CITY OF SAN ANTONIO

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October 25, 2006

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Michael Bernard
City Attorney

William McManus
Chief of Police

Ladies and Gentlemen:

SUBJECT: San Antonio Police Department Cash Funds Audit

We are pleased to send you the report and Management responses for an audit requested by Police Chief McManus of the San Antonio Police Department (SAPD) Cash Funds. This audit began in June 2006 and concluded with an exit conference with Chief McManus in August 2006. The Finance Department submitted its action plan response supplementing the SAPD action plan in October 2006.

The SAPD should be commended for their cooperation, assistance, and prompt responses during this audit. The SAPD Action Plan indicates acceptance of both of the recommendations in our report.

The Internal Audit Department appreciates the opportunity to have performed this review and is available to discuss this material with you individually at your convenience.

Respectfully submitted,

Mark S. Swann

Mark S. Swann CPA, CIA, CISA
Interim City Auditor

cc: Leticia Vacek, City Clerk

CITY OF SAN ANTONIO

INTERNAL AUDIT DEPARTMENT

San Antonio Police Department

Audit of Cash Funds

Project No. AU06-009

Issue Date: October 25, 2006

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Table of Contents

	PAGE
Executive Summary	1
Introduction	
Background	2
Objectives	2
Scope	2
Criteria	2
Methodology	2
Conclusion	3
Risk Assessment Capability	3
Detailed Observations and Recommendations	
1 City Cash Handling Procedures	4
2 Off-Record Cash Funds	5
Attachments	
A SAPD Cash Funds as of June 2006	6
B Enterprise Risk Assessment Matrix	7

EXECUTIVE SUMMARY

Overview

This report is the result of a request by the newly hired Chief of Police to audit San Antonio Police Department (SAPD) cash funds.

The SAPD has one authorized petty cash fund with a balance of $59,900. This fund was mainly established to facilitate petty cash transactions for the entire department. However, covert operations, such as those utilized by the Narcotics and Vice Units, are funded from the same petty cash account to pay special informants, make drug buys, or investigate cases of gambling and prostitution. This fund is also used to create temporary change funds for various units within the SAPD.

Results In Brief

We found that authorized funds were intact and secured in safes and locked cabinets with access granted to a very limited number of staff. In general, cash custodians had attended the City's "Cash Handler Training Class" and were diligent to follow their unit's standard operating procedures.

However, this audit identified opportunities to enhance controls, increase accountability, and minimize opportunities for fraud in the current environment as described below:

- The City Manager and Finance Department should modify *Administrative Directive 8.1 Cash Handling* (*AD 8.1*) draft to include cash handling procedures for the SAPD. These procedures should also address the proper use and handling of covert funds. *AD 8.1* and *Administrative Directive 8.5 "Petty Cash Policy (AD 8.5)* should be approved, published, and circulated as soon as possible.
- SAPD Management should ensure that all off-record funds are identified and recorded in City and SAPD records. When special funds for covert operations aren't expended, they should be returned to the City Finance Department promptly.

INTRODUCTION

Background

The City of San Antonio (COSA) hired a new Police Chief in April, 2006. In May 2006, the new Chief requested that the City Internal Audit Department conduct an audit of all cash funds under the control of the SAPD.

According to SAPD records and COSA SAP financial records, the SAPD has one petty cash fund with an authorized balance of $59,900. In reality, this balance is shared among 20 petty cash, change, and covert funds (see **ATTACHMENT A**). Over 2,000 transactions were processed through these funds over the 20-month period October 2004 through May 2006 as shown in the exhibit below. Covert operation transactions (e.g. paid informants, drug buys) which only account for about 13 percent of the total number of transactions, account for about 80 percent of the dollars involved.

Exhibit 1 – SAPD Petty Cash and Covert Funds Transactions (October 1, 2004 to May 31, 2006)

	Petty Cash Transactions	Covert Funds Transactions	Total
Number of Transactions	1,785	261	2,046
Total Amount of Transactions	$72,773	$282,838	$355,611
High Transaction Amount	$458	$7,600	N/A
Average Transaction Amount	$41	$1,084	$174

Objectives

The objectives of this audit were to perform cash counts of SAPD cash funds, including petty cash funds, covert or undercover funds, and change funds. Auditors determined the status of each fund and determined if internal controls were adequate to ensure that disbursements were well documented, authorized, and in compliance with applicable standards and guidelines.

