

OFFICE OF THE CITY AUDITOR

PERFORMANCE AUDIT OF THE DALLAS POLICE DEPARTMENT CASH HANDLING PROCEDURES



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September 9, 2005

Memorandum



CITY OF DALLAS

September 9, 2005

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted a performance audit of the cash handling procedures for the Dallas Police Department (DPD). Our audit covered the period from October 1, 2000, to September 30, 2004, our examination of the Petty Cash Fund (PCF) covered transactions from June 1, 2004, through August 31, 2004. This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by City Council.

As a result of our inquiries and analysis, we conclude that DPD has made some progress in the areas of confidential informant and petty cash funds controls however, additional items need to be addressed regarding DPD's confidential informant funds and DPD's petty cash activities.

Our concerns are discussed in the Opportunities for Improvement section of this report.

We appreciate the cooperation of City staff during our examination.

Paul T. Garner

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Assistant City Auditor

c: Mary K. Suhm, City Manager

**PERFORMANCE AUDIT OF THE DALLAS POLICE DEPARTMENT CASH
HANDLING PROCEDURES**

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EXECUTIVE SUMMARY

We have conducted a performance audit of the cash handling procedures for the Dallas Police Department. Our audit covered the period from October 1, 2000, to September 30, 2004, our examination of the Petty Cash Fund (PCF) covered transactions from June 1, 2004, through August 31, 2004.

Our Opportunities for Improvement are summarized below:

1. There is limited independent review of DPD units using confidential funds.
 - The system of maintaining an Informant Payment and Activity Sheet is insufficient to provide adequate controls over CI payments.
 - The quarterly unannounced confidential fund audit (cash count) conducted by Finance and Contract Management (FACM) personnel is narrow in scope.
 - The Narcotics Division, supervising sergeants do not consistently complete a required Quarterly Review Checklist for each active CI file folder.
 - In the Narcotics Division, some CI files were misplaced and disorganized.
2. There are no department-wide Standard Operating Procedures regarding confidential funds, or confidential informant activities, or petty cash.
3. Some DPD petty cash procedures are not effective or efficient. The DPD petty cash requests are designated as emergencies thus avoiding the need to use or pursue price agreements (PA).
4. The manual DPD controls over confidential funds and petty cash are not effective or efficient.
 - In some units, monthly Confidential Fund Cash Log is manually maintained instead of utilizing a computerized reporting system.
 - DPD staff manually count the Narcotic Unit's flash fund of \$50,000 and the Department's Petty Cash fund balance of \$25,000. The cash counter machine is broken and management has not sought repairs.
5. Physical security of some cash assets is inadequate.

We commend the department for accepting our recommendations and taking steps to resolve these issues.

INTRODUCTION

Authorization

We conducted a performance audit of the Dallas Police Department (DPD) cash handling procedures and Petty Cash Fund (PCF). We conducted this audit under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by the City Council.

Scope and Methodology

We performed our audit in accordance with generally accepted government auditing standards and included tests of the accounting records and other audit procedures that we considered necessary in the circumstances. Our audit of cash handling procedures covered the period from October 1, 2000, to September 30, 2004; our examination of the Petty Cash Fund covered PCF transactions from June 1, 2004, through August 31, 2004, although we examined certain events and transactions occurring before and after these periods.

Our audit objectives were to determine whether:

1. DPD controls adequately account for and safeguard cash funds.
2. DPD controls adequately account for the issue, custody, and recovery of confidential funds.
3. Review of investigative unit cash use by the DPD chain-of-command is timely and effective.
4. Independent review by other DPD units is needed for cash payments to confidential informants by DPD investigative units.
5. The cash handling and PCF procedures are in compliance with City directives.
6. Physical security procedures for petty cash are satisfactory.
7. The General Fund Petty Cash balance of \$25,000 is sufficient.

To develop an understanding of relevant control structure policies and procedures, we reviewed:

- DPD's staffing and organization structure;
- Department and City-wide policies and procedures;
- Transactions processed; and
- Report of the Independent Investigative Panel on the "Fake Drug Cases" Involving the Dallas Police Department.

We interviewed DPD managers and staff concerning relevant internal controls. We examined departmental records and reports, and then compared them to observed operating procedures.

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We reviewed the flows of cash through all funds administered by DPD to identify those funds having the greatest cash activity. We identified three types of cash handling operations performed routinely by DPD units:

- Petty cash fund
- Confidential funds
- Cash receipts from the public for various services (Auto Pound and Records)

We assessed the risks associated with each of the three types above and determined that confidential funds held the highest risk of loss or malfeasance, followed by petty cash. The cash receipts from the public are subject to cash controls common to any business and held the lowest risk. We thus decided to limit our tests to confidential funds and petty cash.

We selected two random samples in Narcotics: one from draws and returns of confidential funds and another from confidential informant payments. We used a confidence level of 90%, a precision of +/- 3%, and a maximum expected error rate of 2%.

We sent questionnaires all of the DPD Deputy Chiefs to identify all cash funds held in their divisions; this list summarizes those results:

Confidential Funds

Narcotics Division
Vice Unit
Criminal Intelligence Unit
Auto Theft Unit
Crimes Against Persons Division

Petty Cash Funds

Financial and Contract Management Unit (FACM)
Helicopter Unit
Tactical/Mounted Unit
Family Violence Unit
Records Unit

Informal Coffee or Recreational Funds Reported in 18 Units

We examined the general ledger and verified that the first five units listed above used confidential funds during the audit period. We then tested confidential funds draws in each unit to verify compliance with established unit controls.

