



**OFFICE OF THE
CITY AUDITOR**

**AN AUDIT OF THE CITY OF SAN JOSE
POLICE DEPARTMENT
PETTY CASH, CONFIDENTIAL, AND FLASH FUNDS**

- THE POLICE DEPARTMENT CAN IMPROVE COMPLIANCE WITH POLICIES AND PROCEDURES OVER THEIR PETTY CASH, CONFIDENTIAL, AND FLASH FUNDS

**A REPORT TO THE
SAN JOSE
CITY COUNCIL
JANUARY 1999**

99-01



CITY OF SAN JOSÉ, CALIFORNIA

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City Auditor

January 20, 1999

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
San Jose, CA 95110

Transmitted herewith is a report on *An Audit Of The City Of San Jose Police Department Petty Cash, Confidential, And Flash Funds*. This report is in accordance with City Charter Section 805.

An Executive Summary is presented on the blue pages in the front of this report. The City Administration's response is shown on the yellow pages before the Appendices.

I will present this report to the Finance Committee at its January 27, 1999, meeting. If you need additional information in the interim, please let me know. The City Auditor's staff member who participated in the preparation of this report is Robin Klenke.

Respectfully submitted,

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EXECUTIVE SUMMARY

In accordance with the City Auditor's amended 1996-97 Audit Workplan, we initiated an ongoing audit of the City of San Jose's Cash Funds. In January 1997 the City Auditor recommended amending his 1996-97 Audit Workplan to add regular reviews of these fund types. In February 1997 the Finance Committee approved the addition. As a result, a series of cash funds audits was initiated in 1997-98. In June 1998, the City Auditor released the first cash funds audit, "*An Audit of the Department of Parks, Recreation, and Neighborhood Services Petty Cash and Change Funds.*" The second Cash Funds audit focuses on the City of San Jose Police Department Cash Funds. Specifically, we audited the Police Department's Petty Cash, Confidential, and Flash Funds. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

The City Auditor's Office thanks the employees in the Police Department Administration Bureau's Fiscal Unit, and the Bureau of Investigations and Special Investigations, who gave their time, information, and cooperation for this audit.

FINDING I

THE POLICE DEPARTMENT CAN IMPROVE COMPLIANCE WITH POLICIES AND PROCEDURES OVER THEIR PETTY CASH, CONFIDENTIAL, AND FLASH FUNDS

Our review revealed that the City of San Jose Police Department (SJPD) generally has good internal controls in place over their Petty Cash, Confidential, and Flash Funds. The SJPD keeps funds in secure locations in locked or sealed receptacles in locked safes and has written procedures for the use of these funds. However, our audit also found that the SJPD can improve compliance with both Citywide and departmental procedures and reduce excess Confidential Fund balances. Specifically, we found that

- The SJPD did not always submit petty cash receipts to the Fiscal Unit in a timely manner;

- The SJPD has not performed required audits of Confidential Fund or Flash Fund records;
- The SJPD has not prepared required quarterly reports on the use of the Confidential Fund;
- The SJPD did not deposit Confidential Fund checks for as long as 154 days;
- As of September 28, 1998 the Confidential Fund checkbook balance had grown to \$260,000;
- The \$260,000 SJPD Confidential Fund Special Checking Account does not earn interest; and
- As of September 28, 1998, the SJPD had over \$110,500 cash on hand and the SJPD had not used one cash fund containing over \$11,500 for over a year.

By submitting petty cash receipts in a timely manner the SJPD will achieve better control over its Petty Cash Fund. In addition, by auditing and reporting on Confidential and Flash Funds in accordance with Citywide and departmental procedures, the SJPD will have added assurance that these funds are secure, used effectively, and for appropriate purposes. Moreover, timely deposits of Confidential Fund checks will ensure the safety of the City's cash assets and guarantee the availability of funds. Finally, proper administration and monitoring of the Confidential Fund checkbook and all SJPD Confidential cash funds will assure that these cash fund balances are maintained at the levels necessary for the SJPD undercover operations expenditures.

RECOMMENDATIONS

We recommend that the SJPD:

Recommendation #1

Ensure that all petty cash receipts are submitted in a timely manner and contain all required information and supervisory authorizations. (Priority 3)

Recommendation #2

Annually audit all Confidential Funds and Flash Funds on an irregular and unannounced basis. (Priority 2)

Recommendation #3

Ensure that SJPD personnel follow prescribed petty cash procedures. (Priority 3)

Recommendation #4

Submit quarterly reconciliations of the Confidential Fund to the Director of Finance. (Priority 3)

Recommendation #5

Deposit Confidential Fund checks into the SJPD checking account in a timely manner. (Priority 2)

We recommend that the Finance Department:

Recommendation #6

Evaluate the automatic transfer of Confidential Fund checks to the SJPD checking account. (Priority 2)

We also recommend that the SJPD:

Recommendation #7

Return \$200,000 to the General Fund to reduce the SJPD Confidential Fund Special Checking Account balance. (Priority 2)

Recommendation #8

Determine an appropriate amount for each unit's Confidential Fund, monitor and report on Confidential Funds on an ongoing basis, and transfer any excess amounts to other Confidential Funds on an as-needed basis. (Priority 3)

INTRODUCTION

In accordance with the City Auditor's amended 1996-97 Audit Workplan, we initiated an ongoing audit of the City of San Jose's Cash Funds. In January 1997 the City Auditor recommended amending his 1996-97 Audit Workplan to add regular reviews of these fund types. In February 1997 the Finance Committee approved the addition. As a result, a series of cash funds audits was initiated in 1997-98. In June 1998, the City Auditor released the first cash funds audit, "*An Audit of the Department of Parks, Recreation, and Neighborhood Services Petty Cash and Change Funds.*" The second Cash Funds audit focuses on the City of San Jose Police Department Cash Funds. Specifically, we audited the Police Department's Petty Cash, Confidential, and Flash Funds. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

The City Auditor's Office thanks the employees in the Police Department Administration Bureau's Fiscal Unit, and the Bureau of Investigations and Special Investigations, who gave their time, information, and cooperation for this audit.

SCOPE AND METHODOLOGY

This report addresses the adequacy of internal controls over Cash Funds in the City of San Jose Police Department (SJPD). The SJPD has several cash funds. The funds are the (1) Petty Cash Fund, (2) Change Funds, (3) Confidential Fund, (4) Flash Fund, (5) Transportation Fund, and (6) Bail Fund. The Confidential, Transportation, and Bail Funds are Special Checking Accounts, each with its own checkbook kept in the safe in the SJPD Fiscal Unit.

This report includes a review of the SJPD Petty Cash, Confidential, and Flash Funds. A review of the Transportation Fund, Bail Fund, and Change Funds will be included in a separate report. The objectives of this audit were to:

- Assess the accuracy, adequacy, and completeness of established policies and procedures pertaining to the Petty Cash, Confidential, and Flash Funds; and
- Determine whether the Police Department is in compliance with these established policies and procedures.

We:

- Interviewed personnel in the Budget Office and the Finance Department;
- Interviewed personnel in the SJPD in the -
 - Bureau of Administration - Fiscal Unit
 - Special Investigations – Vice and Intelligence Units
 - Bureau of Investigations
 - Deputy Chief's Office
 - Narcotics/Covert Investigations Unit
 - Fraud/Burglary/Hi-Tech Unit
 - Homicide Unit
 - Gang Investigations Unit;
- Reviewed written policies and procedures;
- Inspected all SJPD Petty Cash receipts submitted during 1996-97 and 1997-98;
- Examined the Fiscal Unit Confidential Fund checkbook and records, including the signature cards;

- Observed a cash count of each Confidential Fund and Flash Fund;
- Selected and tested a sample of records from the Deputy Chief's Confidential Fund and Flash Fund;
- Selected and tested a sample of records from the Narcotics/Covert Investigations Unit's Confidential Fund;
- Totaled 1997-98 Narcotics/Covert Investigations Unit and Special Investigations Confidential Fund expenditures; and
- Assessed the security of funds.

We performed only limited testing of the various computer reports and databases we used during our audit. We did not review the general and specific application controls for the computer systems used in compiling the various computer reports and databases we reviewed.

