



SAO Fraud Cases and Fraud Preventive Controls

Sadie Armijo, CFE

Director of State Audit and Special Investigations

October 23, 2024

Budget, Accounting and Reporting Council





Agenda:

1. SAO Fraud Investigative Program
2. Four fraud cases and preventative controls
3. SAO resources



Fraud Investigations Program



Office of the
Washington
State Auditor

- State law (RCW 43.09.185) requires state and local governments to report losses to SAO.
- Website suggests actions to take if you suspect a loss:
 - Protect the accounting records.
 - Notify others who need to know.
 - Notify your legal counsel.
 - Consult with SAO before you file a police report.
 - Gain approval before you enter into any restitution agreement.



Report known or suspected incidents easily through our online *Report a Suspected Fraud or Loss* form here



Reporting fraud or loss



Office of the
Washington
State Auditor

- Report any known or suspected instances of fraud or loss to SAO
- Use SAO's website and the "Report a Suspected Fraud or Loss" form
- For more information email fraud@sao.wa.gov

The Audit Connection Blog Coronavirus Public Records Client Login f t in y

Office of the Washington State Auditor
Pat McCarthy

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Preventing Fraud

The Center for Government Innovation

Lean Services

Teambuilding Workshops

#BeCyberSmart

Financial Intelligence Tool

Resource Library

Technical Advice

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Improvement Training Videos

Preventing Fraud

Our goal at the State Auditor's Office (SAO) is to help you prevent, detect and report fraud in your government.

What to do if you suspect fraud

Visit our reporting fraud in government page to learn more

Report the loss using our online reporting form

Read about how and when to seek SAO approval for a restitution agreement

Fraud Resources

Fraud is costly to Washington governments.





State Auditor's Office – Fraud and Whistleblower Specialists



Case Study #1: Bellevue College



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Bellevue College

For the investigation period January 1, 2017 through June 1, 2022

Published May 16, 2024

Report No. 1034701



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\$31,510

Misappropriation

\$12,093

Questionable

Case facts



Office of the
Washington
State Auditor

-
- **Loss Period:** January 2017 – June 2022
-
- **Detection:** Bellevue College
-
- **Subject:** Food Services Director





Control weaknesses



Subject was the only person who had access and ability to do purchases and returns

-
- Violated cardholder agreement by using his travel card for both work-related and personal travel expenses
-
- No one monitored the activities of the travel cards
-
- No one independently reviewed the subject's monthly card reconciliation



What controls would prevent this type of loss?

Monthly review and reconciliation of purchase card and travel card activity

Ensure all credit card expenditures have proper supporting documentation available for review

Returns need adequate support showing where the refund went

Questions on Bellevue College



Case Study #2: Community College of Spokane and Washington State University



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Community Colleges of Spokane

For the investigation period March 1, 2021 through April 6, 2021

Published June 8, 2023

Report No. 1032067



Find out what's new at SAO
by scanning this code with
your smartphone's camera



Office of the
Washington
State Auditor





Case facts

\$0

Misappropriation

\$8,767

Questionable

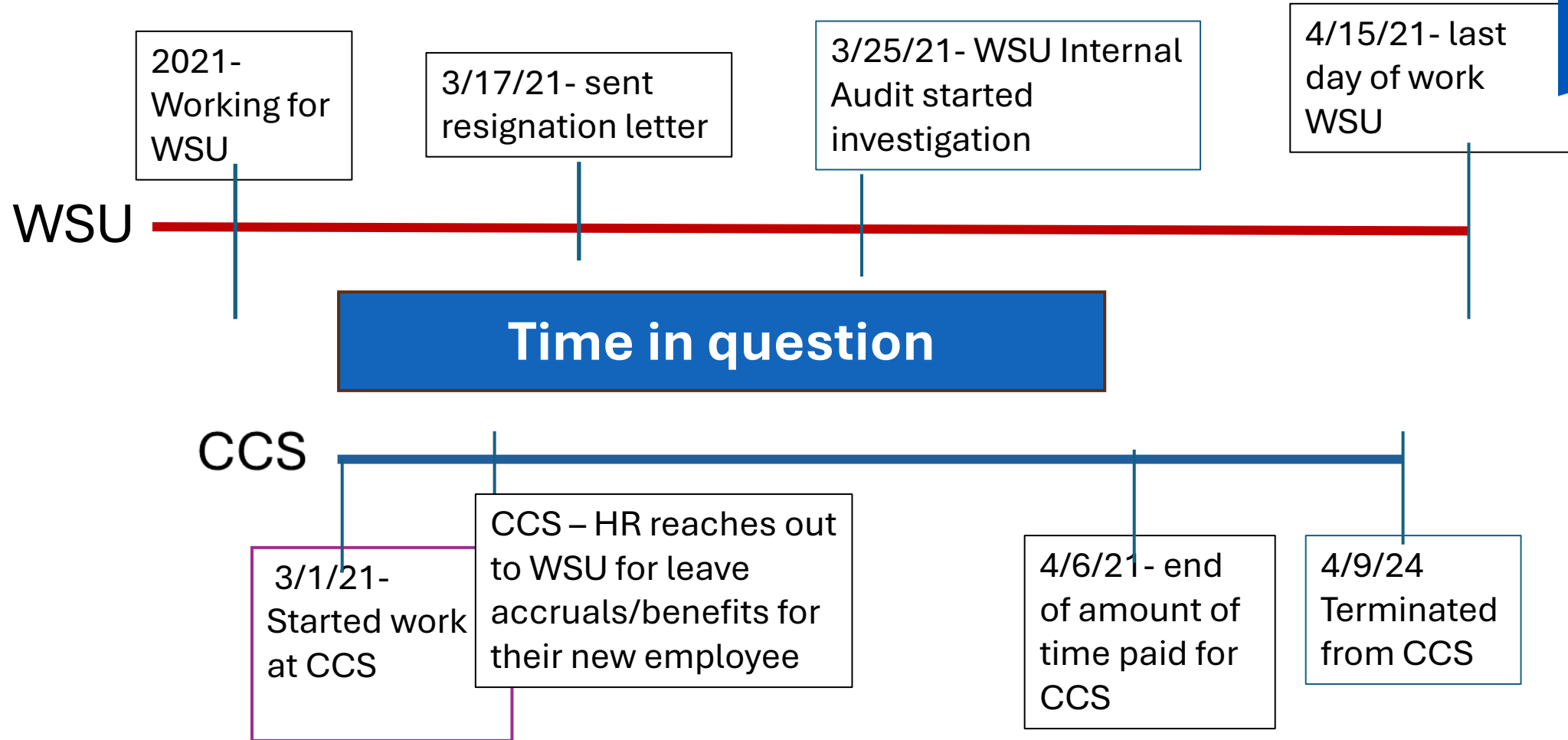
-
- **Loss Period:** March 1, 2021 – April 6, 2021
-
- **Detection:** Cooperative work with both CCS and WSU
-
- **Subject:** Director of Grants and Sponsored Research



Timeline for work overlap



Office of the
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State Auditor





Control weaknesses



Working two state jobs at the same time violated the employment contracts and state ethics laws

College trusted the employee to comply with the College policies and employment contract.

No one was monitoring this remote employee to ensure she was performing her work.



What controls would prevent this type of loss?

Communicate and training staff on policies and procedures applicable to general ethics and conflicts of interest

Improve monitoring of employee work activity to ensure employees are not engaged in dual employment

Establish a policy to verify employment status by contacting prior employers through reference check process



Office of the
Washington
State Auditor

Questions on Community College of Spokane



Case Study #3: Town of Cusick



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Town of Cusick

For the investigation period January 1, 2022 through April 30, 2023

Published April 18, 2024

Report No. 1034573



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\$277,570

Misappropriation

\$30,843

Questionable

Case facts

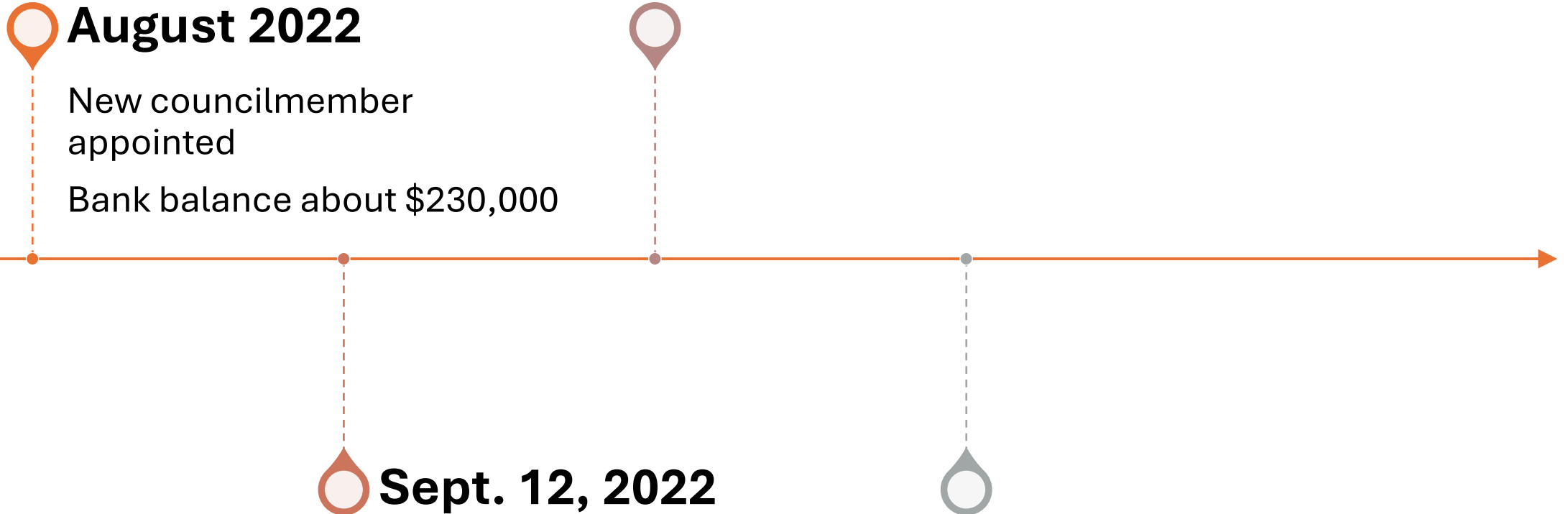


Office of the
Washington
State Auditor

-
- **Loss Period:** September 2022 – March 2023
-
- **Subject:** Clerk/Treasurer
-
- **Detection:** Town elected officials



Timeline: August to September 2022



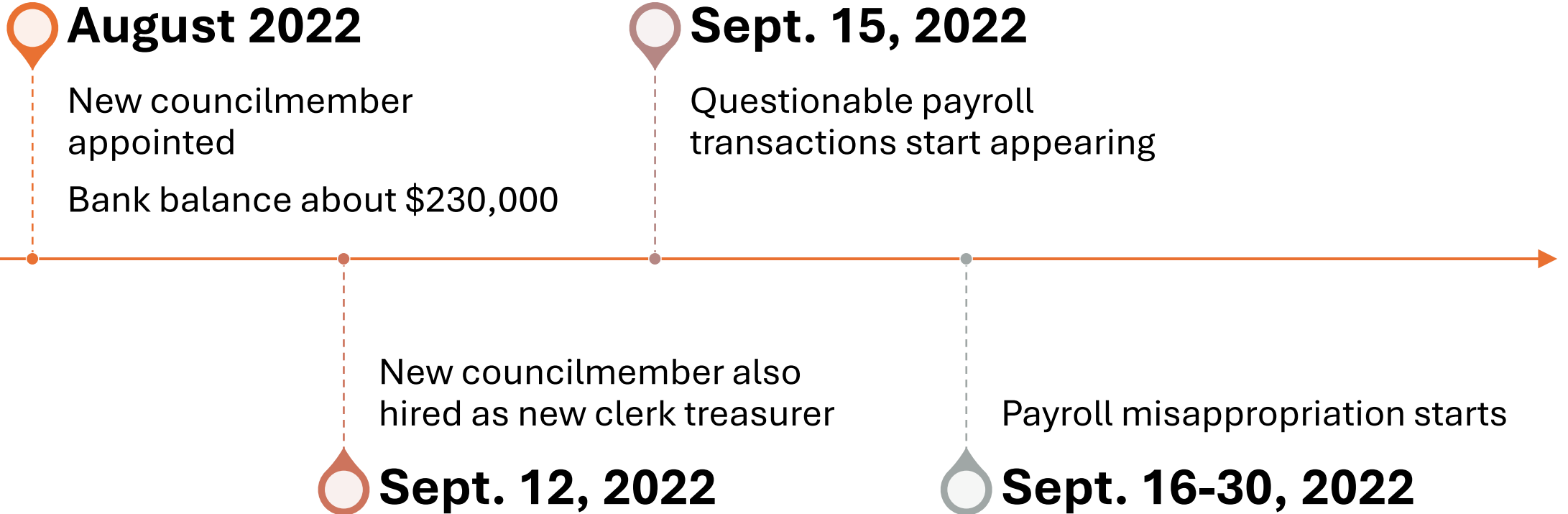
Town Clerk:

[Clerk's] resignation was discussed, as well as the positions of Town Clerk and Assistant Town Clerk. Councilmember [A] suggested that the town consider eliminating the Assistant Clerk position. Councilmember [Subject's Spouse] noted that this would likely save the town money while also making allowances for increases to the Town Clerk's salary. [Mayor] expressed concern regarding the lack of an Assistant Clerk should the Clerk fall ill, take vacation, abandon the position, or continuously show a lack of acceptable performance. Discussion then turned to filling the Town Clerk position that is currently vacant. Councilmember [Subject] had informed the Council upon [Clerk's] resignation that he would be willing to fill the position. Council asked [Subject] if he would be willing to complete a training course so to better learn the [accounting system] town management software the Town uses. [Subject] said he would complete the course/training as required. Councilmember [A] made a motion to terminate the Assistant Clerk position effective 9/13/2022, and to hire [Subject] as the Town Clerk for 25 — 30Hrs/Week at an hourly rate of \$30.00/Hr. with the potential for a performance-based increase in six months — contingent upon completion of the training course as discussed.

The motion was seconded by Councilmember [B] and passed unanimously with an I from Councilmember [Subject's wife]. * *Councilmember [Subject] recused himself from all discussions on this topic and abstained from voting on the motion. **



Timeline: August to September 2022



Timeline: October 2022

October 2022

SAO audit begins

October 6-30, 2022

26 unauthorized bank transfers: \$9,525

118 unauthorized credit card charges:
\$7,712

Credit card discussions at
town council meeting

October 4, 2022



Timeline: November to March 2023

Nov. 1 to March 7, 2023

395 unauthorized bank transfers: \$233,000

489 unauthorized credit card charges:
\$191,636

Bank balance:
\$249.00

March 7, 2023





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Washington
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Review *the* Bank Statements

sao.wa.gov



Bank Account

TRAN DATE	DESCRIPTION	DEBITS
12/04	Tfr to XXXXXXXX TO OWN OF CUSICK	440.00
12/05	Tfr to XXXXXXXX TO OWN OF CUSICK	278.00
12/06	Tfr to XXXXXXXX TO OWN OF CUSICK	360.00
12/06	Tfr to XXXXXXXX TO OWN OF CUSICK	350.00
12/06	Tfr to XXXXXXXX TO OWN OF CUSICK	319.00
12/07	Tfr to XXXXXXXX TO OWN OF CUSICK	1,700.00
12/07	Tfr to XXXXXXXX TO OWN OF CUSICK	1,100.00
12/07	Same Day ACH F	5.00
12/07	Tfr to XXXXXXXX TO OWN OF CUSICK	350.00
12/07	Tfr to XXXXXXXX TO OWN OF CUSICK	1,600.00
12/07	Tfr to XXXXXXXX TO OWN OF CUSICK	900.00
12/08	Tfr to XXXXXXXX TO OWN OF CUSICK	350.00
12/08	Tfr to XXXXXXXX TO OWN OF CUSICK	1,800.00
12/08	Tfr to XXXXXXXX TO OWN OF CUSICK	460.00
12/09	Tfr to XXXXXXXX TO OWN OF CUSICK	1,800.00
12/09	Tfr to XXXXXXXX TO OWN OF CUSICK	425.00
12/09	Tfr to XXXXXXXX TO OWN OF CUSICK	400.00
12/10	Tfr to XXXXXXXX TO OWN OF CUSICK	1,900.00
12/10	Tfr to XXXXXXXX TO OWN OF CUSICK	1,100.00
12/10	Tfr to XXXXXXXX TO OWN OF CUSICK	800.00
12/11	Tfr to XXXXXXXX TO OWN OF CUSICK	1,800.00
12/11	Tfr to XXXXXXXX TO OWN OF CUSICK	360.00
Total Misc Debits		86,934.69

From:
Bank
Acct

To:
CC



Office of the
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Credit Card Account

TRAN DATE	POST DATE	DESCRIPTION	AMOUNT
12/05	12/05	UPHOLD NEW YORK NY	\$550.00
12/05	12/06	TOYOTA TIS TECH SERV 800-892-9650 WI	\$65.00
12/05	12/06	UPHOLD NEW YORK NY	\$218.00
12/06	12/06	UPHOLD NEW YORK NY	\$600.00
12/06	12/06	UPHOLD NEW YORK NY	\$300.00
12/07	12/07	STAMPS.COM 855-608-2677 TX	\$9.99
12/07	12/07	PAYMENT - THANK YOU LIBERTY LAKE WA	-\$1,700.00
12/07	12/07	PAYMENT - THANK YOU LIBERTY LAKE WA	-\$1,600.00
12/07	12/07	PAYMENT - THANK YOU LIBERTY LAKE WA	-\$900.00
12/07	12/08	PAYPAL *SHERLOCKMIC CA	\$544.95
12/08	12/08	PAYMENT - THANK YOU LIBERTY LAKE WA	-\$1,800.00
12/07	12/09	PAYPAL *LMSERVAS CA	\$772.05
12/07	12/09	PAYPAL *LMSERVAS CA	\$617.70
12/08	12/09	PAYPAL *LMSERVAS CA	\$1,029.30
12/09	12/09	PAYMENT - THANK YOU LIBERTY LAKE WA	-\$1,800.00
12/10	12/10	PAYMENT - THANK YOU LIBERTY LAKE WA	-\$1,900.00
12/10	12/10	PAYMENT - THANK YOU LIBERTY LAKE WA	-\$1,100.00
12/10	12/10	PAYMENT - THANK YOU LIBERTY LAKE WA	-\$800.00
12/08	12/11	PAYPAL *LMSERVAS CA	\$823.50
12/08	12/11	PAYPAL *LMSERVAS CA	\$545.67
12/09	12/11	PAYPAL *LMSERVAS CA	\$835.85
12/09	12/11	PAYPAL *LMSERVAS CA	\$926.40
12/10	12/11	PAYPAL *LMSERVAS CA	\$1,080.75
12/11	12/11	PAYMENT - THANK YOU LIBERTY LAKE WA	-\$1,800.00
12/10	12/12	PAYPAL *LMSERVAS CA	\$1,440.90
12/11	12/12	PAYPAL *LMSERVAS CA	\$1,247.45

