



Confidential Expense Audit

Fiscal Year 2014

CITY OF KILLEEN

A Report to the City
of Killeen Audit
Committee

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Report Summary

The confidential expense funds are used in connection with criminal investigations, which require cash to be used for the purposes of furthering the investigations. This report details the audit results of the confidential expense fund activity during the fiscal year 2014.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. I believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

AUDIT STAFF

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AUDIT REPORT HIGHLIGHTS

Why This Audit Was Conducted

The confidential expense activity is audited on an annual basis because of the sensitive and volatile nature of maintaining large amounts of cash on hand.

What Was Recommended

There were no new findings noted. The statuses of the findings noted in the prior year audit are included.

Mayor and Council,

I am pleased to present this audit of the Killeen Police Department's Confidential Expense program.

BACKGROUND

The Police Department conducts covert operations, often dealing with narcotics enforcement. As an underlying principal in undercover investigations, it is necessary to use cash for many investigative expenses. Confidential expense cash is used for these purposes.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Killeen Police Department has adequate controls in place to safeguard the City's assets with regard to confidential expense activity, to determine whether confidential expense cash is used for authorized purposes, and to determine whether the confidential expense cash is managed and accounted for in accordance with authorized procedures.

WHAT WAS FOUND

The Police Department has shown improvement over the prior year audit. There were no new findings noted. The statuses of the findings noted in the prior year audit are included in this report.

I appreciate the cooperation and assistance I received from the Police Department staff during this audit.

A handwritten signature in black ink that reads "Amanda R. Wallace".

Amanda R. Wallace, City Auditor

BACKGROUND

The Special Investigations Division (SID) of the Killeen Police Department (KPD) conducts covert operations, often dealing with narcotics enforcement. As an underlying principal in undercover investigations, it is necessary to use cash for many investigative expenses. Confidential expense cash contributes to the operational needs of KPD's investigative activities with a budget of \$75,000 during FY2014. Availability of the funds aids in determining the existence of a crime, establishing identities of participants in crimes and furthering the investigations and prevention of crimes.

SID representatives request disbursements through the Finance Department from the confidential expense account and use that disbursement to replenish the confidential expense cash which is secured in a safe with limited access. This cash may be used only for official investigative purposes, which fall into one of the following three categories:

1. Purchase of Evidence – The purchase of evidence and/or contraband such as narcotics and dangerous drugs, drug paraphernalia, stolen property, firearms, pornographic magazines and videotapes, illegal food stamps, etc. required to determine the existence of a crime or to establish the identity of a participant in a crime.
2. Purchase of Services – The costs of an ongoing investigation to include, but not limited to, leasing an apartment, storage facilities, vehicles for undercover officer, setting up business fronts and P.O. boxes as necessary, or for the operational needs required for a particular investigation (i.e. meals, beverages, club cards, cover charges, entertainment and similar expenses for undercover purposes within reasonable limits.)
3. Informant Rewards – Cash payments to confidential informants for performing a service (controlled buys, introduction of undercover officers, etc.) or for supplying specific information regarding matters that would be investigated by SID.

Detectives in need of cash to properly perform their investigative duties must submit a Confidential Fund Receipt (CFR) detailing the amount of the advance. The proper approvals must be obtained per the Standard Operating Procedures on the CFR, and each CFR is assigned a fund request number. Upon using the cash that was advanced to them, the detectives must report each expense on a CFR and include the fund request number on each. If there is cash leftover from the initial advance received, this amount must be returned prior to requesting more funds. Each cash return is reconciled with the corresponding CFRs to ensure that all funds are accounted for.

The SID Commander has the ultimate responsibility of maintaining the confidential funds account. The OCU Sergeant is designated as the person responsible for daily accounting and control of the funds. The balance of the fund account will be recorded on the fund ledger, which will be maintained in the OCU safe with the cash on hand.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Confidential Expense Audit is conducted annually because of the sensitive and volatile nature of having large amounts of cash on hand. This audit was also included in the FY2015 Audit Plan, as presented to the City Council and the Audit Committee.

Objective

The objective of the audit was to determine whether KPD has adequate controls in place to safeguard the City's assets with regard to confidential expense activity, to determine whether confidential expense cash is used for authorized purposes, and to determine whether the confidential expense cash is managed and accounted for in accordance with authorized procedures.

Scope

The audit scope included confidential expense activity for the period October 2013 through September 2014.

Methodology

To accomplish the audit objective, the following steps were performed:

- Conducted interviews with KPD staff and obtained information on policies and procedures as well as staff responsibilities.
- Obtained and tested data from KPD as well as the Finance Department relating to confidential expense activity.
- Analyzed supporting documentation to determine whether the policies and procedures were adhered to.
- Analyzed policies and procedures to determine effectiveness.
- Considered fraud, waste, and abuse as related to the audit objective.

AUDIT RESULTS

The Confidential Expense Fund ledger was reviewed extensively along with the documented Standard Operating Procedures (SOP) and the records provided by the Finance department. In reviewing these records with relation to the scope of the audit, there were no findings or recommendations.

The statuses of the three findings noted in the FY2013 audit report are included in Appendix A.

CURRENT STATUS OF PRIOR YEAR AUDIT COMMENTS

1. **FINDING:** A portion of the ledger testing that was completed for the audit involved reviewing the Confidential Fund Receipts for a random sample of advances. As the detectives draw down on the funds that were advanced to them, they are required, as described in the Background section of this report, to document each use on a Confidential Fund Receipt. This practice should be used as well for any amounts that are returned to the OCU Sergeant and these returns should be logged on the ledger. The return was traced back to the initial advance and it was reconciled properly despite the missing information. Additionally, in recording the replenishing disbursements from the Finance Department on the ledger, there were two instances in which the check number was not included in the entry.

RECOMMENDATION: The information presented in each ledger entry should be complete for purposes of consistency, and so that each can be traced back to the initial supporting documentation if necessary.

CURRENT STATUS: One instance was noted in the audit that related to this prior year finding. It was an isolated incident, and was not considered a finding in the FY2014 audit report.

2. **FINDING:** The SOP regarding the confidential expense activity includes a section on per diems, which does not agree with the current city-wide Travel Policy.

RECOMMENDATION: This section should be updated to comply with the city-wide Travel Policy in order to ensure that the applicable Internal Revenue Service regulations are observed.

CURRENT STATUS: The SOP regarding the confidential expense activity has been updated to comply with the city-wide Travel Policy.

3. **FINDING:** As described in the Background section of this report, SID staff requests replenishment funds from the Finance Department, which is responsible for issuing the checks. The checks will ultimately be cashed and recorded on the ledger. Ledger testing that was completed for the audit included tracing all checks issued by the Finance Department to the Confidential Funds Ledger. 63% of the disbursements from the Finance Department were delayed at least two weeks before being recorded on the ledger. In one instance the delay was three weeks.

RECOMMENDATION: These disbursements should be cashed and recorded immediately upon receipt from the Finance Department. The delay should be no longer than one week unless extenuating circumstances occur, which should be documented as such.

CURRENT STATUS: All disbursements during FY2014 were cashed and recorded with an average delay of only 3 days.