We vouched all DPD petty cash transactions in the three months from June to August 2004.

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Overall Conclusion

As a result of our inquiries and analysis, we conclude that:

1. DPD controls adequately account for and safeguard cash funds.
2. Primary DPD controls adequately account for the issue, custody, and recovery of confidential funds. However, secondary controls over the confidential informant payment histories are not consistently enforced.
3. Review of investigative unit cash use by the DPD chain-of-command appears to be timely and effective, showing no exceptions since June 2002 based upon our test work.
4. There is limited independent review of DPD units using confidential funds and inconsistent review of confidential informant (CI) payments within Narcotics.
5. The DPD procedures for handling petty cash, or confidential funds, comply with City directives. However, each DPD unit has its own policy. The DPD controls in some smaller units do not effectively and efficiently account for custody of the confidential funds and petty cash. A Department-wide Standard Operating Procedures (SOP) is needed to make those policies more consistent and improve efficiency.
6. Physical safeguards over DPD cash asset is inadequate, certain improvements would increase the security of that cash.
7. The Petty Cash Fund balance of \$25,000 appears to be inflated by the routine use of emergency requests to process cash draws, parking reimbursements, plus its use as source funding for confidential funds for the Vice and Criminal Intelligence Units.

Our concerns are discussed in the Opportunities for Improvement section of this report.

Background

DPD Cash Handling Procedures

The DPD routinely handles an average of \$22,796 in cash each day. Some DPD operations, such as the Auto Pound and the Records Section, involve the receipt of cash from the general public for services provided to them. Cash receipts from the public by DPD are largely controlled by established procedures common to any commercial business. Those cash controls have been tested regularly by offices outside of DPD.

DPD investigative units, primarily Narcotics and Vice, must use large amounts of cash for payments to informants or make “buys” to develop their cases. This use of cash is referred to as confidential funds. The use of confidential funds by DPD requires a different set of controls that must balance the need to make those transactions open for independent review with the necessity of keeping those

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transactions confidential to protect the lives of the investigating officers and the informants. This increases the need of oversight of confidential funds by senior commanders charged with ensuring the proper use of those funds.

The sources of DPD confidential funds are awards of seized money or property under both federal and state law, various grants, plus funds appropriated from the General Fund to supplement the awards. Seized funds must be used for law enforcement purposes, and DPD develops an annual budget to use seized funds. We analyzed DPD confidential funds and identified these amounts:

Uses of confidential funds for the audit period from 10-1-2000 to 9-30-2004:

Narcotics Division	\$3,650,506
Vice Unit	295,161
Criminal Intelligence Unit	103,029
Commercial Auto Theft Unit	12,500
Crimes Against Persons Division(CAPERS)	<u>1,380</u>
Total draws of Conf. Funds	<u>\$4,062,576</u>

The sources of these funds for that period:

Confiscated Monies - State	\$1,870,127
Confiscated Monies - Federal	1,390,000
General Fund	398,949
Love Field Program Income	390,000
Auto Theft Auction Revenue	9,000
Commercial Auto Theft grants	3,500
Tobacco Compliance grant	<u>1,000</u>
Total sources for Conf. Funds	<u>\$4,062,576</u>

In the Narcotics, Vice, and Criminal Intelligence units, we performed extensive tests by drawing samples of confidential fund transactions, agreeing them to their supporting documents, and testing those documents for compliance with the unit policies and with guidelines established for confidential funds in the U.S. Dept. of Justice manual entitled "Office of Justice Programs Financial Guide" (DOJ Financial Guide). Due to the limited amounts of confidential funds used in Auto Theft and CAPERS, we limited our tests there to interviews with the cash custodians and reviews of the unit policies, cash logs, and transactions to confirm that the unit officers complied with their unit policies for the funds.

The Narcotics Division received the most extensive tests during our audit because it uses the largest amount of confidential funds and had the highest risk associated with that use. We took two samples of Narcotics transactions: one on draws and returns of confidential funds, and one on payments to confidential informants.

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Petty cash funds are maintained by organizations to provide funds for emergency purchases or to make purchases when no other forms of payment will be accepted. These funds must be kept in a secure location and be accounted for, so organizations will incur an administrative cost to maintain them. Generally, the larger the petty cash fund, the greater this administrative cost will be. So the organization must strike a balance between this cost and the flexibility offered by the petty cash fund. The Finance and Contract Management unit (FACM) Petty Cash Custodian maintains a petty cash balance of \$25,000.

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We identified certain policies, procedures, and practices that can be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not be comprehensive of all the areas where improvements may be needed.

1. There is limited independent review of DPD units using confidential funds and inconsistent review of confidential informant payments within Narcotics.

Officers of DPD investigative units draw cash from the confidential fund to pay confidential informants (CI) for investigative purposes. We interviewed DPD personnel in each investigative unit, assessed the control environment, and obtained documentation relating to the CI payments.

A. Some Confidential Informant Payment Forms in the Narcotics Division were not complete or the payments were not authorized properly. See the table below for exceptions found.

Types of Exceptions	Total number of files tested	Number of files containing exceptions	Percentage of exceptions	Total amount of payments containing exceptions
CI Payment Forms were missing.	58	6	10%	\$860
CI Payment Forms were approved after the payments were made.	58	9	16%	\$830
CI Payments were made without proper authorization.	58	3	5%	\$80

The Narcotics SOP requires that a separate Confidential Informant Payment Form must be completed for each payment made to an informant. Other requirements include:

- The original of this form will be part of the officer’s monthly expense report (or confidential file, before the implementation of the current revision).
- The officers must receive prior approval from their supervisor, before making any compensation agreements with an informant.

