

Fraud Investigation Preliminary Assessment Worksheet

Fraud Case Number	F-23-477
Client	City of Ocean Shores
Fraud Specialist	Beau Villarreal
Loss Notification Date	12/22/2023
Initial Contact with Entity Date	12/28/2023
Assessment Completion Date	1/3/2024
Team Review-Name and Date	Paul Griswold – 1 / 4/2024
Fraud Manager Review Date	Angelique Thompson, 1/5/2024
Action/Next Step	Draft plan, open investigation
	Start with obtaining the external review the City has performed so far, then move on to drafting our own plan/investigation steps.

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	Waiving permit fees for certain contractors and vendors
2	How loss was detected and reported	The Records Clerk was scanning paper permit files to electronically archive them, and noticed a number of files saying the permit fees were waived.
3	Type of loss (e.g. cash receipts, disbursements, payroll)	Permit Billings
4	Reported amount of loss	Approximately \$2,000 at time loss report was submitted. However, the City noted they were still reviewing additional permits and anticipate this amount will increase.
Information from EIS and Audit Manager		
5	Entity liaison (name and title) and phone number	Angela Folkers, Finance Director afolkers@osgov.com (360) 289-2488
6	Related audit exceptions in EIS? If yes, what was level of reporting (exit item, mgmt letter, or finding)?	None.
7	If applicable, summarize your review of TeamMate audit work related to area of reported loss.	N/A – Area not reviewed in our audits.
8	Summarize any audit manager's concerns about client and reported loss.	No specific concerns.
9	Normal audit scope and cycle for client?	1 year accountability, financial, and single
10	Accountability audit budget?	135 hours
11	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 – Anticipating work will start in Q3 of 2024 for the next audit.
12	Any other relevant information?	Loss report F-21-235 was related to checks that went missing that had been in the custody of the subject of this loss report. The City

		<p>reached out to each vendor to have them put stop payments on the checks, so no loss ended up occurring.</p> <p>For the completion of this PAW, we met with:</p> <ul style="list-style-type: none"> • Angela Folkers, Finance Director • Scott Anderson, City Administrator • Frank Elduen, City Mayor
Information from Client		
13	Is there a subject of the investigation? If so, does the subject have access to other accounting/financial systems or bank accounts? If yes, list those systems and accounts.	<p>Nettie Wagner, Permit Office Manager</p> <p>Nettie has access to permit cash receipting, and has a City credit card.</p>
14	Has the client properly secured records or evidence related to the loss?	<p>No. The subject has around 20-24 file cabinets with permit files in them that would be the key piece of support needed to determine the loss amount. The City stated the majority of these are locked in the vault, but not all of them at this time.</p> <p>The City did voice concerns over potentially destroyed files if the subject realized she was being investigated. The City does not want to alert the subject to the investigation, so they haven't locked up the files yet. However, they stated that if we confirm we are going to investigate, they plan to place the subject on administrative leave and will secure the files at that time.</p>
15	Briefly assess the internal controls over the key system(s) related to this loss. What is the potential for additional undetected losses?	<p>Permit Cash Receipting/Waiver Process:</p> <p>For almost the full time Nettie has worked in the Permit Office, she has been the only one. Per discussion with Angela Folkers, Finance Director, the few times the City has tried to bring in an additional Permit Technician, personnel issues have arisen between the subject and the Permit Technician, which has led to the City having Nettie be the only one working in that office.</p> <p>Until around 3 months ago, the City had no permitting software. All permit calculations and forms were done on paper with no system audit trail. There were no reconciliations to verify permits were charged correctly, or that permits were only waived for the City's own projects.</p> <p>All documentation remained with Nettie, which she would put into her file cabinets with no secondary reviews.</p> <p>Around 3 months ago, the City implemented CitizenServe as a permit billing software. However, the City noted that Nettie has not consistently used the new system, and still issues some permits with physical documents outside of the system.</p> <p>We noted a significant lack of controls over permit billings. Specifically, we noted the following potential methods that were identified as possible due to these control weaknesses:</p> <ul style="list-style-type: none"> • Without reconciliations and/or secondary reviews, the amount of cash deposited may not agree with the amount customers paid for permits. Due to this, there is a risk the Permit Office Manager could misappropriate some, or all of the cash receipted. • Since files have been kept only physically, and not leaving the Permit Office Manager, there is a risk she could: <ul style="list-style-type: none"> ○ Waive permits to benefit contractors and potentially receive a kickback ○ Misappropriate received payments, then waive the permit the payment was for to make records appear to show no payment was expected.

