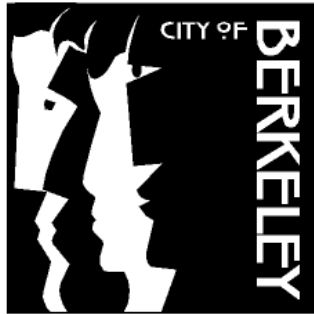


City of Berkeley



Police Department Special Enforcement Unit Cash Fund Audit

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Attachment : Letter from the Police Chief – Special Enforcement Unit’s Cash Fund Audit

I. PURPOSE AND OBJECTIVE OF THE AUDIT

The purpose of this audit was to determine if cash in the Berkeley Police Department Special Enforcement Unit (SEU) cash fund is:

1. adequately safeguarded,
2. used only for authorized purposes,
3. managed and accounted for in accordance with an authorized procedure.

This audit was requested by the Chief of Police, and scheduled to be performed in the Auditor's Office fiscal year 2001 audit plan.

II. SCOPE AND METHODOLOGY

The scope of the audit was SEU cash fund activity during the first 10.5 months of fiscal year 2001 (through May 11, 2001). Emphasis was placed on recent activity. Fieldwork concluded on May 21, 2001.

The information used to perform this audit was obtained primarily through:

- discussion with the Lieutenant in the SEU and other City staff,
- review of:
 - credit union account statements, and
 - written policies and procedures, and
 - accounting records and documents pertaining to the SEU cash fund.

Audit work was performed in accordance with Generally Accepted Government Auditing Standards.

III. BACKGROUND

The SEU conducts covert operations, often dealing with narcotics enforcement, and has an annual budget of approximately \$1.5 million. During the first 10.5 months of fiscal year 2001, the cash fund in the Police Department Special Enforcement Unit (SEU) received \$29,700. This cash is to be used to pay informants, purchase contraband, or otherwise maintain and finance undercover or investigative operations approved by the Chief of Police. Berkeley Police Department General Order D-4 (paragraph 42 – 53) and the Berkeley Police Department SEU Manual, Section 2.13 (Administration of Confidential Funds) document the procedures for the SEU cash fund. Both procedures were issued March 1, 2000, and are very similar.

The SEU Lieutenant is the custodian for the SEU cash fund. Approximately once a month, the SEU Lieutenant prepares a voucher requesting \$3,300 for the SEU cash fund. The Police Chief or Deputy Police Chief approves the voucher. The Lieutenant is responsible for the physical safeguarding of the cash in the SEU cash fund, as well as assuring that this money is used for authorized purposes. He maintains a cashbook that identifies all cash coming into the fund, and all cash payments to SEU officers. Both the officers and the Lieutenant sign a cash payment receipt each time an officer receives cash. Prior to August 2000, SEU cash was kept in the SEU Lieutenant's personal credit union account, and officers were issued checks. The current and prior SEU Lieutenant are currently signatories for this account. SEU officers use an expense account form to record their monthly cash receipt and disbursement activity. Receipts supporting each cash disbursement are kept with the form. This form is reviewed and approved by the officer's supervisor and the SEU Lieutenant.

IV. FINDINGS AND RECOMMENDATIONS

Some of the audit findings and recommendations in this report present more detail than typically provided in an audit report. This was done because it was felt that the Police Department would find this additional information helpful. The Police Department can clear the findings in this report by implementing the audit recommendations, or appropriate alternate corrective action.

Finding 1: Work Performed by the Cash Fund Custodian is Not Reviewed

The SEU Lieutenant is the sole custodian and manager of the SEU cash fund, and his work is not reviewed. As a result, improperly performed managerial or custodial duties could go undetected, increasing the risk SEU cash activity will not be properly documented or used. Also, until the end of April 2001, the SEU Lieutenant withdrew SEU cash and paid for expenditures without review. While the auditor found no inappropriate use of cash by the Lieutenant, allowing the custodian to withdraw funds and pay for expenditures without supervisory review could allow inappropriate use of cash to occur and go undetected.

The fact that work performed by the SEU cash fund custodian is not periodically reviewed appears to be the reason why the cash balance in the SEU cashbook was not correct when the current Lieutenant took over as custodian on July 28, 2000. At this time, the cashbook reflected \$165.52 less than the actual cash balance. The current Lieutenant increased the beginning cash balance in the cashbook for August 2000 by \$165.52 to correct this error. However, he was unable to locate why the discrepancy had existed. Additionally, the auditor found that the credit union account that had been maintained for the SEU fund currently still has a \$25 balance that is not reflected in the cashbook. The retired SEU Lieutenant, as well as the current SEU Lieutenant, are still signatories on this account. It should be noted that the use of a personal

checking account will result in the primary account holder having to pay income tax on any interest income the account earns.

Also, prior to September 2000, officers were not issuing receipts when money was paid to informants as required by written procedure. Although the current SEU Lieutenant re-instituted this practice, a periodic review of the SEU Lieutenant's work would have allowed an opportunity for this condition to have been identified before the prior SEU Lieutenant left his position.