The DOJ Guide requires the officer to make the informant sign a receipt for cash paid to the informant. The receipt must include the signature of the first line supervisor authorizing and certifying the payment.

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When the Confidential Informant Payment Form is missing from the CI File Folders, evidence is absent to prove that the payment is actually made to the proper CI and that it is properly authorized. Misuse of the cash can be covered up. Also, the officers can lose protection from allegations of misconduct by informants.

Paying the CI before getting prior approval from authorizing supervisors in the chain of command is a violation of proper procedures required by SOP. Supervisor personnel, such as sergeants and lieutenants, are authorized to approve the payment by signing the CI Payment Forms; however, after-the-fact authorization weakens the control purpose of this requirement.

- B. The system of maintaining an Informant Payment and Activity Sheet is insufficient to provide adequate controls over CI payments.
- An Informant Payment and Activity Sheet or a Confidential Summary Sheet is used to record and summarize payments to each CI. We tested a sample of Narcotics Division CI folders and found the exceptions listed in the table below.
 - The Narcotics Division developed an Access database to generate the Informant Payment and Activity Sheet. However, the system is unreliable in the following aspects:
 - The system could not properly generate the 12 months period running total of payments made to a CI; and
 - The system did not carry over the correct lifetime running total of payments.

Types of Exceptions	Total number of files tested	Number of files containing exceptions	Percentage of exceptions	Total amount of payments containing exceptions
CI Activity Sheets were missing.	58	25	43%	\$1,480
Payments were not logged into the Activity Sheets.	58	6	10%	\$875
Activity Sheets were incomplete.	58	2	3%	\$35
Activity Sheets were not filed quarterly.	58	2	3%	\$150

The Narcotics SOP states that:

- The Informant Payment and Activity Sheet is maintained to record a running total of money paid to an informant.
- This form is to be reviewed each quarter, or more often if necessary, to ensure that payments to the informant do not exceed the maximum permitted by the SOP.

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- No Informant may be paid more than \$20,000 in any 12-month period without the approval of the Executive Assistant Director of the Administrative Service Bureau.
- The supervisor conducting the quarterly review of Confidential Informant File Folder will ensure that the Confidential Informant File Sheet is still current and that an updated printout of the payment history record is placed in the file.

Insufficient CI payment records do not provide the supervisors adequate information to oversee the CI payment activities. The supervisor cannot rely on the system to monitor whether the CI payment exceeds the amount limit set by SOP. The system cannot identify or prevent overpayments or duplicate payments to the CI.

C. The quarterly unannounced confidential fund audit (cash count) conducted by Finance and Contract Management (FACM) personnel is narrow in scope. This independent audit provides a certain level of control over the confidential fund cash on hand maintained in each investigative unit.

The audit includes the following activities:

- Reconcile the total cash draws recorded in the ledger with the total draws booked by the FACM;
- Compare the cash balance in the ledger with actual count of cash in the safe.

However, it does not review or verify disbursements of the confidential fund nor does it address the use of those funds. It also does not provide complete verification of compliance with the unit confidential fund SOP.

The FACM SOP contains a requirement for “completion of a quarterly internal audit of the (confidential) fund”. But it does not specify what steps this quarterly audit should include.

The FACM is the initial custodian of confidential funds and petty cash funds in DPD. FACM accounts for federal and state awards of confiscated funds and General Fund appropriations of petty cash to DPD. Both sources are used to provide cash for DPD investigative units. The investigative units draw cash from FACM. Each unit appoints an Administrative Sergeant as the custodian of the cash and maintains the cash drawn in a safe or secured cabinet. The custodians maintain written or electronic cash logs to record all cash draws, returns, along with the current cash balance.

Currently, the FACM functions as the accounting body and distributing channel for the confidential funds. After the money is drawn by each unit, FACM does not have direct access to the transaction records of confidential

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fund expenditures in each investigative unit. Thus, the FACM disclaims any assurance of the proper use or authorization of the funds.

DPD overly relies on self-inspection. However, self-inspection should not be performed by the fund custodians. Segregation of duties dictates that self-inspection should be performed by an independent third party.

D. Within the Narcotics Division, supervising sergeants do not consistently complete a required Quarterly Review Checklist for each active CI file folder.

Among the random sample of 58 Narcotics Unit CI payments we tested (see Finding One), forty of these sample items occurred when the previous Narcotics CI SOP was in force. Eighteen of the sample items occurred under the current Narcotics CI SOP.

- The quarterly review by supervisors could not detect and correct the noncompliance of the CI payments procedures. These exceptions are listed in detail in Finding One.

Types of Exceptions	Total number of files tested	Number of files containing exceptions	Percentage of exceptions
Quarterly Review Checklists were missing.	18	2	11%
Quarterly Review Checklists were incomplete.	18	2	11%

- In 18 of the transactions, which occurred after the SOP was revised, 11% (2 of 18) of the CI File Folders did not contain the checklists, 11% (2 of 18) of the Checklists were incomplete. The following table reflects the exceptions found:

The DOJ Financial Guide to the confidential fund recommends a "...review of all active status informant files on a quarterly basis to assure they contain all relevant and current information."

The Narcotics SOP requires that a Supervisor's Quarterly Review of Confidential Informant File Folder Form will be prepared each January, April, July, and October for all active informants. It states that the review must be performed by the "...sergeant who originally approved the sign-up of that confidential informant." The sergeants occasionally transfer from one squad to another and must administer different cases. Because the sergeants are now covering different cases, they can lose track of confidential informants from their former cases and fail to complete the quarterly reviews.

Under the decentralized organization structure of DPD, the investigative units are assigned the responsibility of conducting verification of their own use of

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confidential funds. There is no routine independent verification. The Chief of Police is forced to rely on the assertions of those unit commanders that their use of confidential funds is proper.

The confidential informant procedures and requirements are not consistently enforced in the Narcotics Division. The current quarterly review cannot efficiently detect and correct these exceptions. The lack of independent review conducted by units outside the chain-of-command indicates a weakness in the DPD controls over the confidential fund activities.

- E. We noted that in the Narcotics Division, some CI files were misplaced and disorganized.
- The CI file folders were not filed in proper sequence.
 - No Check-out Log was used to track where the files were when the supervisors checked files out for review.
 - Documents in some CI folders are disorganized and do not have a consistent structure and organization. There is no mandatory Table of Contents or a list of required documents. It is difficult to locate a document in the file.

The DOJ Financial Guide requires that "...the approving agency must ensure that the controls over disbursement of confidential funds are adequate to safeguard the misuse of such funds." It states the requirement to establish and maintain CI files.

- Informant files should be kept in a separate and secure storage facility, and under the exclusive control of the office head or an employee designated by him/her.
- Sign-out logs should be kept indicating the date, information number, time in and out, and the signature of the person reviewing the file.

The Narcotics SOP also states that if an informant's file is to be taken from the file cabinet area, it is mandatory that the Confidential Informant File Check-Out Log be completed first.

CI payments require frequent cash handling, which makes them vulnerable to misuse and fraud. Weak controls over the CI procedures were a major cause of the "Fake Drug Scandal" in 2001.

There are an excessive number of CI files maintained by Narcotics Division. Each file contains confidential information and documentation that are critical to the investigative activities. A poor filing system can cause the loss of files or missing confidential documents and it increases the difficulties for supervisors or inspection parties to review the CI files when needed.

The requirements of DOJ Financial Guide relating to the CI procedures are ignored. There is limited emphasis on monitoring of performance measures

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relating to the CI payments in the control environment of DPD. Officers and supervisors in the investigative units tend to pay less attention to the documentation and paperwork of the investigative activities. Oversight by the supervisors is either weak or inadequate. There is a lack of routine reviews by DPD units that are outside of the chain-of-command.

We recommend that the Chief of Police:

- A. Ensure that the Confidential Informant Payment Forms are complete and properly authorized. Clarify in the SOP that prior authorization signature is required on the CI Payment Form before the payment is made to the CI.
- B. Improve and test the database application of CI payments, including the generation of lifetime running payment totals of informant payments and activity sheets. Implement the system in each investigative unit department-wide.
- C. Grant FACM personnel authorization to review and verify the records and documents relating to the confidential funds used during their quarterly cash count; and Provide the independent reviewing unit read-only access to the computer database of the confidential fund in each investigative unit to facilitate this review.
- D. Require quarterly reconciliations of the activity sheets to the Confidential Fund Cash Ledger. Ensure that the Narcotics Division supervising sergeants consistently complete the required Quarterly Review Checklist for each active CI file folder.
- E. Improve the CI filing system by:
 - Implementing procedures to ensure proper filing sequence
 - Utilize a Check-Out Log to track the files when the supervisors or other parties are reviewing the files.
 - Developing a standard list of documents and their placement in the CI folder
 - Ensuring that the SOP relating to Confidential Informants is properly followed.

Management Responses:

- A. The Narcotics Division has been allocated an additional Lieutenant to act as a Compliance Officer, who is randomly reviewing and auditing expense reports and CI payments for accuracy and completeness. These reports also are initially reviewed by the detective's immediate supervisors (sergeant and lieutenant). The use of a "Compliance Officer" gives the division an additional layer of review. In addition, the Division Commander now also conducts monthly random audits of CI payment Forms.

The Narcotics Division SOP and procedures regarding authorization have been clarified and strengthened to ensure payments are authorized in the appropriate timeframe by each approving authority.

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- B. The Narcotics Division's database can now accurately generate both rolling 12 month payment totals and lifetime payment totals on any active confidential informant. A newly generated monthly report now includes all individual informant payments and a 12 month rolling payment total for each informant. The Narcotics Division Commander and Assistant Chief of the Criminal Investigations Bureau now review those reports each month.

The issue of lifetime payment totals for inactive confidential informant files is more time consuming due to the manual payment activity records in the older files. The Narcotics Division is in the process of updating the older inactive files to reflect the same requirements. If an inactive confidential informant is returned to active status, the lifetime payment information will be updated at that time.

- C. The Narcotics Division has been in ongoing discussions with the Inspections and Accountability Division regarding an independent third party audit with a much broader scope. A decision on who will conduct an independent third party review and the actual process is currently under consideration by the Police Department. An independent reviewing authority could be given physical access to records and read only access to the confidential fund computer database in order to facilitate the review process.
- D. The Narcotics Division Compliance Officer is reviewing and auditing CI files, expense reports and CI payments for accuracy and completeness. All active CI files are reviewed to ensure a quarterly review has been done. The Narcotics Division asked for and received a list of discrepancies identified by the Cash Handling Audit. The majority of the discrepancies that could be corrected without recreating a document have been corrected.
- E. All active CI folders are now filed in sequential order. A check out log is now required whenever files are removed and replaced. Each file has been reorganized into four sections and documents are now consistent within each file. Each file now includes a list of required documents and their proper location within the file.