Scope

The scope of the audit included reviewing petty cash and change funds in existence as of June 2006 and petty cash transactions for the period October 1, 2004 through May 31, 2006.

Criteria

This audit was based on City Administrative Directives (ADs) and SAPD Standard Operating Procedures (SOPs). Additionally, established standards for cash handling and revenue controls, sound administrative practices, and other best practices were considered.

Methodology

The audit methodology consisted of obtaining information from the COSA Finance Department, SAPD Management and Staff, the SAP system, and other information systems used by the SAPD. Auditors performed interviews, reviewed SOPs, and observed facilities and processes at each cash handling location. Auditors performed cash counts at each of the locations identified by the SAPD Accounting Department, performed selected tests and other analytical procedures, and evaluated results. Reimbursement checks issued from the Accounts Payable System and made payable to the Cash Custodians were traced to the Cash Journal. Also, sampling techniques were used to generate a random sample of transactions for detailed testing.

The review was performed in compliance with generally accepted government auditing standards issued by the U.S. Government Accountability Office.

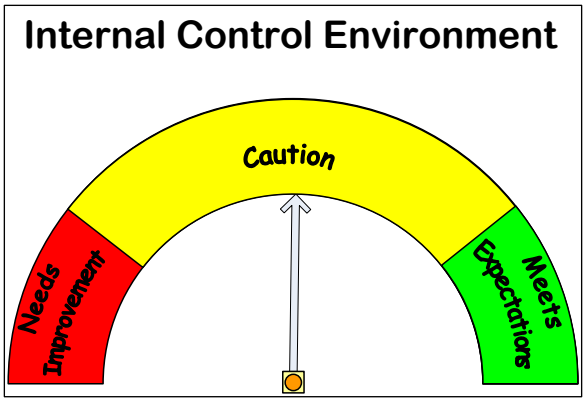
Conclusion

The audit identified the following concerns:

- The City has had drafts of *AD 8.1 "Cash Handling*" and *AD 8.5 "Petty Cash Policy*" in circulation for about two years, but they have yet to be approved. The City does not have any policy regarding covert operations funds and has exempted uniformed employees from the *AD 8.1* draft.
- In 1999, SAPD retained $9,000 cash from an unexecuted undercover transaction. However, the cash fund was not listed in City records and was not initially reported to the auditors. The cash has since been returned to the Finance Department.

Risk Assessment Capability

Based on an Enterprise Risk Assessment Capability Matrix it was determined that the maturity level of SAPD's **Process Capabilities,** was at the *Repeatable* stage since some procedures are well documented, but others are not documented (or not regularly updated) to reflect changing business needs. A more detailed description of the capability stages has been included as **Attachment B**. Most entities achieve the "*Managed*" stage while fewer achieve the "*Optimized*" stage for mature processes.



DETAILED OBSERVATIONS AND RECOMMENDATIONS

1. City Cash Handling Procedures

Condition

AD 1.6 "Basic Procedures Regulating Purchases of Materials or Services" defines petty cash as a purchase that costs less than $100 and instructs Department Heads to follow applicable City policy; however, inadequate procedures exist for cash funds for the City. The City has had drafts of *AD 8.1 "Cash Handling*" and *AD 8.5 "Petty Cash Policy*" in circulation for several years, but they have yet to be approved.

The City does not have any policy regarding covert operations funds and has exempted uniformed employees from the *AD 8.1 "Cash Handling*" draft. Furthermore, the procedures for reimbursing SAPD differ from those used for all other City Departments in that there is no review of SAPD petty cash transactions by the City's Accounts Payable Department. This contributes, in part, to the potential misuse (or appearance of misuse) of SAPD petty cash funds. SAPD petty cash funds should be subject to the same requirements as other City Departments.

The SAPD had previously requested that the *AD 8.1* draft address covert funds. However, City Management declined at the time and instructed SAPD to request an exemption from *AD 8.1* from the Finance Department. At this time, the SAPD General Manual does not address covert funds; however, individual units of the SAPD have written their own procedures for covert funds.