Response From Police

Agree.

Recommendation 1

A technically qualified Police Department employee (for example, a sufficiently trained Accounting Office Assistant II), who is not supervised by the SEU Lieutenant, should reconcile the SEU cash and credit union account with the cashbook. On a sample basis, records of cash received and disbursement activity should also be checked by this individual to make sure they were completed according to written procedures and are supported by other SEU cash fund records. This activity should be done bi-annually. This reconciliation and review activity should be documented, and the results formally reported to the SEU Lieutenant's supervisor. Prior to the SEU Lieutenant relinquishing responsibility as the SEU cash fund custodian, the SEU cash fund should also be reconciled. Any un-reconciled differences or errors identified should be reported to the departing lieutenants' supervisor for appropriate resolution. These procedures should be incorporated into the written policies and procedures.

We further recommend that the results of the most recent bi-annual internal reconciliation and review be formally reported, signed by the SEU Lieutenant's supervisor, and included as support documentation with each SEU cash fund replenishment voucher.

Response From Police

Agree. We will implement the audit recommendation by September 1, 2001.

The Chief of Police will review the Special Enforcement Unit's cash fund to insure that all cash disbursements are conducted in accordance to the written policies of the Unit. The Chief of Police on a bi-annual basis will conduct the review.

Recommendation 2

Record the \$25 in SEU money currently in the credit union account in the SEU cashbook.

Determine if interest income from the credit union account is responsible for the additional \$165.52 recorded in the cashbook during August 2000. If so, this income should be reported to Finance for recognition in the City's accounts.

Consider discontinuing the personal checking account for the SEU cash fund. If a determination is made to continue to use a personal checking account, remove the retired SEU Lieutenant as an authorized signatory.

Response From Police

Agree. We will implement the audit recommendation by September 1, 2001. The checking account was closed on July 19, 2001 and the money has been transferred into the Special Enforcement Unit cash fund. This transaction is reflected in the cash fund journal.

Recommendation 3

The SEU Lieutenant's monthly expense account form, and support documentation, should be reviewed and approved by his supervisor. The review and approval should be documented on the expense account form. This procedure should be incorporated into the written policies and procedures. If the SEU Lieutenant will not use SEU fund cash, then this restriction should be incorporated into the written procedures.

Response From Police

The current Special Enforcement Unit Lieutenant does not have an active expense account. The account has been cleared out, and all funds have been transferred to the Special Investigation Bureau Sergeant's expense account.

Auditor Disposition

To help prevent the unauthorized use of SEU fund cash, the cash fund custodian should not be allowed to spend SEU fund cash, and if they do, this activity should be carefully reviewed. The implementation of audit recommendation 1, which is the bi-annual reconciliation and review of the SEU cash fund by the Police Chief, is a good control for detecting unauthorized use of SEU cash by the SEU Lieutenant. However, we do recommend written procedures be revised to clarify this.

Finding 2: Concerns Identified With Written and Actual Policies and Procedures

There were instances where the written policy and procedure did not provide adequate instruction to staff, or omitted a needed procedure. There were also occasions when staff did not

follow written procedure, or followed practices that were not addressed in the procedures. As a result, the auditor was not always able to tell if the SEU cash fund was being managed and used as Police Department management had intended.

Major concerns are as follows:

1. Police procedure states, "Whenever the cash on hand falls below the predetermined amount, the SEU Lieutenant will ..." prepare the paperwork to replenish the fund. However, this predetermined amount has not been formally established in writing. Alternatively, the SEU Lieutenant requested \$3,300 about monthly for the cash fund. This alternative procedure is a concern because, instead of the cash fund being reimbursed only when the balance drops below a certain level, cash is being requested on a regular basis and the balance in the fund has grown significantly during the last nine months. The cash balance at the end of April 2001 was \$11,200; however, cash payments to officers during the entire 9-month period ending May 1, 2000 totaled only \$18,880 (\$2,097 per month average). Having large sums of cash, which are not being used, is an unnecessary risk. The Chief of Police approves the cash fund replenishment voucher without receiving documentation stating the balance in the cash fund.
2. Police Department staff does not assure that the expenditure account used to fund SEU cash has a sufficient budget balance before cash is requested. As of May 16, 2001, the budget for this account was \$21,000 and expenditures were \$30,691.
3. When cash is paid to informants by an SEU officer, the following written procedures concerning this activity are not being followed:
 - a. A signature from a second officer, witnessing the disbursement of funds to the informant, is not obtained.
 - b. The time money is disbursed is not recorded.

It was unclear whether these procedures are outdated, or were simply not being followed.

