

THE CITY OF



INTERNAL AUDIT REPORT

DRUG RELATED SEIZURES

MAJOR CRIMES UNIT

JANUARY 1, 2009 – JULY 31, 2010

February 16, 2011

The Honorable Mayor Kim McMillan
Audit Committee Members
Ben Griffin, Commissioner of Finance and Revenue
Chief Al Ansley, Clarksville Police Department
Lt. Phil Ashby, Major Crimes Unit
Sgt. Bert Clinard, Major Crimes Unit
Clarksville, Tennessee 37040

Internal Auditor's Report

I have audited drug related seizures at the Major Crimes Unit of the Clarksville Police Department for the period January 1, 2009 – July 31, 2010. The audit was conducted as a part of Internal Audit's approved annual audit plan for FY 2011. The audit focused on the internal controls surrounding the process, including proper accounting presentation, and compliance with existing policies and laws.

I conducted the audit in accordance with generally accepted government auditing standards (GAGAS) as set forth in Governmental Auditing Standards issued by the Comptroller General of the United States with the exception of the peer review. Those standards require that I plan and perform the audit to afford a reasonable basis for my judgments and conclusions regarding the organization, program, activity or function under audit. I believe that my audit provides a reasonable basis for my conclusions.

In my opinion, there are internal control weaknesses in the process surrounding drug seizures that should be addressed. These are outlined in the section of the report entitled Findings and Recommendations.

I would like to thank the management and staff of the Major Crimes Unit and the Evidence Custodians for their cooperation during the performance of the audit. Their willing assistance facilitated the audit process.

Lynn Stokes



Director of Internal Audit

Internal Audit Report

Origin of the Audit

This audit was conducted as a part of the annual audit plan approved by the Audit Committee for the fiscal year 2011.

Audit Objectives

The specific audit objectives were:

- **to determine the adequacy of the controls surrounding seized items;**
- **to determine if seized items are properly accounted for in City financial records;**
- **to determine compliance with regulations regarding seized items; and**
- **to offer suggestions to improve the process.**

Scope of the Audit

The audit involved inquiries, observations and tests of the controls surrounding the drug-related seizure process for the period January 1, 2009 through July 31, 2010. A sample of 48 seizures was tested for internal controls surrounding the property from seizure to disposition. The sample included 40 random samples and eight auditor-chosen samples.

Results of the Audit

Background

The Major Crimes Unit (MCU) of the Clarksville Police Department is responsible for the seizure and disposition of money and property used in or generated from illegal drug activities. TCA 39-11-701 states that the legislative intent for permitting such seizures is to deter criminal acts committed for financial gain. The typical types of property involved in seizures are cash, vehicles, guns, and electronic equipment.

The Evidence Custodians (Evidence) track and safeguard seized non-cash property and seized “buy” money until resolution of the cases. After resolution, the items leave Evidence

and are stored in a secured area until their disposition. At that time the items are returned to their owners or sold at online auction or used by MCU.

The following table summarizes the seizure activity by MCU for the audit period:

	CY 2009	CY 2010 As of 7/31/10	Total
Number of drug related seizures	133	74	207
Number of cases still pending as of 7/31/2010	9	29	38
Vehicle Seizures:			
Number of vehicles seized	53	33	86
Number of vehicles awarded to MCU	25	9	34
Number of vehicles still pending judgment as of 7/31/2010	6	20	26
Number of vehicles returned to owner with no civil settlement	9	1	10
Number of vehicles returned to owner with civil settlements	13	3	16
Amount of civil settlements received for seized vehicles and property	\$13,050	\$2500	\$15,550
Cash Seizures:			
Total amount seized	\$81,966	\$85,060	167,026
Amount returned to owners	\$2,349	\$646	\$2,995
Amount held in Evidence	\$2,744	\$980	\$3,724
Amount awarded to MCU	\$73,394	\$15,689	\$89,083
Amount not yet awarded (pending) as of 7/31/2010	\$3,479	\$67,745	\$71,224
Revenue generated from sales of seized property *	\$112,892	\$22,317	\$135,209

*TCA requires that revenue generated from the sale of drug related seizures must be accounted for in a Special Revenue Drug Fund.