2. The manual DPD controls over confidential funds and petty cash are not effective or efficient.

- A. In Vice, Criminal Intelligence, and CAPERS, the Monthly Confidential Fund Cash Log is manually maintained instead of utilizing a computerized reporting system. The FACM Petty Cash custodian maintains a manual bookkeeping system to note the accounting entries (debits/credits) and the individuals initiating the transaction. The custodian duplicates this information by also entering it into the electronic Petty Cash Tracking System. Duplicating the same data for PCF at different locations requires excessive time and increases the incidence of errors.

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Data should be processed in an economical and efficient manner. Using some basic computerized applications, such as creating an Excel spreadsheet, can greatly eliminate human errors during the recording of the cash transactions to the Cash Log.

Although Narcotics and Auto Theft have applications of computerized Cash Ledger system, it is not implemented in other units. In both CAPERS and the Criminal Intelligence Unit, the volume of cash fund cash transactions was comparatively low. The DPD personnel are satisfied with the current manual system of maintaining the Cash Log. The manually maintained Cash Log system is more vulnerable for human error and less efficient in a unit such as Vice Unit, where the volume of confidential fund transaction is high.

- B. DPD staff manually count the Narcotic Unit's flash fund of \$50,000 and the Department's Petty Cash fund balance of \$25,000. The cash counter machine is broken and management has not sought repairs. Each time the flash fund is withdrawn and replaced, a count of the money must take place. The PC fund is balanced daily and a cash count is performed monthly. Cash counts should be conducted efficiently. Manually counting cash uses excessive time and increases the opportunities for errors.

We recommend that the Chief of Police

- A. Automate the manual system to track confidential fund cash activities to reduce the number of entries required to maintain the PCF accounting records, update and standardize the Access Database of confidential fund in Narcotics, and share the application with other investigative units.
- B. Repair or replace the cash counter.

Management's Responses:

- A. The Vice Unit now utilizes an access database reporting system similar to the Narcotics Division database. All confidential fund cash activities in the Vice Unit are now computerized. A computer with the newly created database was installed directly adjacent to the Vice Unit safe. The Vice Unit safe was also properly secured in a limited access room.

The Criminal Intelligence Unit is reviewing the systems currently in use by the Narcotics Division, Vice Unit and Auto Theft. A determination will be made as to which system will best fit the needs of the Criminal Intelligence Unit and that system will be put into place if no problems are encountered.

- B. The cash counter has been replaced and is being utilized.

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3. There are no department-wide Standard Operating Procedures regarding confidential funds, confidential informant activities, or petty cash.

- A. Each investigative unit has developed its own SOP relating to confidential funds and confidential informant payments. Some are very complete and address all issues discussed in the DOJ Financial Guide – 2002 Part III Chapter 8 Confidential Funds; others are less complete and do not address all the issues outlined in the DOJ Financial Guide.

The DPD has a decentralized organizational structure. There are over 30 divisions and units in the Department, and most units develop their own SOP for confidential funds. Those activities are usually monitored only within each unit. Inconsistency and incompleteness among the unit SOP's impede efficient guidance and control over the use of confidential funds and petty cash. Some units do not have the manpower or the ability to develop and update SOP that meets the standard.

- B. Criminal Intelligence Unit (CIU) SOP is outdated and does not meet the DOJ requirement.

Some areas of concern are:

- 1) Unit personnel cannot determine when the SOP was last updated.
- 2) The SOP does not meet the following requirements of the DOJ Financial Guide:
 - a. The DOJ Guide specifies three categories of Confidential Funds Expenses and provides guidelines for each category. These categories are: Purchase of Services (P/S), Purchase of Evidence (P/E) and Purchase of Specific Information (P/I). The CIU SOP does not provide the definitions of these expenses and does not specifically state the requirement of each expense.
 - b. The DOJ Guide recommends predetermined limits for spending on any one investigation. The Guide also recommends stepped levels requiring authorization by more senior officers for higher spending limits. The CIU SOP does not contain such guidance.
 - c. The DOJ Guide places a 48-hour limit on the time cash draws can be held by officers. The CIU SOP does not state that requirement; nor does it state that officers must return cash held on hand at month-end.

The DOJ Financial Guide establishes a standard set of procedures for the administration and accounting for confidential funds and confidential informant payments. The guide addresses these control procedures:

- The classification and definitions of confidential fund expenses;
- The procedures of operations;
- The documentation and reporting system;

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- The supervisor's authorization limit on the amount of payment; and
- The supervisor's review and verifications procedures.

The DOJ Financial Guide is the standard followed by all awarding agencies involved in the administration of grants containing confidential funds. Each year DPD receives both federal and state grants to fund its confidential investigative activities. Those guidelines are used as a reference by DOJ auditors reviewing the use of grant funds.

The confidential fund activity involves handling large amounts of cash. Following an outdated SOP that does not meet the DOJ requirement increases the risks of misuse and abuse of such funds.

- C. The DPD does not have written procedures specific to their operation that relate to petty cash administration. The DPD uses the City-wide Petty Cash Policy for direction and guidance; however, this policy fails to provide direction for all areas specific to departmental application (i.e., balance to be maintained, required documents, etc.). Failure to provide specific direction on DPD policy for petty cash also increases the risks of misuse and abuse of those funds.
- D. The Confidential Fund Cash Log does not separate records for Amount Returned from Officers and Amount Replenished by draws on FACM cash fund. This prevents DPD supervisors from easily determining whether the Narcotics officers have turned in their cash at month end. It is inefficient for tracking and reviewing the cash activities.

