



Washington State Auditor's Office

Government that works for citizens

Fraud Investigation Report

City of Bothell

King County

For the Investigation Period February 2, 2005 through January 20, 2015.

Published August 22, 2016

Report No. 1016532





Washington State Auditor's Office

August 22, 2016

Mayor and City Council Members
City of Bothell
Bothell, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the City of Bothell. On January 28, 2015, the City notified the State Auditor's Office of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the former evidence room coordinator's unallowable activities at the City from February 2, 2005 through January 20, 2015. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

Questions about this report should be directed to Sarah Walker, Fraud Manager, at (509) 454-3621.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

cc: Ms. Maureen Werts, Deputy Finance Director

FRAUD INVESTIGATION REPORT

Investigation Summary

On January 28, 2015, the City of Bothell notified our Office regarding a potential loss of public funds, as required by state law. After determining that an issue exists, the City contacted the Washington State Patrol to conduct an independent investigation.

We reviewed the State Patrol's investigation and agree there was a misappropriation of cash at the City, totaling at least \$51,500 between February 2005 and January 2015. We expanded on the State Patrol's investigation and found an additional \$32,643 in cash that could not be located. We also noted discrepancies of other high-risk evidence.

We will refer this report to the King County Prosecuting Attorney's Office.

Background and Investigation Results

The City, located in South Snohomish and North King Counties, has an internal Police Department that maintains an evidence room for officers to store seized property. The evidence property is documented and tracked in records software and maintained until the case is resolved. The City entrusted the former evidence room coordinator as the only employee directly responsible for overseeing the property held in the evidence room such as cash, jewelry, narcotics, and weapons. Oversight over this employee and the evidence room was limited to an annual audit performed by the Police Department. The nature of the audit was a spot check for randomly selected items rather than a full inventory of the evidence room.

The Washington State Patrol performed its investigation in two parts. The initial investigation focused on empty cash envelopes identified in the evidence room safe as well as other items that appeared to be misplaced throughout the room. The second part of the investigation focused on additional empty envelopes found mostly in shred bins and the narcotics room, and quarterly depository reports for forfeited property to be deposited into the City's account.

The Washington State Patrol investigation determined that the former evidence room coordinator misappropriated a total of \$51,511 in cash held in the evidence room. We reviewed the Washington State Patrol investigation and recalculated the misappropriation amount to be \$51,500. Other than an immaterial \$11 clerical error, we agree with the results of the Washington State Patrol investigation. We also decided to conduct additional procedures to broaden the investigation's scope and consider other areas where additional misappropriation could have occurred.

In order to determine if any additional misappropriations occurred, we examined systems to which the former evidence room coordinator had access. We reviewed the following areas:

- **Records Software** – We performed an analysis of the software used to track items placed in the evidence room. This review included: gaining an understanding of the audit functionality for modified and deleted items, performing searches for keywords concerning currency in order to identify items possibly not captured by the State Patrol’s investigation, and comparing current data to backups to identify deleted or modified items. Our review found that entries made into the records software are not consistent for the 68 different property types used by the Police Department. Further, the audit functionality of the software is inadequate because the captured data for deletions and modifications does not include important information such as the property type, description, value, or reason for modification/deletion. We noted 114 deletions of all property types made by the former evidence room coordinator between June 2007 and December 2014 as well as modifications to 5,521 property types in 2014. We identified six items that appeared to be pieces of evidence in the 2014 backup that were not present in the current data. We also reviewed modified cash items identifying eight items totaling \$4,724 where the City was unable to locate documentation to support the modifications made to the status of the items. Due to the control weaknesses and lack of supporting documentation, we cannot determine if these items were given back to the owners or if they were misappropriated.
- **Review of other high-risk items** – As mentioned above, the State Patrol investigation focused primarily on missing cash. We expanded on this investigation by selecting other high-risk items from the records software for further review. Our testing consisted of items from the following property types:
 - *Cash* – We selected cash items reported as disposed by the former evidence room coordinator. Of the 30 items tested, we could not locate the cash items or obtain documentation to support the release of the cash for 22 items totaling \$27,919.
 - *Firearms* – We selected firearms from the records software for physical verification based on the information provided in the database. Of the 22 items tested, all could be located.
 - *Jewelry* – We selected jewelry from the records software for physical verification based on the information provided in the database. Of the 10 items tested, two items could not be located. Additionally, we observed one instance where the case number listed the evidence as a 14K yellow gold and diamond ring but the actual item observed was a compact disc.

- *Narcotics* – We selected narcotics from the records software for physical verification based on the information provided in the database. Of the 25 items tested:
 - Nine items could not be located due to insufficient information entered into the system.
 - Seven items were located in a different location than recorded in the records system.
 - Seven items marked as “to be destroyed” could not be located as they were likely in boxes that contain a significant number of items scheduled to be destroyed.

Due to internal control weaknesses over the items in the evidence room, system weaknesses found within the records software, and inadequate supporting records, we are unable to determine the full extent of the loss. Based on these factors, the \$32,643 in cash items that we were unable to physically verify or agree to supporting records during our investigation are considered questionable.

In January 2015, the Washington State Patrol interviewed the former evidence room coordinator who said he misappropriated cash from the evidence room; estimated to be approximately \$20,000.

Control Weaknesses

Internal controls at the City were not adequate to safeguard evidence maintained in the Police Department evidence room. We found the following weaknesses allowed the misappropriation to occur:

- The process for receiving, packaging, and storing property was unorganized and inconsistent. The City did not have adequate oversight over the former evidence room coordinator, who was entrusted as the only full-time employee managing evidence room operations.
- The former evidence room coordinator was aware of the timeline of the annual audit allowing him to misappropriate and return funds for the audit. In addition, the scope of the audit did not consider a more thorough review of high-risk items such as cash, jewelry, narcotics and firearms.
- The records software allowed the former evidence room coordinator to modify and delete evidence entered into the system without notifying or requesting approval from an

independent person. Further, the City did not have compensating controls in place to ensure proper monitoring and approval of modified and deleted property.

After identifying the misappropriation, the City established controls that include:

- Creating a uniform process for receiving, packaging, and storing property
- Updating to a barcode tracking system
- Moving the existing cash safe to a more secure area and purchasing a new safe for jewelry and other high value items
- Installing security cameras in the evidence room
- Turning off deletion permissions in the records management system

Additionally, the City updated its policy regarding property and evidence to include more frequent and detailed audits.

Recommendations

We recommend the City continue to develop and follow internal controls over the assets maintained in the evidence room to safeguard them from future losses. Specifically, we recommend the City strengthens controls and oversight of alteration permissions for the evidence room coordinator.

We also recommend the City seek recovery of at least the misappropriated \$51,500 and related investigation costs of \$6,530 from the former evidence room coordinator and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the City must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or matt1@atg.wa.gov. The contact for the State Auditor's Office is Sadie Armijo, Deputy Director of Local Audit, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

City's Response

In 2010, a system audit identified risk exposure due to a software limitation outside the City's control. Detective compensating control measures were immediately put in place. A period of inconsistent compliance by the direct supervisor occurred that allowed exposure. The theft was discovered by a secondary level of internal audit performed by a commander outside of the division. Corrective measures were taken.

State Auditor's Office Remarks

We thank City officials and personnel for their assistance and cooperation during the investigation.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov