

# Schedule of Audit Findings and Responses

**City of Spokane  
Spokane County  
January 1, 2007 through December 31, 2007**

- 1. The City of Spokane Police Department set up unauthorized bank account and failed to monitor their use, did not follow state bid law and has inadequate inventory practices.**

## **Description of Condition**

In the late 1980s, the City of Spokane Police Department's Special Investigations Unit established unauthorized checking and savings accounts at a local bank that was not a depository account of the City of Spokane Treasurer's Office. The Department also had a debit card associated with the account. The six signatories to the account were the Police Chief, the Assistant Chief, three majors and the Lieutenant over the Unit.

While from an accounting and budget standpoint this checking and savings account was not an account of the City of Spokane Treasurers office, it was originally set up more than 20 years ago by a previous administration. Over the years, the SIU Commanders have used these funds solely for drug oriented law enforcement purchases, as required by RCW. As soon as this new administration was made aware that this account was not being accounted for with the proper procedure, we notified the SAO and set about to correct the situation.

As of December 30, 2007 the checking account balance was \$26,489.25 and the savings account balance was \$469,301.33. As of December 30, 2008, funds from these two accounts had been deposited with the City Treasurer.

Regarding this unauthorized bank account, we noted:

- From December 1998 through August 2008, the Unit deposited approximately \$4.6 million into the accounts. The Department does not have any records prior to 1998, so we cannot determine what has been deposited since the account was opened in the late 1980s. Those revenues were not properly recorded or reported in the City's financial statements or deposited with the City Treasurer's Office.

There are records for the SIU seizure account prior to 1998. There may have been a mis-communication between SAO and the SIU Commander.

Entries have been made into the City's general ledger for the 12/31/07 balance, and all revenues and expenditures going forward from that date. These balances and revenues/expenditures will be reflected in the financial statements as of 12/31/08. City Council authorized an imprest fund in the summer of 2008 to authorize the continued, appropriate use of the bank account in accordance with established procedures for imprest funds. The imprest fund is only used for expenditures that are of a time-critical nature. All expenses and revenues are now accounted for through the City's accounting system.

- The debit card and checkbook associated with this account were not kept in a secure location. Anyone who entered the office in which they were stored had access to them.

The checkbook and more recently the debit card have always been kept in the desk in the office workspace of the Lieutenant of SIU. SIU offices are always locked with a very limited number of officers who have the code. The offices are alarmed and have recorded video in the outside halls and in the SIU offices themselves. Since the auditors brought their concern of lack of security of the ledgers and card, to the SIU Commander, these documents are now secured in the safe in addition to the above security measures. Only the SIU Commander and one other day shift detective have the combination to that safe.

- No one at the Department performed an independent reconciliation of revenues and expenditures to the bank statements to ensure they were correct and to provide an extra layer of accountability.

It has been the practice for many years, to have our Internal Affairs do random spot checks of these accounts, with a goal of doing them twice annually. Several items from the seizure logs would be chosen at random and tracked backwards through the entire process to be sure a complete accounting of seized property.

The same spot check was done using the savings register as all seizure case dollar amounts were listed separately which were then totaled up to show the total deposit. IA personnel would also choose seizure case amounts from this register and that case would also be tracked backwards to its origin.

These checks were not done by trained accounting or auditing personnel, now the City's new Public Safety Accounting Manager, established with the centralized accounting initiative, currently receives monthly copies of the bank statement from the City Treasurer, and reconciles to receipts and reimbursements of the imprest fund.

- The Department spent in excess of \$3.5 million from the account between December 1998 and August 2008. It purchased Electronic items, computers, cameras, cars, towing, and paid for special investigations. None of these purchases were processed through the City's accounting department or properly recorded or reported in the City's financial statements.

All personnel in SIU who have responsibility for purchasing have been through the City of Spokane's buyers/purchasers training.

As noted above, now all revenues and expenditures will be reflected in the financial statements as of 12/31/08. City Council authorized an imprest fund in the summer of 2008 to authorize the continued, appropriate use of the bank account in accordance with established procedures for imprest funds. The imprest fund is only used for expenditures that are of a time-critical nature. All expenses and revenues, including the imprest funds, are now accounted for through the City's accounting system.