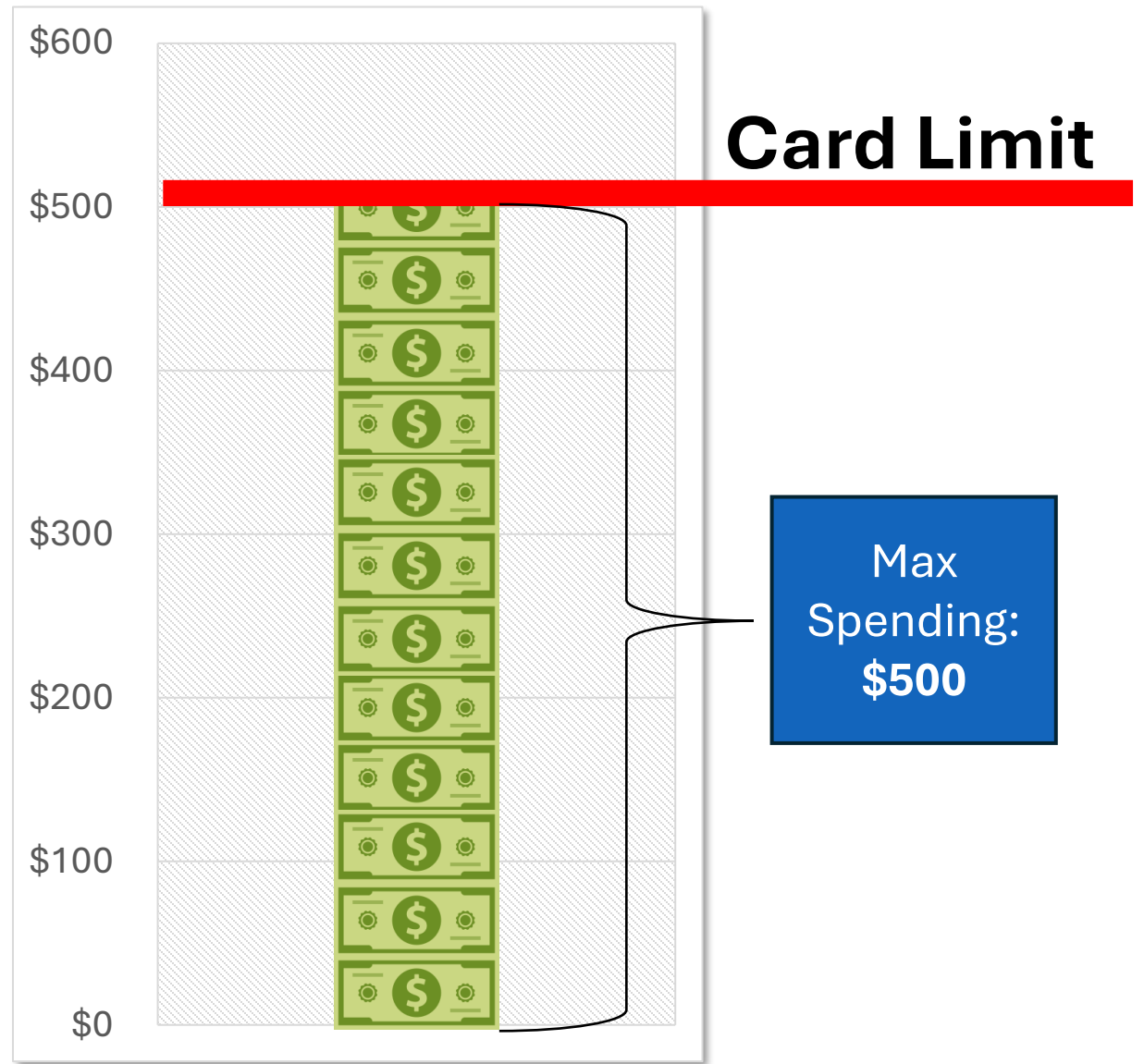
Digital Currency

Bank transfer in

PayPal out



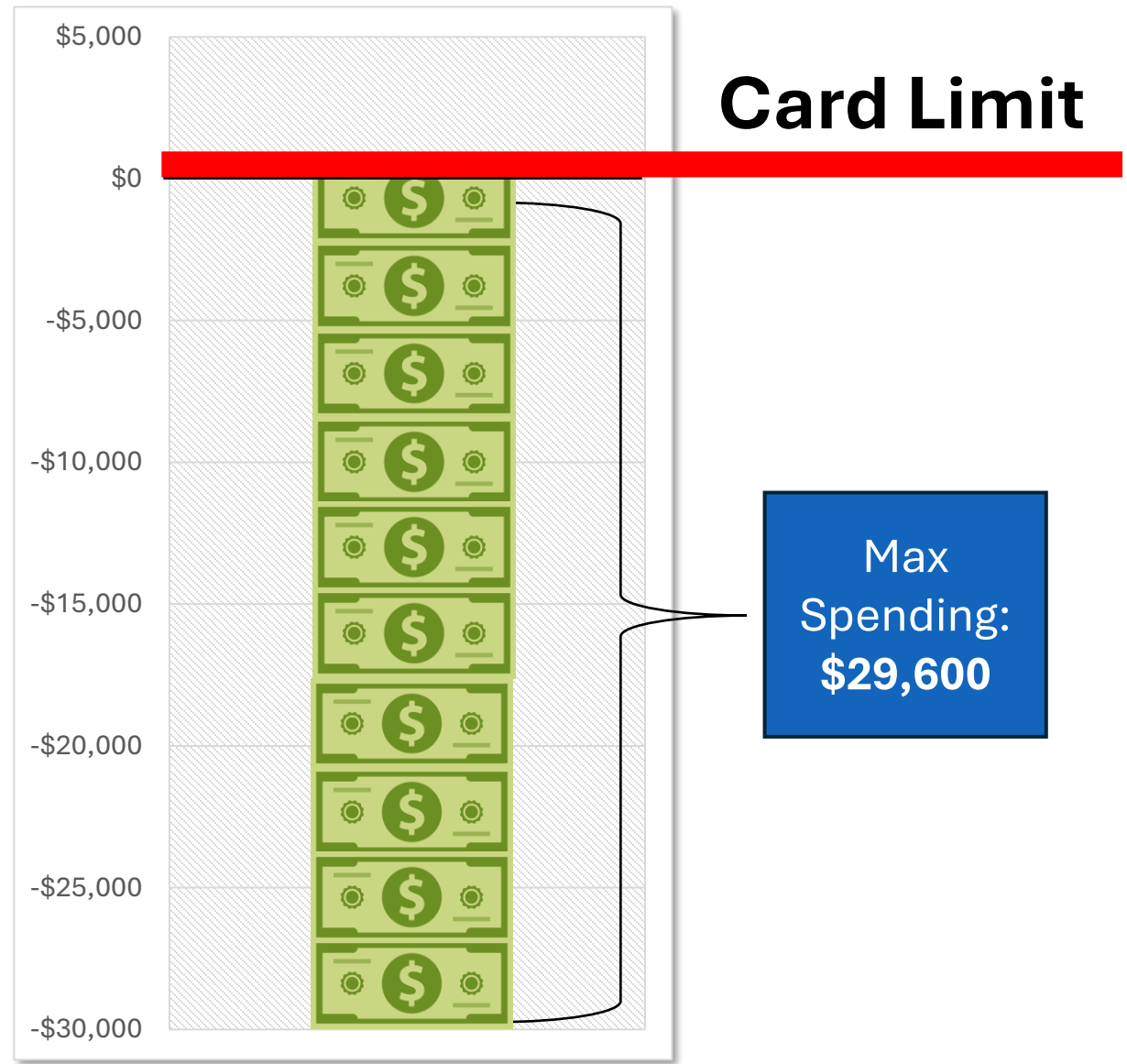
PAST DUE AMOUNT	\$0.00
OVERLIMIT AMOUNT	\$0.00
CREDIT LIMIT	\$500
AVAILABLE CREDIT	\$500
STATEMENT CLOSING DATE	01/02/2023
DAYS IN BILLING CYCLE	31



ACCOUNT SUMMARY

PREVIOUS BALANCE	-\$12,058.69
- PAYMENTS	\$63,214.62
- OTHER CREDITS	\$0.00
+ PURCHASES	\$46,170.03
+ OTHER DEBITS	\$0.00
+ CASH ADVANCES	\$0.00
+ FEES CHARGED	\$0.00
+ INTEREST CHARGED	\$0.00
NEW BALANCE	-\$29,103.28
PAST DUE AMOUNT	\$0.00
OVERLIMIT AMOUNT	\$0.00
CREDIT LIMIT	\$500
AVAILABLE CREDIT	\$500
STATEMENT CLOSING DATE	01/02/2023
DAYS IN BILLING CYCLE	31

Card Limit



TRAN DATE	DESCRIPTION	DEBITS
10/19	ACH Debit PUD Town of Cusick ID [REDACTED] INVOICE# 22-08 – Contract Water Operator, August 2022	4,587.38
10/19	ACH Debit SSS Town of Cusick ID [REDACTED] INVOICE# 1092 – October 2022	1,871.29
10/21	ACH Debit undefined Town of Cusick ID [REDACTED] PAYROLL – 10/21/2022	817.45
10/21	ACH Debit Elected Town of Cusick ID [REDACTED] PAYROLL – 10/21/2022	2,001.46
10/24	ACH Debit Elected Town of Cusick ID [REDACTED] OVERTIME – PRELIM. BUDGET 2023	1,561.39
