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Audit Report

**FOLLOW-UP AUDIT OF THE
DALLAS POLICE DEPARTMENT'S
CASH HANDLING PROCEDURES**

(Report No. A10-010)

February 11, 2010

City Auditor

Craig D. Kinton

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Executive Summary

Although the Dallas Police Department (DPD) has made some improvements in its cash handling procedures since the *Performance Audit of the Dallas Police Department Cash Handling Procedures* report which was issued in September 2005, significant internal control weaknesses and noncompliance issues remain. As a result, approximately \$17,000 was misappropriated by a DPD employee between Fiscal Year (FY) 2007 and FY 2008.

Background Summary

The Finance and Contract Management Division is responsible for managing DPD’s Petty Cash Fund (petty cash and State Confidential Fund) and Federal Confidential Funds.

The Narcotics and Crimes Against Persons Divisions and the Criminal Intelligence, Vice, and Auto Theft Units are responsible for managing State and Federal Confidential Funds advanced from the FACM Division for undercover operations.

Source: Dallas Police Department

DPD implemented seven and partially implemented six of the 19 recommendations included in the original audit report. Appendix II provides detailed information on the implementation status of each of the 19 recommendations. During the course of the follow-up audit, we identified the following internal control weaknesses and noncompliance issues:

- Cash handling duties were not adequately segregated. The duties of the DPD Finance and Contract Management Division’s Petty Cash Custodians were not adequately segregated. The Petty Cash Custodians maintained custody of the cash, and approved and recorded the cash transactions. From January 2006 through March 2009, the DPD Finance and Contract Management Division (FACM) Petty Cash Custodians cashed 474 checks totaling \$529,016.

The cash handling duties of the Narcotics and Crimes Against Persons (CAPERS) Divisions and the Criminal Intelligence, Vice, and Auto Theft Units were also not adequately segregated. Segregation of duties is a fundamental internal control that is designed to ensure that one person does not have custody of the assets and the ability to authorize, approve, and record a financial transaction.

- FACM Division does not monitor the Petty Cash Fund and Confidential Funds. DPD personnel with Petty Cash Fund and Confidential Funds responsibilities did not periodically count the cash in the vaults and reconcile the cash on hand to supporting documents for Delivery Confirmation – Goods and Services (replenishment requests), cash advances, and receipts. Compensating controls, such as extensive

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monitoring, are essential in an operating environment, where segregation of duties is not in place.

- Cash Vault Access Is Not Sufficiently Limited and Access Reviews Are Not Performed. The FACM and Narcotics Divisions and the Criminal Intelligence Unit authorize an excessive number of DPD personnel access to the Petty Cash and Confidential Funds cash vaults. Although certain physical access controls are in place, cash vault access logs and electronic card access records are not periodically reviewed to determine that only authorized DPD personnel have accessed the cash vaults and that those individuals have a valid business reason to retain that access.
- FACM Division and some DPD Divisions and Units do not comply with certain Department of Justice (DOJ) Financial Guidelines. Specifically, DPD cash custodians are not bonded and some DPD Divisions and Units allow officers to hold Confidential Informant Fund advances for more than 48 hours (Note: The Auto Theft Unit does not allow officers to hold the advances for more than 48 hours and CAPERS does not advance funds to DPD personnel).
- FACM Division did not comply with the City’s Resource Information Guide (RIG) governing Petty Cash Funds. The FACM Division paid expenses that exceeded the \$100 limit set for petty cash and paid unallowable expenditures.
- DPD Inspections Unit’s audits of the Petty Cash Fund and Confidential Funds were not effective. The Inspections Unit conducted periodic audits; however, these audits were not sufficiently detailed. As a result, the periodic audits did not identify the DPD employee’s misappropriation of funds.

We recommend the Chief of Police: 1) segregate cash handling duties; 2) monitor the Petty Cash and Confidential Funds; 3) reduce the number of DPD personnel with access to the cash vaults and implement a periodic access review; 4) comply with DOJ Financial Guidelines and the City’s Resource Information Guide; 5) conduct more detailed petty cash audits that include formal notification of the results to the Chief of Police; and, 6) extend the scope of the Inspection Unit’s periodic audits of Petty Cash and Confidential Funds.

The audit objectives were to verify the DPD implementation status for the recommendations addressed in the *Performance Audit of the Dallas Police Department Cash Handling Procedures* report issued in Fiscal Year (FY) 2005. During the course of the audit, we identified issues and corresponding recommendations that were not reported in the initial audit which are included in this report.

Management’s response to this report is included in Appendix IV.

Audit Results

Overall Conclusion

Although the Dallas Police Department (DPD) has made some improvements in its cash handling procedures since the *Performance Audit of the Dallas Police Department Cash Handling Procedures* report which was issued in September 2005, significant internal control weaknesses and noncompliance issues remain. As a result, approximately \$17,000 was misappropriated by a DPD employee.

DPD implemented seven and partially implemented six of the 19 recommendations included in the original audit report. Appendix II provides detailed information on the implementation status of each of the 19 recommendations.

Cash Handling Duties Were Not Adequately Segregated

The Finance and Contract Management (FACM), Narcotics, and Crimes Against Persons (CAPERS) Divisions’ and the Criminal Intelligence, Vice, and Auto Theft Units’ cash handling duties were not adequately segregated. As a result, a DPD employee misappropriated approximately \$17,000 from the Petty Cash Fund between Fiscal Year (FY) 2007 and FY 2008.

