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**Office of the City Auditor**

**Audit Report**

**AUDIT OF DALLAS POLICE DEPARTMENT'S  
EMPLOYEE MORALE FUND**  
(Report No. A10-008)

**January 22, 2010**

**City Auditor**

Craig D. Kinton

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## Executive Summary

The Finance and Contract Management Division (FACM) of the Dallas Police Department (DPD) did not comply with Administrative Directive 4-16, *Employee Morale Fund*, (AD 4-16) provisions that specify appropriate internal controls for a cash fund. As a result, the integrity of the Employee Morale Fund (EMF) could not be determined. Approximately \$2,200 in EMF funds that were allocated to DPD units for EMF purposes could not be verified as properly spent or returned for deposit.

### Background Summary

The Dallas Police Department’s (DPD) Finance and Contract Management (FACM) Division and the Employee Morale Fund (EMF) Committee are responsible for managing the DPD EMF in accordance with AD-4-16.

The DPD EMF Committee approves the purchase of goods and services that support the morale of DPD employees. The FACM is the central processing point for all DPD EMF transactions.

The FACM cash handling process for the EMF lacks appropriate internal controls including: (1) Proper segregation of duties; (2) Supervisory monitoring and review; and, 3) Quarterly audits. In addition, the EMF financial transaction documentation necessary to verify certain receipts and disbursements either did not exist or was no longer available.

The Chief of Police should ensure FACM complies with AD 4-16 by:

- Properly segregating EMF Cash processing duties so that the employee who requests and cashes EMF checks from the City Controller’s Office (CCO) is not also responsible for documenting the issuance of funds to DPD personnel, maintaining the accounting records (DPD EMF cash disbursement logs for annual staff recognition events), and verifying transactions are properly supported by receipts.
- Requiring FACM to appropriately supervise EMF Cash processing duties and perform quarterly audits of the EMF to ensure adequate supporting documentation is being retained, funds have been properly authorized, expenditures are appropriate, and unused funds are deposited back into the EMF within a reasonable time after distribution. In addition, the results of the quarterly audits should be documented in a report and the results communicated to DPD management.

The audit objective was to evaluate the financial integrity of DPD’s EMF. The audit scope included certain EMF financial transactions from Fiscal Year (FY) 2007 through FY 2009; however, transactions outside that time period were reviewed, as necessary, to gain an understanding of the EMF and to verify the accuracy of certain financial transactions.

Management’s response to this report is included as Appendix III.

# Audit Results

## Overall Conclusions

The Finance and Contract Management Division (FACM) of the Dallas Police Department (DPD) did not comply with Administrative Directive 4-16, *Employee Morale Fund*, (AD 4-16) provisions that specify appropriate internal controls for a cash fund. As a result, the integrity of the Employee Morale Fund (EMF) could not be determined.

### **Dallas Police Department Employee Morale Fund Cash Processing Duties Were Not Properly Segregated**

Approximately \$2,200 in EMF funds that were allocated to DPD units for EMF purposes could not be verified as properly spent or returned for deposit. One FACM employee was responsible for all EMF cash processing duties. The City Controller's Office (CCO) processed three checks totaling \$28,741 to this FACM employee from Fiscal Year (FY) 2007 through FY 2009 for the annual staff recognition events. Because these duties were not properly segregated and the financial transaction documentation for certain receipts and disbursements either did not exist or was no longer available, the integrity of the EMF could not be verified.

The FACM employee cashed the three EMF checks and also performed the following duties which did not provide for adequate segregation of duties:

- Maintaining custody of EMF cash funds until distribution
- Advancing cash to an average of 68 DPD units for holiday and staff recognition events (each DPD unit received \$2.50 per full-time equivalent employee)
- Ensuring that each DPD unit representative signed a log indicating receipt of the cash advance
- Obtaining and verifying receipts from DPD unit representatives to ensure expenditures for goods and services were approved by the DPD EMF Committee and in compliance with AD 4-16
- Receiving funds that were not spent from DPD unit representatives and depositing those funds to the EMF within a reasonable time after the holiday or staff recognition event

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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.

**Recommendation I**

The Chief of Police should require FACM to segregate EMF Cash processing duties so that the employee who requests and cashes EMF checks from the CCO is not also responsible for documenting the issuance of funds to DPD personnel, maintaining the accounting records (EMF receipt/disbursement logs), and verifying transactions are properly supported by receipts.

