

MUNICIPAL AUDITING REPORT
CITY OF ROANOKE
POLICE CASH FUNDS

March 3, 2017

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BACKGROUND

The Commission on Accreditation for Law Enforcement Agencies [CALEA] requires police departments to establish written directives governing the maintenance of all cash funds or accounts where agency personnel are permitted to receive, maintain, or disburse cash and governs the maintenance of those accounts. The written directives must include, at a minimum:

- A balance sheet, ledger, or other system that identifies initial balances, credits (cash income received), debits (cash disbursed), and the balance on hand;
- Receipts or documentation for cash received;
- Authorization for cash disbursement, including chief executive officer authorization for expenses in excess of a given amount;
- Records, documentation, or invoice requirements for cash expenditures;
- Persons or positions authorized to disburse or accept cash; and
- Quarterly accounting of agency cash activities.

The Roanoke Police Department maintains the required written directives and utilizes the City's Advantage accounting system and QuickBooks to administer its cash funds. The Police Department maintains four [4] cash funds that are essential to the Department's administrative and operational activities:

1. Emergency Fund– The Office of the Chief of Police maintains a checking account that provides ready access to funds for unanticipated expenses that arise on short notice and outside of normal business hours. The Chief's Office replenishes this fund through the City's normal payment voucher process, which requires appropriate supporting documentation. A \$2,000 balance is typically maintained in this account.
2. Petty Cash Fund – The Police Department maintains \$200 in cash for small administrative expenses such as postage. These funds are replenished through the City's normal payment voucher process.
3. Flash and Buy Fund – Established by court order, the flash and buy fund contains \$2,660 in cash that is secured in a Police Department safe. These funds are only used in operations when an arrest is anticipated and the funds are expected to be recovered immediately at the scene.
4. Federal Drug Funds Checking Account – The Office of the Chief of Police maintains \$10,000 in this checking account for Narcotics and Organized Crime Squad and Community Response Team operations. These funds derive from the Federal Forfeited Asset Sharing Program. The Police Department withdraws cash funds from the Federal Drug Fund Account and issues the monies to detectives for use in undercover operations. Detectives record the use of cash on money slips that detail the specifics of the transaction. Management reviews each money slip and posts the transaction in QuickBooks.

The City also charges for certain police services, which are collected by either the Police Department or the City Treasurer. During Calendar Year 2015, the City collected the following revenues related to Police Department activities:

Calendar Year 2015 Police Revenues	
Towing Fees	\$ (2,722)
Police Fees	\$ 43,712
Off Duty Billings - Police	\$ 176,571
Security Alarm Registration Fees	\$ (8,493)
Police - False Alarm Fines	\$ 9,564
Impound/Boarding Animals	\$ 1,910
Drug Enforcement Agency/Organized Crime Drug Enforcement Task Forces Service Reimbursement	\$ 8,726
Police Training	\$ 2,475
Roanoke Center for Animal Care and Protection Fees	\$ 8,616
Roanoke County Joint Academy Reimbursement	\$ 54,442
Billings to Global Spectrum - Police	\$ 15,596
Grants and Donations - Police	\$ 6,425
Total	\$ 316,822

Negative revenues in towing fees and security alarm registrations are the result of the August 2015 conversion of open miscellaneous accounts receivable invoices from the City-Wide Billing system to the Advantage Financial system. As these revenues are recognized on a fiscal year basis, this conversion created a one-time anomaly in the data that should not be carried forward into Fiscal Year 2017.

OBJECTIVE

The objective of the audit was to evaluate the design and operation of the system of internal controls related to administering cash funds, fees, and other cash proceeds within the Police Department.

SCOPE

We evaluated the system of controls in place as of December 31, 2015. We audited transactions occurring between January 1, 2015 and December 31, 2015. During the course of the audit, the assignment was temporarily set aside due to pending criminal litigation.

METHODOLOGY AND RESULTS

1. We gained familiarity with control processes through observations, document review and interviews with responsible staff.
2. We reviewed applicable Police Department Operational Directives and City of Roanoke Administrative Procedures.

Petty Cash Fund:

3. We reviewed 100% of petty cash disbursements and verified compliance with the following requirements:
 - a. Proper receipts were on-file
 - b. Disbursements were authorized by management
 - c. Transactional ledger was maintained
 - d. Reason for purchase was documented

There were 10 petty cash disbursements totaling \$301.35. Proper receipts were on-file, disbursements were authorized by management and recorded on a transactional ledger and reasons for purchase were documented.

5. We verified that cash and receipts on-hand totaled \$200

The Petty Cash Fund was located in a locked drawer in the Budget Analyst's Office. The box held \$48.41 in cash and \$151.59 in receipts, which totaled \$200.

Federal Drug Funds:

6. We verified that the Federal Drug Fund checking account was reconciled timely and that management reviewed monthly reconciliations.