Each investigative unit assigns a confidential fund custodian, usually an Administrative Sergeant, to record and track the confidential fund cash activities, using a Cash Log or Cash Ledger. The format of the Cash Log/Ledger Report of each unit varies in the following areas:

- Title of the form
- Required information in the form
- Description of each column

Each investigative unit uses a different format for the same Confidential Fund Cash Log Report for the same type of activities. This inconsistency increases the difficulties in conducting a department-wide review on the confidential fund transactions.

The DOJ Financial Guide requires that "...the approving agency must ensure that the controls over disbursement of confidential funds are adequate to safeguard the misuse of such funds."

Using a standardized format for all the Cash Log maintained in each investigative unit will make the quarterly audit conducted by FACM more

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efficient. Using a standardized Cash Log format will better support the tracking and reviewing of the cash activities.

The DPD has a decentralized organizational structure. The investigative activities are performed and monitored at each investigative unit level. Each unit develops its own SOP based on its requirement for documentation and reporting procedures. This causes the inconsistent formats of the Confidential Fund Cash Log/Ledger Reports.

The insufficient system of maintaining and bookkeeping for the confidential fund and petty cash fund does not promote efficient updating, reporting, and control over cash handling.

Inadequate information provided by the Confidential Fund Cash Log does not satisfy the requirements for tracking and reporting. Several control activities in confidential fund activities are related to the amount of draws and the timely return of the cash-on-hand by officers. However, the current system cannot process this data efficiently.

- E. Only one of the five investigative units, the Narcotics Division, had adequate segregation of duties between the Administrative Sergeant who maintains the Cash Ledger and the cash custodian. There is no segregation of duties in the other four investigative units, which are: Vice, Criminal Intelligence, CAPERS, and Auto Theft. In these units, the custodians who maintained the Cash Logs also have access to the safe. In Criminal Intelligence, the custodian, an Administrative Sergeant, is also one of the supervisors who can authorize the cash draws.

According to generally accepted business practices, segregation of duties is a basic internal control. The duties of authorizing transactions, recording transactions, and custody of assets should be assigned to different people.

Each investigative unit's SOP does not specify that there should be segregation of duties in the custody of confidential fund cash. There is a large volume of cash handling required for the confidential fund transactions. Inadequate segregation of duties exposes the DPD to higher risk of misuse of confidential funds. Functions are incompatible if a person is in a position both to perpetrate and conceal fraud or errors.

Generally accepted business practices indicate that a standardized operation procedure is a form of internal control. It provides unified criteria for an independent review or audit on the investigative units. It also simplifies training for DPD personnel.

We recommend that the Chief of Police

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- A. Develop and implement a standardized Department-wide SOP relating to the use of confidential fund and confidential informant payments, and use the DOJ Financial Guide as a guideline in developing the SOP relating to confidential fund.
- B. Update the SOP periodically to ensure it provides sufficient guidelines to the current practice, and appoint an independent unit such as the Inspections Unit in the Inspection and Accountability Division, to monitor the compliance with the SOP.
- C. Develop petty cash procedures that are specific to the DPD and augment the City's Petty Cash Policy.
- D. Standardize Department-wide Confidential Fund procedures and develop a unified documentation system, including the format and the required information on the Confidential Fund Cash Log.
- E. Clarify the requirement for segregation of duties in the SOP relating to the confidential fund and ensure compliance in each unit.

Management Responses:

- A. The Department will work towards writing an overall SOP regarding petty cash and confidential funds. However, due to the unique needs of each Division and Unit, the Department will continue with an SOP specific to each need. The Department will work to incorporate sections from the DOJ Financial Guide regarding Confidential Funds. At the present time, the Vice Unit is in the process of reviewing and updating their SOP regarding their use of confidential funds. The review became necessary with the installation of the computerized access database system.
- B. The Criminal Intelligence Unit is working to update their SOP to comply with the Department of Justice guidelines for the administration and accounting for confidential funds and informant payments. Specifically, they are updating the following areas:
 - the definition of the three categories of Confidential Funds and the requirements for each expense
 - a predetermined limit for spending and stepped levels for authorization for higher spending levels
 - time limits for holding cash draws
 - segregation of duties relating to the custody of confidential fund cash specifically in the areas of authorizing transactions, recording transactions, and custody of assets (actions toward segregation of duties were taken immediately upon review of the auditor's findings). It is anticipated that the SOP revisions should be completed and submitted for approval by September 30, 2005.
- C. DPD will work towards implementing an overall department-wide General Order regarding Petty Cash transactions.

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- D. The Narcotics Division tracks funds drawn, expended and returned by officers on a monthly basis. Unless there is an over-riding need to carry funds over to the next month, all officers are required to zero out (turn in all on-hand funds at end of month). The Narcotics Division also tracks deposits/returns from/to FACM. A monthly report is prepared outlining funds drawn/returned by officers and funds drawn/returned from FACM.
- E. The other four investigative units will review and update their SOP regarding the use of confidential funds. The revised SOP will ensure segregation of duties between the individual maintaining the cash ledger and cash custodian.

4. Some DPD petty cash procedures are not effective or efficient.

Several areas involving petty cash procedures are not effective or efficient and need to be addressed. They include:

- A. The Vice Unit and the Criminal Intelligence Unit draw cash from the PCF for investigations. Usually the draws are \$3,000 each and are requested intermittently. During the audit period, there were eight draws of \$3,000 each (\$24,000 total). Unlike Vice and Intelligence, Narcotics does not draw their confidential funds from petty cash. Narcotics requests funds and receives a check from the state or federal confiscated funds accounts using the City's requisition process.

