



October 12, 2006

Charles E. Corrigan
Ramis Crew Corrigan LLP
1727 N.W. Hoyt Street
Portland, OR 97209

Chris Jordan
City Manager
City of West Linn
22500 Salamo Road
West Linn, OR 97068

Dear Mr. Corrigan and Mr. Jordan:

Re: *City of West Linn – Elma Sandoval Magkamit*
Alleged Asset Misappropriation

This letter comprises our work to date pursuant to a fraud investigation. Our work focused on a possible misappropriation of assets of the City of West Linn by Ms. Elma Sandoval Magkamit ("Subject" or "Magkamit"). This investigation was predicated based upon your identification of possible fraudulent checks drawn on the City of West Linn's primary checking account.

REPORT SCOPE

This report cannot be used for any other purpose than for that which originally precipitated this work. In addition, it cannot stand alone and must refer to the workpaper file for accurate interpretation.

Note that pending and potential civil and criminal actions frame the context of this report. We reserve the right, at our option to update and/or refine this report as we deem necessary or should additional data become available for review.

Our analysis was enhanced by the diligence and dedication of certain key people who merit the gratitude of the Citizens of West Linn. The people include:

- **Ms. Heidi Bowen** – Criminal Financial Investigator, Oregon Department of Justice – Criminal Justice Division.
- **Mr. Christopher Jordan** – City Manager.
- **Ms. Michele Eberle**, Councilor – Audit Committee member.
- **Ms. Jody Carson**, Councilor – Audit Committee member.
- **City of West Linn Finance Department** – Remaining employees.

UNIQUE FACTS AND CIRCUMSTANCES

Every fraud investigation contains unique aspects that shape the context and defines the framework of the assignment. The following ***Unique Facts and Circumstances*** are specifically identified in order to characterize the scope of our work to date.

- ❑ City management experienced a multi-year period of turmoil reflected by high turnover (voluntary and involuntary) in key positions.
- ❑ The auditors were terminated before the completion of the June 30, 2002 fiscal audit and the audit was not completed for a multi-year period.
- ❑ The City's overall control environment was ineffective for a multi-year period as evidenced by the various misappropriations outlined below.
- ❑ The City's Finance Department lacked oversight as evidenced by the after-the-fact bank statement and general ledger account reconciliations and related items contained in this report.
- ❑ A new accounting software module purchased in 1999 to avoid Y2K concerns has not been fully implemented City-wide.
- ❑ At this time, we have not had the opportunity to interview all key witness including the investigation Subject.

ACTIVITY SUMMARY

Our investigation was conducted in accordance with lawful fraud investigation techniques, which included – but are not necessarily limited to:

- ❑ Investigation and review of selected finance and operations records for the City of West Linn including:
 - Bank statements (altered and unaltered),
 - Copies of cancelled checks,
 - Bank reconciliations,
 - Audited financial statements,
 - Audit reports,
 - Outside financial consultant reports,
 - Budgets,
 - General ledger activity,
 - Journal entries,
 - Cash receipts journal,
 - Personnel files,
 - Job descriptions,
 - Various accounting & finance electronic files¹, and
 - Other contemporary and archived documentation as deemed necessary.
- ❑ Voluntary interviews with current and past department heads, managers and other personnel of the City of West Linn.
- ❑ Investigation and review of selected financial records of Elma Sandoval Magkamit.

¹ Many of these files were deleted proximate to the termination of Elma Magkamit. The City managed to restore most of these files for review.

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- The actions included elements of, but are not necessarily limited to contemporary direct and indirect forensic accounting methods including:
 - Full-and-false inclusion testing
 - Interview/overlap matrix
 - Computer analysis using IDEA² data analysis software
 - Comparison testing
 - Gap detection
 - Link analysis
 - Etc.
- Communications with the State of Oregon and West Linn law enforcement officials and West Linn attorney.
- Regular communications with the Audit Committee and City Manager.
- Periodic communications with City Council parties.

Based on the results of our fraud investigation, we find that there is sufficient evidence to support the conclusion that \$1,420,452.80 was misappropriated from the City of West Linn's Bank of America checking account and that Elma Sandoval Magkamit appropriated these assets for her personal benefit. The results of our investigation (these actions), if proved in a court of law, could constitute a violation of Oregon criminal and/or civil law.