4. The SEU Manual states, "Disbursements exceeding \$100 must be approved in writing by the SEU Lieutenant prior to the money being paid out. All disbursements over \$500 must be approved by the Chief of Police". Another Police Department Procedure Manual, General Order D-4, requires pre-approval for disbursements exceeding \$25 and \$750 instead of \$100 and \$500. The SEU Lieutenant stated that the pre-approval amounts in the SEU Manual are being used. He also stated pre-approval was only required for payments to informants. Since both procedure manuals state pre-approval is required for disbursements, and not just disbursements to informants, the auditor believes these procedures require pre-approval for all cash disbursement over a certain dollar amount (not just for payments to informants and narcotics purchases). Applying a literal interpretation of the written procedures, many large purchases were not pre-approved as required.
5. Written procedures indicate the SEU Lieutenant is to use a checking account to disburse money to the officers. However, a checking account is no longer used, and officers are given cash. It was unclear if written procedures were outdated, or were not being followed. Written procedures do not address the physical safeguarding of cash. The

undocumented procedures used by the present Lieutenant to physically safeguard cash appear adequate. The auditor also observed that written procedures do not address how interest income derived from SEU cash is to be treated and accounted for.

Response From Police

Agree.

Recommendation 4

Revise written policies and procedures for the SEU cash fund so they clearly address the policies and procedures that Police Department management intend, and describe how management will monitor SEU compliance.

Implement written policies and procedures (revise written policies and procedures as necessary) for the SEU cash fund to:

1. Clearly establish when cash can be obtained for the fund; how much can be obtained; and only authorize the voucher for this cash if money is in the budget.
2. Require payments to informants to be adequately documented, and include additional procedures to insure this is done.
3. Identify specifically what types of cash disbursements require pre-approval and which do not, the dollar threshold(s) when pre-approval is required, what approval is to be obtained, how this approval will be documented, and how compliance with this procedure will be enforced.
4. Clearly establish whether cash can be used in place of a checkbook, and if it can, establish the procedure for the proper physical safeguarding of the cash. Enhance written procedures for checkbook use to include how interest income is to be treated and accounted for.

Response From Police

Agree. We will implement the audit recommendation by September 1, 2001.

A new account documentation form has been established and will be enforced to ensure a second Officer is witness to all disbursements of cash to informants.

The Special Enforcement Unit manual and the Berkeley Police Department's written policy will be corrected to reflect that all disbursements from the Special Enforcement Unit cash fund will be conducted with cash. The Special Enforcement Unit Lieutenant must approve all disbursements over \$100. The Chief of Police must approve all disbursements over \$750.

Finding 3: Citywide Procurement Procedures May Not Be Used When Available

SEU cash funds were used by officers to pay for goods and services like police jackets, a video recorder, window tinting for police vehicles, and a scanner. A couple of these items were expensive purchases costing \$700 - \$800. The SEU Lieutenant stated that the reason these purchases were made with SEU cash funds was because SEU generally needed these things within a week, and purchases by voucher or purchase order took too long. When purchases are made by voucher or purchase order, the vendor is paid by a check issued from the Finance Department instead of the cash from the SEU cash fund, which is more secure. Additionally, purchases made by the City's Purchasing Unit should result in purchases being made at a better price.

Response From Police

Agree.

Recommendation 5

Consider revising SEU fund procedures so cash is used only to purchase goods and services when it is not practical to make the purchase by voucher or purchase order.

Response From Police

Agree. The Special Enforcement Unit Lieutenant will consider using purchase orders for goods and services prior to using the Special Enforcement Unit's cash fund.

V. CONCLUSION

The auditor found SEU cash fund activity, after August 2000, was adequately documented. No misuse of cash was found, and the physical safeguarding of cash appeared adequate. However, the audit did identify the following concerns:

1. The SEU cash fund custodian has complete control over the SEU cash fund, and no one independently reviews his work.
2. There were instances where the written policy and procedure did not provide adequate instruction to staff, or omitted a needed procedure. There were also instances when staff was not following some of the written procedures, or performed procedures not addressed in the written procedures. As a result, it was sometimes difficult to tell if the SEU cash fund was being managed and used as Police Department management intended.

The auditor also found SEU cash is routinely used to purchase goods and services, and suggests

Police Department Special Enforcement Unit Cash Fund Audit

that the Police Department consider using established citywide purchasing and payment procedures when practical.

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D. E. Butler, Chief of Police

Attachment

August 26, 2001

To: Ann-Marie Hogan, City Auditor
From: D. E. Butler, Chief of Police *DEB*
Subject: Special Enforcement Unit's Cash Fund Audit

I would like to take this opportunity to express my appreciation to you and your staff for their time, cooperation and assistance with the Special Enforcement Unit's Cash Fund Audit.

I have reviewed the final report of the Special Enforcement Unit's Cash Fund submitted by your office. I have no objections to the final report submitted to the City Manager. I would request that one additional remark be placed into finding #1, recommendation #2 to reflect that the checking account was closed on July 19, 2001 and the money has been transferred into the Special Enforcement Unit cash fund. This transaction is reflected in the cash fund journal.

All audit recommendations agreed upon by the Police Department have been implemented. The Special Enforcement Unit has been following the recommended changes since the exit conference. All recommended changes have been written into the Police General Orders, D-4 and the Special Enforcement Unit's manual, which will be effective September 1, 2001.

Once again, I would like to thank your staff for their assistance and professional conduct. If we can be of further assistance, please call Lieutenant Yuen at 981-5900.

Thank you.