The PCF must be sufficient to satisfy the draw requests. This entails frequent replenishments of cash to maintain the large PCF balance and increases the associated administrative costs. Replenishments require an officer to accompany the PCF custodian to cash the replenishment check. Transactions should be processed efficiently. The DPD has not recognized a need to institute a change to the City's requisition process for funding Vice and Intelligence investigations.

- B. The DPD PC requests are designated as emergencies thus avoiding the need to use or pursue price agreements (PA). We identified the following transactions that could be pursued through price agreements, thus reducing the number of petty cash transactions.
 - Repairs to covert vehicles. During the audit period there were 189 PC transactions related to covert vehicle repairs. These vehicles are repaired by the vendor as tax exempt, signifying that charges are to a governmental entity. We saw two repairs that exceeded the PC limit of \$100 per transaction.
 - Repairs to three non-covert vehicles (one grant funded) and minor repairs to other vehicles (i.e., tire repairs).
 - Purchase of specialized items (i.e., crime scene materials, fingerprint supplies, etc.) and office supplies.

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- Boot repairs (14 repairs, totaling \$1,051).
- Locksmith services (7 service calls totaling \$413).

The PC Fund is used by DPD officers stationed at Love Field. We noted seven PC transactions, totaling \$278.11 were related to officers at Love Field. The Love Field officers must commute to the PC office to receive PC funds and return to the PC office to submit receipts for purchased items. This requires excessive travel time that could be minimized.

The following table illustrates the monies drawn from PC during the three-month period from June through August 2004:

DPD Petty Cash Fund Activity – June through August 2004	
Type Of Activity	Amount
Parking Reimbursements	\$21,979
Covert Vehicle Repair	\$12,167
Other Purchases and Services	\$8,945
Total	\$43,091

The City’s RESOURCE INFORMATION GUIDE 3.7, *Price Agreements* (PA) in part states, that PA are for commonly or frequently used commodities. The agreements are awarded to vendors who submit the lowest responsive bids. PA enables a department to order items directly from a vendor, thus avoiding requisitions and purchase orders. PA take precedence over requisitions and requisitions received in Purchasing for commodities available through PA are to be rejected. The guide states that if a PA is not available, procure using petty cash (\$100 or less) or process a requisition if greater than \$100.

The City’s RESOURCE INFORMATION GUIDE 3.15, *Petty Cash Change Fund* (PC), states that PC funds are established for making purchases of goods (materials, supplies), up to \$100 per transaction, that are related to City business and not on a City price agreement. Splitting PC receipts is prohibited. Multiple disbursements for the same or similar items should not exceed \$100.

- C. Officers frequently pay for parking when they attend Municipal and County Courts. Officers are reimbursed for the parking from the PCF. Officers pay the parking fee for the full day even though they may be at court for less than the full day. Officers who leave and return to court must pay the parking fee twice. The following table reflects the court parking fee reimbursements for seven days from September 23, 2004, through September 29, 2004, and projections using a 50 week year (to compensate for holidays):

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Parking Fees Reimbursed Through Petty Cash September 23 – 29, 2004 and Projections For One Year				
Parking Location	Actual Number of Reimbursements Sep. 23-29, 2004	Total Amount	Annual Projection	Annual Projected Number of PC Transactions
Municipal	50	\$185	\$9,238	2,500
Dallas County	385	\$1,650	\$82,520	19,250
Totals	435	\$1,835	\$91,758	21,750

The City leases a parking lot at Pearl and Commerce Streets for DPD officers to use while attending Municipal Court. This lot contains 27 parking spaces. We observed on one occasion that all of the spaces were occupied; however, we could not ascertain whether any of the parked vehicles belonged to DPD police officers attending court. We noted that nine of the parked vehicles (38%) were registered to City employees not assigned to the Police Department.

The signage at this lot is inconsistent and displays three different messages: “RESERVED FOR POLICE EMPLOYEE”, “Restricted to City equipment, delivery, and decal parking” and “Reserved parking at all times.” Parking restrictions should be clearly stated to ensure restrictions can be complied with and enforced.

Parking needs for officers during court days have not been clearly established. An alternative to the present method of obtaining parking at the Dallas County facility has not been explored. Parking needs for officers during court days should be determined and satisfied through economical means.

As a result of these conditions City employees are parking at the Municipal Courts Building parking lot free of charge, while DPD officers, required to attend court, pay for and are reimbursed for parking through the PCF. The current method to reimburse officers for County parking may not be cost effective.

The DPD is expending time to request, process, and replenish PC funds. Excessive cash transactions may lead to unintentional errors. The DPD may miss opportunities to reduce cost.

We recommend that the Chief of Police:

- A. Require Vice and Intelligence to use the City’s requisition process instead of petty cash to fund Vice and Intelligence investigations.
- B. Examine the feasibility of reducing the balance needed for the DPD General Fund Petty Cash Fund using these strategies:

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- Consult with Business Development and Procurement Services to determine whether price agreements can be used or secured for covert vehicle repairs, boot/shoe repairs, locksmith services, supply purchases, and other items currently procured through petty cash funds.
 - Determine the practicality of establishing a PC fund for the DPD at Love Field.
 - Ensure that staff adheres to the PC maximum transaction limit of \$100.
 - Review transactions to determine whether P-card use would be beneficial.
- C. Explore the replacement of the current DPD parking reimbursement using a combination of these steps:
- Determine the parking needs for the department at the Municipal and County facilities.
 - Install signage at the Municipal lot to clearly specify restrictions. Ensure that the signs convey a consistent message.
 - Explore alternatives to gain entrance to the Municipal lot (i.e., an entrance arm activated by code or card, etc.)
 - Determine the practicality of issuing a placard to be used by off-duty officers attending court to park free at parking meters.
 - Pursue with County Officials an alternative method to obtain parking. Consideration should be given to leasing a specified number of parking spaces at the County facility.