Note that on September 29, 2006, Elma Sandoval Magkamit pled guilty in Clackamas County Circuit Court, Judge Eve Miller, to 5 charges of Theft 1 and 52 charges of Aggravated Theft 1. Mrs. Magkamit is now awaiting sentencing related to these charges.

This report and supporting detail comprises the written portion of our investigation; we have previously met with the City Manager, Audit Committee, City Council, City Attorney, and other selected parties to verbally communicate the material findings from our investigation as deemed necessary.

Sincerely,



Gregory A. Gadawski, CPA/ABV, CFE, CVA
Principal

financialforensics®



Darrell D. Dorrell, CPA/ABV, MBA, ASA, CVA, CMA, DABFA, CMC
Principal

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² Audimation Services, Inc.

INVESTIGATION SUMMARY

SUBJECT PERSONAL DATA³

- DOB – July 5, 1953
- Husband – Larry C. Magkamit
- Education – University of the East (Manila, Philippines). Bachelor of Science in Business Administration. Certified Public Accountant (Philippines, 9/78)
- Employment History –
 - Staff accountant; SyCip, Gorres, Velayo & Co., CPAs (Manila, Philippines)
 - Bookkeeper; Central Typewriter Exchange (Chicago, IL)
 - Internal Auditor; Red Lions Inn (Vancouver, WA)
 - Accounting Supervisor; City of Beaverton (Beaverton, OR)

KEY BUSINESS DATA

The City of West Linn ("the City") operates on a June 30 fiscal year. The State of Oregon requires the City and similar public entities to authorize annual independent audits. That last independent audit completed for the City was for the fiscal year ended June 30, 2003. The City operates on an annual budget (for all funds) of approximately \$30,000,000.

The City employs 100 to 150 full-time and part-time individuals depending upon seasonal impacts. Approximately 8 to 10 of these individuals work under the direction of the Finance Department.

The City partially converted to a new accounting software module, HTE, in 1999 due to Y2K concerns. Not all City departments have made this conversion, rather electing to maintain their own ad hoc and independent accounting sub-systems.

CHRONOLOGY OF KEY EVENTS

May 2, 1994 – Elma Sandoval Magkamit begins employment as Accounting Supervisor for the Finance Department of the City of West Linn.

June 1, 1999 – Elma Sandoval Magkamit promoted to position of Finance Operations Manager.

September 27, 2000 – First known suspect check clears bank account.

April 2001 – Former Finance Director departs City employment. Elma Sandoval Magkamit promoted to position of Acting Finance Director on a "temporary" status.

July 30, 2001 – Elma Sandoval Magkamit promoted to position of Finance Director.

³ Obtained from Subject's personnel files.

February 21, 2002 – Fiscal year ended June 30, 2001 annual audit completed.

August 23, 2004 – Fiscal year ended June 30, 2002 annual audit completed.

February 2005 – Senior Accounting Clerk terminated for misappropriation of City funds.

March 28, 2005 – Pauly, Rogers and Co., P.C. issues letter of findings related to City's internal control relating to disbursements.

March 29, 2005 – Last known suspect check clears bank account.

June 24, 2005 – Fiscal year ended June 30, 2003 annual audit completed.

September 16, 2005 – Elma Sandoval Magkamit terminates employment with the City of West Linn.

October 2005 – Library Director disciplined for improper use of City credit cards.

December 5, 2005 – Library Administrative Assistant was terminated for misappropriation of City funds.

NATURE OF THE ALLEGED MISAPPROPRIATION

From September 27, 2000 through March 29, 2005, Elma Sandoval Magkamit allegedly embezzled approximately \$1,420,452.80 from the City of West Linn's primary checking account at Bank of America. During the relevant time period, Subject allegedly drafted 58 checks payable to "Magkamit Consulting" or "Larry Magkamit – Magkamit Consulting". All 58 checks were deposited into an account at U.S. Bank held in the name of Larry C. Magkamit and Elma Sandoval Magkamit.

The following table depicts the suspect checks drawn on the City's Bank of America account.

