



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

July 21, 2009

Honorable City Council
Attention: Finance Committee
Palo Alto, California

Audit of the Police Investigative Fund

SUMMARY OF RESULTS

In accordance with the City Auditor's Fiscal Year 2008-09 Work Plan, and at the request of the former Chief of Police, the City Auditor's Office performed a surprise audit of the Police Investigative Fund (PIF) on April 7, 2009. The audit objective was to verify the accuracy of the reported cash on hand and assess controls over the use of the funds. The audit scope included a review of transactions since the prior audit in April 2007 through April 2009. We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The Police Department can use the PIF as a cash fund to pay for certain investigative costs such as payments to informants and purchases of narcotics, contraband, stolen property, or other evidence. The PIF balance is limited to \$1,500. The PIF procedures provide guidance on the appropriate use of the PIF. These procedures limit access to the PIF, require accurate bookkeeping and documentation, and specify legitimate uses of the funds. The City Auditor's Office reviewed procedures, performed a cash count of the funds on hand, and examined the fund ledger and supporting documents.

Following is a summary of our review:

- **At the time of our surprise audit, we found that the PIF cash balance was accurately reported in the ledger, the cash was properly secured, and access to the vault was properly controlled.** Specifically, the PIF balance totaled \$928 on the date of our last audit, conducted on April 19, 2007. From April 2007 through April 2009, there were only three PIF transactions: two disbursements totaling \$80, and one reimbursement totaling \$40. The PIF balance as of April 7, 2009 was \$888.
- **These overall findings are consistent with the results of our last surprise audit conducted in April 2007.**

We also noted three areas for improving the Police Department's internal controls of the PIF:

- **The Police Department should ensure each PIF transaction has complete and consistent documentation.** Specifically, we found that the three transactions during the review period had incomplete documentation. For example, the procedures require that payment vouchers to confidential informants include the signature of the informant in addition to the signature of the supervisor and officer, and that no payment be made if the informant refuses to sign the voucher.¹ One of the disbursements paid an informant;

¹ The Police Department has a separate policy to document and approve the use of Confidential Informants in investigations.

however, the informant's signature was not on the payment voucher. The second disbursement did not list the reason and utilized the "credit voucher" form (used for documenting returns to the fund) rather than the form for fund disbursements. The third transaction had incomplete signatures. Complete and consistent documentation for transactions will help improve internal controls over the use of the funds.

- **The Police Department has not revised the PIF internal procedures since 1997, and as a result, the procedures include outdated information.** For example, as noted above, even though the procedures require the signatures of informants, police officers were not obtaining informants' signatures because it is impractical to do so in the field. However, the informant's signature serves as verification for the use of the funds and if this control is not implemented, another control should be developed and documented. Upon further inquiry, the Police Department stated that although it is not documented, whenever there is a payment to a confidential informant, there are at least two officers present. This "dual custody" or involvement of at least two individuals to check each other, can reduce the risk of a loss occurring and provides some assurance the funds are appropriately used. We also noted inconsistencies between the written procedures and subsequent verbal agreements delineating the timeframe and responsibilities for conducting cash counts of the PIF.
- **The Police Department's PIF procedures are essentially desk procedures and are not part of the department's formalized manual or procedures.** As a result, they may not receive the same level of periodic review, training and authorization as the department's formal procedures.

We shared the above audit results with the Police Department's Investigative Services Division and the Administrative Services Department's Supervisor of Revenue Collections. The Police Department concurred with the audit findings and recommendations and proactively began updating its procedures of the Police Investigative Fund.

RECOMMENDATIONS

In our opinion, the Police Department should continue its update of the Police Investigative Fund procedures. We recommend that the Police Department update the PIF procedures to reflect actual practices including:

1. Integration of the PIF procedures into the Department's approved policies;
2. A requirement for the two officers who had direct knowledge of the disbursements from the PIF to document the final disposition of the funds on an updated fund form and/or updated log; and
3. Clarification of the timing and responsibility for performing periodic cash counts of the PIF.

On behalf of the Auditor's Office, I would like to express my appreciation to the Police Department for their cooperation and assistance during this review.

Respectfully submitted,



Lynda Flores Brouchoud
City Auditor

Audit staff: Lisa Wehara

Attachment: City Manager's Response



Memorandum

Date: June 18, 2009

From: James Keene, City Manager *JK*

Prepared By: Dennis Burns, Interim Police Chief

SUBJECT: Audit of the Police Investigative Fund (PIF)

On April 7, 2009, the City Auditor's Office performed a surprise audit of the Police Investigative Fund (PIF). The purpose of the audit was to verify the accuracy of the reported cash on hand and assess controls over the use of the funds.

The PIF is a cash fund available to cover certain costs incurred during investigations such as payments to informants and purchases of narcotics, contraband, stolen property or other evidence. The Captain of the Investigative Services Division (ISD) is the custodian of these funds. The funds are secured in a locked safe which is located in the Captain's office. The ISD Captain and two ISD Supervisors are the only personnel authorized to release these funds.

The Police Department has a separate policy for the development and use of confidential informants. Each potential informant is highly scrutinized and must complete a stringent verification process before they are used as informants. The verification process includes a background investigation to determine their reliability and credibility. Informants must sign the waiver forms indicating that they understand the rules before they are verified.

At the time of the surprise audit, the City Auditor's Office found that the PIF cash balance was accurately reported in the ledger, the cash was properly secured and access to the safe was properly controlled. The audit made several recommendations for improving the process for distribution and tracking of these funds.

RECOMMENDATION #1 – Integration of the PIF procedures into the Department's approved policies.

Staff agrees with the recommendation.

The PIF procedure for distribution is currently housed within the Investigative Services Division. The reason for this is that the PIF is controlled by the ISD Captain and any distributions would need to be authorized and approved by the ISD Captain. In order to formalize the procedure and ensure better understanding throughout the entire Department, we will add the PIF procedure to

the end of the Confidential Informant Policy found within the Department's Policy Manual. Each year, every member of the Department receives an updated version of the Policy Manual which also references the new changes.

RECOMMENDATION #2 – A requirement for the two officers who had direct knowledge of the disbursements from the PIF fund to document the final disposition of the funds on an updated fund form and/or updated log.

Staff agrees with this recommendation.

We have added a section in the PIF procedures which states that when funds are paid to an informant, two officers who had direct knowledge of the transaction between the informant and third party (person selling the narcotics, contraband, stolen property, etc...) shall sign the second page of the voucher which references the disposition of the funds.

We have updated the voucher form and ledger to include a section for documenting the disposition of funds.

RECOMMENDATION #3 – Clarification of the timing and responsibility for performing periodic cash counts of the PIF.

Staff agrees with this recommendation.

The PIF procedure has been updated to reflect that Revenue Collections will complete a random, annual cash count of the PIF. The PIF will also be subject to random audits from the City of Palo Alto Auditor's Office. Revenue Collections is aware of this recommendation and will complete the random cash counts at times of their choosing.