



Confidential Expense Audit

Fiscal Year 2015

CITY OF KILLEEN

A Report to the City
of Killeen Audit
Committee

Committee Chair
Scott Cosper

Committee Members
Jose Segarra
Juan Rivera

Internal Audit
Department

City Auditor
Amanda R. Wallace
CPA

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 2015.

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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

Amanda R. Wallace, CPA, City Auditor

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Fiscal Year 2015



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

It was recommended that KPD cash and record confidential fund checks on the ledger within 5 business days of check issuance as required by the Confidential Informant Fund SOP.

Confidential Expense Audit

December 3, 2015

Mayor and Council,

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

BACKGROUND

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 is used for these purposes.

OBJECTIVE AND SCOPE

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.

WHAT WAS FOUND

The audit revealed two confidential expense checks that were not cashed and recorded on the ledger within the required 5 business days.

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 \$54,000 during FY2015. 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 FY2016 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 2014 through September 2015.

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. The SOP requires that confidential expense fund checks be cashed and logged on the ledger within five business days of receipt. There were two instances noted in the audit, in which this requirement was not met.

Finding 1: Two instances in which a check was cashed more than five business days after its issuance.

In testing the timeliness of cashing checks, the check dates were compared to the dates the checks were cashed as well as to the dates the checks were logged in the ledger. It was noted that two of the eight checks distributed to KPD for confidential expense purposes were not cashed and recorded on the ledger within the required five business days. All other checks were cashed and recorded within the required five business days.

RECOMMENDATIONS

The recommendations listed below are a result of the audit effort and are subject to the limitation of the scope of the audit. I believe that these recommendations provide reasonable approaches to help resolve the issues identified. I also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches, and I encourage them to do so when providing their responses to the recommendations. As such, I strongly recommend the following:

1. **KPD should ensure that all checks are cashed and recorded within five business days of issuance.**

See Appendix A for Management's Response to each recommendation.

APPENDIX A

MANAGEMENT'S RESPONSE



KILLEEN POLICE DEPARTMENT

3304 Community Boulevard
Killeen, Texas 76542



December 14, 2015

Re: Confidential Expense Audit – Fiscal Year 2015
Attention: Glenn Morrison, City Manager

Dear Ms. Amanda Wallace, City Auditor:

Management's Response

Finding1:

In one instance, the supervisor was not notified by the Finance Department that the check was available for pick-up. The supervisor made proper notification of the incident to his chain-of-command. The other incident was outside of policy and will be addressed.

Sincerely,

DENNIS M. BALDWIN
CHIEF OF POLICE

DMB/vj