During 2015, the bank in which the Federal Drug Fund account resides merged with another organization. As a result, 13 bank statements were issued during the year [two during the month of transition]. Twelve [12] of the 13 statements were reconciled timely and initialed by management. Due to personnel changes, the November 2015 statement was neither reconciled nor approved. The December 2015 reconciliation was properly completed and approved, as the staff transition was complete.

7. We confirmed that disbursements issued from the City's Federal Forfeiture Program grant account intended to support the Federal Drug Fund were properly deposited into the checking account.

Nine [9] Federal Forfeiture Program disbursements totaling \$27,000 were properly deposited into the Federal Drug Fund account during 2015.

8. We confirmed that disbursements from the Federal Drug Fund checking account were recorded as deposits on the vice account ledgers.

Nine [9] Federal Drug Fund disbursements totaling \$27,000 were recorded as deposits in the vice account ledgers.

9. We verified that voided Federal Drug Fund checks were properly nullified and on-file.

There were no voided checks during 2015.

10. We verified that cash-on-hand for use by the Community Response Team and Narcotics and Organized Crime Squad agreed to the associated QuickBooks ledger.

The cash was located in a locked safe and totaled \$2,433.71, which tied to the account totals recorded in the QuickBooks ledger.

11. We confirmed that monthly expenditure reports related to Community Response Team and Narcotics and Organized Crime Squad activities were prepared and reviewed by management.

Monthly reports, along with associated money slips, were provided to management monthly. One hundred percent [100%] of reports were prepared and reviewed timely.

12. We reviewed a sample of 36 money slips related to vice expenditures and verified compliance with the following requirements:

- a. Expenditure was permissible [per US Department of Treasury guidelines];
- b. Money slip was signed by the detective;
- c. Money slip was signed by a supervisor;
- d. Money slip was initialed by a member of management;
- e. Signed Confidential Informant receipt was attached [if applicable].

Expenditures tested totaled \$7,910. All of the disbursements were permissible and associated money slips were signed by the detectives and supervisors. As a result of staff turnover, five [5] slips were not signed by a member of management. However, management did sign the monthly QuickBooks report, which included these costs. Three [3] money slips did not have the signed Confidential Informant receipt attached. Two [2] of the associated receipts were subsequently located.

Property Room:

13. We verified that drugs associated with selected vice expenditures were logged into the Police Property Room.

We identified 14 disbursements related to drug purchases. On 11 occasions, the evidence was subsequently logged into the property room. Federal enforcement agencies retained possession of the remaining three [3] evidence bags.

14. We selected a sample of six [6] records related to cash held as evidence on the TAB Fusion Records Management System. We verified that the recorded locations were correct and that the funds were secured in sealed evidence bags.

The cash evidence was located in various safes. All selected pieces of evidence were in the recorded location and properly secured.

Flash And Buy Fund:

14. We verified that cash on-hand totaled \$2,660, as required.

The cash was located in a locked safe and totaled \$2,660.

Emergency Fund:

15. We verified that the Emergency Fund checking account was reconciled timely and that no service fees were charged to the account.

Ten [10] of 12 statements were reconciled timely. Due to personnel changes, the November 2015 statement was not reconciled. The December 2015 reconciliation, although late, was properly completed. No service fees were charged to the account.

16. We verified that voided Emergency Fund checks were properly nullified and on-file.

There were no voided checks during 2015.

17. We reviewed disbursements and verified that each was supported by appropriate documentation and that checks were signed by authorized members of management.

There were no disbursements during 2015.

Precious Metal Permits:

18. We traced precious metal permits to verify they were properly receipted in the Police Support Services cash register.

Ten [10] permits totaling \$2,000 were issued between July 23, 2015 and December 31, 2015. Each was properly receipted through the register.

19. We reviewed a sample of precious metal permit files and verified that the following required documents were on-file:

- a. Signed application
- b. Certificate of weighing device
- c. Applicant fingerprint card
- d. Surety Bond certificate
- e. Application fee proof of payment

We reviewed five [5] precious metal permit files and found that required documents were on-file.

Verification Reports:

In July 2015, as part of a LEAN initiative, a cash register was installed in the Police Support Services office. This allows customers requesting incident verification reports to pay the associated \$10 fee on-site. Additionally, fees related to precious metal permits and retiree weapon sales are accounted for through the register. Periodically, a Department of Finance employee collects the funds and delivers them to the Treasurer's Office. There is no change fund associated with the register as Police Department personnel do not have access to open the cash drawer. Staff inserts funds collected into a slot in the front of the register. Credit card payments are not accepted. To provide additional security, there is a camera directed at the register at all times.

We noted that check payments received through the mail related to verification reports were not being processed through the cash register. These were given directly to a Department of Finance employee for processing.

Based on initial test results, the audit scope related to verification reports was expanded to include cash register drawdowns through April 7, 2016.