10/25	ACH Debit Elected Town of Cusick ID [REDACTED] Shop/Winterization – [REDACTED], Mileage	1,188.00
10/25	ACH Debit Chitwood Town of Cusick ID [REDACTED] INVOICE# 3006 – WATER MAIN BREAKS 9-19-22	9,690.81
10/26	ACH Debit Elected Town of Cusick ID [REDACTED] PURCHASE ORDER# 200122 – AMS SOIL SAMPLING KIT FOR 5YR. ICMP	3,330.24
10/27	ACH Debit Elected Town of Cusick ID [REDACTED] PURCHASE: CONFINED SPACE ENTRY KIT	2,457.81
10/28	ACH Debit Elected Town of Cusick ID [REDACTED] REIMBURSEMENT: OFFICE EQUIPMENT	1,103.03
	Total ACH Debits	46,727.79



Cleared checks

CHECK NUMBER	DATE	AMOUNT	CHECK NUMBER	DATE	AMOUNT
21285	11/23	1,206.00	99463250 *	11/04	912.22
21296 *	11/28	3,397.34	99567412 *	11/21	611.38
99004764 *	11/16	416.78	99951958 *	11/21	161.54
99252121 *	11/08	129.23	99992713 *	11/16	15.48
99334688 *	11/16	169.02			





Interview:

- No online access to the Town's bank account or credit card accounts
- Didn't receive bank statements or credit card statements
- Unaware there was a Town credit card opened in his name
- It was external fraud

What did he say?