BACKGROUND

City of San Jose Police Department

The City of San Jose Police Department (SJPD) is the largest department in the City. The SJPD's 1998-99 Proposed Operating Budget allocation of approximately \$160 million equals nearly one-third of the total General Fund. In addition, the SJPD has the largest staff in the City with 1,836.5 full-time equivalents (FTEs) proposed for 1998-99. The General Fund is the primary funding source for the SJPD. There are five SJPD programs. These programs are: (1) Management & Analysis, (2) Administrative Services, (3) Technical Services, (4) Investigative Services, and (5) Field Services.

Administrative Services Program

The Administrative Services Program, located in the Bureau of Administration is divided into three areas – the Administrative Division, the Police Activities League, and the Fiscal Unit. According to its mission statement in the City of San Jose 1997-98 Organization and Functions Manual, it is the Fiscal Unit's responsibility to “. . . monitor and administer the departmental financial operations.”

Fiscal Unit

The Fiscal Unit in the Bureau of Administration in the SJPD monitors and administers several cash funds related to SJPD operations. These include the Bail Fund, Transportation Fund, Confidential Fund and Flash Fund, Petty Cash Fund, and Change Funds. The Fiscal Unit directly administers the Bail Fund, Transportation Fund, and Confidential Fund, which are Special Checking Accounts, each with its own checkbook. Each unit with a Flash Fund or Change Fund administers its own fund. However, the Fiscal Unit monitors both types of funds. The SJPD processes all Change Fund receipts through the Cash Collection desk in the Fiscal Unit. In addition, the Fiscal Unit processes and reimburses all SJPD Petty Cash Fund transactions.

Petty Cash Fund

The SJPD petty cash fund of \$15,000 is the second largest in the City. The Fiscal Unit administers petty cash transactions for the entire department. The petty cash fund is divided among three lock boxes, each with a designated custodian. Two lock boxes contain \$7,100 each and the third lock box, essentially a "back-up" box, contains \$800. The Finance Department processes SJPD Fiscal Unit requests for reimbursement on an ongoing basis to replenish the \$15,000 allotment. Table I summarizes SJPD petty cash fund activity for 1996-97 and 1997-98.

**TABLE I
SUMMARY OF SJPD PETTY CASH TRANSACTIONS
FOR 1996-97 AND 1997-98**

| YEAR | Number Of Transactions | Total Dollar Amount |
|------------------------|-------------------------------|----------------------------|
| 1996-1997 | 2,353 | \$110,519 |
| 1997-1998 | 2,201 | \$92,029 |
| TWO-YEAR TOTALS | 4,554 | \$202,548 |

The SJPD Fiscal Unit records each petty cash purchase on a log. An authorized SJPD official must present an original receipt and a City of San Jose petty cash receipt form to a designated custodian for petty cash reimbursement. The receipt form the official submits for reimbursement should include the department, amount reimbursed, submitter's name, date, charge number, explanation for amount reimbursed, and supervisor's signature. The SJPD uses the same form for petty cash advances, but must also include the amount of petty cash advanced and the actual amount expended. The SJPD uses other cash funds that, due to the nature of the police work involved, do not require receipts or specific explanations of expenditures. These cash funds are the Confidential Fund and Flash Fund.

Confidential Fund and Flash Fund

The Confidential Fund and Flash Fund are cash funds the SJPD uses to finance covert or undercover operations involving officers in Special Investigations and the Bureau of Investigations. In theory, if expenses for such operations were routinely processed through the City's Financial Management System (FMS), the operation and/or the officers themselves could be jeopardized. Therefore, the City Council annually appropriates monies for deposit into the SJPD's Confidential Fund so cash will be readily available. The appropriation for 1998-99 is \$96,000. With the exception of 1992-93 and 1993-94, the City has appropriated \$96,000 for the SJPD's Confidential Fund since at least 1987-88. The Accounts Payable Division of the City's Finance Department issues City vendor checks made payable to the Chief of Police (Chief) to replenish the Confidential Fund. The Chief's Office may request part of the appropriation at mid-year or request a single check for \$96,000 at year-end. The Chief deposits Confidential Fund checks in a Special Checking Account with the Bank of America branch located at 777 North First Street. The Fiscal Unit is responsible for maintaining the Confidential Fund's checkbook that is kept in the Fiscal Unit's safe. Authorized SJPD personnel that use confidential funds request the funds from the Fiscal Unit.

Requests for Funds

The Deputy Chief of the Bureau of Investigations and the Lieutenant commanding Special Investigations - Vice/Intelligence, may request funds from the Fiscal Unit. A \$9,000 check request is the norm. The Fiscal Unit prepares a check for signature. Specifically authorized individuals pick up the checks, cash them at the Bank of America branch, and place the funds in the units' safes. The Bureau of Investigations and Special Investigations hold cash in six Confidential Funds and two Flash Funds. The Bureau of Investigations, Deputy Chief's Office, has both a Confidential Fund and a Flash Fund. Within the Bureau of Investigations, four units have a Confidential Fund –

1. Narcotics/Covert Investigations
2. Fraud/Burglary/Hi-Tech

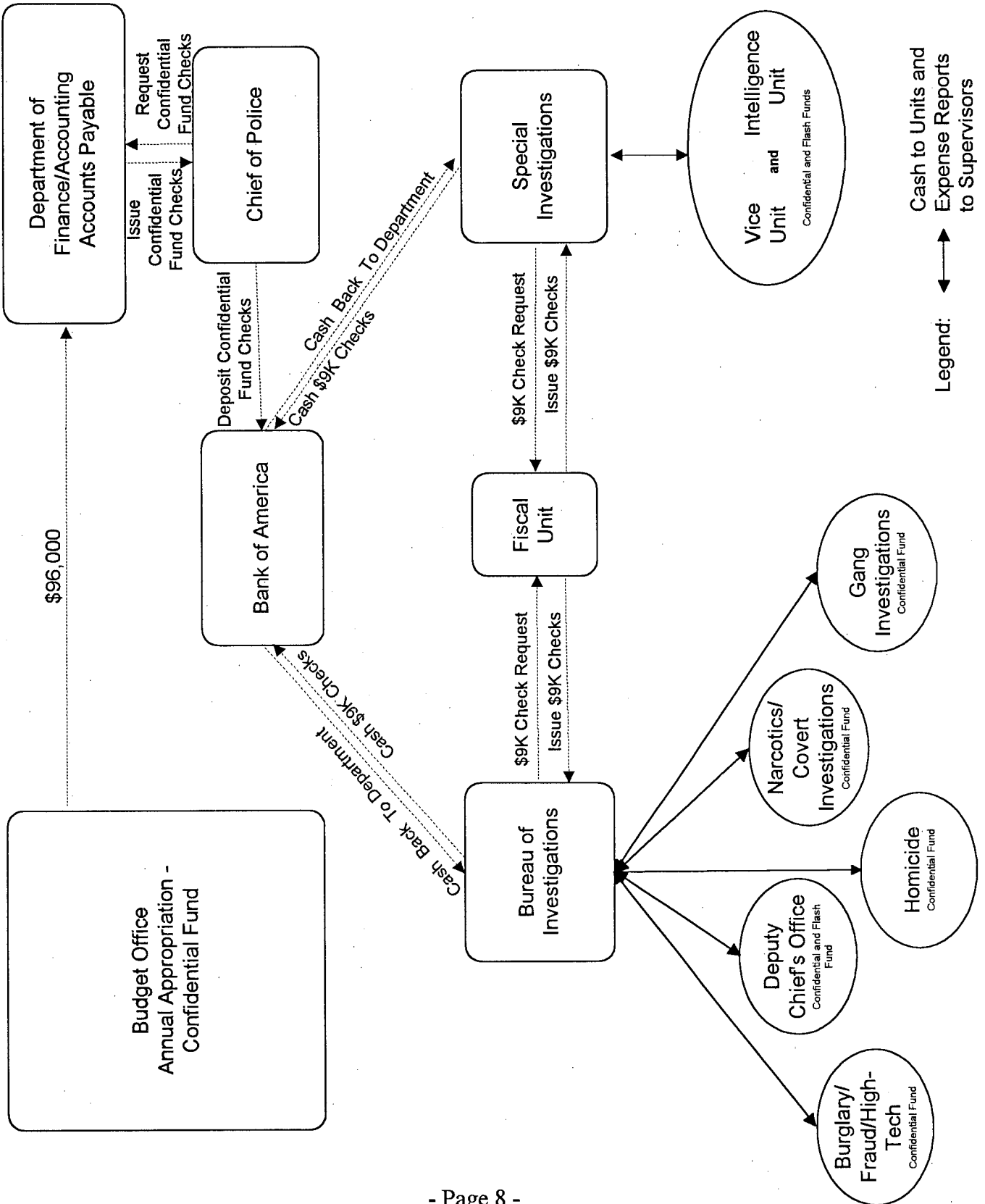
3. Homicide

4. Gang Investigations

Finally, Special Investigations – Vice Unit and Intelligence Unit, has both a Confidential and Flash Fund. It should be noted that until recently, the only Flash Fund was in the Bureau of Investigations Deputy Chief's Office. However, in September 1998, a Chief of Police memorandum authorized a Flash Fund for Special Investigations' use. Chart I shows the location of each fund and how cash flows to each fund.

CHART I

LOCATION OF SJPD CONFIDENTIAL FUNDS AND HOW CASH FLOWS TO EACH FUND



Major Accomplishments Relating To The Program

In a memorandum titled "Significant Management Accomplishments Relative To Funds Audit," Police Department Administration informs us of its accomplishments related to their cash funds. According to department administration, they have:

- Increased the petty cash fund total to \$15,000 to provide greater ability to serve departmental needs;
- Accommodated a significant increase in petty cash transaction volume when the limit increased from \$100 to \$200 several years ago;
- Purchased each petty cash box from a different manufacturer so lock box keys are not interchangeable;
- Developed a Petty Cash Transaction Log requiring individuals receiving cash to print and sign their name;
- Physically located cash register drawers in areas which make it very difficult for unauthorized persons to access the drawers;
- Instituted additional controls over petty cash transactions in one of the department units until that unit took corrective action and demonstrated adherence to Citywide petty cash policies;
- Purchased pens that detect counterfeit bills and instructed units receiving currency to check all denominations of \$50 or more;
- Produced a procedures manual for employee travel intended for distribution to units both on and off-site; and
- Conducted internal audits of Special Checking Account transactions during 1997-98.

Appendix B contains the full text of the memorandum.

FINDING I

THE POLICE DEPARTMENT CAN IMPROVE COMPLIANCE WITH POLICIES AND PROCEDURES OVER THEIR PETTY CASH, CONFIDENTIAL, AND FLASH FUNDS

Our review revealed that the City of San Jose Police Department (SJPD) generally has good internal controls in place over their Petty Cash, Confidential, and Flash Funds. The SJPD keeps funds in secure locations in locked or sealed receptacles in locked safes and has written procedures for the use of these funds. However, our audit also found that the SJPD can improve compliance with both Citywide and departmental procedures and reduce excess Confidential Fund balances. Specifically, we found that

- The SJPD did not always submit petty cash receipts to the Fiscal Unit in a timely manner;
- The SJPD has not performed required audits of Confidential Fund or Flash Fund records;
- The SJPD has not prepared required quarterly reports on the use of the Confidential Fund;
- The SJPD did not deposit Confidential Fund checks for as long as 154 days;
- As of September 28, 1998 the Confidential Fund checkbook balance had grown to \$260,000;
- The \$260,000 SJPD Confidential Fund Special Checking Account does not earn interest; and
- As of September 28, 1998, the SJPD had over \$110,500 cash on hand and the SJPD had not used one cash fund containing over \$11,500 for over a year.

By submitting petty cash receipts in a timely manner the SJPD will achieve better control over its Petty Cash Fund. In addition, by auditing and reporting on Confidential and Flash Funds in accordance with Citywide and departmental procedures, the SJPD will have added assurance that these funds are secure, used effectively, and for appropriate purposes. Moreover, timely deposits of Confidential Fund checks will ensure the safety of the City's cash assets and guarantee the availability of funds. Finally, proper administration and monitoring of the Confidential Fund checkbook and all SJPD

Confidential cash funds will assure that these cash fund balances are maintained at the levels necessary for the SJPD undercover operations expenditures.

The SJPD Did Not Always Submit Petty Cash Receipts To The Fiscal Unit In A Timely Manner

Our review revealed that the SJPD did not always submit petty cash receipts to the Fiscal Unit in a timely manner. Each Fiscal Unit petty cash custodian prepares a FMS Cash Journal Voucher (CJV) batch at least once a month to request petty cash replenishment. The City's Finance Department receives the CJV along with a Petty Cash Reimbursement Voucher, an original sales receipt, and a City of San Jose Petty Cash receipt form for each transaction. The Fiscal Unit keeps copies of the CJV, voucher, and Petty Cash Receipt form. We reviewed every CJV and accompanying documentation the SJPD petty cash custodians submitted for Petty Cash reimbursement during 1996-97 and 1997-98.

During 1996-97 and 1997-98, the SJPD Fiscal Unit processed 126 CJV batches consisting of 4,554 separate transactions. We found a matching CJV batch entry, voucher entry, and City petty cash receipt form for every single transaction. While our review revealed that the SJPD is generally in compliance with the City's Petty Cash Procedure, we noted a small number of exceptions. Specifically, we found that the SJPD

- Submitted 383 of 4,554 receipts (8 percent) over one month after the SJPD made the petty cash purchase;
- Did not date 146 of 4,554 receipts (3 percent); and
- Did not properly authorize 3 of 4,554 receipts (less than one-tenth of one percent) with supervisor signature indicating approval of the petty cash expenditure.

Table II summarizes the results of our review.

TABLE II
SUMMARY OF SJPD PETTY CASH TRANSACTIONS
FOR 1996-97 AND 1997-98

| YEAR | Total Petty Cash Expense | Number of Batches | Number of Petty Cash Receipts/ Transactions | Number of Receipts Submitted Over One Month After Petty Cash Purchase | Number of Receipts With No Date | Number of Receipts Lacking Supervisor's Signature |
|---------------|---------------------------------|--------------------------|--|--|--|--|
| 1996-97 | \$110,519 | 59 | 2,353 | 163 | 77 | 1 |
| 1997-98 | \$92,029 | 67 | 2,201 | 220 | 69 | 2 |
| TOTALS | \$202,548 | 126 | 4,554 | 383 | 146 | 3 |

As Table II shows, the SJPD submitted 383 receipts over one month after the petty cash purchase. In addition, the SJPD did not date 146 receipts. As a result, we were unable to determine whether these receipts were for expenditures made more than a month before. In our opinion, the SJPD should ensure that all petty cash receipts are submitted in a timely manner and contain all required information and supervisory authorizations.

We recommend that the SJPD:

Recommendation # 1

Ensure that all petty cash receipts are submitted in a timely manner and contain all required information and supervisory authorizations.

The SJPD Did Not Perform Required Audits Of Confidential Fund And/Or Flash Fund Records

The City Council annually appropriates \$96,000 for the Confidential Fund as part of the SJPD's non-personal base budget amount. The SJPD may or may not spend that amount during the year because the nature and number of undercover or covert operations per year cannot be accurately predicted. If the SJPD does not spend the entire \$96,000 appropriation, the remaining balance rolls over to the next budget year. As a

result, the Confidential Fund Special Checking Account balance can exceed \$96,000. The SJPD has written procedures for the use of the Confidential Fund.

Confidential Fund Policies and Procedures

According to the Police Department “Confidential Fund Procedures,”

The purpose of the Confidential Fund is to provide cash necessary for undercover or covert operations involving officers from Special Investigations or the Bureau of Investigations. Cash is used for a variety of purposes, such as relocating witnesses and victims of gang related crimes or violence, paying informants, and purchasing narcotics, stolen property and props used during undercover investigations. The Flash Fund is used to show suspected drug dealers cash during drug purchases.

Furthermore, the procedures require that the SJPD staff:

. . . 7. At irregular and unannounced intervals Fiscal will audit records maintained by the units utilizing Confidential Funds.

