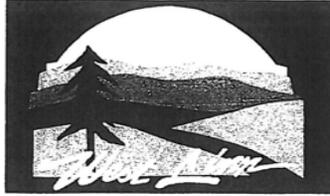


Embezzlement – 4 Years Later

City Manager, Chris Jordan, presentation to Talbot Korvola & Warwick, CPAs at their governmental staff training session on May 26, 2009



NEWS

IMMEDIATE RELEASE
Contact: Chief Terry Timeus, 503-301-6295 (Pager)

April 27, 2006

FORMER CITY FINANCE DIRECTOR INDICTED ON 114 FELONY COUNTS

Elma Magkamt, the former Finance Director for the City of West Linn, has been indicted on 114 Felony Counts by a Clackamas County Grand Jury. Magkamt is under indictment on 52 counts of Aggravated Theft I, 5 counts of Theft I and 57 counts of Forgery I. These charges result from 57 City of West Linn checks that Magkamt forged and deposited into her personal account. To date, a total of \$1,411,560.80 was stolen from the City of West Linn.

The thefts and forgery range from September of 2000 to March of 2005. Magkamt used a city signature stamp to make the forged checks. The value of the checks range from \$4,250.00 to \$38,922.90. There were months that multiple checks were forged and deposited into her personal bank account.

A search was conducted of her residence on April 26, 2006. Her residence is located at 625 Fairwood Crescent in Woodburn, Oregon. Items seized include \$2,900.00 in cash as well as bank records, tax statements and multiple receipts from local casinos. This investigation has shown that Elma Magkamt has gambled a large sum of money. Precise amounts are not known at this time, but those records are being sought.

During the initial interview of Magkamt she admitted to forging five checks and depositing them into her personal bank account. It was later discovered that the amount far exceeded what investigators knew initially and nineteen additional checks were discovered. The total then exceeded \$750,000 for a total of 24 checks, all of which Magkamt admitted to forging.

Magkamt was employed with the City of West Linn from 1994 to 2005. She was the Finance Director for five years, resigning in August of 2005.

The investigation, which is ongoing, is being conducted by the Oregon Department of Justice and the West Linn Police Department.

###



CITY OF
**West
Linn**

What Were the Charges?



- Ms. Magkamt was indicted on 114 felonies: 52 counts of Aggravated Theft ; 5 counts of Theft 1; 57 counts of Forgery 1
- In total, the City discovered 58 checks totaling \$1,420,452 between September 2000 and March 2005.

When Did Elma Start Working for West Linn



- Ms. Magkamt began working for West Linn in 1994 in the Finance Department.
- She was promoted to Acting Finance Director in March 2001 under then Finance Director, Willie Gin
- Received the permanent appointment in September 2001, after Willie Gin departed in April 2001



CITY OF WEST LINN

22825 WILLAMETTE DRIVE
P.O. BOX 48
WEST LINN, OREGON 97068
(503) 657-0331
TDD: 656-4518

APPLICATION FOR EMPLOYMENT

Job Title Accounting Supervisor	1994 FEB 24 11:10 34 CITY OF WEST LINN
------------------------------------	---

Name Magkamt Elma Sandoval
Last First Middle

Mailing Address 10570 SW 161st Ct. Beaverton OR 97007
Number Street City State Zip

Business Phone / Home or Message Phone 503 / 579-3553
Area Number Area Number

ANSWER THE FOLLOWING QUESTIONS BY CHECKING:

- If you are under 18 do you have a valid work permit? (please attach.) N/A Yes _____ No _____
- If you are not a U.S. citizen, do you have a permit to work in the U.S.? N/A Yes _____ No _____
If YES, you must show a copy at the time of application.