Risk

SAPD petty cash transactions, including those for covert operations, may not be appropriate because of a lack of procedures and scrutiny.

Recommendation

The City Manager and Finance Department should modify the *AD 8.1* draft to include cash handling procedures for the SAPD. These procedures should also address the proper use and handling of covert funds. *AD 8.1* and *AD 8.5* should be approved, published, and circulated as soon as possible.

Additionally, SAPD Management should request that the Finance Department separate and identify covert funds from petty cash funds in the SAP system.

2. Off-Record Cash Funds

Condition

A $9,000 cash fund was not listed in City records and was not originally disclosed to auditors. In 1999, SAPD obtained $9,000 for a drug purchase. The purchase did not occur and SAPD Management instructed the SAPD Accounting Department to keep the money instead of returning it to the City Finance Department. The money became known as the "HIDTA fund" and was replenished on an imprest basis. "HIDTA" is the acronym for High Intensity Drug Trafficking Area. A joint task force of federal, state, and local law enforcement agencies operates under the federal "HIDTA" grant that is managed by the City of San Antonio.

The SAPD Fiscal Operations Manager used an excel spreadsheet to record transactions associated with the "HIDTA" fund. However, transaction data was lost when the Fiscal Operations Manager's computer crashed in March of 2001 with no backup copy or other records.

During the audit, the "HIDTA" funds were returned to the City Finance Department.

Auditors also identified four other off-record petty cash and change funds as follows: Property and Evidence Detail ($549-petty cash fund and $500-change fund), the Bicycle sub-station ($200-petty cash fund), and the Chief's Office ($53-petty cash fund).

Risk

Off-record cash funds present opportunities for unauthorized or improper use. Maintaining bookkeeping records on a personal computer (PC) not properly backed-up has resulted in an irretrievable loss of information.

Recommendation

SAPD Management should ensure that all off-record funds are identified and properly recorded. When special funds for covert operations aren't expended, they should be returned to the City Finance Department promptly. All cash funds should be authorized by the Finance Department and recorded in SAP. Finally, all PC-based systems for recording financial information should be maintained on an ITSD network server that is backed up on a routine basis.

ATTACHMENT A – SAPD Cash Funds as of June 2006

Location	SAPD Records			Actual Audited Cash Funds	
	Amount	Type		Amount	Type
Accounting	$30,625	Petty Cash[1]		$28,247	Covert[1]
Accounting	$0			$1,200	Petty Cash
Accounting "HIDTA"	$0			$9,000	Covert
Alarm	$100	Change		$100	Change
Bicycle Sub-Station	$0			$200	Petty Cash[4]
Chief's Office	$0			$53	Petty Cash[4]
Fleet Management	$100	Petty Cash		$100	Petty Cash
Helicopter	$500	Petty Cash[1]		$500	Petty Cash[1]
HIDTA	$8,500	Petty Cash		$8,500	Covert
Intelligence	$1,500	Petty Cash		$1,500	Covert
Narcotics	$9,000	Petty Cash		$9,000	Covert[1]
Property and Evidence	$0			$549	Petty Cash[4]
Property and Evidence	$0			$500	Change[4]
Records	$475	Change		$475	Change
Repeat Offenders Project	$5,000	Petty Cash[1]		$5,000	Covert[1]
Training Academy	$500	Petty Cash		$500	Petty Cash
Vehicle Storage, Auction	$0	[3]		$600	Change[3]
Vehicle Storage, 9th Street	$400	Petty Cash[3]		$105	Petty Cash[3]
Vehicle Storage, Growdon	$1,200	Change[3]		$2,200	Change[2,3]
Vice	$2,000	Petty Cash[1]		$2,000	Covert[1]
Total	$59,900			$70,329	

[1]This fund is split among several officers, with paper vouchers as the only documentation for the split.
[2]A new change fund of $1,200 was created for the Impound Yard from the Accounting Fund.
[3]SAPD shows Vehicle Storage with $2,800 while cash count amounts total $2,905.
[4]Balance as of July 2006.

ATTACHMENT B - Enterprise Risk Assessment Matrix

In performing this audit, five risk management capabilities were considered for purposes of determining key risks to the City. The five capabilities include Strategies, Processes, People, Technology, and Information. Of these, the Process capability was deemed the most applicable to this audit. Each matrix is organized by the five recognized capability maturity/development stages. Most entities achieve a Managed stage while fewer achieve an Optimized stage.