The FACM Division’s Petty Cash Custodian and three backup custodians had the ability to:

- Cash the Petty Cash Fund replenishment checks issued by the City Controller’s Office (CCO) (Note: The CCO processed 150 checks totaling \$207,531 to the Petty Cash Custodian from January 19, 2006 through March 20, 2009. During the same time period, an additional 324 checks totaling \$321,485 were made payable to the Petty Cash Custodian and the Alternate.)
- Maintain custody of the cash
- Access the cash vaults
- Distribute cash to DPD personnel
- Account for Petty Cash Fund and Confidential Funds transactions

In addition, the petty cash log is maintained in an electronic spreadsheet that is not password protected. As a result, all FACM personnel, including the Petty Cash Custodian and the three backup custodians had access to update and/or delete information from the spreadsheet.

The Narcotics and CAPERS Divisions and the Criminal Intelligence, Vice, and Auto Theft Units have the ability to:

- Receive Confidential Fund cash from the FACM Division
- Maintain custody of the cash
- Access the Confidential Funds cash vaults
- Approve DPD officer’s cash withdrawal requests
- Record the transactions in the cash logs

Segregation of duties is a fundamental internal control that is designed to ensure that one person does not have custody of the assets and the ability to authorize, approve, and record a financial transaction. Without proper segregation of cash handling duties, personnel have the opportunity to misappropriate funds and avoid timely detection.

Recommendation I

We recommend the Chief of Police segregate cash handling duties so that the same employee does not have the ability to cash Petty Cash Fund and Confidential Funds replenishment checks, maintain custody and access to the cash, approve cash withdrawal requests, and record the Petty Cash Fund and Confidential Funds transactions.

Please see Appendix IV for management’s response to the recommendation.

Finance and Contract Management Division Does Not Monitor the Petty Cash Fund and Confidential Funds

DPD personnel with Petty Cash Fund and Confidential Funds responsibilities did not periodically count the cash in the vaults and reconcile the cash on hand to supporting documents for Delivery Confirmation – Goods and Services (replenishment requests), cash advances, and receipts. Cash handling duties were not properly segregated and compensating monitoring controls were also not in place. Specifically, the FACM Division did not verify that:

- Petty Cash and Confidential Funds checks received from the CCO were cashed and the money was placed intact in the cash vaults
- Documentation for cash advances and receipts for expenditures were complete and supported the transactions recorded in the Petty Cash Fund log (Note: the Petty Cash Fund log is used for both the petty cash and the State Confidential Funds.)
- Cash on hand was periodically counted and reconciled to the Petty Cash Fund log and supporting documentation. As a result, no one questioned why there was a low balance of cash on hand and a high number of outstanding replenishment requests which could be an indication of theft.
- Flash Roll Funds of \$50,000 are intact while in FACM's custody, advanced to DPD officers intact, and returned intact. (i.e., the total amount of funds, as well as the serial numbers for each bill, are the same.) During the audit, we sampled ten bills which were traced back to the lists of serial numbers. We noted that one sampled bill returned had a different serial number than the bill included in the original advance. Without adequate monitoring controls, the bills could have been substituted or spent for personal purposes.

The Petty Cash Fund log is a spreadsheet that shows daily activity. The spreadsheet includes the beginning balance of \$25,000, the sum of petty cash and State Confidential Fund on hand, replenishment requests, cash advances, and a miscellaneous account. However, the spreadsheet does not include a running balance total nor does it indicate how long the actual cash has been outstanding. As a result, a review of the Petty Cash Fund log would not indicate that a problem existed. Instead, the FACM Division would need to trace the information in the Petty Cash Fund log to detailed supporting documentation.

Compensating controls, such as extensive monitoring, are essential in an operating environment, where segregation of duties are not in place. Verifications that checks cashed and the monies are deposited into the cash vaults intact, periodic counts of cash on hand, tracing transactions to supporting

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documentation, and ensuring that cash transactions are only made for allowable expenses are examples of these monitoring controls.

Recommendation II

We recommend the Chief of Police ensure that the FACM Division monitors the petty cash and Confidential Funds by ensuring that replenishment checks are deposited into the cash vaults intact, periodically counting the cash on hand, tracing transactions to supporting documentation, and ensuring that cash transactions are only made for allowable expenses.

Please see Appendix IV for management’s response to the recommendation.

Cash Vault Access Is Not Sufficiently Limited and Access Reviews Are Not Performed

The FACM and the Narcotics Divisions and the Criminal Intelligence Unit authorize an excessive number of DPD personnel access to the petty cash and Confidential Funds cash vaults. Although certain physical access controls are in place, cash vault access logs and electronic card access records are not periodically reviewed to determine that:

- Only authorized DPD personnel have actually accessed the cash vaults
- DPD personnel with cash vault access still have a valid business reason to retain that access

The FACM Division also does not have a control in place to ensure that when DPD personnel with access to the cash vaults change job responsibilities their access to the cash vaults is cancelled.

FACM Division Physical Access Controls

The FACM Division maintained the Petty Cash Fund (petty cash and State Confidential Funds) and the Federal Confidential Funds in two separate cash vaults. The cash vaults are secured with combination locks and kept in separate rooms which are accessible by electronic card access. The Federal Confidential Funds cash vault is also restricted by key access; however, this key is not always maintained in a secure location. The FACM Division uses a cash vault access log for the Federal Confidential Funds cash vault to track the DPD personnel that access the cash vault. Cash vault access logs are not used for the petty cash and State Confidential Funds.