Moreover, under Miscellaneous Procedures, the Bureau of Investigations (BOI) requires that:

. . . 6. Unit commanders will be expected to provide assistance for quarterly audits of funds by the Fiscal Officer . . .

Our review revealed that in spite of the above requirement to do so, the SJPD Fiscal Unit has not done audits of Confidential Funds for several years.

Fiscal Unit Used to Conduct Periodic Audits

According to the SJPD’s Fiscal Officer, the Accounting Supervisor or the Fiscal Officer used to conduct unannounced audits of Confidential Fund records. The SJPD suspended these audits due to staff vacancies coupled with workload growth in other areas.

The information we reviewed in the Confidential Fund folder in the Fiscal Unit safe indicated that the Fiscal Unit last audited a Confidential Fund in 1992. Further, the Fiscal Unit audited only three of the six areas where Confidential Fund cash is located.

We found the following reports in the Confidential Fund folder in the Fiscal Unit safe that indicated the Fiscal Unit last audited the:

- Confidential Funds in the Deputy Chief's Office on August 13, 1992.
- Confidential Funds in the Narcotics/Covert Investigations (NCI) Unit on September 24, 1992.
- Confidential Funds in the Vice and Intelligence Units on October 5, 1992.

We found no evidence that the Fiscal Unit ever audited the Confidential Funds in the Homicide Unit, the Fraud/Burglary/Hi-Tech Unit, or the Gang Investigations Unit.

In our opinion, to ensure the integrity, proper administration, and safety of the Confidential Fund, the SJPD should follow Citywide and departmental procedures and annually audit all Confidential Funds and Flash Funds on an irregular and unannounced basis.

We recommend that the SJPD:

Recommendation # 2

Annually audit all Confidential Funds and Flash Funds on an irregular and unannounced basis.

Review of Documentation and Observation of Cash Counts in Units With Confidential Funds

There are six areas in the SJPD where Confidential Funds are located: (1) BOI Deputy Chief's Office, (2) Narcotics/Covert Investigations Unit, (3) Fraud/Burglary/Hi-Tech Unit, (4) Homicide Unit, (5) Gang Investigations Unit, and (6) Special Investigations. A safe in each of these areas holds the funds and documentation. We assessed the security of and reviewed the documentation for the funds in each safe. In addition, we selected a limited sample of transactions from the two funds most frequently used. Finally, we observed a count of the cash on hand in each fund. In general, we found only minor discrepancies or exceptions involving Confidential Funds. Our audit procedures and observations and the minor discrepancies or exceptions we noted are described below.

Deputy Chief's Office Confidential Fund and Flash Fund

We obtained a copy of one page of the Confidential Fund ledger and copies of several Bureau of Investigations Deputy Chief's Office Confidential Fund and Flash Fund Disbursement Record forms. We compared the information recorded on the Disbursement Record forms to the corresponding entries in the ledger. No exceptions were noted. We also reviewed the completeness of information provided on the Disbursement Record forms. All dates, the printed names and signatures of individuals disbursing and receiving funds, correct dollar amounts disbursed and received, and correct dollar amount returned (if applicable) were properly completed.

- Cash Count

The Confidential Fund ledger indicated there should be \$5,000 on hand. We observed the cash count and verified that the amount was on hand. The Flash Fund ledger indicated there should be \$60,000 on hand. We also observed the cash count and verified that \$60,000 was on hand.

Narcotics/Covert Investigations Unit Confidential Fund

The NCI uses its Confidential Fund the most frequently. This unit does not have a Flash Fund. The NCI Unit must request a Flash Fund if they need it for a specific operation. The NCI Unit has two teams: the Enforcement Team and the Buy Team. The Buy Team consists of the undercover officers who mainly purchase drugs, or "props" (beer, pool games, drinks for suspects), and may pay rewards to informants. To keep track of Confidential Fund transactions, the NCI Unit uses Confidential Fund Vouchers. These vouchers show the Case Number, Special Employee Number (if an informant reward is paid), Date, Time, Amount, Received by, Received from, Location, and Details.

The NCI Unit also keeps a Confidential Fund log. The log should reflect the same information as is shown on each voucher. The officer using Confidential Funds should record in the logs:

- Voucher Number
- Date
- Name
- Case#
- S.E. # (Special Employee - a paid informant)
- Cash Received
- Cash Recovered
- Buys (for either narcotics or property)
- Rewards
- Expenses
- Balance

At the end of each month, the Lieutenant in charge of the Confidential Fund prepares a monthly summary based on information from the handwritten log and on the original voucher. The Lieutenant seals and retains the monthly summary, handwritten log, and original vouchers in an envelope. We reviewed the contents of all the sealed envelopes from January 1998 through August 1998 kept in the filing cabinet in the Lieutenant's office. Table III summarizes the results of our review.

TABLE III

**SUMMARY OF NARCOTICS/COVERT INVESTIGATIONS UNIT
CONFIDENTIAL FUND LOGS AND VOUCHERS
FROM JANUARY 1998 THROUGH AUGUST 1998**

| MONTH | NUMBER OF VOUCHERS | EXCEPTIONS |
|---------------|---------------------------|--|
| JANUARY 1998 | 65 | Three Buy Funds vouchers were combined as one entry. |
| FEBRUARY 1998 | 51 | Two Buy Funds vouchers were not listed correctly. |
| MARCH 1998 | 30 | One voucher lacked supervisor's signature. |
| APRIL 1998 | 50 | Six vouchers lacked supervisor's signature; one voucher lacked both officer's and supervisor's signature. |
| MAY 1998 | 36 | Four Buy Funds vouchers were entered incorrectly on the log; one voucher lacked the S.E. #* so it was not recorded on the monthly log. |
| JUNE 1998 | 61 | Three vouchers lacked supervisor's signature. |
| JULY 1998 | 82 | No exceptions. |
| AUGUST 1998 | 51 | One voucher lacked both the S.E. #* and a witness signature. |
| TOTALS | 426 | 24 exceptions |

* Special Employee # - a paid informant

- Cash Count

The NCI Unit Confidential Fund ledger indicated there should be \$2,727 on hand. We observed the cash count and verified that the amount was on hand.

Fraud/Burglary/Hi-Tech Unit

The Lieutenant in the Fraud/Burglary/Hi-Tech Unit has sole access to the safe that contains the lock box for this Confidential Fund. According to the Lieutenant there has not been very much use of the Confidential Fund recently. There were no major

operations underway at the time of our audit. We obtained copies of the current Confidential Fund log pages and noted that there have been no transactions since June 1998 when \$300 in expenses and the subsequent recovery of the same amount was entered on the log.

– Cash Count

The Fraud/Burglary/Hi-Tech Unit Confidential Fund ledger indicated there should be \$724.88 on hand. We observed the cash count and verified that the amount was on hand.

Homicide Unit

Confidential Funds in the Homicide Unit are primarily used for witnesses testifying on Homicide cases. The Lieutenant in charge of the Confidential Fund supervises 11 homicide investigators. The Lieutenant said that about \$500 - \$600 is an adequate amount in Confidential Funds for the Homicide Unit's needs. The Lieutenant has sole access to the safe where the fund is kept. The Lieutenant told us that he verifies the total count when he counts out money for disbursement and again when he receives money to be returned to the safe.

The first use of the fund this year was in July 1998 and there had been only one other transaction as of September 28, 1998. The Lieutenant said he makes sure a case number is provided when someone requests funds.

– Cash Count

The Homicide Unit Confidential Fund ledger indicated there should be \$590 on hand. We observed the cash count and verified that the amount was on hand.

Gang Investigations Unit

The Gang Investigations Unit was recently referred to as the Violent Crimes Unit. The Unit used the Confidential Fund in the past for witness assistance but has not used it much recently. The Sergeant in charge of the Fund described how the District Attorney's

Office has been providing the money for sting operations while the Police Department has provided the manpower.

– Cash Count

The Gang Investigations Unit ledger indicated that there should be \$11,515.46 on hand. We observed the cash count and verified that amount was on hand.