Results

Summary of results		
Investigation area	Misappropriation	Questionable
Credit cards	\$199,348	\$686
Electronic disbursements	\$48,240	\$5,672
Payroll	\$24,406	\$23,846
Check disbursements	\$5,576	\$639
Cash receipting	*Unknown	
TOTAL	\$277,570	\$30,843



Timeline: March 2024 Indictment



August 14, 2024



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Eastern District of Washington

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PRESS RELEASE

Former Town Clerk and Town Council Member Pleads Guilty to Stealing More Than \$195,000 From Town of Cusick

Wednesday, August 14, 2024

For Immediate Release



Trust, without verification



Office of the
Washington
State Auditor

Control weakness

- Complete control of all financial duties with no monitoring
- No bank statement review
- No independent bank reconciliation, or review of the subject's bank reconciliations





What controls would prevent this type of loss?

A secondary review of all the Town's bank and credit card accounts by someone independent of the cash receipting and payment processes

Segregate duties over cash receipting and payment processing

Secondary review of all payments, including checks, electronic payments, payroll and credit cards



Office of the
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State Auditor

Questions on the Town of Cusick



Case Study #4: Office of Administrative Hearings



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Office of Administrative Hearings

For the investigation period July 1, 2017 through June 30, 2023

Published July 1, 2024
Report No. 1035189



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Office of the
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\$878,115

Misappropriation

\$4,933

Questionable

Case facts



Office of the
Washington
State Auditor

-
- **Loss Period:** June 2019 – May 2023

-
- **Detection:** SAO Audit

-
- **Subject:** Management Analyst



Exponential growth

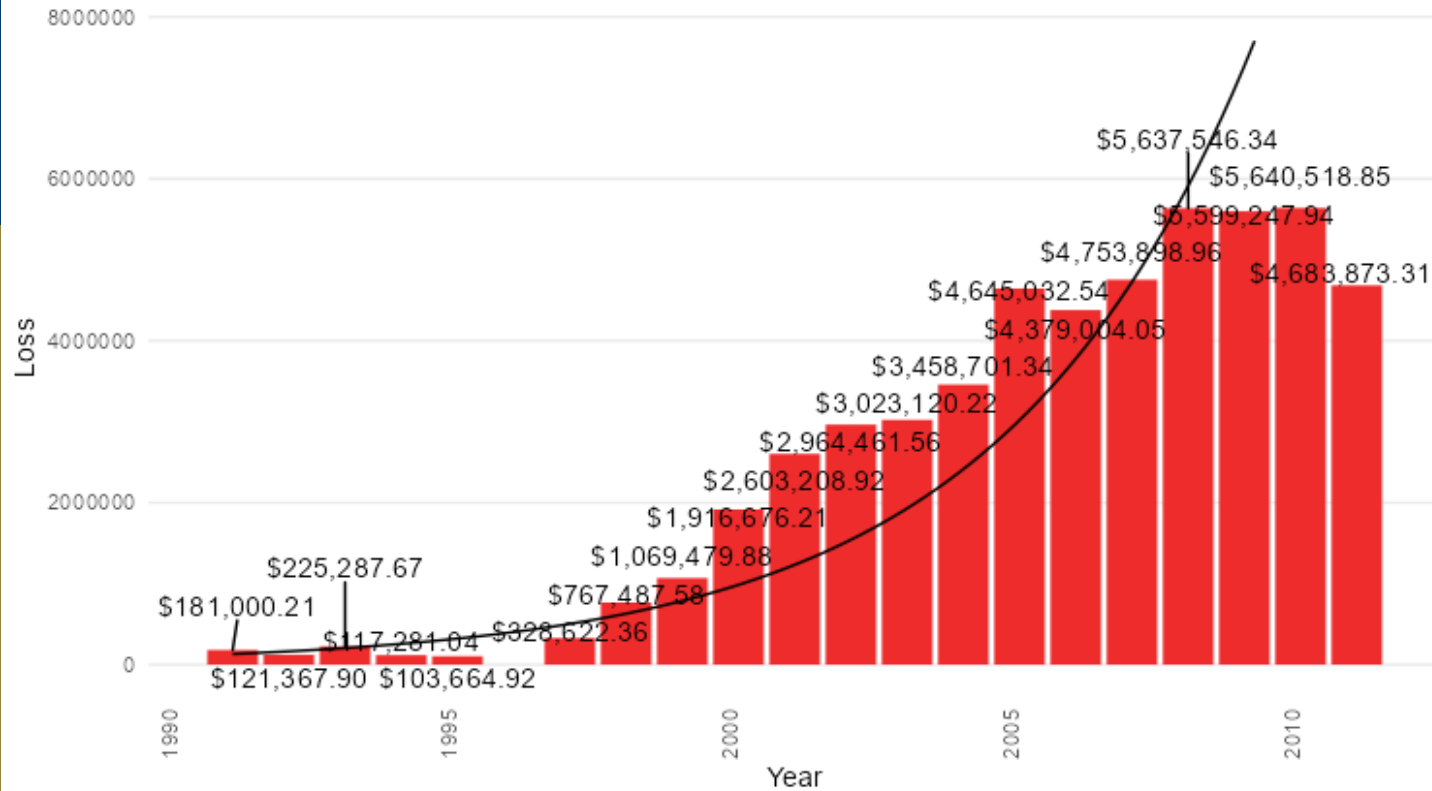


Exponential growth

Here's Rita Crundwell's Data
(without 2012; when she was caught)

$R^2 = 0.69$; Change in Slope = 87.07

Total Spent = \$52,219,481.80; Total Transactions = NOT AVAILABLE IN N.D.IL EXHIBIT 2

