



***City of Oak Harbor  
Notification to SAO of  
Discovery of Suspected Fraud***

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**Policies and Procedures**

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**01 Notifying State Auditors Office of Suspected Fraud**

 Finance Department	<i>Policy &amp; Procedure Manual</i>	
	Description: <b>Notification Procedures</b>	No. <b>01</b>
	Section:	No.
	Revision Date: October 21, 2009	No. <b>01</b>

**REPORTING POSSIBLE MISAPPROPRIATIONS OF PUBLIC RESOURCES**

RCW 43.09.260(7) requires that all state agencies and local governments immediately notify the State Auditor's Office if they know or suspect a loss of public resources. The following cite addresses this issue:

*“(7) It shall be unlawful for any local government or the responsible head thereof, to make a settlement or compromise of any claim arising out of such malfeasance, misfeasance, or nonfeasance, or any action commenced therefore, or for any court to enter upon any compromise or settlement of such action, without the written approval and consent of the attorney general and the state auditor.”*

Department directors, managers, or employees should take the following actions when a loss of public funds or assets or other illegal activity is suspected or detected:

- Immediately notify the Finance Director as the Liaison for Reporting to the State Auditors Office.
- Immediately report the loss to the appropriate SAO audit team.
- Protect the accounting records from loss or destruction. All original records related to the loss should be secured in a safe place until any inquiries or investigations have been completed.
- Notify others who need to know about the loss, depending upon the circumstances. Providing notification to the City Attorney’s office may also be appropriate.
- Do not enter into a restitution agreement with an employee prior to an audit/investigation in order to establish the amount of loss, and to quantify the costs of any SAO audit costs for recovery purposes.
- File a police report with the appropriate local or state law enforcement agency when advised by the State Auditors Office.

Miscellaneous type issues that do not require a report to the State Auditors Office:

- Normal and reasonable “over and short” situations from cash receipting operations. Record these transactions in the accounting system as miscellaneous income and expense, respectively, and monitor this activity by cashier for any unusual trends.
- Reasonable inventory shortages identified during a physical count. Record inventory adjustments in the accounting system.
- Breaking and entering or vandalism of property.

Please do not attempt to correct the loss without reporting to the authorities identified above. In addition, state law requires written approval of the State Auditor and Attorney General before state agencies and local governments make any restitution agreement, compromise, or settlement of loss claims related to a misappropriation.