Special Investigations – Vice and Intelligence Units

The Vice Unit and Intelligence Unit are both part of Special Investigations and they share the same Confidential Fund. The Lieutenant commanding both units and the Intelligence Unit Sergeant are the only individuals with access to the safe in the Lieutenant's office. The "usual" amount of this fund, until July 1998, ranged from about \$4,000 to about \$10,000. However, when we reviewed the fund, the ledger book for the fund showed a balance of \$29,082. The Lieutenant explained that a large amount of cash was realized as a result of a "win" from a gambling undercover operation. Of the current balance, \$20,000 has been set aside as a new Flash Fund for this unit. A memorandum from the Chief of Police dated September 1998 authorized the new \$20,000 Flash Fund.

– Cash Count

As indicated above, the ledger balance for Special Investigations' Confidential Fund was \$29,082 at the time of our review. We observed a count of the cash and found \$29,982 on hand, which was \$900 more than indicated in the ledger balance. Subsequently, we noted a \$1,000 subtraction error on September 8, 1998. As a result, the ledger balance should have been \$30,082 rather than \$29,082. Since the cash we counted was \$29,982, we determined that this fund was actually short \$100. The Lieutenant in charge of this fund investigated the shortage.

Each officer in Special Investigations Vice and Intelligence Units keeps a wallet with undercover identification and confidential money for related expenses. In addition, each officer prepares and submits a monthly expense statement. A memorandum dated October 9, 1998, informed the Lieutenant of an expense sheet discrepancy. According to the officer,

... While reconciling the money transactions I discovered that I had \$100.00 more than the final balance indicated. I reviewed all of the entries and verified those numbers. I believe I may have received the extra \$100.00 when I requested the \$1,000.00 on 9/9/98. I did not follow the usual procedure of re-counting the money after receiving it. I will return the extra money to balance both our books.

The practice of re-counting money received in the provider's presence is a basic internal control over cash and a procedure that should be followed. In our opinion, the SJPD should ensure that personnel follow petty cash procedures to increase accountability for and improve control over these funds.

We recommend that the SJPD:

Recommendation #3

Ensure that SJPD personnel follow prescribed petty cash procedures.

Table IV summarizes the results of our cash counts for all SJPD Confidential and Flash Funds.

TABLE IV
SUMMARY OF CONFIDENTIAL AND
FLASH FUND CASH COUNTS

| FUND LOCATION | FUND TYPE | LEDGER AMOUNT | COUNT PER AUDIT | COMMENTS |
|---|-------------------|----------------------|------------------------|--|
| BOI Deputy Chief's Office | Confidential Fund | \$5,000 | \$5,000 | Auditor verified. |
| | Flash Fund | \$60,000 | \$60,000 | Auditor verified |
| BOI - NCI | Confidential Fund | \$2,727 | \$2,727 | Auditor verified. |
| BOI - Fraud/Burglary /Hi-Tech | Confidential Fund | \$744.88 | \$744.88 | Auditor verified. |
| BOI – Homicide | Confidential Fund | \$590 | \$590 | Auditor verified. |
| BOI - Gang Investigations Unit | Confidential Fund | \$11,515.46 | \$11,515.46 | No transactions since September 1997; the Captain in charge of this Fund was unaware this much cash was on hand. |
| Special Investigations - Vice/ Intelligence | Confidential Fund | \$10,082* | \$9,982 | Count revealed \$100 less in cash than reflected in the ledger after adjustment for a \$1,000 subtraction error. |
| | Flash Fund | \$20,000 | \$20,000 | Newly-authorized for this unit – September 1998. |
| | TOTALS | \$110,659.34 | \$110,559.34 | Discrepancy = \$100 |

*Adjusted ledger amount after correction for \$1,000 subtraction error.

The SJPD Has Not Prepared Required Quarterly Reports On The Use Of The Confidential Fund

According to the Police Department Confidential Fund procedures,

1) Per Section 1.2 of Ordinance Number 24127, the Chief of Police will transmit a quarterly reconciliation of the Confidential Fund to the Director of Finance.

However, our review revealed that the SJPD has not prepared quarterly reports on the use of the Confidential Fund as required.

Appropriation Ordinance

Ordinance Number 24127 is the City of San Jose's Annual Appropriation for the City's Fiscal Year – “. . . appropriating and authorizing the expenditure of moneys for the operation of each of the officers, departments, and agencies of the City during said fiscal year, and for various other purposes and objects for said fiscal year; and providing for loans and transfers from various city funds to other city funds as may be necessary during said fiscal year.”

In addition, Ordinance Number 24127, Part I, General Provisions, Section 1.2. “Confidential Non-Personal Expenses of Police Department” states,

“Confidential Non-Personal Expenses of Police Department” means any and all expenses incurred by the Police Department (excepting expenses for “personal services” and expenses for equipment) which in the opinion of the Chief of Police must be kept confidential, without revealing the names of the ultimate recipients of the moneys expended for such purposes and without revealing the specific purpose of each such expenditure, in order to facilitate crime prevention or the apprehension of criminals. Moneys appropriated or transferred to the Police Department for such purposes may be paid by the Director of Finance to the Chief of Police from time to time as requested by the Chief of Police without said Chief being required at such time to reveal to the Director of Finance the specific purposes for which the Chief will expend such moneys nor the names of the ultimate recipients, and the Chief of Police may then expend such moneys for the above mentioned purposes. However, the Chief of Police shall file with the Director of Finance, a full report showing what the Chief has done with the moneys advanced to him for said purposes, the amounts expended, the names of the recipients, the purposes for which such expenditures were made, amounts as yet unexpended and such other relevant information as the Director of Finance may require. All such reports shall be confidential and shall not be shown to any person, other than the Director of Finance and the City Auditor, unless and except as may be otherwise authorized by Council. [Emphasis added]

As noted above, Ordinance 24127 requires the Chief of Police to report “Confidential Non-Personal Expenses of Police Department” to the Director of Finance. However, the ordinance does not stipulate the required frequency of such reports or when these should be prepared and submitted. The SJPd, however, developed their own internal Confidential Fund procedure that does stipulate that quarterly reports should be prepared. Specifically,

1) *Per Section 1.2 of Ordinance Number 24127, the Chief of Police will transmit a **quarterly** reconciliation of the Confidential Fund to the Director of Finance.*
[Emphasis added]

However, our review revealed that the last quarterly report the SJPD prepared was in October 1993 for the first quarter of 1993-94. The next report on the Confidential Fund was dated July 11, 1994, but that report covered the last three quarters of 1993-94. It should be noted that as a result of our audit, on July 21, 1998, the SJPD submitted annual reconciliation reports for 1996-97 and 1997-98. As a result, the SJPD is still technically not in compliance with either Ordinance #24127 or its own procedures regarding quarterly Confidential Fund reporting. In our opinion, the SJPD should comply with its own procedures and submit quarterly reconciliations of the Confidential Fund to the Director of Finance.

We recommend that the SJPD:

Recommendation # 4

Submit quarterly reconciliations of the Confidential Fund to the Director of Finance.

The SJPD Did Not Deposit Confidential Fund Checks For As Long As 154 Days

Timeliness of Confidential Fund Check Deposits

We reviewed the Confidential Fund checkbook register and deposit slips to determine the number of checks, the dollar amounts, and dates of issue and deposit for those checks. Our review revealed that Confidential Fund checks Finance issued for SJPD pick-up were not deposited promptly.

The SJPD picked up 12 Confidential Fund checks totaling \$660,000 between February 1993 and July 1998. Only one Confidential Fund check was deposited in a timely manner, specifically, on the next banking day. Of the twelve checks issued, ten were for pick-up on Thursday and could have been deposited that day or on Friday. The other two checks were issued for pick-up on Wednesday, November 22, 1995 before the

Thanksgiving holiday and Thursday, July 3, 1997 before the July 4th holiday. However, these checks were deposited 154 and 63 days after pick-up, respectively. Table V shows the dates Confidential Fund checks were issued between February 1993 and July 1998 and the elapsed days between issuance and deposit.