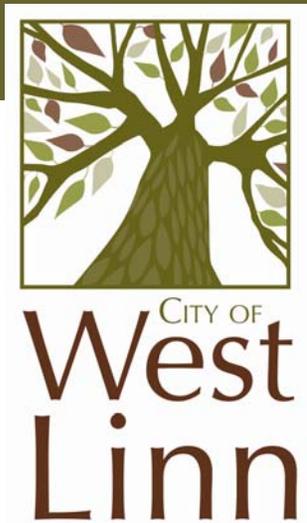
EDUCATIONAL HISTORY

Below you are to list all course work, special training or seminars that you have taken that relate to the requirements of this position. If your coursework resulted in a degree you need only list the major type of degree earned.

Name & Location of Institute	Title of Course or Degree program	Certificates Degrees, Units, etc.
University of Oregon, Eugene, OR	Lotus 123	Completed June 1988
University of the East, Manila, Philippines	CPA Review Course	Passed CPA Exams 1974
University of the East, Manila, Philippines	BBA Accounting	Graduated 1973

List driver's license or other licenses and certificates required by the position announcement.

	Issued by	Date Issued	Date of Expiration	Number
3on Driver's License	State of Oregon	6-10-91	7-05-95	3474599



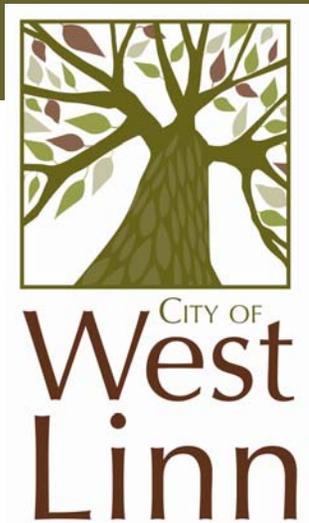
List of Embezzled Checks



- ◆ List of 58 Embezzled Checks over five years always seemed to skip the month of June
- ◆ Well know that previous auditors focused on June/July bank reconciliations
- ◆ Audits fell behind
- ◆ Classic case of lack of segregation of duties

City of West Linn
 Checks listed on Bank of America bank statements not input to HTE system
 All made payable to Magkamit Consulting
 4/26/2006

Check Number	Amount	Month Cleared	
16692	4,780.00	09/27/00	FIRST KNOWN CHECK CLEARS
18440	8,892.00	12/26/00	
17314	4,250.00	10/19/00	
17653	4,970.00	11/07/00	
17777	8,760.00	11/20/00	
17867	8,970.00	11/27/00	
18252	14,872.00	01/29/01	
18803	14,920.00	02/20/01	
19432	13,876.00	02/26/01	
19316	18,768.00	03/12/01	
19516	19,360.00	03/13/01	
19696	18,886.00	03/20/01	
19966	18,661.00	04/02/01	FORMER FINANCE DIRECTOR DEPARTS CITY
20066	17,989.00	04/09/01	
20352	17,975.00	04/30/01	
21966	19,881.00	Aug-01	ELMA PROMOTED TO FINANCE DIRECTOR
21341	28,992.00	Sep-01	
21725	18,935.00	Sep-01	
22416	18,963.00	Sep-01	
22717	17,887.00	Sep-01	
23408	23,055.00	Nov-01	
23645	18,466.00	Nov-01	
23949	24,547.00	Dec-01	
24293	19,737.00	Jan-02	
24367	18,658.00	Jan-02	
24468	22,948.00	Jan-02	
24572	15,878.00	Jan-02	
25688	23,473.00	Apr-02	FY01 AUDIT COMPLETED
25804	27,882.00	Apr-02	
25905	22,953.00	Apr-02	
27328	28,733.00	Aug-02	
27477	23,713.00	Aug-02	
27681	25,752.00	Aug-02	
28624	27,833.00	Oct-02	
28742	26,763.00	Oct-02	
29067	28,868.00	Nov-02	
29196	29,398.00	Nov-02	
30407	29,773.00	Feb-03	
30516	31,107.00	Feb-03	
30651	29,887.00	Feb-03	
31186	29,289.00	Apr-03	
31387	30,386.00	Apr-03	
32999	29,931.00	08/04/03	
33114	31,155.00	08/20/03	
33510	31,693.00	08/28/03	
33950	32,112.00	10/07/03	
33625	36,629.00	11/05/03	
32759	34,729.00	11/20/03	
31712	34,413.00	01/20/04	
31896	36,827.00	02/20/04	
31797	35,944.00	02/25/04	
31994	37,363.00	04/28/04	FY02 AUDIT COMPLETED
32177	34,821.00	04/29/04	
29994	36,884.70	09/21/04	
26009	38,922.90	12/10/04	
21321	37,892.00	02/08/05	ACCTG CLERK TERMINATED FOR MISBEHAVING
21322	36,756.20	03/08/05	
21328	34,694.00	03/22/05	LAST KNOWN CHECK CLEARS
	<u>1,420,452.80</u>		



