<tr>
<th>Withdrawals Date</th>
<th>Serial #</th>
<th>Location</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>9-19</td>
<td>4268</td>
<td>Wire Withdrawal</td>
<td>Title 8295</td>
</tr>
<tr>
<td>11-19</td>
<td>6963</td>
<td>Wire Withdrawal</td>
<td>Title 8295</td>
</tr>
<tr>
<td>12-18</td>
<td>8986</td>
<td>Wire Withdrawal</td>
<td>Bank 0304</td>
</tr>
</tbody>
</table>
“It was for an investment purchase that was since sent back to the Housing Authority because there weren’t proper approvals for that investment.”

Detection

Professional Skepticism

Trust But Verify
Detection

- Searched Finance Director on Facebook.
- Found husband’s name.
- Determined where he lived.
- Searched husband on Facebook.
- Found property purchases for same amount as wires to title company, in same month.
- Searched assessor records for that county.

Investigation: Bank statements

- Examined additional bank records and identified wires listing the Finance Director as beneficiary in 2018 and 2019.
- Obtained wire detail from bank to confirm.

<table>
<thead>
<tr>
<th>Date</th>
<th>Check</th>
<th>Description</th>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-9</td>
<td>8382</td>
<td>Wire Withdrawal</td>
<td>9465</td>
<td>150,000.00</td>
</tr>
<tr>
<td>7-9</td>
<td></td>
<td>Direct Withdrawal, Pierce County</td>
<td></td>
<td>5,568.18</td>
</tr>
<tr>
<td>7-15</td>
<td></td>
<td>Direct Withdrawal, Pierce County</td>
<td></td>
<td>27,296.93</td>
</tr>
<tr>
<td>7-17</td>
<td>12196</td>
<td>Wire Withdrawal</td>
<td>9465</td>
<td>150,000.00</td>
</tr>
</tbody>
</table>

10 direct wires
$3.05 million
Investigation: Vendor payments

- Authority had difficulties with certain functions of its general ledger system
- As such, it used 2nd accounting system for bank reconciliations
Investigation: Vendor payments

Further testing determined:

- ACH batch included known, valid vendors
- ACH payment detail from bank showed payments routing to Finance Director’s personal bank account
- Invoices supporting payments were either altered or falsely created to support these payments
Investigation: Vendor payments

78 ACH transactions
$3,237,712

Concealment

- How did she hide these transactions in the general ledger?
- Didn’t the Board notice?
- Didn’t their cash position decrease?
Wire transfers
“They were described as investment purchases. [...] On some of the accounting records, like the check register, for example.”

ACH transfers
“And the disbursement was described, if asked - if a commissioner asked about it, was described as an expense. It was an insurance expense. It was a maintenance expense. Something like that.”

“I would imagine that. [...] the questions would arise from the dwindling account balances from the cash position report.

“Why are the bank balances dropping? And the explanation would be because of these certain expenses that were unexpected or we had experienced substantial increase in insurance premiums or there was a new consulting firm that we were using.”
What Else?

Investigation: Credit cards

- External credit card fraud occurs occasionally
- Housing Authority:
  - Filed disputes with credit card company
  - Attached dispute form to credit card statement
  - Tracked to ensure credits in subsequent months
Investigation: Credit cards

- Found transactions where normal process was not followed; appeared to be personal
- One vendor was an online gaming company
  - Finance Director had emails from this company in her Housing Authority email inbox, showing she used the site

194 credit card transactions
$25,565
<table>
<thead>
<tr>
<th>Type</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automated Clearing House (ACH) payments</td>
<td>$387,604</td>
<td>$1,272,871</td>
<td>$1,316,477</td>
<td>$260,760</td>
<td>$3,237,712</td>
</tr>
<tr>
<td>Wire transfers to Finance Director’s account</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$3,050,000</td>
<td>$3,050,000</td>
</tr>
<tr>
<td>Wire transfers to title company and out-of-state bank</td>
<td>$0</td>
<td>$0</td>
<td>$635,000</td>
<td>$0</td>
<td>$635,000</td>
</tr>
<tr>
<td>Credit card payments</td>
<td>$25,565</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$25,565</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$413,169</strong></td>
<td><strong>$1,272,871</strong></td>
<td><strong>$1,951,477</strong></td>
<td><strong>$3,310,760</strong></td>
<td><strong>$6,948,277</strong></td>
</tr>
</tbody>
</table>
What Can We Learn?