Insufficient documentation for payments of more than \$600,000 that would allow us to determine if the expenditure was legal or allowable. Purchases included fuel, vehicles, food and training.

Previously, payments out of this account for these purposes were done with the approval of a Chief or Deputy Chief, as checks issued must contain two signatures from the account. Now expenditures related to these funds are being processed through Police department accounting staff under the supervision of the Public Safety Accounting Manager, and are subject to all policies and procedures as all other departmental expenditures.

In other areas, we noted:

- The Police Department did not follow competitive bidding requirements for the purchase of goods and services made with money from the unauthorized bank account that totaled nearly \$2 million. Items purchased included vehicles and video and electronic equipment.

Purchases related to these funds are now being processed through Police department accounting staff under the supervision of the Public Safety Accounting Manager, and are subject to the City's purchasing policies and procedures as all other departmental purchases. The SIU staff that utilize these funds have been set up as buyers per the purchasing policy, and therefore have affirmed that they are knowledgeable of the City's competitive bid requirements.

- The vehicles and equipment purchased were not included in the City's fixed asset system. The department does not have a complete inventory list of its vehicles and equipment.

The City's Fleet Services fund is in the process of recording all currently owned vehicles into the fixed asset system, and will correctly include them in their 12/31/08 financial statements. Fleet Services will also be including these vehicles in their inventory procedures

- The Department was unable to locate the title or otherwise prove that it owned six vehicles. It was not sure if it still owned and had in its possession three of these

Currently the titles for all vehicles are accounted for and lost ones replaced and all titles are in the possession of the SIU Commander. Fleet will continue to be involved in future vehicle purchases, and when they receive the titles there will be a direct contact with and written acknowledgment by the SIU Commander and pass off of these titles to him/her.

SIU is in the process of setting up value blanket purchasing procedures which will allow a confidential vehicle to be purchased via City procedure and keep the vehicle in the tracking and management system established by the City.

- An additional six vehicles were identified as purchased; however, due to lack of supporting documentation pertaining to the purchase the department was unable to determine whether the vehicles are still owned by the City and in their possession.

See above comments reference to purchase and tracking of City vehicles.

- The Department does not have a complete inventory of its small and attractive assets and does not have policies and procedures to ensure they are tracked. SIU has had an internal inventory tracking list, tracking both expensive items and small and attractive assets, which was checked by SIU staff annually. These items are now marked with City stickers and will be handled in accordance to the Police policy on these items through the city inventory system.
- The Department lacks a proper seized and forfeited property process. It does no independent review of the money sent to the state as a result of the sale of this property to ensure the amount is accurate. Our review noted that the state was underpaid approximately \$2,100 between December 1998 and December 2007. The Police Department Administration, the Property Unit, SIU and accounting staff has established a procedure to reconcile property seized and sold, to verify that it is correctly deposited into the City's financial management system. Independent review and verification of amounts sent to the state will be performed by accounting staff. The City is reviewing the \$2,100 underpayment, and will be contacting the state to resolve the issue.

### **Cause of Condition**

The Department set up the account in the late 1980s to be used to deposit money collected from the sale of seized and forfeited property. The City's Director of Accounting became aware of the account from the Department in April 2008. When the Accounting Director reviewed this account, she found it uses the City's name and tax identification number, but is managed outside of the City Treasurer's custodianship.

### **Effect of Condition**

Unauthorized bank accounts, failure to follow state bid law and inadequate inventory procedures increase the risk that public funds could be misappropriated, lost or misused and not be detected in a timely manner.

Additionally, the City did not receive all money that should have been deposited into City accounts. This money was not available for City officials to use as they prepared and approved a budget.

The City also cannot be sure all expenditures from these accounts were for a legal, City-related purpose.

The City owes \$2,100 to the state from the sale of forfeited property.

### **Recommendation**

We recommend:

- The City train its employees in using its policies and procedures on bank accounts, purchasing, bid law compliance and inventory, and monitor to ensure compliance.
- The City monitor money it collects to ensure all that is due is collected and properly reported.

All recommendations and more have been implemented.