Check Payee



- ✦ Checks were all made payable to Magkamit Consulting and/or Larry Magkamit, Magkamit Consulting
- ✦ Back of Cancelled Checks were all signed by Elma Magkamit (front of checks as well)

How Was It Uncovered?



- ◆ In 2005, the City was two years behind on completing state-mandated annual audits.
- ◆ As part of preparing financial information for the 2004-05 audit, then Finance Director Elizabeth Carlson directed new City staff accountant to initiate and complete bank reconciliations for FY05
- ◆ When performing the Sept 2004 bank reconciliation, a discrepancy was uncovered. After further review, it was discovered that a check was missing from the City's copy of the bank statement.
- ◆ This check was for \$36,884.70 and made payable to: Larry Magkamt, Magkamt Consulting
- ◆ This check was uncovered on April 12, 2006.

How Was It Uncovered?



- ◆ This was immediately brought to the attention of the Finance Director and the City Manager. Later that day, a meeting was held with the Police Chief and then the Oregon Department of Justice was contacted
- ◆ One week later (April 19, 2006), the Justice Department and the West Linn Police Chief confronted Ms. Magkamt.
- ◆ Later that day, now with 24 checks totaling approximately \$750,000, the West Linn Police Department arrested Ms. Magkamt on 48 felonies.
- ◆ After that arrest, 34 more checks were uncovered as part of the continuing investigation.

How Could This have Happened?



- ◆ Classic case of lack of segregation of duties surrounding the check preparation function, access to check stock, supervisory review, and the bank reconciliation function.
- ◆ For example, Ms. Magkamit had access to check stock and was the only one who reviewed bank statements. This responsibility should have been delegated to another staff member and then approved by Ms. Magkamit.
- ◆ Over this five year period of time, Ms. Magkamit took very little or no vacation time

How Could This have Happened?



- ◆ As it turned out, Ms. Magkamit altered the bank statements and destroyed the forged checks to cover-up her embezzlement.
- ◆ She resigned voluntarily in September 2005
- ◆ The City hired new City Manager, Chris Jordan, in October 2005
- ◆ New City Manager hired Andy Parks, a municipal finance consultant, to do a thorough review of the Finance Department and recommend changes.
- ◆ The 2003 audit was completed in November 2005.
- ◆ New Finance Director insisted on completing bank reconciliations for 2004 and discovered the first embezzled check in April 2006.

Rec'd 9/20/05
DA

September 19, 2005

John Atkins
Public Information Officer
City of West Linn
22500 Salamo Road
West Linn, OR 97068

Dear John,

Thank you for providing me with a copy of Mr. Andy Parks' report on the review and evaluation of the City's finance department. I wish that the City demonstrated some professionalism and respected my rights and character on this issue rather than resorting to unfounded accusations, threat, harassment and intimidation.