Check Number	Payee	Amount	Date Cleared
16692	Magkamit Consulting	\$ 4,780.00	09/27/00
17314	Magkamit Consulting	4,250.00	10/19/00
17653	Magkamit Consulting	4,970.00	11/07/00
17777	Magkamit Consulting	8,760.00	11/20/00
17867	Magkamit Consulting	8,970.00	11/27/00
18440	Magkamit Consulting	8,892.00	12/26/00
18252	Magkamit Consulting	14,872.00	01/29/01
18803	Magkamit Consulting	14,920.00	02/20/01
19432	Magkamit Consulting	13,876.00	02/26/01
19316	Magkamit Consulting	18,768.00	03/12/01
19516	Magkamit Consulting	19,360.00	03/13/01
19696	Magkamit Consulting	18,886.00	03/20/01
19966	Magkamit Consulting	18,661.00	04/02/01
20066	Magkamit Consulting	17,989.00	04/09/01
20352	Magkamit Consulting	17,975.00	04/30/01
21966	Larry Magkamit - Magkamit Consulting	19,881.00	08/28/01
22416	Larry Magkamit - Magkamit Consulting	18,963.00	09/11/01
21725	Larry Magkamit - Magkamit Consulting	18,935.00	09/21/01
21341	Larry Magkamit - Magkamit Consulting	28,992.00	09/26/01
22717	Larry Magkamit - Magkamit Consulting	17,887.00	09/27/01
23408	Larry Magkamit - Magkamit Consulting	23,055.00	11/16/01
23645	Larry Magkamit - Magkamit Consulting	18,466.00	11/30/01
23949	Larry Magkamit - Magkamit Consulting	24,547.00	12/24/01
24293	Larry Magkamit - Magkamit Consulting	19,737.00	01/22/02
24468	Larry Magkamit - Magkamit Consulting	22,948.00	01/28/02
24572	Larry Magkamit - Magkamit Consulting	15,878.00	01/29/02
24367	Larry Magkamit - Magkamit Consulting	18,658.00	01/30/02
25688	Larry Magkamit - Magkamit Consulting	23,473.00	04/11/02
25804	Larry Magkamit - Magkamit Consulting	27,882.00	04/23/02

Check Number	Payee	Amount	Date Cleared
25905	Larry Magkamit - Magkamit Consulting	22,953.00	04/26/02
27328	Larry Magkamit - Magkamit Consulting	28,733.00	08/01/02
27681	Larry Magkamit - Magkamit Consulting	25,752.00	08/21/02
27477	Larry Magkamit - Magkamit Consulting	23,713.00	08/28/02
28624	Larry Magkamit - Magkamit Consulting	27,833.00	10/24/02
28742	Larry Magkamit - Magkamit Consulting	26,763.00	10/28/02
29067	Larry Magkamit - Magkamit Consulting	28,868.00	11/20/02
29196	Larry Magkamit - Magkamit Consulting	29,398.00	11/27/02
30407	Larry Magkamit - Magkamit Consulting	29,773.00	02/10/03
30651	Larry Magkamit - Magkamit Consulting	29,887.00	02/24/03
30516	Larry Magkamit - Magkamit Consulting	31,107.00	02/27/03
31186	Larry Magkamit - Magkamit Consulting	29,289.00	04/17/03
31387	Larry Magkamit - Magkamit Consulting	30,386.00	04/24/03
32999	Larry Magkamit - Magkamit Consulting	29,931.00	08/04/03
33114	Larry Magkamit - Magkamit Consulting	31,155.00	08/20/03
33510	Larry Magkamit - Magkamit Consulting	31,693.00	08/28/03
33950	Larry Magkamit - Magkamit Consulting	32,112.00	10/07/03
33625	Larry Magkamit - Magkamit Consulting	36,629.00	11/05/03
32759	Larry Magkamit - Magkamit Consulting	34,729.00	11/20/03
31712	Larry Magkamit - Magkamit Consulting	34,413.00	01/20/04
31896	Larry Magkamit - Magkamit Consulting	36,827.00	02/20/04
31797	Larry Magkamit - Magkamit Consulting	35,944.00	02/25/04
31994	Larry Magkamit - Magkamit Consulting	37,363.00	04/28/04
32177	Larry Magkamit - Magkamit Consulting	34,821.00	04/29/04
29994	Larry Magkamit - Magkamit Consulting	36,884.70	09/21/04
26009	Larry Magkamit - Magkamit Consulting	38,922.90	12/10/04
21321	Larry Magkamit - Magkamit Consulting	37,892.00	02/08/05
21322	Larry Magkamit - Magkamit Consulting	36,756.20	03/24/05
21328	Larry Magkamit - Magkamit Consulting	34,694.00	03/29/05

TOTAL

\$ 1,420,452.80

SELECTED INVESTIGATION FINDINGS

Bank Statements

During the course of our investigation, we reviewed bank statements that were present at the City. Some of the bank statements were originals and other bank statements were copies; originals could not be located. In certain instances, it is apparent that the bank statement copies were altered in order to conceal the aforementioned suspect activity.