		We noted there are likely more methods possible but wanted to list the bulleted examples above to highlight the risk posed by these control weaknesses.
16	Potential for additional loss or other areas of risk for loss - "What Else"? If yes, summarize.	Multiple employees, including the subject have a City credit card. Every employee with a credit card must collect the corresponding receipts and invoices and submit them to the Finance Department. The Finance Department reviews this support to ensure all transactions are supported and allowable prior to payment. It appears these controls mitigate the risk the subject misappropriated funds through credit card transactions.
17	When was the individual hired by the client (month and year)?	Nettie Wager was hired on 5/13/1996.
18	Has the individual been in different job positions with the client and has there been any employment history issues? If yes, list the position, time-period and issues.	<p>Nettie's job title changed from Permit Technician to Permit Office Manager. However, the City stated this was only a title change, not a job responsibility change.</p> <p>The City voiced the following employment history issues and/or red flags they have identified:</p> <ul style="list-style-type: none"> • Nettie never wanted anyone working with her, and harassed other employees that worked with her until they were moved. • Nettie protested when they wanted to put a camera where she works, so the City did not put a camera there. • Nettie would 'freak out' if anyone was going to be filling in for her. • Nettie wanted to keep all the files as physical files rather than electronic files. • The City just put in a new online permitting system that lets contractors see what was entered. Nettie was pushing to not have this implemented. With this new system implemented, City staff have heard that Nettie is communicating to vendors to submit physical copies of their paperwork instead of in the new system since it is faster. • As noted in response #12, loss report F-21-235 was related to checks that went missing that had been in the custody of the subject of this loss report. The City reached out to each vendor to have them put stop payments on the checks, so no loss ended up occurring.
19	What is the current employment status of the individual (e.g. administrative leave on XX date)?	Subject is currently still employed and is not on administrative leave. The City does not want to alert the subject to the investigation, so they haven't locked up the files yet. However, they stated that if we confirm we are going to investigate, they plan to place the subject on administrative leave and will secure the files at that time.
20	Has the client conducted an investigation? If yes, summarize results.	The City reviewed driveway permits and noted many were waived for certain contractors and vendors. However, the City isn't planning to do a full investigation themselves. Instead, the City stated they would prefer our office completing the investigation.
21	Has a police report been filed? If yes, is law enforcement investigating?	No
22	Is any other outside party (FBI, OIG, LEAs or other investigator) conducting an investigation?	No.
23	Has the client established a time table of events that occurred up to the reported loss? (If not, recommend they document the key events.)	The loss was identified on 12/22/2023. On that same day, the City reviewed driveway permits and noted waived permits ranging from 2014-2023 that would not be allowable.

24	Is there fixed responsibility?	Yes, Nettie Wagner, Permit Office Manager waived permit fees for certain contractors and vendors.
25	Who within the client has been notified of the loss (commissioners, board, elected officials, etc.)?	<p>In addition to those who were in this call, documented in step #12, the following people were notified of the loss:</p> <ul style="list-style-type: none"> • Human Resources • Chief of Police • Building Official • City Council
26	Has the County Prosecutor been notified?	No.
27	Has any legal counsel been obtained by the individual?	No.
28	Has the client entered into any restitution agreements?	No.
29	Any other relevant information?	<p>Frank Elduen, City Mayor became the City's new mayor in December of 2023. Frank stated he has a friend that is an Inspector. When that friend came into the permit office at the City of Ocean Shores a couple years ago, he was told by Nettie that he didn't need a permit if used a certain contractor. Frank stated his friend did a permit anyways since he wanted to do it the right way.</p> <p>Scott Andersen, City Administrator, noted that with COVID, the City started having only one person in the office at a time. He feels this worsened the control environment leading to an increased amount of permits being inappropriately waived.</p> <p>Scott Andersen, City Administrator noted that one of the fees that had been waived was for the subject's house.</p> <p>While only driveway permits have been reviewed so far, which add up to only around \$2,000, the City was concerned that if other building permits are waived, the loss amount could be much higher. Scott Andersen, City Administrator, voiced that it could potentially be over \$100,000.</p> <p>Most of the files are still physical copies, so if our office does do an investigation, the City stated we would need to go onsite to complete this work.</p> <p>Angela Folkers, Finance Director, stated the subject clearly marked the 'waived' on the permits. Angela stated that in her own 7 year tenure with the City of Ocean Shores, she had only heard of 2 permits being waived, which were for the City's own internal projects. Scott Andersen, City Administrator noted aside from the City waiving the permit for their own projects, there should be no other waivers.</p> <p>The City has a concern that the subject may destroy records if she realizes she is being investigated. At this time, the subject does not know the City is looking into these waived permits.</p>