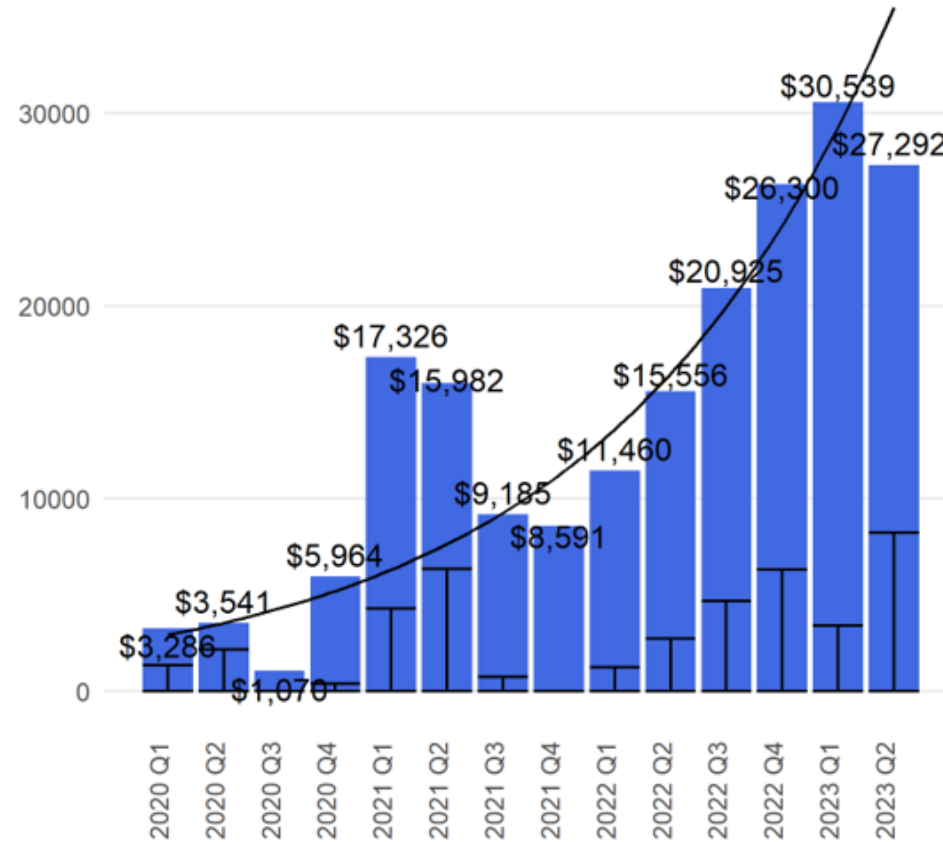




P-card data and exponential growth

$R^2 = 0.79$; Change in Slope = 11.09
Total Spent = \$197,015.82; Total Transactions = 767
No Cents = \$38,995.00 (\$10,000.00 threshold)

Count of Transaction IDs
22 31 27 28 56 48 59 66 52 49 80 79 87 83



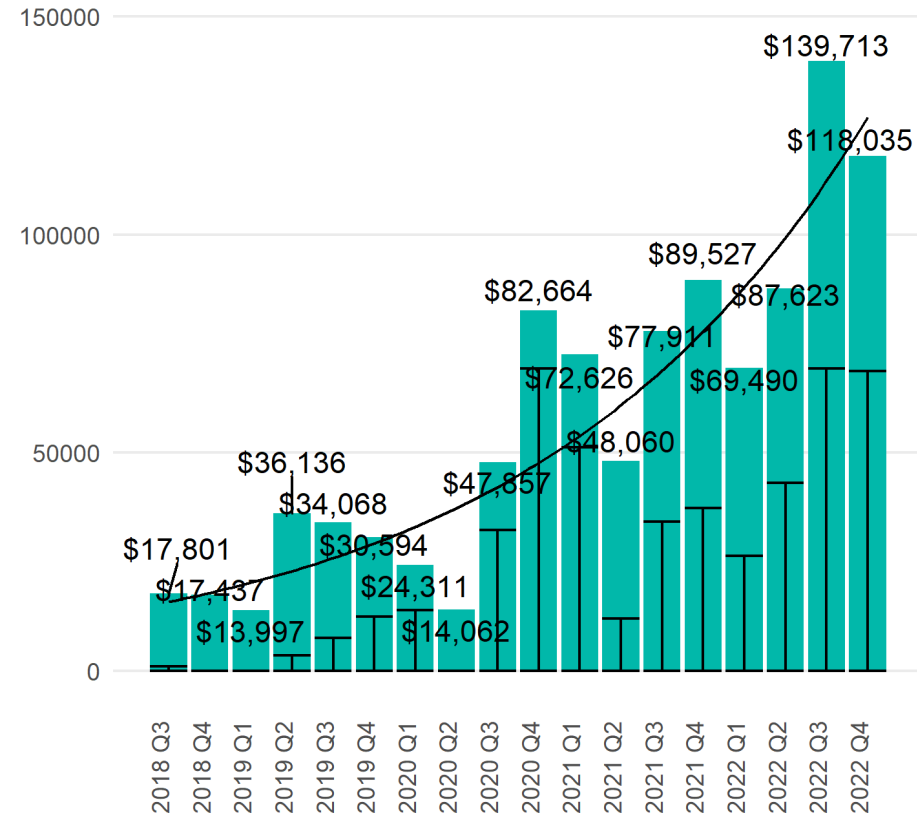


CorpCard **2314 CARD TRAVEL

No Cents = \$482,467.00 or 167.45% from mean; $R^2 = 0.83$
Card Total = \$1,021,912.01; Total Transaction IDs = 1351

Count of Transaction IDs
71 82 92 144 118 96 70 13 16 39 54 45 82 60 61 71 134 103