DPD Investigative Units Physical Access Controls

The Narcotics and CAPERS Divisions and the Criminal Intelligence, Vice, and Auto Theft Units withdraw Confidential Funds from the petty cash and Confidential Funds maintained by the FACM Division. These funds are then placed in cash vaults located in rooms in each division or unit. The Narcotics Division, which maintains the highest dollar amount of cash on hand, safeguards the cash vault room with an electronic card access. The other divisions and units generally protect the cash vault rooms with keys.

Physical access controls are important to ensure that only authorized DPD personnel have access to cash vaults. However, without other controls in place, such as proper segregation of cash handling duties, periodic FACM Division and Investigative Unit monitoring, and a control to ensure that only DPD personnel

with a valid business reason retain cash vault access, physical access controls are not effective.

Recommendation III

We recommend the Chief of Police reduce the number of DPD personnel with cash vault access. We also recommend that the Chief of Police ensure the FACM, Narcotics and CAPERS Divisions, as well as the Criminal Intelligence, Vice, and Auto Theft Units:

- Periodically review the cash vault access log and/or electronic card access records to determine that only authorized personnel have actually accessed the cash vaults
- Implement a process to cancel DPD personnel cash vault access when job responsibilities change

Please see Appendix IV for management’s response to the recommendation.

Finance and Contract Management Division and Some Dallas Police Department Investigative Units Do Not Comply With Certain Department of Justice Financial Guidelines

The FACM Division and some DPD Investigative Units do not comply with certain Department of Justice (DOJ) Financial Guidelines. Specifically,

- DPD cash custodians are not bonded
- Certain DPD Investigative Units allow officers to hold Confidential Informant Fund advances for more than 48 hours. For example, the Narcotics Unit advances \$500 to officers at the beginning of each month and requires them to return the money at the end of each month. (Note: the Auto Theft Unit requires officers to return advanced funds within 48 hours and CAPERS does not advance Confidential Funds to officers.)

The DOJ Financial Guide (Guide), Part III, Chapter 8 (Confidential Funds) states:

“The funds authorized will be established in an imprest fund which is controlled by a bonded cashier.”

The purpose of this provision is to ensure that DPD is protected and no funds are lost if an employee theft occurs. The Guide also sets a 48-hour limit on the amount of time funds advanced for the purchase of evidence, purchase of information, and purchase of services can be outstanding.

Noncompliance with DOJ Financial Guide requirements for Confidential Funds could potentially result in questioned costs or the federal government's denial of future federal funds to DPD.

Recommendation IV

We recommend the Chief of Police ensure that DPD complies with the DOJ Guide by:

- Requiring the FACM Division to purchase an insurance policy to protect the Confidential Funds against a financial loss
- Requiring DPD Investigative Units that advance Confidential Funds to officers limit the number of hours the officers can retain advances to no more than 48 hours

Please see Appendix IV for management's response to the recommendation.

Finance and Contract Management Did Not Comply With the City's Resource Information Guide Governing Petty Cash

The FACM Division used the Petty Cash Fund for both petty cash and State Confidential Fund transactions. As a result, the FACM Division did not comply with the City's Resource Information Guide (RIG) which limits expenditures from petty cash to \$100 or less per transaction and restricts the types of items that can be purchased with petty cash. For example, the FACM Division routinely advanced funds in \$3,000 increments to the Vice and Criminal Intelligence Units, and \$200 to the CAPERS Division for undercover operations. From October 1, 2007 to March 6, 2009, these advances totaled \$74,900. In addition, during the same time period, the FACM Division issued advances and/or reimbursements for the following items which are not allowable petty cash transactions:

- Covert vehicle repairs – (approximately \$51,000)
- Crime scene supplies, such as baby wipes, refreshments for Crime Watch meetings, and camera repairs – (approximately \$5,000)
- Boot/shoe repairs – (approximately \$3,400)
- Retirement parties – (approximately \$2,000)

With the exception of the retirement parties, these advances and purchases are allowable Confidential Funds expenditures. However, the FACM Division's and the City's general ledger documentation physically combined the State Confidential Fund and the petty cash, and recorded the transactions in the same ledger.

The City's RIG states that petty cash should not be used for any purchases exceeding \$100. It also states that the petty cash should not pay for party and gift expenditures (retirements, promotions, bridal and baby showers, birthdays, anniversaries, secretary's day, etc.), and flowers for an employee's funeral.

Recommendation V

We recommend the Chief of Police ensure the FACM Division:

- Develops detailed standard operating procedures for the Petty Cash Fund and the Federal Confidential Fund that align with the City's petty cash fund requirements, and with Federal and State Confidential Funds requirements.

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Please see Appendix IV for management’s response to the recommendation.

Dallas Police Department Inspections Unit Audits Were Not Effective

The DPD Inspections Unit's audits of the petty cash and Confidential Funds were not effective. The Inspections Unit counted the cash on hand and reconciled the Delivery Confirmation Requests – Goods and Services (replenishment checks) and receipts; however, they did not trace the information documented in the Petty Cash Fund log to supporting documentation. As a result, the periodic audits did not identify the DPD employee's misappropriation of funds.

The Inspections Unit also did not verify the serial numbers of Flash Roll Fund bills to ensure that the bills in the FACM Division's custody were the same as those issued and subsequently returned by the DPD officers. As a result, the Inspections Unit did not note that one bill had a different serial number than the bill originally issued to the DPD officer.