Process Capabilities

Stage	Procedures	Controls and Process Improvements	Metrics
Ad Hoc	No formal *procedures* exist.	*Controls* are either non-existent, or are primarily reactionary after a "surprise" within the company.	There are no *metrics* or monitoring of performance.
Repeatable	**Some standard *procedures* exist.**	**Detective *controls* are relied upon throughout the company.**	**Few performance *metrics* exist, thus there is infrequent monitoring of performance.**
Defined	*Procedures* are well documented, but are not regularly updated to reflect changing business needs.	Both preventive and detective *controls* are employed throughout the company.	Some *metrics* are used, but monitoring of performance is primarily manual.
Managed	*Procedures* and *controls* are well documented and kept current.	Best practices and benchmarking are used to *improve* process in certain areas of the company.	Many *metrics* are used, with a blend of automated and manual monitoring of performance.
Optimized	*Processes* and *controls* are continuously reviewed and *improved*.	Extensive use of best practices and benchmarking throughout the company helps to continuously *improve* processes.	Comprehensive, defined performance *metrics* exist, with extensive automated monitoring of performance employed.

Source: Auditor's Risk Management Guide: Integrating Auditing and ERM by Paul J. Sobel, CPA, CIA.

CITY OF SAN ANTONIO

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City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of San Antonio Police Department Cash Audit

City Management and the San Antonio Police Department have reviewed the audit report and have developed Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	Detail Report				
1	**City Cash Handling Procedures**	4			
	The City Manager and Finance Department should modify the *AD 8.1* draft to include cash handling procedures for the SAPD. These procedures should also address the proper use and handling of covert funds. *AD 8.1* and *AD 8.5* should be approved, published, and circulated as soon as possible. Additionally, SAPD Management should request that the Finance Department separate and identify covert funds from petty cash funds in the SAP system.		Accept	SAPD: Eddie Bolders, Fiscal Operation Manager SAPD: Steve Barrera, Police Captain Finance: Troy Elliott, Asst. Director	AD 8.1 Open 08/21/06 Funds were identified and request was sent to Finance. November/December 2006
	SAPD Action Plan: Police Accounting will maintain a spreadsheet identifying covert, petty cash and cash handling funds. Tom Schmidt, City Finance will establish the funds in SAP. Police Accounting SOP and Police Manual will be updated to reflect covert, petty cash and cash handling fund operations. **Finance Action Plan**: The Finance Department is in the process of finalizing Administrative Directive 8.1 governing cash handling for the City of San Antonio. The draft Administrative Directive will be modified to include language defining covert funds held by the Police Department. Additionally, we will coordinate and establish agreed upon procedures with the Police Department governing the use and safekeeping of covert funds. Currently, covert and petty cash funds are combined in the SAP financial system. The accounting for covert funds and petty cash held by the Police Department will be modified in order to segregate and account for covert funds separately in the future.				

2	**Off-Record Cash Funds**	**5**		
	SAPD Management should ensure that all off-record funds are identified and properly recorded. When special funds for covert operations aren't expended, they should be returned to the City Finance Department promptly. All cash funds should be authorized by the Finance Department and recorded in SAP. Finally, all PC-based systems for recording financial information should be maintained on an ITSD network server that is backed up on a routine basis.	Accept	SAPD: Eddie Bolders, Fiscal Operation Manager	8/21/06

Action Plan: Cash funds within the Police Department have been identified by usage and separated by covert, petty cash and cash handling funds.

All unit commanders have been instructed to return any unauthorized cash funds. Those funds that have been identified have been returned including the $9,000.00 HIDTA fund. Any future increases or decreases in Police Department cash funds will be coordinated through City Finance.

A spreadsheet was sent to Tom Schmidt, City Finance identifying the amount, custodian and location of all Police Department covert, petty cash and cash handling funds. Finance will set up G/L account within SAP to identify the funds.

A procedure is in place that requires Police Department P/C users on a routine basis to download all PC files into a home page that is maintained separate from the users assigned P/C.

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

William McManus
Chief of Police