TABLE V

SUMMARY OF CONFIDENTIAL FUND CHECKS ISSUED BETWEEN FEBRUARY 1993 AND JULY 1998 AND THE ELAPSED DAYS BETWEEN ISSUANCE AND DEPOSIT

| CHECK AMOUNT | ISSUANCE DATE | DEPOSIT DATE | ELAPSED NUMBER OF DAYS BETWEEN ISSUANCE AND DEPOSIT |
|---------------------|----------------------|---------------------|--|
| \$50,000 | 2/25/93 | 3/1/93 | 4 |
| \$196,000 | 7/29/93 | 8/2/93 | 4 |
| \$60,000 | 6/15/95 | 6/16/95 | 1 |
| \$36,000 | 8/10/95 | 9/19/95 | 40 |
| \$10,000 | 11/22/95 | 4/24/96 | 154 |
| \$50,000 | 6/20/96 | 9/23/96 | 95 |
| \$46,000 | 7/11/96 | 9/23/96 | 74 |
| \$5,000 | 7/25/96 | 9/23/96 | 60 |
| \$46,000 | 5/29/97 | 9/4/97 | 98 |
| \$15,000 | 6/5/97 | 9/4/97 | 91 |
| \$50,000 | 7/3/97 | 9/4/97 | 63 |
| \$96,000 | 7/16/98 | 7/27/98 | 11 |
| \$660,000 | | | |

As Table V shows, the SJPD has not deposited Confidential Fund checks in a timely manner. Specifically, the SJPD has held checks for as long as 154 days after pick-up. Holding Confidential Fund checks for long periods of time compromises the safety of the City's cash assets. In our opinion, the SJPD should deposit Confidential Fund checks as soon as possible to (1) ensure the safety of the City's cash assets and (2) guarantee confidential monies are available for SJPD undercover operations.

It should be noted that the Finance Department is examining alternatives to the current check pick-up/check deposit process. Specifically, the Finance Department is evaluating the use of wire or electronic transfers of funds. Under the current system Accounts Payable notifies authorized staff that a City vendor check is ready for pick-up. How or when the vendor check is deposited is up to the department that picked up the check. City vendor checks, particularly those for large amounts, should be deposited as soon as possible to ensure the safety and availability of such funds. Wire or electronic transfers of large checks like the SJPD Confidential Fund checks would accomplish this. According to the General Ledger Supervisor, wire transfers carry a \$30 per transaction charge. However, a \$30 transaction charge would be insignificant given the infrequency of SJPD transactions. Further, the current SJPD practice of picking up and holding large checks for long periods of time clearly has security implications.

We recommend that the SJPD:

Recommendation #5

Deposit Confidential Fund checks into the SJPD checking account in a timely manner.

Furthermore, we recommend that the Finance Department:

Recommendation #6

Evaluate the automatic transfer of Confidential Fund checks to the SJPD checking account.

The Confidential Fund Checkbook Balance Has Grown To \$260,000

We obtained the Confidential Fund checkbook ledgers to determine the checkbook balance at the time each Confidential Fund check was issued and deposited. Table VI shows the activity from the two most recent account ledgers.

TABLE VI

**SUMMARY OF CONFIDENTIAL FUND SPECIAL CHECKING ACCOUNT
ACTIVITY - DEPOSITS, WITHDRAWALS, AND BALANCES
1987-88 THROUGH SEPTEMBER 1998**

| DATE | BEGINNING BALANCE | DEPOSITS | WITH- DRAWALS | ENDING BALANCE |
|-------------|------------------------------|-----------------|--------------------------|---------------------------|
| 1987-88 | - 0 - | \$96,000 | \$69,000 | \$27,000 |
| 1988-89 | \$27,000 | \$96,000 | \$105,000 | \$18,000 |
| 1989-90 | \$18,000 | \$166,000 | \$141,000 | \$43,000 |
| 1990-91 | \$43,000 | \$96,000 | \$106,000 | \$33,000 |
| 1991-92 | \$33,000 | \$131,600 | \$164,600 | \$0 |
| 1992-93 | - 0 - | \$171,000 | \$149,000 | \$22,000 |
| 1993-94 | \$22,000 | \$196,000 | \$76,000 | \$142,000 |
| 1994-95 | \$142,000 | \$60,000 | \$51,000 | \$151,000 |
| 1995-96 | \$151,000 | \$46,000 | \$60,000 | \$137,000 |
| 1996-97 | \$137,000 | \$101,000 | \$77,000 | \$161,000 |
| 1997-98 | \$161,000 | \$111,000 | \$90,000 | \$182,000 |
| 1998-99 | \$182,000 | \$96,000 | \$18,000 | \$260,000 |

As Table VI shows, the SJPD Confidential Fund balance has increased significantly, particularly over the last three years. By the end of 1997-98, the Confidential Fund balance had grown to \$182,000. In spite of that large balance, the SJPD received the entire \$96,000 appropriation for 1997-98. The SJPD deposited that \$96,000 to its Confidential Fund Special Checking Account on July 27, 1998, increasing the account balance to \$260,000. None of the 1998-99 Confidential Fund \$96,000 appropriation has been expended. There are three factors that have contributed to the large balance in the Confidential Fund Special Checking Account:

- (1) The SJPD requested increases for the Confidential Fund appropriation anticipating additional undercover activity which did not materialize;
- (2) Gang Fund and Witness Protection Program checks received for undercover operations are deposited in the Confidential Fund Special Checking Account; and
- (3) SJPD Confidential Fund Special Checking Account withdrawals are usually less than deposits.

The SJPD Requested Increases for the Confidential Fund Appropriation Anticipating Additional Undercover Activity Which Did Not Materialize

In 1992-93 and 1993-94 the SJPD requested increases for the Confidential Fund non-personal base budget appropriation anticipating additional undercover activity in those years. However, additional undercover activity to the extent anticipated did not materialize. Specifically, in 1992 -93, the City increased the annual \$96,000 appropriation by \$25,000 to \$121,000. In 1992-93, the SJPD also requested an additional \$50,000 for the Confidential Fund in the mid-year budget. The SJPD requested this \$50,000 because undercover activity in 1992-93 had expended all but \$17,000 of the \$121,000 appropriation by February 1993. However, after the City appropriated the requested \$50,000, the level of additional undercover activity the SJPD anticipated did not materialize. Finally, in 1993-94, another \$100,000 increase was requested, received, and deposited for the same purposes. As a result, the additional funds deposited in the Confidential Fund Special Checking Account remained in the account rather than being spent as anticipated.

Gang Fund and Witness Protection Program Checks Received For Undercover Operations Are Deposited In The Confidential Fund Special Checking Account

Our audit found that in addition to the annual \$96,000 Confidential Fund appropriation, other types of confidential monies the SJPD receives are deposited in the Confidential Fund Special Checking Account as well. In anticipation of additional undercover activity in 1992-93 and 1993-94, the SJPD requested increases in Confidential Fund appropriations. Since the increased undercover activity was anticipated to be primarily drug-related, involving gangs and the need for witness protection, the appropriation increases came from the two drug forfeiture funds that are available to the City. Specifically, these two funds are the State Drug Forfeiture Fund and the Federal Drug Forfeiture Fund. Transfers from these funds to the SJPD are also considered confidential monies. In 1993-94, the Accounts Payable Division of the Finance Department issued the \$100,000 noted above in checks that were drawn against either the "Gang Fund" or "Witness Protection Program." The SJPD deposited these checks in the Confidential Fund Special Checking Account. However, the gang and

witness protection undercover activity that the SJPD anticipated never materialized and the unspent Gang Fund and Witness Protection Program monies are still in the Confidential Fund Special Checking Account.

SJPD Confidential Fund Special Checking Account Withdrawals Are Usually Less Than Deposits

Our review revealed that since 1992-93, SJPD Confidential Fund Special Checking Account withdrawals for undercover operations were usually less than deposits. As Table VI on page 26 showed, from 1992-93 through 1997-98, SJPD Confidential Fund Special Checking Account withdrawals exceeded deposits only in 1995-96. By the beginning of 1995-96 the account balance had already risen above \$150,000.