Between October 2005 and February 2009, the Inspections Unit conducted monthly unannounced FACM Division cash counts. The Inspections Unit conducted two unannounced cash counts each at the Narcotics and CAPERS Divisions and at the Criminal Intelligence, Vice, and Auto Theft Units during the same time period.

A periodic audit that is more complete and includes tracing the information on petty cash and Confidential Funds logs to supporting documentation is an important internal control to ensure the integrity of the DPD cash funds.

Recommendation VI

We recommend the Chief of Police ensure that the Inspections Unit extends the scope of periodic audits to include:

- More frequent unannounced cash counts
- Detailed reviews of the documentation that supports the information on the petty cash and Confidential Funds logs

Please see Appendix IV for management's response to the recommendation.

Appendix I

Background, Objectives, Scope and Methodology

Background

Dallas Police Department Cash Handling Procedures

During the audit period of October 1, 2007 to February 28, 2009, the Dallas Police Department (DPD) maintained a \$25,000 Petty Cash Fund. The Petty Cash Fund was used for routine DPD petty cash transactions. The Petty Cash Fund was also used to provide cash to DPD personnel, primarily in the Narcotics Division and Vice Unit, to make cash payments to informants, or make "buys" to develop cases. DPD refers to this use of cash as "Confidential Funds."

Objectives, Scope and Methodology

The objectives of the audit were to verify the DPD implementation status for the recommendations addressed in the *Performance Audit of the DPD Cash Handling Procedures* report issued in September 2005. During the course of the audit, we identified issues and corresponding recommendations that were not reported in the initial audit which are included in this report.

The audit scope included cash handling procedures and transactions for the Finance and Contract Management (FACM) Division, the Narcotics Division, the Crimes Against Persons Division (CAPERS), the Criminal Intelligence Unit, the Vice Unit and the Auto-theft Unit, from October 2007 to February 2009. However, certain other matters, procedures, and transactions occurring outside that period may have been reviewed to understand and verify information related to the audit period.

We interviewed DPD personnel and reviewed federal and state statutes, DPD policies and procedures for petty cash and Confidential Funds, and City of Dallas requirements for managing petty cash. We observed three unannounced DPD Inspections Unit petty cash audits and the operations of the DPD parking lots located at Pearl Street and Commerce Street, and at Central Expressway and Pearl Street. We performed walkthroughs of the cash vaults maintained at the FACM Division, the Narcotics Division, and the Vice and Criminal Intelligence Units. We also selected and tested certain samples at a 90 percent confidence level and reviewed Confidential Fund payments and confidential informant files maintained at Narcotics Division.

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We conducted this audit under the authority of the City Charter, Chapter IX, Section 3, and in accordance with the Fiscal Year 2009 Audit Plan approved by the City Council. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II

Audit Follow-Up Report Results

The Dallas Police Department (DPD) has implemented seven and partially implemented six of the 19 recommendations in the *Performance Audit of the Dallas Police Department Cash Handling Procedures* report that was issued in September 2005. The table on the following pages provides more detailed information on the audit issues, recommendations, and status of implementation.

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Audit Issues	Audit Recommendations	Audit Follow-up Result
<p>There is limited independent review of DPD units using Confidential Funds and inconsistent review of Confidential Informant payments within Narcotics.</p>	<ol style="list-style-type: none"> 1. Ensure that the Confidential Informant Payment Forms are complete and properly authorized. 2. Clarify in the Standard Operating Procedures (SOP) that a prior authorization signature is required on the Confidential Payment Form before the payment is made to the Confidential Informant. 	<p>Implemented</p> <ol style="list-style-type: none"> 1. Implemented The Narcotics Division completed Confidential Informant Payment Forms and ensured the payments were properly authorized. 2. Implemented The Narcotics Division clarified in the SOP that a prior authorization signature is required on the Confidential Payment Form before the payment is made to the Confidential Informant.

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Audit Issues	Audit Recommendations	Audit Follow-up Result
	<ol style="list-style-type: none"> 1. Improve and test the database application of Confidential Informant payments including the generation of lifetime running payment totals of informant payments and activity sheets. 2. Implement the system in each investigative unit department-wide. 	<p style="text-align: center;">Implemented</p> <ol style="list-style-type: none"> 1. Implemented The Narcotics Division improved the database by ensuring that an Informant Payment and Activity Sheet which includes payments for the prior 12-month period and a lifetime running payment total could be generated. However, the auditors noted that the Informant Payment and Activity Sheets generated by the Narcotics Division’s database were inconsistent. The Narcotics Division corrected this inconsistency during the audit. 2. Implemented The Criminal Intelligence and Vice Units created identical, but separate databases to track Confidential Fund transactions. The Auto Theft Unit did not create a database; however, they process a minimum number of Confidential Fund transactions annually. Instead of a database, the Auto Theft Unit uses a spreadsheet tracking log for each Confidential Informant and maintains a copy of the log in each Confidential Informant’s folder. The Crimes Against Persons (CAPERS) Division also has not implemented the system; however, CAPERS does not currently have Confidential Informants.