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

## Finance and Contract Management Division Did Not Have Adequate Monitoring and Supervisory Controls Over the Employee Morale Cash Fund

There was no FACM monitoring or supervisory review of the EMF Cash Fund and quarterly audits required by AD 4-16 were not performed. Instead, as noted above, FACM relied upon one employee to manage all cash processing duties. As a result, FACM was not aware of the following:

- DPD Units did not provide receipts to show that all cash advances were spent appropriately for holiday and staff recognition events. For example:
  - For the three fiscal years reviewed, FACM did not always obtain supporting receipts from DPD units receiving cash advances. In FY 2007, FACM required DPD units to return receipts for a staff recognition event within two weeks of obtaining the cash advance; however, there was no documented communication of this requirement to DPD Units in FY 2008 and FY 2009.
- In FY 2007, two DPD Units purchased the following questionable items with EMF funds.
  - \$556 for miscellaneous items at Builders Surplus of Garland
  - \$43.24 for a jump starter at Wal-Mart on April 5, 2007 (Note: The EMF staff recognition event was held in December of 2006).
- DPD Units did not return funds which were advanced to them but not used for EMF holiday or staff recognition events.
  - Seventeen DPD Units spent \$1,153 less than they were allocated. Five DPD Units returned \$103 related to FY 2007 and FY 2008. However, FACM did not deposit these funds into DPD's EMF account until July 10, 2009. It is unclear where the \$103 was maintained during this time period. Due to the lack of documentation, we could not determine whether FACM deposited the remaining balance of \$1,050 into the DPD's EMF account.

Receipts are critical in determining whether items purchased are valid, spent within an allowable timeframe, and are available for account reconciliation. Additionally, receipts are used to identify unused funds which should be deposited back into the EMF account.

**Recommendation II**

The Chief of Police should require FACM to appropriately supervise EMF Cash processing duties and perform quarterly audits of the EMF to ensure adequate supporting documentation is being retained, funds have been properly authorized, expenditures are appropriate, and unused funds are deposited back into the EMF within a reasonable time after distribution. In addition, the Chief of Police should ensure the results of the quarterly audits are documented in a report and the results are communicated to DPD management.

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



## Background, Objective, Scope and Methodology

### Background

#### Employee Morale Fund – Dallas Police Department

The Dallas Police Department's (DPD) Finance and Contract Management (FACM) Division and the Employee Morale Fund (EMF) Committee are responsible for managing the DPD EMF in accordance with Administrative Directive (AD) 4-16, *Employee Morale Fund*. The EMF provides for the purchase of goods and services that support the morale of City of Dallas employees. The DPD EMF consists of 15 members, 12 sworn officers and three civilians, which represent all DPD divisions.

#### Employee Morale Fund – Source of Funds

The DPD EMF receives an annual allocation from the City-wide EMF based upon the number of DPD full time equivalent (FTE) employees. DPD received an average of \$27,522 per year for the period Fiscal Year (FY) 2007 through FY 2009. The City-wide EMF is funded by commission revenues from vending machines located on City properties, excluding the Department of Aviation, Convention and Event Services, Dallas Water Utilities, and City Park and Recreation Centers.

Prior to FY 2005, each City department maintained their own EMF. In FY 2005, a City-wide EMF was established and City departments transferred existing EMF balances into the City-wide EMF. Since FY 2006, City departments have received an annual allocation of commission revenue from the City-wide EMF. EMF is a multi-year fund; therefore, unspent funds in one fiscal year can be carried over to subsequent fiscal years.

### Objective, Scope and Methodology

This audit was conducted under authority of City Charter, Chapter IX, Section 3 and in accordance with the Annual Audit Plan approved by the City Council. The audit objective was to evaluate the financial integrity of DPD's EMF. The audit was requested by the Chief of Police to address concerns regarding the availability of EMF funds. 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

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objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit scope included certain EMF financial transactions from FY 2007 through FY 2009; however, transactions outside that time period were reviewed, as necessary. For example, the FY 2005 through FY 2009 annual DPD EMF allocations and appropriations were verified. DPD’s EMF was evaluated to verify compliance with AD 4-16, *Employee Morale Fund*. EMF financial transactions for FY 2005 through FY 2009 were traced from DPD’s EMF records to the City’s accounting system, AMS Advantage 3. A judgmental sample was selected of EMF expenditures. The supporting documentation was reviewed to determine that expenditures were allowable and that valid receipts were obtained after DPD personnel received cash advances.