Travel card data and exponential growth



Asking the Office of Administrative Hearings for help





Vendors selected for review

Purchase card vendors

SQ* RCC Professional

SQ* Soundage

SQ* Fourcorners

IN* SRBC Consulting

SQ = Payment through Square Payments

IN = Payment through Intuit



TRAN DATE	POST DATE	MCC CODE	TRANSACTION DESCRIPTION	REFERENCE #	AMOUNT
01-25	01-26	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163025100529278879	2,500.00
01-26	01-27	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163026101253511229	2,000.00
01-27	01-30	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163027101993980543	8,500.00
01-29	01-30	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163029100506272644	9,200.00
01-30	01-31	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163030101193340576	9,300.00
01-31	02-01	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163031101868734151	9,300.00
01-31	02-01	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163031101868734169	9,500.00
02-03	02-06	3637	RAMADA BY WYNDHAM OLYMPI 360-4598866 WA 8579691 ARRIVAL: 02-02-23	24755423035160356935603	134.57
02-06	02-07	0000	PAYMENT - THANK YOU 00000 C	747982630380000000000357	4,052.98PY
02-07	02-08	4814	VERIZONWRLSS*RTCCR VB 800-922-0204 FL	24692163038106610351967	637.09
02-07	02-08	4814	VERIZONWRLSS*RTCCR VB 800-922-0204 FL	24692163038106610352106	511.91
02-07	02-08	4814	VERIZONWRLSS*RTCCR VB 800-922-0204 FL	24692163038106610352148	732.78
02-10	02-10	0000	PAYMENT - THANK YOU 00000 C	747982630410000000000048	5,963.03PY
02-10	02-13	4814	TMOBILE POSTPAID WEB 800-937-8997 WA	24692163041109290041531	5,935.44
02-11	02-13	0000	PAYMENT - THANK YOU 00000 C	747982630440000000000037	30,000.00PY
02-11	02-13	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163042109952730446	5,000.00
02-12	02-13	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163043100670703095	5,000.00
02-13	02-14	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163044101351310654	2,000.00
02-15	02-16	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163046102792654062	5,100.00
02-15	02-16	8999	IN *SRBC CONSULTING 360-3588286 WA	24692163046102792654070	5,000.00
02-16	02-17	4814	VERIZONWRLSS*RTCCR VB 800-922-0204 FL	24692163047103087389397	830.80
02-16	02-17	4814	VERIZONWRLSS*RTCCR VB 800-922-0204 FL	24692163047103087389470	468.82
02-16	02-17	4814	VERIZONWRLSS*RTCCR VB 800-922-0204 FL	24692163047103087389496	2,397.50
02-16	02-17	4814	VERIZONWRLSS*RTCCR VB 800-922-0204 FL	24692163047103087389561	556.85



Department of Revenue records

License Information:

Entity name: Management Analyst
(investigation subject)

Business name: SRBC CONSULTING

Entity type: Sole Proprietor

UBI #: 604-793-230

Business ID: 001

Location ID: 0001

Location: Closed

Location address: [Redacted]
SHELTON WA 98584

Mailing address: [Redacted]

Excise tax and reseller permit status: [Click here](#)

Governing People May include governing people not registered with Secretary of State

Governing people	Title
Management Analyst (investigation subject)	



Misappropriation

Type:	2019	2020	2021	2022	2023	Total
Business 1	\$29,380	\$0	\$0	\$0	\$0	\$29,380
Business 2	\$18,100	\$238,283	\$0	\$0	\$0	\$256,383
Business 3	\$0	\$10,000	\$35,943	\$0	\$0	\$45,943
Business 4	\$0	\$0	\$56,800	\$289,951	\$182,300	\$529,051
Personal use of cards	\$4,423	\$3,203	\$3,831	\$3,841	\$2,061	\$17,359
Total	\$51,903	\$251,485	\$96,574	\$293,792	\$184,361	\$878,115





Subject had improper access to the AFRS system (upload and release batches)

Control weaknesses



Office of the
Washington
State Auditor

-
- Subject presented partial activity reports, rather than actual monthly statements
-
- Only the subject could access the U.S. bank
-
- No one independently reviewed the subject's monthly card reconciliation





What controls would prevent this type of loss?

Perform a secondary independent review of monthly reconciliations over your credit cards

Ensure the staff responsible for the independent oversight of expenditure activity have the proper access and capability to view and monitor this activity

Segregating duties, such as the upload and release of batch in financial systems



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Review *the* Bank Statements

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Office of the
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Questions on Office of Administrative Hearings





**Resist
Complacency**

Fraud Detection Ideas



Office of the
Washington
State Auditor

Conduct targeted internal audits for a specific objective

Step back from what you are reviewing. Consider the bigger picture

Perform a fraud risk assessment

Try a new data analytic





Office of the
Washington
State Auditor

**What can
SAO do
for you?**



Our online resource library can help you manage your government's day-to-day business...

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...safeguard resources





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Preventing Fraud

The State Auditor’s Office (SAO) provides a variety of free guides, checklists, best practices and tools to help Washington governments improve internal controls, grants management, procurement practices, financial reporting, and cybersecurity.

To browse our resources, use the search box (click 'filters' button on mobile) or select a category below.

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Internal Controls

ACCOUNTS PAYABLE

ACCOUNTS RECEIVABLE

Featured Resource

CYBERSECURITY
is everyone's job.

It starts with policy
A guide to jump-starting your cybersecurity program

The Office of the Washington State Auditor launched the Cyber Checkup program in 2023, and one of the common results we have found is that local governments lack or need to improve their information technology (IT) documentation, including standards, procedures and most importantly, policies.





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ESSENTIALS OF MANAGING FEDERAL AWARDS

A COMPLIANCE HANDBOOK



[SAO's newest resource helps local governments manage federal awards](#)

OCTOBER 02, 2024

The Office of the Washington State Auditor has published a new resource for local governments called Essentials of managing federal awards: A compliance handbook. Now governments can access the latest version of this handbook at any time of the year in our Resource Library. ... [CONTINUE READING](#)



Some examples of resources



Office of the
Washington
State Auditor

Center for Government Innovation
Office of the Washington State Auditor
Pat McCarthy

Best practices for travel and reimbursable expenses

January 2024

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The cover features an illustration of a hotel, a gas station, a taxi, and a dining table, with a large circular graphic containing a dollar sign and arrows.

Center for Government Innovation
Office of the Washington State Auditor
Pat McCarthy

Best practices for credit card programs

April 2024

Government credit card programs vary greatly in size and purpose, as they allow employees to pay for travel, fuel or small purchases. They reduce your procurement and payment costs, allowing you to avoid processing purchase orders, individual invoices and checks – especially for small transactions. Some programs also offer rebates.

While credit cards can provide many benefits, they also carry a high risk of fraud, waste and abuse. When you provide credit cards to employees, it gives them a lot of control over a single transaction and puts considerable pressure on your review and monitoring processes.

The cover features two credit cards (one orange, one blue) and the Washington State Auditor logo.

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Best practices for fueling government-owned vehicles

July 2023

Many governments are responsible for fleets of police, fire or utility vehicles, schools or transit buses, motor pools, or maintenance vehicles. Some governments operate their own fuel tanks, while others use retail fueling stations or a combination of both. Although more governments are converting to hybrid or electric, fuel continues to be a significant expense in fleet operation budgets, typically second only to vehicle purchases.

The cover features an illustration of a school bus and a fueling station.



Information

Fraud-related questions can be sent to our Special Investigations Fraud team at fraud@sao.wa.gov

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