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Audit Issues	Audit Recommendations	Audit Follow-up Result
Partially Implemented		
	<ol style="list-style-type: none"> 1. Grant FACM personnel authorization to review and verify the records and documents relating to the Confidential Funds used during their quarterly cash count. 2. Provide the independent reviewing unit read-only access to the computer database of the Confidential Funds in each investigative unit to facilitate this review. 	<ol style="list-style-type: none"> 1. The FACM Division is no longer responsible for DPD Confidential Fund audits. In 2005, the DPD Inspections Unit was assigned this responsibility. Although the audit scope was expanded by the Inspections Unit, the audits were not effective. This issue is discussed in more detail on page 13 of this report. 2. The Inspections Unit was not granted read-only access to the computer database. Instead, the Inspections Unit used printouts from the databases to facilitate the cash counts of the Confidential Funds.
Implemented		
	<ol style="list-style-type: none"> 1. Require quarterly reconciliations of the activity sheets to the Confidential Fund Cash Ledger. 2. Ensure that the Narcotics Division supervising sergeants consistently complete the required Quarterly Review Checklist for each active Confidential Informant file folder. 	<ol style="list-style-type: none"> 1. Implemented Further analysis shows that the activity sheets and Confidential Fund Cash Ledger are generated from the same source of data (electronic cash log); thus, the reconciliation of the activity sheets to the Confidential Fund Cash Ledger is not necessary. 2. Implemented The Narcotics Division’s supervising sergeants consistently completed the required Quarterly Review Checklist for each active Confidential Informant file folder.

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Audit Issues	Audit Recommendations	Audit Follow-up Result
	<p>Improve the Confidential Informant filing system by:</p> <ul style="list-style-type: none"> a) Implementing procedures to ensure proper filing sequence b) Utilizing a Check-Out Log to track files when the supervisors or other parties are reviewing the files c) Developing a standard list of documents and their placement in the Confidential Informant folder d) Ensuring that the SOP relating to Confidential Informants is properly followed. 	<p>Partially Implemented</p> <ul style="list-style-type: none"> a) The Narcotics Division has significantly improved the Confidential Informant filing sequence b) The Narcotics Division uses a Check-Out Log to track files. Although Narcotics Division personnel consistently signed indicating that a file was checked out, they did not consistently document when the files were returned. As a result, the file tracking system was not effective. c) The Narcotics Division developed a standard list of documents. Each Confidential Informant folder is consistently documented in accordance with this list. d) The Narcotics Division’s Confidential Informant filing system is in alignment with the Division’s SOP.
<p>The manual DPD controls over Confidential Funds and petty cash are not effective or efficient.</p>	<p>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 Funds in Narcotics, and share the application with other investigative units.</p>	<p>Partially Implemented</p> <p>The Narcotics Division implemented the Access Database for Confidential Funds. The Vice and Criminal Intelligence Units used the Narcotics Division’s database to implement their own databases.</p> <p>The FACM Division uses an automated spreadsheet to record the petty cash transactions; however, the federal Confidential Fund transactions are recorded manually. The CAPERS Unit also records Confidential Fund transactions manually. The CAPERS Unit, however, does not have a significant number of Confidential Fund transactions.</p>

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Audit Issues	Audit Recommendations	Audit Follow-up Result
	Repair or replace the cash counter.	<p>Partially Implemented</p> <p>As of March 17, 2009, the cash counter machine at FACM had not been replaced; however, DPD has now replaced the cash counting machine. The coin counting machine is still not working. DPD is in the process of procuring a new coin counting machine.</p>
<p>There are no department-wide Standard Operating Procedures regarding Confidential Funds, Confidential Informant activities, or petty cash.</p>	<p>Develop and implement a <u>standardized</u> 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 Funds.</p>	<p>Partially Implemented</p> <p>DPD has not developed and implemented a standardized department-wide SOP relating to the use of Confidential Funds and Confidential Informants. Instead of developing the standardized department-wide SOP, each DPD Division or Unit updated its own SOP to align with the DOJ Financial Guide. As a result, the SOPs generally align with the DOJ Financial Guide for Confidential Funds, but are not standardized.</p>
	<p>Update the SOP periodically to ensure it provides sufficient guidelines to 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.</p>	<p>Implemented</p> <p>The Criminal Intelligence Unit updated its SOP and they assigned an independent unit, the Inspections Unit, to conduct unannounced cash counts and Checklist Audits.</p>
	<p>Develop petty cash procedures that are specific to the DPD and augment the City’s Petty Cash Policy.</p>	<p>Not Implemented</p> <p>The FACM Division has continued to use the City-wide Petty Cash Policy and has not developed a specific DPD policy for petty cash administration.</p>

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Audit Issues	Audit Recommendations	Audit Follow-up Result
	<ol style="list-style-type: none"> 1. Standardize department-wide Confidential Fund procedures. 2. Develop a unified documentation system, including the format and the required information on the Confidential Fund Cash Log. 	<p style="text-align: center;">Partially Implemented</p> <ol style="list-style-type: none"> 1. Not implemented DPD has not standardized department-wide Confidential Fund Procedures. 2. Partially Implemented <ol style="list-style-type: none"> a) The Narcotics Division, Criminal Intelligence, and Vice Units use the same format for the electronic cash log which shows separate transactions of cash deposits from the FACM Division and cash withdrawals and returns from officers. b) The CAPERS Division and the Auto Theft Unit use a different form called the Custodian’s Activity Log for Confidential Funds (Form CF-2). Although they use the same form, the Auto Theft Unit maintains it in a spreadsheet application whereas CAPERS manually records the form.
	<p>Clarify the requirement for segregation of duties in the SOP relating to the Confidential Fund and ensure compliance in each unit.</p>	<p>Not Implemented</p> <p>The segregation of duties issues was not corrected. Additionally, FACM Division segregation of duties issues was noted. These issues are discussed in more detail on pages four and five of this report.</p>
<p>Some DPD petty cash procedures are not effective or efficient.</p>	<p>Require Vice and Intelligence to use the City’s requisition process instead of petty cash to fund Vice Unit and Intelligence investigations.</p>	<p>Not Implemented</p> <p>The Vice and Criminal Intelligence Units are not using the City’s requisition process. They were still using the DPD Petty Cash Fund to make draws.</p>