Weakness

Housing Authority culture:
• “Everything went through [the Finance Director]”
• Staff performing certain financial duties were “siloed”
• “I just stick to myself and just try to survive the day”
• The Executive Director commented he didn’t know Finance staff very well

Control

Create a culture of accountability:
• If you see something, say something
• Everyone plays a part in preventing and detecting fraud
• Cross-agency transparency and communication
• Create an anonymous whistleblower hotline for staff
Anonymous Whistleblower Hotline

- 2020 ACFE Report to the Nations:
  - Tips continue to be the most common way fraud is detected
  - Fraud losses were 50% smaller at organizations with hotlines
  - Organizations with hotlines detect frauds six months quicker than those without
- Relatively inexpensive and easy to implement
- Makes everyone allies in fighting fraud

Weakness

- Finance Director did not provide timely information to the Board
- Invoices over $2,500 needed management approval, but no evidence of approval was required
- Executive Director never saw a bank statement, didn’t know they used Quickbooks, and “relied largely on [the Finance Director’s] report to the Board”
- “We were dependent on her”

Control

- Management and elected officials should:
  - Attend financial training
  - Be active participants in the audit process
  - Require timely, understandable information
  - Trust but verify
- Don’t let strong, resistant personalities dictate processes
<table>
<thead>
<tr>
<th>Weakness</th>
<th>Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Finance Director had full access to all systems and wire transfer capability</td>
<td>• Evaluate each person’s job responsibilities along with their accounting and bank account permissions</td>
</tr>
<tr>
<td>• Multiple departments could change modules not in line with their responsibilities</td>
<td>• Restrict access when possible; regularly re-evaluate access permissions and adjust as needed</td>
</tr>
<tr>
<td>• Three staff members could change vendor information and bank account numbers</td>
<td>• Segregate key duties from key access (example: those approving or processing invoices should not change vendor information)</td>
</tr>
<tr>
<td>• ACH file was saved in an open file and subject to edit before it went to the bank</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weakness</th>
<th>Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Key functions not adequately segregated or monitored</td>
<td>• Critically analyze systems, processes and approvals; segregate duties</td>
</tr>
<tr>
<td>• AP Clerk reconciled credit card activity; Finance Director supervised the Clerk and directed her to send questions to the Finance Director</td>
<td>• If staff review their supervisor’s work, questions should route to someone above their supervisor</td>
</tr>
<tr>
<td>• System did not keep an audit trail of changes to the financial module</td>
<td>• Evaluate software for control risks, and design manual controls to compensate</td>
</tr>
<tr>
<td>• Finance Director directed staff to bypass control process and send ACH receipts to her for some vendors</td>
<td>• Stick to your controls! If someone asks for an exception, seek additional levels of approval.</td>
</tr>
</tbody>
</table>
Weakness

- Those reconciling bank statements focused solely on dollar amounts, not nature of transaction
  - “I just look at the number, not too much at what it is”
  - I may glance at it, but I don’t really pay too much attention to it”
- ACH payments were batched on the bank statement; Journal Vouchers were confusing and not always timely

Control

- Train employees on how to conduct a meaningful review of financial information
- Stay curious and inquisitive
- Establish and clearly communicate the purpose of each control
- If financial information used for monitoring is overly complex, or provided in summary when detail is required, find a better way

Where Is the Case Now?

Civil
- SAO and the Attorney General’s Office approved a partial restitution agreement between the parties

Criminal
- SAO sent investigation to the FBI
- Cova arrested March 2*
- Grand jury indictment on 4 federal counts of wire fraud

*Released after an initial appearance, with orders to appear in federal court in State of Washington
For Immediate Release

Friday, January 15, 2021

Former Pierce County public housing executive pleads guilty to multi-million-dollar embezzlement scheme

Tacoma – A former Pierce County Housing Authority executive pleaded guilty today to wire fraud in connection with her scheme to steal nearly $7 million, announced U.S. Attorney Brian T. Moran.

According to the plea agreement, between March 2016 and July 2019, COVA CAMPBELL, aka Cova Hunter, used a variety of schemes to divert $5.9 million from Pierce County Housing Authority accounts to her own bank accounts. CAMPBELL was sentenced to 20 years in prison by U.S. District Judge Robert J. Bryan on April 8, 2021.

According to records filed in the case, CAMPBELL initiated wire transfers of as much as $2,000,000 from Pierce County Housing Authority accounts to her own bank accounts. These transfers were in connection with the purchase of land in Oklahoma. CAMPBELL also prepared and submitted false invoices to PCHA and made them appear they were from an outside vendor. PCHA paid the invoices, and the money went into CAMPBELL’s bank accounts. CAMPBELL covered up her fraud by labeling these fraudulent charges as “investment,” “insurance,” or “maintenance” in the PCHA accounting records.

According to the plea agreement, CAMPBELL bought the property in March 2019, but never made any payments. Days before she was caught by the fraud, CAMPBELL transferred the property to another company.

Information

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