Management Responses:

- A. The cash needs for Vice and Intelligence can vary week to week. When needed, it is of utmost importance that these Units be able to access cash in a very expedient manner. DPD will continue to explore the various options for providing cash, but at this time will continue to utilize petty cash funds for these Units.
- B. Reduce the Petty Cash Balance using Suggested Strategies:
1. Price Agreements
DPD will explore the possibility of establishing price agreements for various services such as boot repair, locksmith services and others, if the volume is large enough. As to covert vehicle repairs, DPD still has some concerns in utilizing price agreements, but will explore our options for this use.
 2. Establish Petty Cash Fund at Love Field
At this time, DPD does not concur with the need to establish a Petty Cash Fund at Love Field. The DPD Lieutenant at Love Field has stated that they

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are authorized to use the P-Card from Aviation. This P-Card allows them to make many purchases that would otherwise be made from petty cash. The Lieutenant stated that on the average, Love Field only makes 2-3 petty cash purchases per month.

3. **Maximum Transaction Limit**

DPD is well aware of the maximum \$100 limit on Petty Cash Funds. Supervisors strictly enforce this limit and are instructed to purchase via other means if the cost exceeds the \$100 limit.

4. **Expand P-Card Usage**

DPD is working towards expanding our usage of the P-Card. Over the past year, staffing issues have been the primary reason for DPD not expanding the use of the P-Card. However, DPD will work to expand the use of the P-Card, which should allow for a reduction in the number of petty cash transactions for the Department. Also, the time saved from the reductions in petty cash transactions could be utilized in the reconciliation of P-Card transactions.

C. **Officers frequently pay for parking when they attend Municipal and County Courts.**

DPD has now established a voucher system for parking at the County facility. Officers are now able to utilize a parking voucher when exiting the county parking garage. This eliminates the need for officers to pay “out of pocket” for parking and will also greatly eliminate the need to process monthly parking reimbursement for the Patrol Divisions.

Additionally, DPD will soon have parking available at Municipal Court that will not require any expense for the officer. At the present time, DPD is waiting to have the electric meter installed. At this facility, an electric gate will control the entrance and exit to the parking lot. The officer will operate the gate by “swiping” his/her electronic identification card. Also, signage has been installed on this lot (and another lot at Central & Commerce) to identify the parking lots as “Police Only”.

These actions should greatly reduce the need for parking reimbursements from Petty Cash.

5. Physical security of some cash assets is inadequate.

Several areas involving physical security need to be addressed. They include:

- A. Limited physical barriers exist between the custodian and other DPD personnel. The PCF custodian’s desk is near the entryway door that leads to the customer waiting area. Therefore, individuals have direct access to the custodian when entering and leaving the area. Frequently the custodian reconciles cash transactions at her desk and has the petty cash box at her desk. The vault room, that houses the safe, is situated directly behind the

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custodian's desk. Except for the door, there is not a barrier between the lobby area, the desk, and the vault room. Staff from other sections frequently enter the financial section and pass by the custodian's desk to the copier.

The City's RESOURCE INFORMATION GUIDE, *Petty Cash Change Fund* Section 3.15.11 states that departmental directors should ensure funds are adequately safeguarded at all times. A physical barrier should be provided, if possible, to prevent unauthorized individuals from contact with the funds.

- B. The custodian and the custodian's immediate supervisor do not work in the same area. The supervisor is not readily available to provide advice and assistance to the custodian, and to augment asset safeguarding. The department's agenda coordinator occupies the office next to the custodian. However, her job responsibility is not related to the petty cash. Supervisors should be in close proximity to subordinates to provide support and ensure efficient workflow.
- C. Access to the vault room is not restricted. The vault is controlled electronically. As a result of staff reassignments, the identification cards of each individual in the unit will open the vault room: however, all unit employees do not need access to this room. The vault room should be restricted to employees that perform monetary transactions.
- D. The interior of the vault room has a panic (silent) alarm that may be activated in emergency situations, alerting the monitoring section of the DPD. There is not regular testing of the alarm system, to measure functionality and response. Alarms should be regularly tested to ensure operational functionality.

We recommend that the Chief of Police:

- A. Install a barrier to restrict foot traffic near the PC custodian's desk and around the vault room.
- B. Relocate the supervisor's office to the office now occupied by the agenda coordinator.
- C. Restrict access to the vault room to only necessary employees and ensure that the identification cards recognize this restriction.
- D. Establish and implement a regular time for testing the vault's silent alarm. Testing should be conducted no less often than annually.

Management Responses:

- A. DPD has now provided a temporary barrier to prevent unauthorized persons from entering into the petty cash and vault area. As a long-term solution,

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DPD will contact the manufacturer of our cubicle walls to inquire about the installation of a permanent cubicle wall across this area.

- B. The supervisor will soon relocate to an office space directly across from the petty cash custodian. The petty cash custodian will relocate to the front desk directly adjacent to the vault room.
- C. The vault room is electronically controlled, and only those individuals with proper access authorization can enter and exit the vault room. Vault room access is now restricted to only three (3) individuals in the Unit. Those are: the manager, the petty cash custodian, and one individual that is the authorized back up for petty cash.
- D. The Financial and Contract Management Unit will incorporate the testing of the panic alarm into their SOP. The SOP revision will require quarterly testing of the panic alarm to ensure operational functionality.