The \$260,000 SJPD Confidential Fund Special Checking Account Does Not Earn Interest

Our review revealed that interest does not accrue to the SJPD Confidential Fund Special Checking Account. According to the Bank of America Branch Manager, the account is a standard business checking account and is part of the City's Analyzed Interest Checking (AIC) Account group. This group of accounts collectively accrues interest that is calculated as an Earnings Allowance Rate (EAR). The EAR pays Bank of America administrative fees and service charges for handling all of the City's AIC accounts. In our opinion, a large balance should not remain in a non-interest bearing checking account. The Confidential Fund Special Checking Account need only carry a balance sufficient to generate enough EAR to pay administrative fees and service charges. Therefore, we recommend that the Confidential Fund Special Checking Account balance be reduced by returning \$200,000 to the General Fund this year.

We determined that the SJPD should return \$200,000 to the General Fund this year because

- The SJPD Special Checking Account balance is \$260,000;
- None of the SJPD 1998-99 Confidential Fund \$96,000 appropriation has been expended and is still available; and

- Even after returning \$200,000 to the General Fund, the SJPD would still have \$150,000 available for undercover or covert operations expenditures which may be incurred during the remainder of 1998-99.

We recommend the SJPD:

Recommendation #7

Return \$200,000 to the General Fund to reduce the SJPD Confidential Fund Special Checking Account balance.

The SJPD Has Over \$110,500 Cash On Hand And One Cash Fund Containing Over \$11,500 Had No Activity For Over A Year

The SJPD has over \$110,500 cash on hand in six Confidential Funds and two Flash Funds. Of the two Flash Funds, one Fund had \$60,000 in cash and the other had \$20,000. Flash Funds are shown, or “flashed” at suspected criminals and the money is never intended to be spent. The remaining \$30,500 in cash is distributed among the six SJPD Units entitled to use confidential monies for expenses related to undercover activity.

We also found that one Confidential Fund (the Gang Investigations Unit Confidential Fund) containing over \$11,500 had no activity for over a year. According to the Sergeant in charge, the Confidential Fund has been used in the past for witness assistance but has not had much use recently. The Sergeant explained that the District Attorney’s Office has been providing the money for sting operations while the SJPD has provided the manpower. As a result, this Confidential Fund containing over \$11,500 has had no activity since September 1997.

SJPD procedures allow transfers of Confidential Funds among the Bureau of Investigations units. Under Bureau of Investigations Confidential Funds Procedure, Section B, “Miscellaneous”

Transfer Between Units

Transfer of funds between units and to units which do not ordinarily receive confidential funds is permitted. In all cases, all regular confidential funds

procedures regarding cash count verification, two-person transactions, obtaining necessary signatures, etc., must be followed.

It should be noted that as a result of our audit, the SJPD transferred \$10,000 from the Gang Investigations Unit's Confidential Fund to the BOI Deputy Chief's Office safe. Thus, the SJPD has cash available for other priority needs and the Gang Investigations Unit's Confidential Fund balance is at a more appropriate level of about \$1,500. In our opinion, the SJPD should determine an appropriate balance for each unit's Confidential Fund and transfer any excess amounts to one of the other units as the need for cash arises. Furthermore, ongoing monitoring of and reporting on Confidential Funds would enable the SJPD to use these funds more effectively.

We recommend that the SJPD:

Recommendation # 8

Determine an appropriate amount for each unit's Confidential Fund, monitor and report on Confidential Funds on an ongoing basis, and transfer any excess amounts to other Confidential Funds on an as-needed basis.

CONCLUSION

Our review revealed that the City of San Jose Police Department (SJPD) generally has good internal controls in place over their Petty Cash, Confidential, and Flash Funds. The SJPD keeps funds in secure locations in locked or sealed receptacles in locked safes and has written procedures for the use of these funds. However, our audit also found that the SJPD can improve compliance with both Citywide and departmental procedures and reduce excess Confidential Fund balances. Specifically, we found that

- The SJPD did not always submit petty cash receipts to the Fiscal Unit in a timely manner;
- The SJPD has not performed required audits of Confidential Fund or Flash Fund records;
- The SJPD has not prepared required quarterly reports on the use of the Confidential Fund;

- The SJPD did not deposit Confidential Fund checks for as long as 154 days;
- As of September 28, 1998 the Confidential Fund checkbook balance had grown to \$260,000;
- The \$260,000 SJPD Confidential Fund Special Checking Account does not earn interest; and
- As of September 28, 1998, the SJPD had over \$110,500 cash on hand and the SJPD had not used one cash fund containing over \$11,500 for over a year.

By submitting petty cash receipts in a timely manner the SJPD will achieve better control over its Petty Cash Fund. In addition, by auditing and reporting on Confidential and Flash Funds in accordance with Citywide and departmental procedures, the SJPD will have added assurance that these funds are secure, used effectively, and for appropriate purposes. Moreover, timely deposits of Confidential Fund checks will ensure the safety of the City's cash assets and guarantee the availability of funds. Finally, proper administration and monitoring of the Confidential Fund checkbook and all SJPD Confidential cash funds will assure that these cash fund balances are maintained at the levels necessary for the SJPD undercover operations expenditures.

RECOMMENDATIONS

We recommend that the SJPD:

Recommendation #1

Ensure that all petty cash receipts are submitted in a timely manner and contain all required information and supervisory authorizations. (Priority 3)

Recommendation #2

Annually audit all Confidential Funds and Flash Funds on an irregular and unannounced basis. (Priority 2)

Recommendation #3

Ensure that SJPD personnel follow prescribed petty cash procedures. (Priority 3)

Recommendation #4

Submit quarterly reconciliations of the Confidential Fund to the Director of Finance. (Priority 3)

Recommendation #5

Deposit Confidential Fund checks into the SJPD checking account in a timely manner. (Priority 2)

We recommend that the Finance Department:

Recommendation #6

Evaluate the automatic transfer of Confidential Fund checks to the SJPD checking account. (Priority 2)

We also recommend that the SJPD:

Recommendation #7

Return \$200,000 to the General Fund to reduce the SJPD Confidential Fund Special Checking Account balance. (Priority 2)

Recommendation #8

Determine an appropriate amount for each unit's Confidential Fund, monitor and report on Confidential Funds on an ongoing basis, and transfer any excess amounts to other Confidential Funds on an as-needed basis. (Priority 3)

CITY OF SAN JOSE – MEMORANDUM

TO Gerald Silva, City Auditor

FROM William M. Lansdowne
Chief Of Police

SUBJECT Response To Audit , Police Department
Petty Cash, Confidential, & Flash Funds

DATE January 8, 1999

APPROVED

Ray Winer

DATE

1/14/99

The Police Department has reviewed the final draft report on *An Audit Of The San Jose Police Department Petty Cash, Confidential, And Flash Funds*. We are generally in agreement with the results and the recommendations of the report. We are pleased that the recommendations and comments involve only occasional lapses in documentation or procedure and that no misuse or loss of funds occurred. All of the recommendations have either been implemented or will be within the next few months. Specific responses are provided below.

Recommendation #1:

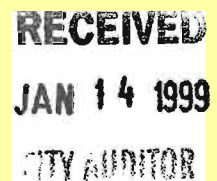
Ensure that all petty cash receipts are submitted in a timely manner and contain all required information and supervisory authorizations.

The Department concurs. We will be issuing a memorandum to all department personnel directing them to submit requests for reimbursement within 30 days of the original purchase. Exceptions to this new procedure could be made for special event or long-term project purchases (e.g., Cinco de Mayo, Redistricting Project) with the concurrence of the Deputy Chief of the Bureau of Administration. This order will also remind employees to supply all of the information required on the form, including the date of submittal and a program manager's signature. Although any lapses in procedure pose concern, the Department wishes to underscore the fact that out of 4,554 transactions, only three (3) lacked a supervisor's signature.

Recommendation #2:

Annually audit all Confidential Funds and Flash Funds on an irregular and unannounced basis.

The Department agrees that the Fiscal Unit should conduct annual audits of these funds. These audits were not undertaken by Fiscal due to substantial staffing shortages in the unit coupled with the growth in responsibilities (e.g., contracts and grants). These vacancies were just recently authorized and filled. Although the Fiscal Unit was unable to audit these funds, program managers regularly conducted internal audits, some as often as once a month.



**Response To Audit, Police Department
Petty Cash, Confidential, & Flash Funds
Page 2**

Recommendation #3:

Ensure that SJPD Personnel follow prescribed petty cash procedures.