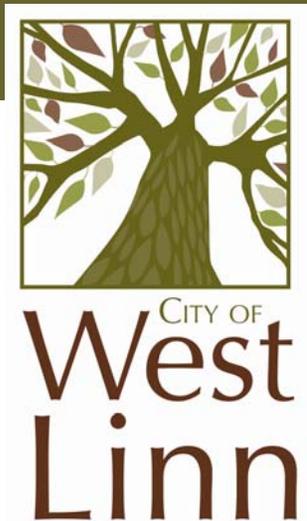
In defense of my credibility, let me first state that majority of the findings and recommendations of Mr. Parks are the same issues that I have brought out to the City of West Linn management when I took office as Finance Director. It's ironic and a travesty that instead of getting the support, I became a victim of political agenda to the extent that I was criticized, insulted and humiliated just to get me to relinquish my position.

Let me discuss some of Mr. Parks' findings and recommendations:

- The City should recruit a highly qualified finance director with a successful experience. Several years ago, the finance department was staffed with seven full-time equivalent positions "including a Finance Director with over twenty years of experience".

When the finance director position became vacant in 2001, I applied for the position based on the strength of my educational and professional achievements and a highly successful experience in public, private and municipal accounting. I was hired and appointed to this position based on my qualifications and experience and not for political reasons. In case you have forgotten or have not seen my resume, I have a Bachelors Degree in Business and a Certified Public Accountant with over thirty years of professional and technical experience. Nineteen years of these experience is in the field of municipal finance. Prior to getting into municipal finance, I worked as an auditor. I find Mr. Parks statement insulting and derogatory at best because he failed to mention the qualifications of the previous finance director other than citing the twenty years of experience. He also failed to mention in his report that my department was never afforded the benefit of operating with seven full-time equivalent employees.

- The finance department operates as an accounting department.





CITY OF
**West
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This statement is misleading. Mr. Parks should realize that accounting is an inherent part of financial operations. In addition to maintaining the general ledger operation, as Finance Director, my responsibilities include budget, debt management, treasury and investments management, cash receipts and disbursements, business license, accounts payable, purchasing, payroll and to a certain degree, also acts as the City's internal auditor.

- The City must have a fully functioning finance department.

The City already has a fully functioning finance department. What it lacks is the support from management to recognize that the department is overworked and understaffed. I have always requested additional staff and/or request permission to hire an outside consultant to assist the department but was always turned down due to budget constraints. I find it ironic that it is only now that this is being recognized.

- The City's financial software systems are generally underutilized.

The City's finance department is fully utilizing the financial software that is necessary with the current staffing levels that the department has. The upgrade that was previously scheduled for early 2005 was postponed due to other pressing matters in the department, i.e., implementation of GASB 34 and audits.

As contained in Mr. Parks' progress report dated September 9, 2005, Mr. Parks alluded to the fact that the finance operations was negatively influenced by the former Mayor and I am glad that he mentioned this in his report. I have documents and notes to prove that because of the former Mayor's interference in the hiring of the external auditors, the audit of the 2003 and 2004 records are late. It was not through my negligence that this happened.

Finally, certain recommendations contained in Mr. Parks' report appear to be similar or parallel to the report provided by Pauly, Rogers & Co., CPAs during their review of the City's purchasing and disbursement processes. By the way, some of his recommendations are boiler plate statements in the Governmental Finance Officers Association pronouncement. In case you are interested, here is the web site link: <http://www.gfoa.org/services/nacslb>.

Thank you again for your professionalism and respect you have afforded me on this matter.

Sincerely yours,

Elma S. Magkamt

After the Discovery?



- ◆ The City Council authorized the creation of one additional senior staff position in the Finance Department – a recommendation of the Finance Department analysis completed by Mr. Parks in 2005
- ◆ The new City Manager hired a forensic accounting firm to assist in the investigation and uncover if there was any additional fraud
- ◆ Annual financial audits continued to fall behind
- ◆ TKW was engaged to help with audit catch up
- ◆ Forensic Audit was completed in October 2006



NEWS

IMMEDIATE RELEASE
Contact: John Atkins
503-722-3424

October 31, 2006

City Releases Forensic Audit

A forensic audit commissioned by the City of West Linn following the City's discovery of fraudulent activities by the former finance director was released today by City Manager Chris Jordan.