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Audit Issues	Audit Recommendations	Audit Follow-up Result
	<p>Examine the feasibility of reducing the balance needed for the DPD General Fund Petty Cash Fund using these strategies:</p> <ul style="list-style-type: none"> a) 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. b) Determine the practicality of establishing a Petty Cash Fund for the DPD at Love Field. c) Ensure that the staff adheres to the petty cash maximum transaction limit of \$100. d) Review transactions to determine whether Procurement Card use would be beneficial. 	<p>Not Implemented</p> <p>DPD is still using the Petty Cash Fund for the expenditures noted in the prior year recommendation except for office supplies. DPD did begin using the City’s price agreement for office supply purchases.</p> <p>DPD did not establish a Petty Cash Fund for DPD at Love Field. DPD also did not adhere to the \$100 per transaction limit established by the City’s Resource Information Guide. For example, DPD continued to use the Petty Cash Fund for Confidential Fund draws that were typically \$3,000 per transaction.</p>

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Audit Issues	Audit Recommendations	Audit Follow-up Result
	<p>Explore the replacement of the current DPD parking reimbursement using a combination of these steps:</p> <ul style="list-style-type: none"> a) Determine the parking needs for the department at the Municipal and County facilities. b) Install signage at the Municipal lot to clearly specify restrictions. Ensure that the signs convey a consistent message. c) Explore alternatives to gain entrance to the Municipal lot (i.e., an entrance arm activated by code or card, etc.) d) Determine the practicality of issuing a placard to be used by off-duty officers attending court to park free at parking meters. e) 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. 	<p>Implemented</p> <ul style="list-style-type: none"> a) DPD determined the parking needs for the department at the Municipal and County facilities and leased a parking lot at the Municipal Court and installed an electric gate. b) DPD installed signage on this lot and another lot to identify the parking lots as “Police Only.” <p>However, when the auditors observed the parking lot, the electric gate was open. DPD should ensure the electric gate is closed at all times to control the entrance and exit to the parking lot. This control weakness was discussed with DPD management.</p>
<p>Physical security of some cash assets is inadequate.</p>	<p>Install a barrier to restrict foot traffic near the PC custodian’s desk and around the vault room.</p>	<p>Implemented</p> <p>DPD installed a physical barrier to restrict foot traffic near the Petty Cash Custodian’s desk and around the vault room.</p>

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Audit Issues	Audit Recommendations	Audit Follow-up Result
	Relocate the supervisor’s office to the office now occupied by the agenda coordinator.	<p>Implemented</p> <p>DPD relocated the supervisor’s office so that it is now closer to the Petty Cash Custodian.</p>
	Restrict access to the vault room to only necessary employees and ensure that the identification cards recognize this restriction.	<p>Not Implemented</p> <p>An excessive number of people have access to the Petty Cash Fund vault and the Federal Confidential Fund cash vault. This issue is discussed in more detail on pages eight and nine of this report.</p>
	Establish and implement a regular time for testing the vault’s silent alarm. Testing should be conducted no less often than annually.	<p>Not Implemented</p> <p>According to FACM Division personnel, the alarms were tested six months to a year ago. However, no information was available to verify that the alarm system was tested.</p>

Appendix III

Major Contributors to This Report

Carol Smith, CPA, CIA, CFE, Audit Manager
Thandee Kywe, Project Manager
Kevin Hannigan, CIA, Auditor
Reisha Hall, Auditor
Kimeca Jackson, Auditor
Theresa Hampden, CPA, Quality Control Manager

Management's Response

Memorandum

RECEIVED

JAN 28 2010

City Auditor's Office



DATE: January 22, 2010
TO: Craig D. Kinton, City Auditor
SUBJECT: Response to Audit Report:
Audit of the Dallas Police Department's Cash Handling Procedures

Our responses to the audit report recommendations are as follows:

Recommendation 1:

We recommend the Chief of Police segregate cash handling duties so that the same employee does not have the ability to cash Petty Cash Fund and Confidential Funds replenishment checks, maintain custody and access to the cash, approve cash withdrawal requests, and record the Petty Cash Fund and Confidential Funds transactions.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Narcotics Division/Vice Unit Response

The following procedural enhancements will be implemented:

Replenishing Cash Vaults

Currently, the Sergeants that have cash vault access are able to retrieve money from the FACM Division. This specific pool of Sergeants will all continue to perform vault access transactions, but will no longer perform the function of retrieving money from the FACM Division. In order to enhance the segregation of the current cash handling duties, the following procedures will be implemented within the Narcotics Division and Vice Unit:

- A specific group of Lieutenants and Sergeants have been designated to retrieve money from the FACM Division in order to replenish cash within the Narcotics Division and Vice Unit cash vaults. These individuals will be the only personnel with this responsibility and **will not** have cash vault access.
- When the Lieutenant/Sergeant obtains the money from the FACM Division, a Sergeant with cash vault access will accompany the Lieutenant/Sergeant into the vault to deposit the money. The Sergeant with vault access will be responsible for witnessing the money being placed in the safe and will document the transaction in the designated data base.

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Auditing of Cash Vaults

Narcotics Division and Vice Unit Standard Operating Procedures require that Sergeants that have vault access verify funds each time the money is issued from or returned to the cash vault. In order to enhance the segregation duties, the following procedures will be implemented within the Narcotics Division and Vice Unit:

- A Sergeant has been designated to balance the cash vault at the beginning of each month. He/she will verify the cash on hand as it relates to the amount logged in the database. This Sergeant **will not** have cash vault access.
- A Sergeant with cash vault access will be responsible for witnessing the verification of the cash vault money on hand and will document the verification in the designated data base.

Further segregation of duties, with the current level of staffing, would drastically hinder the effectiveness and efficiency of the Division's/Unit's operations. Because of these reasons, it would be impractical to segregate the cash handling duties any further than what is being proposed.

Financial & Contract Management Division's Response:

The staff member who is responsible for the Financial & Contract Management (FACM) mail runs will log the cash replenishment checks that are picked up from the Controller's Office prior to giving the checks to the Petty Cash and Confidential Fund Cash Custodians. The log access will be restricted to the mail run clerk and the clerk's supervisor. The Procurement Manager and the Grant Manager will compare mail clerk's check log with the cash custodians' Petty Cash Log and Confidential Fund Log periodically to ensure that all payments received from the Controller's Office are recorded on the Petty Cash Log and Confidential Fund Log respectively. The reviews conducted by Procurement Manager and Grant Manager will be documented on the Petty Cash Log and Confidential Fund Log respectively.

The FACM will also work with Criminal Intelligence and Auto Theft units to establish adequate segregation policies that suit these two units' needs and are consistent with procedures for the other units.

Implementation Date

April 2010

Responsible Manager

Lieutenant Kenneth Wolfe, DPD Narcotics Division
Tomika Gibson, Procurement Manager, DPD Financial & Contract Management Division
Alexander Rodriguez, Grant Manager, DPD Financial & Contract Management Division

Recommendation II:

We recommend the Chief of Police ensure that the FACM Division monitors the Petty Cash and Confidential Funds by ensuring that replenishment checks are deposited into the cash vaults intact, periodically counting the cash on hand, tracing transactions to supporting documentation, and ensuring that cash transactions are only made for allowable expenses.

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Dallas Police Department’s Cash Handling Procedures**

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

The FACM has implemented new cash management procedures since March 2009. The Procurement Manager and Grant Manager conduct periodic cash counts and periodic cash fund reviews. The reviews include verifying transaction eligibilities and tracing cash replenishment request dates and check receiving dates to ensure deposits are made timely. The Managers' reviews are required to be documented in the respective cash log.

Implementation Date

March 2009

Responsible Manager

Tomika Gibson, Procurement Manager, DPD Financial & Contract Management Division
Alexander Rodriguez, Grant Manager, DPD Financial & Contract Management Division

Recommendation III:

We recommend the Chief of Police reduce the number of DPD personnel with cash vault access. We also recommend that the Chief of Police ensure the FACM, Narcotics and CAPERS Divisions, as well as the Criminal Intelligence, Vice, and Auto Theft Units:

- Periodically review the cash vault access log and/or electronic card access records to determine that only authorized personnel have actually accessed the cash vaults
- Implement a process to cancel DPD personnel cash vault access when job responsibilities change

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Narcotics Division/Vice Unit Response

The Narcotics Division and Vice Unit have identified a specific number of Sergeants that have cash vault access in order to accommodate the needs of **two shifts**. These Sergeants are not always available due to their hours of assignment, vacation leave, illness, required Department/Division training, planned Division/Unit operations and varied other circumstances. This pool of Sergeants is essential to maintain operational effectiveness for the Narcotics Division and Vice Unit. However, the pool of Narcotics Sergeants with vault access will be reduced by one and any further reduction would hinder the efficiency of the Division's/Unit's operations.

Because of these reasons, the following procedural enhancements will be implemented in order not to hinder the effectiveness and efficiency of the Division's/Unit's operations:

Reduction of Personnel with Cash Vault Access

- The Narcotics Division will reduce the number of personnel with cash vault access by one.

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Quarterly Review of Cash Vault Access

- The Narcotics Division Administrative Lieutenant will conduct a quarterly review of the cash vault access log and/or electronic card access records for the Narcotics Division and Vice Unit. The results of these audits will be documented in a memorandum to the Narcotics Division Commander.

Cancellation of Cash Vault Access

- The Narcotics Division Administrative Sergeant and the Vice Licensing Squad Sergeant will be responsible for immediately cancelling an employee's access to the respective cash vault when said employee is reassigned or job duties change. A memo to the Narcotics Division Commander will be generated to document this action.

Financial & Contract Management Division Response:

The FACM will work with DPD Facility Management to set up a periodic review of the cash vault access history and update the security system for the current authorized personnel.

The FACM will also work with Criminal Intelligence and Auto Theft units to establish adequate cash access policies that suit these two units' needs and are consistent with procedures for the other units.

Implementation Date

May 2010

Responsible Manager

Lieutenant Kenneth Wolfe, DPD Narcotics Division
Tomika Gibson, Procurement Manager, DPD Financial & Contract Management Division
Alexander Rodriguez, Grant Manager, DPD Financial & Contract Management Division

Recommendation IV:

We recommend the Chief of Police ensure that DPD complies with the DOJ Guide by:

- Requiring the FACM Division to purchase an insurance policy to protect the Confidential Funds against a financial loss
- Requiring DPD Investigative Units that advance Confidential Funds to officers limit the number of hours the officers can retain advances to no more than 48 hours

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Financial & Contract Management Division Response:

The DPD Personnel conducts strict pre-employment background investigations on civilians; the practice is to ensure low employee integrity risk. In addition, the FACM has implemented more detailed cash handling procedures and Manager reviewing policies in March 2009. The new cash policy and procedures should reduce the risk of potential

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loss to minimal level. Considering the improved control activities, bonding Confidential Fund Cashier(s) may not be the most cost beneficial measure in managing the fund.

However, the FACM will reassess the current controls and consult with creditable surety insurance institute(s) to further evaluate the audit recommendation.

The FACM will also work with Criminal Intelligence and Auto Theft units to ensure the adequacy of these units' cash advancement policies.

Narcotics Division/Vice Unit Response

Due to the fluid nature of undercover work, Narcotics and Vice officers make drug buys, work prostitution, gambling, alcohol, and massage cases on a daily basis. Many times with little advance warning. Because of this, funds must be available to officers at a moments notice in order to make a case and also prevent unnecessary risks to their safety. Due to the large number of officers that require funds, it would be impractical, inefficient, and impede operations to require these officers to return cash draws within 48-hours.

The Department of Justice Financial Guide, Chapter 8 (Confidential Funds), Accounting and Control Procedures states the following:

6. For security purposes, there should be a 48-hour limit on the amount of time funds advanced for PE/PI/PS expenditures may be held outstanding. If it becomes apparent at any point within the 48-hour period that the expenditure will not materialize, then the funds should be returned to the advancing cashier as soon as possible. **An extension to the 48-hour limit may be granted by the level of management that approved the advance.** Factors to consider in granting such an extension are the amount of funds involved, the degree of security under which the funds are being held, how long an extension is required, and the significance of the expenditure. Such extensions are **generally** limited to 48 hours.

Recipients should consult with the program officer prior to determining the final course of action. Beyond this, the funds should be returned and re-advanced, if necessary. Regardless of circumstances, within 48 hours of the advance, the fund cashier should be presented with either the unexpanded funds, an executed voucher for payment for information or purchase of evidence, or **written notification by management that an extension has been granted.**

Because the Department of Justice (DOJ) Financial Guide provides an exception to the 48-hour limit, the Narcotics Division and Vice Unit Standard Operating Procedures allow officers to draw funds for a one month period. These procedures **do not** allow funds to be carried over from month to month. All the factors noted in the DOJ Financial Guide were considered. As directed in the DOJ Financial Guide, the operating procedures are in writing and have been approved by the Narcotics Division Commander.

After reviewing Recommendation IV, the Narcotics Division and Vice Unit did identify the following procedural enhancements that will be implemented:

- All personnel within the Narcotics Division and Vice Unit will now all have the same designated amount of cash on hand. This change mainly affects the Narcotics Enforcement Squads who were allowed a larger cash on hand limit because of their responsibilities to investigate mid/to upper level drug trafficking which involved more expensive and larger quantities of drugs.

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- Funds that are needed for an operation that exceed the cash on hand limit must be approved by the appropriate level of supervision as outlined in the Division/Unit Standard Operating Procedures.
- Funds that are not utilized for an operation that are above the cash on hand limit will be returned within 48-hours. Any exceptions must be approved by a Lieutenant and documented in the appropriate data base.

Implementation Date

May 2010

Responsible Manager

Lieutenant Kenneth Wolfe, DPD Narcotics Division
Jing Xiao, Third Tier Executive, DPD Financial & Contract Management Division

Recommendation V:

We recommend the Chief of Police ensure the FACM Division:

- Develops detailed standard operating procedures for the Petty Cash Fund and the Federal Confidential Fund that align with the City’s petty cash fund requirements, and with Federal and State Confidential Funds requirements.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Prior to March 2009 the FACM had combined \$15,000 Confidential Funds with the \$10,000 general Petty Cash Fund and the transactions were recorded in the same log. The FACM has implemented more detailed cash handling procedures and separated the \$15,000 from the general Petty Cash Fund since March 2009.

Also, starting in May 2009, DPD no longer allows cash advancement for employee retirement or recognition events. All employee retirement and recognition event expenses are reimbursed by checks that are charged to Employee Morale Fund.

Implementation Date

March 2009

Responsible Manager

Tomika Gibson, Procurement Manager, DPD Financial & Contract Management Division

Recommendation VI:

We recommend the Chief of Police ensure that the Inspections Unit extends the scope of periodic audits to include:

- More frequent unannounced cash counts
- Detailed reviews of the documentation that supports the information on the Petty Cash Fund and Confidential Funds logs

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Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Inspections Unit Response:

Due to **FY 09-10 budget constraints:**

- The Unit is unable to perform more frequent unannounced cash counts.
- We will extend the scope and perform unannounced quarterly audits.
- The internal supervisor’s monthly audit reports will be verified and viewed for completeness.
- The Delivery Confirmation Requests – Goods and Services (replenishment checks) and receipts will be closely viewed for adequate processing time.

Implementation Date

March 2010

Responsible Manager

Leatrice L. Conwright, Manager, DPD Inspections Unit

Sincerely,



David M. Kunkle
Chief of Police

C: Mark Duebner, Executive General Manager, Dallas Police Department