



LOSS OF CITY FUNDS

Finance Committee
January 18, 2023



Background

- Loss of funds through fraudulent ACH (Automated Clearing House) payments.
 - An ACH is an electronic fund transfer made between banks and credit unions.
- Loss discovered 10/11/2022
- Total loss is \$319,145.58 from two payments:
 - \$121,672.98 on 9/20/2022
 - \$197,472.60 on 9/27/2022
- The individual(s) committing the fraud started emailing in April 2022 and submitted a change of payment form in July 2022.

City Actions

- Upon discovery, and per RCW 43.09.185, the finance department reported the loss to the State Auditor's Office. Additional parties notified:
 - Police report filed with OPD
 - Insurance claim filed with WCIA
 - US Bank
 - S&P Global Ratings
- City's GL accounting team charged with conducting an internal audit to look at the actions taken by City staff related to the loss and report on compliance with established City policies/procedures.

Internal Audit Process

- Audit performed in accordance with GAAS (Generally Accepted Auditing Standards) a set of systematic guidelines used by auditors when conducting audits on companies' financial records.
- Interviews conducted with A/P (accounts payable) team:
 - Verify procedures to register ACH requests were followed
 - Used to develop expectations for documentation on ACH requests
- The audit sampled the ACH set-up documentation of 63 vendors from a population of 432 paid through ACH in the sample period (2000 – 2022).
 - Randomly selected 43 or 10% of population for audit.
 - Selected an additional 20 based on professional judgement.

Internal Audit Findings

- Prior to the incident, no written procedure for ACH change requests.
 - Procedure was communicated and staff were knowledgeable of the process.
- Audit results showed a control failure of at least 1 of the 5 key controls examined occurred 14% of the time in the sample period.
 - The significant key control failure was documented verification of vendor contact. Form did not include a space for this documentation.
- Control failures contributing to the loss were not the result of a single individual.
- No indication of employee involvement.

Internal Audit Recommendations

- Immediately develop ACH policy/procedure to include:
 - Detailed written procedures to initiate, approve, and execute ACH payments.
 - Detailed process for verifying new or changed information.
 - Require a voided check or bank letter for all vendors wanting to establish ACH payments.
 - Establish safeguards to maintain segregation of duties.
 - Instruct employees on how they should share information with payees.
 - Educate and empower staff to be responsibly suspicious.
 - Training for awareness of social engineering and ACH fraud schemes.
- All recommendations have been implemented

Subsequent Information

- Prior to completion of the internal audit the A/P team had updated the ACH form to include space for documenting vendor contact prior to setting up an ACH.
- Procedures have been documented and written down and all A/P team members are informed of the update procedures.
- The City provided SAO with the internal audit report and work papers. SAO has accepted the City's findings and have closed their investigation. The City will receive an audit finding for a lack of internal controls as part of SAO's accountability audit.
- The City has received confirmation of an insurance settlement of \$250,000.

Questions?