"This report essentially confirms the criminal investigation carried out by West Linn police and the state Justice Department in terms of the magnitude of the loss," Jordan said, "and it sheds additional light on how it was accomplished."

In a letter accompanying the report to Jordan, the auditors stated, "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 loss cited in the auditor's letter squares with the amount investigators concluded Magkamit took from the City over a five-year period beginning in 2000.

Magkamit's employment with the City ended in September of 2005, a few months after the current City Council, alarmed at the City's failure to perform annual audits, decided not to renew then-City Manager Sandi Farley's contract.

City finance employees uncovered irregularities in Magkamit's bookkeeping not long after that. Magkamit has pleaded guilty to 57 counts of felony theft and is awaiting sentencing in Clackamas County Circuit Court in November.

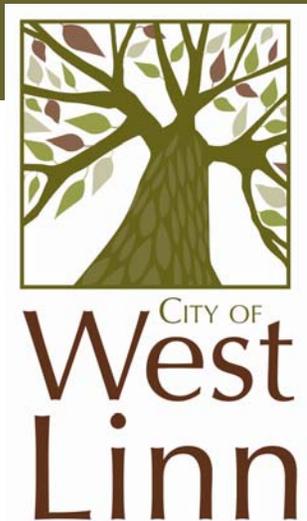
The City hired Financial Forensics to perform an audit focusing on the embezzlement and the methods Magkamit used to cover her tracks. In its report, the auditors noted discrepancies in checking statements and copies of checks received by the city from the bank, but found it "difficult to distinguish between error and intent to conceal due to the poor state of accounting oversight."

The auditors found multiple, uncorrected bookkeeping errors relating to banking activities, under-reporting of cash receipts, and undocumented adjustments to year-end balances, among other problems.

"General ledger account reconciliations were often performed well after the month and/or fiscal year had ended," the report continued. ". . . 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."

###

Forensic Audit



Summary Results of Forensic Audit



- ◆ Completed in October 2006
- ◆ Included a chronology of events
- ◆ Included a listing of the 58 embezzled checks
- ◆ Included discovery of how bank statements were altered
- ◆ Included discovery of how General Ledger entries were covered up



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 OF
**West
Linn**

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

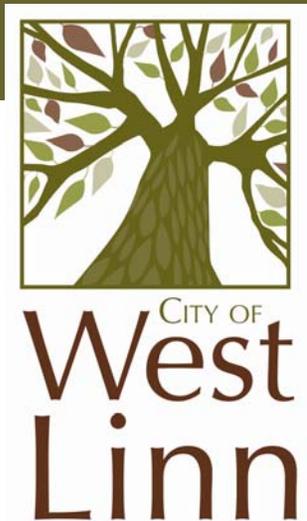
We have reviewed selected bank reconciliations for the City’s primary checking account and noted certain errors and/or discrepancies during our review. Most notably, the dollar amount of outstanding checks on the bank reconciliation often did not agree with reports we produced independently from the 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.



Damages? Recoveries?



◆ Damages - Other than the financial damages:

- (1) loss of respect and trust of the citizens of West Linn
- (2) loss of moral and productivity of employees
- (3) Rating agencies suspended bond ratings
- (4) 5-year local option levy for police did not renew in 2007

◆ Recoveries:

- Settlements ended up right around \$545,000 through May 2009
- FY08 Audit filed with clean opinion in February 2009
- Settlement of PERS accounts still pending
- Two top-rated and well respected CPAs now leading the Finance Department
- GFOA awards received for Budget, Audit, and Annual Report documents

West Linn Finance Department's New Mission Statement



“Being good stewards of the taxpayers' monies is a Finance Department's main focus, but that alone is not enough. We strive for developing healthy partnerships with the community, being transparent with the City finances, and looking for cost efficiencies in all City operations”

Questions and/or Comments?



Presented to TKW on May 26, 2009 by:

Chris Jordan

City Manager

City of West Linn