As a result of the audit, updated voucher completion instructions have been issued to all NCI personnel in addition to training on proper log entries. The internal monthly audit will focus on the types of exceptions noted by the auditor to insure that the corrective action taken has been effective. Vice/Intelligence will insure that all monies are recounted by the receiving officer when issued.

Recommendation #4:

Submit quarterly reconciliation reports of the Confidential Fund to the Director of Finance.

The Department concurs and has submitted the two most current quarterly reports.

Recommendation #5:

Deposit Confidential Fund checks into the SJPD checking account in a timely manner.

The Department has established procedures to ensure that checks will be deposited within three (3) working days.

Recommendation #6:

Evaluate the automatic transfer of Confidential Fund checks to the SJPD checking account.

This procedure involves establishing a transfer mechanism with the bank and a charge of \$30 per transaction. If the Department finds that it cannot meet its newly established deposit deadline of 3 working days, then electronic transfer is an alternative we will consider.

Recommendation #7:

Return \$200,000 to the General Fund to reduce the SJPD Confidential Fund Special Checking Account Balance.

The Department concurs with this recommendation and is working with the Manager's Budget Office on this matter.

**Response To Audit, Police Department
Petty Cash, Confidential, and Flash Funds
Page 3**

Recommendation #8:

Determine an appropriate amount for each unit's Confidential Fund, monitor and report on Confidential Funds on an ongoing basis, and transfer any excess amounts to other Confidential Funds on an as-needed basis.

Fund administrators will be required to report annually to the Deputy Chief of the Bureau of Administration, regarding the status of their funds. In addition, fund balances will be reviewed quarterly by either the Assistant Chief of Police (Vice/Intelligence Funds) or the Deputy Chief of the Bureau of Investigations.

In summary, the Department appreciates the effort of the Auditor's Office in preparing this report. We feel the recommendations will assist us in making necessary improvements in our procedures and cash supervision, and will further strengthen our ability to safeguard City funds.



WILLIAM M. LANSDOWNE
Chief of Police

APPENDIX A

**DEFINITIONS OF PRIORITY 1, 2, AND 3
AUDIT RECOMMENDATIONS**

The City of San Jose's City Administration Manual (CAM) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

| Priority Class¹ | Description | Implementation Category | Implementation Action³ |
|-----------------------------------|---|--------------------------------|--|
| 1 | Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. ² | Priority | Immediate |
| 2 | A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. ² | Priority | Within 60 days |
| 3 | Operation or administrative process will be improved. | General | 60 days to one year |

¹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number. (CAM 196.4)

² For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens. (CAM 196.4)

³ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration. (CAM 196.4)

CITY OF SAN JOSE – MEMORANDUM

| | | | |
|---------|---|------|---|
| TO | Gerald Silva City Auditor | FROM | William M. Lansdowne Chief of Police |
| SUBJECT | Significant Management Accomplishments Relative To Funds Audit | DATE | September 11, 1998 |

APPROVED

DATE

The Department currently administers five cash funds which are the subject of this audit. These include the Bail Trust, Transportation, Confidential, Petty Cash, and Change Funds. Each of these funds serves a specific purpose which often requires additional controls and procedures to administer.

The **Ball Trust Fund** is administered by the Fiscal Unit and is used to forward funds to appropriate courts as bail is posted for bench or arrest warrants at the Department in the Warrants Unit. It is a zero balance account in that all receipts are held for eventual transmission to another governmental agency. The balance in this fund will vary depending upon the amount of the bail posted and whether payment was made in cash or money order, verses a personal check. In order to prevent the City from incurring a loss due to funds drawn on an account with insufficient funds, the Department does not forward payments posted via personal check to a court until 30 days have elapsed. In fiscal year 1997-98, four-hundred ninety-eight (498) checks were issued from the fund.

The **Transportation Fund** is also administered by the Fiscal Unit and serves the need to provide funds to Department personnel for emergency investigative travel or prisoner transportation. It also is a zero balance account in which funds necessary to cover checks drawn on the account are transferred from a Treasury checking account to the fund's checking account as needed. In fiscal 1997-98, one-hundred eighty-seven (187) checks were issued from the fund.

The **Confidential Fund** is utilized by Special Investigations in the Chief's Office and by several units in the Bureau of Investigations that perform confidential investigations. Although the fund is administered by the Fiscal Unit, transactions occur within each unit drawing checks from the fund. Currency utilized by these units is kept in safes located within those units. As of August 3, 1998, this fund's checking account had a balance of \$260,000.

The **Petty Cash Fund** is administered by the Fiscal Unit and all transactions occur within the unit as well. Its \$15,000 balance is replenished on an ongoing basis by reimbursements processed by the Finance Department. The dollar amount of this Petty Cash Fund is second only to that of PRNS in the City. Fiscal personnel maintaining this cash fund do so by reconciling receipts and preparing an edit list charging appropriate responsibility centers for their respective purchases. After supervisory review and approval, Fiscal reviews the claim and prepares a Cash Journal Entry. The Finance Department reviews and approves the edit list, and the approved list is exchanged for cash to replenish the petty cash lock box. The Department maintains two lock boxes of \$7,100 and one lock box of \$800. There are approximately 2300 transactions annually from this fund.

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The **Change Fund** is actually a series of funds utilized by employees when making change for the public at the time a sale is transacted. These funds service the individual cash register in the Permits Unit and several registers in the Operational Support Services Division. Each of these units manages its own fund. Balances will either be \$200, \$300, or \$500 depending upon the needs of the site utilizing the cash register. Approximately 26,500 transactions occur annually in this fund.

Some significant management accomplishments include the following:

- Fiscal staff has been able to accommodate a significant increase in the volume of Petty Cash transactions which resulted from an increase in the limit from \$100 to \$200 several years ago. This, together with increasing the fund total to \$15,000 has provided the Department with a greater ability to service the needs of Police personnel.
- Lock box manufacturers utilize the same key on same-model boxes. In an effort to provide employees who disburse petty cash funds greater confidence in the integrity of their box, each petty cash box is purchased from a different manufacturer, and the keys are therefore not interchangeable.
- Even though lock boxes are in a secure environment and are locked whenever an employee is not actually removing cash from the box, each is further secured in a locked drawer whenever the employee leaves their desk for any length of time, such as would occur during a break. Boxes are secured in a floor safe at the end of the work day.
- A Petty Cash Transaction Log was developed which requires individuals receiving cash to sign and print their name when picking up cash.
- Cash register drawers are assigned each shift. In addition, each register is physically located a good distance away from public, making it very difficult for unauthorized persons to access the cash drawer.
- Fiscal demonstrated a willingness to institute an unpopular but needed measure when a pattern of rule-bending emerged from one of the Department Units. The unit was informed that all transactions would require Fiscal Accountant review and approval before payment would be authorized until such time as the unit demonstrated adherence to City policies and modified their petty cash training procedures. The unit took the required corrective action and was able to resume the normal method for receiving petty cash reimbursements.

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- The most recent reportable shortage was on October 9, 1996 when Treasury identified a \$100 bill as counterfeit. The Department was unable to identify the individual who might have passed the counterfeit currency. However, to prevent future occurrences, the Department purchased pens to detect such bills and has instructed units receiving currency to check all denominations of \$50 or more.
- On July 8, 1996 an overage of \$65 was not initially reported to the Director of Finance. A copy of the required reporting procedure was issued to the Fiscal staff as a reminder.
- Since 1991, only two additional reportable events have taken place: An overage of \$100 on October 3, 1991 and a shortage of \$60 on May 24, 1995.
- The Department recently conducted internal audits of the Special Checking Accounts for transactions during fiscal '97-98. For the Confidential Fund, all transactions were reviewed and *no exceptions* were found. For the Transportation Fund, a 20% sample was reviewed and *no exceptions* were found. For the Bail Fund, a 10% sample was reviewed and *no exceptions* were found.
- The Department has recently produced a procedures manual for employee travel which is intended for distribution to units both on and off-site. The manual includes a section of most frequently asked questions and answers, as well as updated expense forms and per diem allowances. It is expected that the publication of this manual will improve efficiency and reduce errors associated with travel expenses.


WILLIAM M. LANSDOWNE
Chief of Police