The Good News

Auditor testing revealed that proceeds from the sale of seized property and seized cash awarded to the Department were accounted for in a Special Revenue Drug Fund as required by State law.

Auditor testing revealed that seized cash (excluding cash held in Evidence) and seized vehicles can be traced from the point of seizure through the point of disposition by documented records.

Findings and Recommendations

Auditor testing and research revealed the following findings and recommendations.

1. Weak Control Over Cash Held in Evidence

Criteria: According to the Internal Control and Compliance Manual for Tennessee Municipalities (ICCMTM) all cash received by the City should be recorded in the City financial accounting records. In addition, cash should be independently reconciled to a balance account in order to maintain effective control over the cash.

Condition: Some seized cash is held by Evidence instead of being deposited in the bank and, currently, is not being recorded in the City's financial accounting records. In addition, no periodic reconciliation to an independent balance is being performed to account for the held cash.

Cause: A procedure has never been established to report the cash held by Evidence to Finance and Revenue in order for it to be recorded in the City's accounting records. There is no procedure in place that requires a reconciliation of cash held by Evidence to an independent balance.

Effect: The effect of not reporting the cash held by Evidence in the City's financial records is noncompliance with the ICCMTM. The effect of not periodically reconciling the cash to an independent balance is weak control over the cash. No control currently exists which would identify if such money disappeared after a case is adjudicated.

Recommendation: The MCU should develop a procedure to notify Finance and Revenue when seized cash is turned over to Evidence and held there. The held cash should be accounted for in the City's financial records. A procedure should be developed which requires someone independent from Evidence to periodically count the cash held by Evidence and reconcile the total with the independent balance in the financial records.

Management Comments:

Agree _____ X _____

Disagree _____

Corrective Action Plan: We are having a report created to show all currency turned in to the Evidence Room since 2005. Any cash retained prior to 2005 will have to be hand searched. This will include any cash seizures held as evidence, as well as, any cash related to other cases within the Clarksville Police Dept. Debbie Frazier will be sending an employee of city Finance to help to verify these funds.

The Evidence Room will generate a monthly report showing all currency that has been turned in as evidence. A copy of any drug related seizure notice for cash that is being

held as evidence will be forwarded to Finance. We will also forward copies of all court orders to release these funds.

Projected Completion Date: April 30, 2011

Responsible Manager: Lt. Philip Ashby

2. Weak Control Over Non Cash Seized Property

Criteria: According to the GAO checklist entitled *Seized Property and Forfeited Assets Systems Requirements*, an effective system of control over seized property includes the following elements:

- Each seized item is assigned a unique identifier that facilitates tracking of the item from the point of seizure through final disposition in such a manner that at any time during the process a status and location of a seized item can be determined.
- Seized items or lots of items are assigned an estimated value and recorded on the governmental entity's financial records to account for any theft, loss or damage to the items.
- Partial dispositions of seized items are accurately documented and recorded in the system.
- The control system is tested periodically to ensure the process is not being victimized by insider transactions. This can be accomplished by periodically tracing a sample of seized items to their disposition and by periodically testing an inventory list of seized items.

Condition: The current controls at the MCU related to non-cash seized items have the following weaknesses:

- No unique identifier is assigned to seized items that facilitates tracking through the entire process including disposition. Items are tracked until they leave Evidence at which point they lose their identity and tracking is difficult. The exception to this is vehicles which are tracked by VIN. Items leave Evidence after a case has been adjudicated and are either returned to the owner or sold or used by MCU or otherwise disposed of.
- Seized items are not assigned an estimated value and are not recorded in the financial records.
- No periodic tests are performed to ensure that items are accounted for after they leave Evidence.

Cause: There are various causes but the one cited most often by MCU personnel is lack of manpower to perform the tasks necessary to carry out such a control system.

Effect: Seized items are subject to possible misuse, theft or loss when internal controls are weak. Financial statements don't accurately reflect City transactions when seizure activity is not recorded.

Recommendation: Develop a system of control over seized items that addresses each of the GAO criteria listed above. Work with Finance and Revenue to develop a system of notification of seizures and a method of assigning an estimated value to seized items to facilitate the recording of seizure activity in the City financial records. Hire required manpower to accomplish the required controls. Develop a procedure for independent periodic testing of the system by tracing a sample of non-cash seizures to their final disposition. Develop a procedure to periodically reconcile the estimated value in the financial statements to the inventory of seized items on hand.

Management Comments:

Agree _____ **X** _____

Disagree _____

Corrective Action Plan: We are currently supplying Finance a copy of cash seizures as the funds are turned over to them. We will begin reporting all seizures to include vehicles and other property to Finance. All vehicles and any other item valued over \$1000 will have an estimated value included with the seizure paperwork. We will also send a copy of all Court Orders with the disposition of the property to Finance.

Regarding the tracking of seized property, no action plan can be implemented at this time without administrative support which may require hiring additional personnel.

Additional Comments from Clarksville Police Department (CPD) Management (Summarized by Auditor): The CPD is implementing a paperless reporting system which will begin April 1, 2011. CPD believes that the new system will reduce the workload of some records personnel allowing them to support the property and evidence function at MCU.

Responsible Manager: Lt. Philip Ashby

3. Financial Statement Presentation of Drug Fund Bank Account

Criteria: Cash that has a limitation on how or when it may be used should be presented in the financial statements on the balance sheet or statement of net assets as restricted cash.

When a restricted cash account has a related liability account the two accounts should be periodically reconciled to accurately present the City's financial position.

Condition: The Drug Fund bank account is composed entirely of cash from seizure cases that are awaiting adjudication. The money is not available for use by the City since its final disposition has not yet been determined. Once a case is adjudicated the money is moved out of the Drug Fund bank account and is either awarded to the City and transferred to another account or returned to the owner. Currently, the bank account is not presented as restricted cash in the financial statements.

The Drug Fund deferred revenue account (confiscations pending account) is the related liability account on the balance sheet. It should exactly offset the bank account to accurately reflect the City's liability related to the money in the Drug Fund bank account. For the last five years, in the City CAFR, the two accounts have not exactly offset each other. The differences have varied from \$5,400 to \$17,700.

Cause: The cash in the Drug Fund bank account has never been reported as restricted cash on the financial statements probably because the firm that prepared the statements was not aware that the bank account was composed of restricted cash.

The Drug Fund bank account and deferred revenue account do not equal one another because periodic reconciliations have not been performed between the two accounts.

Effect: The effect of not reporting the Drug Fund bank account as restricted cash is that the reader of the financial statements is not accurately informed about the availability of the Drug Fund cash balance. The effect of not reconciling and accurately reporting the deferred revenue account is that the Special Revenue Drug Fund financial statements are misstated.

Recommendation: Report the balance of the Drug Fund bank account as restricted cash on the balance sheet of the Special Revenue Drug Fund and other appropriate financial statements as that balance is combined with other funds. Develop a procedure to periodically reconcile the Drug Fund bank account with the Drug Fund deferred revenue account.

Management Comments:

Agree _____ **X** _____

Disagree _____

Corrective Action Plan: The Finance and Revenue staff will consistently reconcile the Drug Fund deferred revenue account to the Drug Fund bank account. The Drug Fund bank account will also be reported as restricted cash in the City of Clarksville Comprehensive Annual Financial Report beginning with the 2010-2011 fiscal year and all years hereafter.

Projected Completion Date: June 30, 2011

Responsible Manager: Debra Frazier

Other Recommendation:

Vision RMS should be contacted to determine what they recommend as a way to minimize the following duplication of effort: The confiscating officer makes a list by hand of confiscated items in the field to attach to the seizure form. He makes another

list by hand of the same items when he brings them to Evidence. Evidence types the same list again as the items are entered into Vision RMS. The MCU Administrative Assistant types a partial list again as she enters the items in her Access database.

Management Comments (Summarized by the Auditor): Unfortunately, the new paperless reporting system that is being implemented by the CPD will not resolve this particular issue. The Department has considered other options, however, and financial and other constraints make purchasing the application needed to address the duplication of effort not feasible.

Responsible Manager: Lt. Philip Ashby

The auditor would like to thank the MCU staff and the Evidence Custodians for their help and support during the performance of this audit. Their positive attitude facilitated the conduct of the audit and provides the necessary environment for process improvements to take place.

If further information about this audit is desired please contact Internal Audit at 931-648-6106.

Respectfully submitted,



Lynn Stokes

Director of Internal Audit