The noted alterations were rather crude and took the following forms:

- ❑ **Wite Out®** – It appears that portions of numbers have been covered with Wite Out® or otherwise concealed so that transactions appear on the statement copy for lesser amounts. For example, the amount \$31,155.00 was altered to appear as \$155.00 by concealing the leading “31”.
- ❑ **Cut & Paste** – It appears that transactions from other statements were cut out and pasted over the suspect transactions. Copies would then be made of the altered statement, once again concealing the aforementioned suspect activity.
- ❑ **Fold Over** – It appears that statements were folded over, concealing the suspect activity and then copied. The transactions under the fold would not appear on the statement copies.

Bank Reconciliations

We have reviewed selected bank reconciliations for the City’s primary checking account and noted certain errors and/or discrepancies during our review. Most notably, the dollar amount of outstanding checks on the bank reconciliation often did not agree with reports we produced independently from the City’s accounting system. It is difficult to distinguish between error and intent to conceal due to the poor state of accounting oversight.

Additionally, it is apparent that bank account reconciliations were not performed on a timely basis. Bank reconciliations were often done in batch, preparing more than one month’s reconciliation at a time, and they were often done well after the respective month had ended. For example, on October 22, 2002, bank reconciliations were prepared for the months spanning September through December 2001. These bank reconciliations were prepared 10 months to a year after the respective months had ended.

General Ledger

During our investigation, we also reviewed selected general ledger detail. Our analysis revealed several serious findings, the most significant being the untimely reconciliation of key general ledger account balances.⁴ Similar to the after-the-fact bank

⁴ Regular account reconciliations are a foundational control tool. See, for example: Vorhies, James Brady, “Account Reconciliation: An Underappreciated Control,” *Journal of Accountancy*, September 2006.

reconciliations, general ledger account reconciliations were often performed well after the month and/or fiscal year had ended.

We also reviewed the bank activity within the general ledger for an entire fiscal year. Our analysis resulted in the following findings:

- Apparent bookkeeping errors were noted (deposit or withdrawal activity did not agree with underlying source documents) and corrections for said errors were not present.
- Month-end bank activity and other adjustments necessary to tie general ledger to bank reconciliations were not entered on a timely basis. This task is typically completed in conjunction with bank reconciliations. As previously discussed, bank reconciliations were often completed several months after the month-end.
- Month-end bank activity was not recorded for all months.
- No specific entries were present in the general ledger to conceal each unauthorized withdrawal of funds.
- Some cash receipts were either not recorded in the general ledger or deleted from general ledger.
- Certain journal entries appear to under-report cash receipts for the respective period. For example, it is apparent that Court cash receipts were grossly under-reported for the fiscal year ended June 30, 2003.
- Certain adjustments were made after the year-end to “plug” cash account balances so they agreed with the respective account reconciliations.

Given the myriad of uncorrected errors and journal entries made within the general ledger, it would be inordinately cost-prohibitive to ascertain to what extent individual funds or departments may have been affected by the alleged embezzlement. Further, funds spent in such effort would yield very little benefit.

Journal Entries

We reviewed most journal entries spanning the period of suspect activity. Many journal entries did not have the proper supporting documentation. Furthermore, there were many suspect journal entries found in the general ledger without supporting documentation or satisfactory explanation.

Our review of the journal entries confirmed that key accounts, including the bank accounts, were not reconciled on a timely basis. The chronology of the journal entries agreed with the timing of bank reconciliations preparation.

Check Gap Detection

The alleged mode of embezzlement included the conversion of checks that should have been previously voided. When the City printed its check batches, the second check through the printer was automatically spoiled⁵. The first check was then to be manually voided. Both of these checks were to be entered into the accounting system as voided checks.

It is apparent that some of these unspoiled blank checks (the first checks) were subsequently drafted payable to "Larry Magkamit – Magkamit Consulting" and deposited into the aforementioned US Bank account. Additionally, these checks were not entered into the accounting system as voided checks.

As part of our investigation, we ran a Check Gap Detection Analysis on the check register as entered in the City's accounting system. The purpose of the test is to determine what checks are not accounted for within the check register.

The following is an excerpt of our Gap Detection Report. These are checks that were not in the accounting system. Note that the gaps usually appear in increments of two checks, indicating the spoilage at the beginning of each printed batch. Additionally, some of the first checks (#s 19966, 20066, 20352 and 21341) are checks that were deposited into the Subject's US Bank account.

There were also instances where it appears that groups of blank checks were utilized as they did not follow "two check" spoilage pattern (# 21321, 21322 and 21328). Note that the blank check stock was locked up, but the Subject and other Finance Department personnel had unrestricted access to it.

⁵ Unusable due to nonsense printing on the check, such as "XXXXXXXX". These checks were used to align the printer prior to batch printing.

Magkamit Fraud Investigation

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Missing Check #s	Payee	Amount	Date Cleared
19966 19967	Magkamit Consulting	\$18,661.00	04/02/01
20066 20067	Magkamit Consulting	\$17,989.00	04/09/01
20181 20182			
20284 20285			
20352 20353	Magkamit Consulting	\$17,975.00	04/30/01
20433 20434			
20530 20531			
20619 20620			
20735 20736			
20843 20844			
20925 20926			
20997 20998			
21094 21095			
21184 21185			
21319			
21321	Magkamit Consulting	\$37,892.00	02/08/05
21322	Magkamit Consulting	\$36,756.20	03/24/05
21323			
21324			
21325			
21326			
21327			
21328	Magkamit Consulting	\$34,694.00	03/29/05
21329			
21330			
21331			
21341	Magkamit Consulting	\$28,992.00	09/26/01
21342			

Daily Cash Activity Worksheets

During our investigation of Subject's computer records we discovered Excel-based "Daily Cash Activity" schedules. It appears that these reports were utilized to track all daily cash inflows and outflows for the City's primary checking account. It appears that these reports were relied upon for current bank balances as the general ledger accounts were not reconciled in a timely manner. In essence, this was equivalent to keeping a second set of books. If all of this bank account activity was recorded in the general ledger on a timely basis, then there would have been no need for the Daily Cash Activity report.

The following is an example of a Daily Cash Activity report for the month of November 2002. The objective of the Daily Cash Activity report is to track the bank activity and resulting account balance. Therefore, all transactions, including suspect withdrawals, must be accounted for or else the account could be overdrawn.

[illegible]

In November 2002, we noted that two of the Accounts Payable disbursements were overstated to account for the suspect checks. In summary, the total of Accounts Payable per the Daily Cash Activity report was more than the actual disbursements as recorded in the general ledger.

Transaction Date	Accounts Payable on DCA Report	Accounts Payable per General Ledger	Variance
11/06/02	312,339.08	284,073.08	28,266.00
11/19/02	597,728.29	567,728.29	30,000.00
			<u>\$58,266.00</u>

This overstatement of \$58,266.00 equals the total of the two suspect checks that cleared the City's account in November 2002.

Check Date	Check Number	Amount
11/12/02	29067	28,868.00
11/19/02	29196	29,398.00
		<u>\$58,266.00</u>

A similar pattern was noted in other Daily Cash Activity reports that we reviewed.

SUBJECT'S BANK ACCOUNTS

We have reviewed the Subject's bank statements for US Bank account X-XXX-XXXX-9145 for the pertinent time period. This account is held in the name of Larry C. Magkamit and Elma Sandoval Magkamit. With the exception of a few deposits⁶, the suspect checks match deposits made into this account (in deposit amount and time proximity).

INTERNAL CONTROLS

This engagement was not intended to provide assurance, or any other form of opinion, on the internal controls of the City of West Linn. Accordingly, we did not audit, review or provide any level of attestation regarding the internal controls of the City of West Linn under professional accounting standards.

We did review selected controls and procedures as deemed pertinent to our investigation. Furthermore, we have discussed any identified internal control concerns with Management and the Audit Committee.

End of Document

⁶ A few of the deposits on the bank statements are greater than the amount of suspect checks. Given the amount of the variances and account history, it appears that additional currency may have been included in these deposits.