**Major Contributors to This Report**

Carol Smith, CPA, CIA, CFE – Audit Manager

Thandee Kywe – Project Manager

Kevin Hannigan, CIA – Auditor

Reisha Hall – Auditor

Theresa Hampden, CPA – Quality Control Manager

## Management's Response

### Memorandum

**RECEIVED**

JAN 14 2010

City Auditor's Office



DATE: January 08, 2010

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report: Audit of DPD Employee Morale Fund

Our responses to the audit report recommendations are as follows:

#### **Recommendation 1:**

The Chief of Police should require Financial and Contract Management Division (FACM) to segregate EMF Cash processing duties so that the employee who requests and cashes EMF checks from the CCO is not also responsible for documenting the issuance of funds to DPD personnel, maintaining the accounting records (EMF receipt/disbursement logs), and verifying transactions are properly supported by receipts.

#### **Management Response / Corrective Action Plan**

Agree       Disagree       Partially Agree

The staff member who is responsible for mail runs will log the petty cash replenishment checks that are picked up from the Controller's Office prior to giving the checks to the Petty Cash Custodian. The log access will be restricted to the mail run clerk and the supervisor. The Procurement Manager will compare the clerk's check log with the Petty Cash Custodian's Petty Cash Log periodically to ensure that all payments received from the Controller's Office are recorded on the Petty Cash Log. The Procurement Manager's review will be documented on the Petty Cash Log.

For the \$2.50 (\$1.75 for 2009) per employee cash advancement from EMF for employee appreciation (holiday) dinner, the cash distribution, receipt verification, and the associated documentation will be handled by an Accounts Payable Clerk other than the Petty Cash Custodian. By the end of January, the AP Clerk will turn in all documents and any un-used cash to the Petty Cash Custodian. By the end of February, the Procurement Manager will provide DPD EMF Committee the documentation for employee appreciation (holiday) dinner cash advancements that evidence the cash distributions to recipient units, receipts returned by recipient units, and deposit warrant for any unused cash.

#### **Implementation Date**

Procurement Manager's documentation for employee appreciation cash advancement to DPD EMF Committee, February 2010

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Accounts Payable Clerk documents employee appreciation cash advancement, December 2010

**Responsible Manager**

Ben Collin, Business Manager III, DPD Financial & Contract Management Division  
Tomika Gibson, Procurement Manager, DPD Financial & Contract Management Division

**Recommendation 2:**

The Chief of Police should require FACM to appropriately supervise EMF Cash processing duties and perform quarterly audits of the EMF to ensure adequate supporting documentation is being retained, funds have been properly authorized, expenditures are appropriate, and unused funds are deposited back into the EMF within a reasonable time after distribution. In addition, the Chief of Police should ensure the results of the quarterly audits are documented in a report and the results are communicated to DPD management.

**Management Response / Corrective Action Plan**

Agree       Disagree       Partially Agree

Except for the cash for employee appreciation (holiday) dinner, DPD does not maintain separate cash fund that is advanced from EMF. DPD used to allow individual units advancing cash from general DPD Petty Cash fund for employee retirement recognition events (\$50 per retiring employee) and the EMF reimbursed the Petty Cash fund for the spending. This practice has been stopped since May 2009. Employees are reimbursed for retirement recognition related purchases (up to \$50); the reimbursements are made in checks by EMF.

For the EMF employee appreciation (holiday) dinner cash advancement, the DPD Procurement Manager will provide DPD EMF Committee the documentation for the cash advancement that evidence the cash distributions to recipient units, receipts returned by recipient units, and deposit warrant for any unused cash by the end of February.

Additionally, the Procurement Manager will periodically monitor the EMF and conduct quarterly audits that are documented and communicated to DPD management.

**Implementation Date**

February 2010

**Responsible Manager**

Ben Collin, Business Manager III, DPD Financial & Contract Management Division  
Tomika Gibson, Procurement Manager, DPD Financial & Contract Management Division

Sincerely,

  
David M. Kunkle  
Chief of Police

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

Advice

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