20. We conducted a surprise cash count of the cash register drawer.

Cash and checks totaled \$850, which matched total sales activity per the cash register tape.

21. We verified that Police Support Services cash register receipts were deposited and that deposits occurred timely.

There were 19 register clears, or drawdowns, between July 23, 2015 and April 7, 2016 totaling \$6,652.

- a. For seven [7] out of 19 drawdowns, or 36.8 %, the amount reported on the cash register internal tape did not equal the amount deposited with the Treasurer's Office.*
- b. For 16 out of 19 drawdowns, or 84.2%, the cash collected per the cash register internal tape did not equal cash deposited with the Treasurer's Office.*
- c. For 11 out of 19 drawdowns, or 57.9%, the collection report was not entered into Advantage by Finance within 24 hours of the funds being collected from the Police Department.*
- d. For 16 out of 19 drawdowns, or 84.2%, funds were not deposited with the Treasurer's Office within 24 hours of being collected from the Police Department.*

We determined that approximately \$3,081 in cash received was not deposited with the Treasurer's Office. There was evidence that \$2,438 in checks received through the mail for verification reports, which were not rung through the register, were used to replace cash in register drawdown deposits. Furthermore, an additional \$643 collected throughout the register was simply not deposited. The Roanoke Police Department investigated these shortages. Felony embezzlement charges were brought against the Department of Finance employee responsible for register drawdowns, who has since entered a guilty plea with the courts.

We also noted that checks related to verification forms were held by Finance for a significant period of time prior to deposit. We identified checks deposited from four [4] to 133 days after the check date. Per Administrative Procedure 3.3, Cash Receipts and Collection Reports, it is the duty of each department to deposit with the City Treasurer all funds collected, by noon of the business day following the collection. Timely deposits ensure that the City receives the full time-value of all collections and is able to maximize cash available for investment. The whereabouts of these checks between collection and deposit was unknown.

Finding – Verification Fees

The process to ensure payments for verification requests were deposited with the City of Roanoke Treasurer's Office lacked appropriate internal controls to ensure funds were properly safeguarded and accounted for. This lack of supporting controls contributed to a loss of City funds. Examples include:

- Lack of formally documented policies and procedures – Written policies and procedures are a crucial element in establishing an effective system of internal controls. Policies reflect management’s statement of what should be done to effect control while procedures provide employees with clear direction that improves performance and accountability.

With the exception of one document, outlining how to clear the register, there were no written policies and procedures related to cash register drawdowns.

- Lack of supporting documentation – Detailed, intact documentation provides assurance that transactions are valid, complete, timely and accurate. It also provides the foundation for high-level data, which could be utilized for management review. Lack of, or incomplete documentation increases the risk that fraud, errors, or abuse could occur and go unnoticed. Per Administrative Procedure 3.3, Cash Receipts and Collection Reports, it is required that the invoice keyed into the Accounts Receivable system, as well as the receipt issued by the cashier in the City Treasurer’s Office agree with the supporting documentation, ensuring that funds collected were actually deposited with the City Treasurer and posted to the financial system.

The responsible Department of Finance employee either discarded or destroyed required supporting documentation.

- Lack of segregation of duties – There are three common functions related to assets, authorization, custody, and record-keeping, which are considered incompatible and should ideally not be assigned to a single individual. If one person handles all aspects of a transaction, it provides an opportunity for a loss to occur without being noticed. Segregating duties limits possible irregularities from occurring.

One Department of Finance employee was solely responsible for collecting funds from the cash register (authority). This same employee also collected checks received by mail for verification reports from Police Department personnel. She entered the associated collection reports into the Advantage Financial system (record-keeping) and delivered the funds to the Treasurer’s Office (custody). This employee kept both keys to the cash register drawer in her possession. Additionally, there was no rotation of duties and no set schedule for drawing down the cash register, which could have forced a rotation when the original employee was out of the office.

- Lack of cash count oversight – Assets that are highly valued and easily acquired come with an inherent risk of loss. When handling these types of assets, additional safeguarding procedures may be warranted, including dual counts, electronic surveillance, and duplicate receipts. Cash should be controlled at the point-of-sale and deposited as quickly as possible.

There were limited safeguarding controls in place related to cash drawdowns. The cash register provided a control, in that it recorded transactions on an internal, locked tape. Additionally, Police Department management had a camera installed over the cash register area. However, when Finance staff removed money from the register, no cash count sheet was prepared. There was also no secondary count of the funds withdrawn. The Finance employee verbally reported to Police administration if the drawer was over or short. No receipt was left of amounts drawn from the register.

- Lack of periodic reconciliations – Effective monitoring is one of the five key components of an effective internal control system. Periodic reconciliations are an important part of an internal control framework, particularly when dealing with monetary and accounting records. According to *Evaluating Internal Controls, A Local Government Manager's Guide*, it is important that related accounting records be compared periodically so that they faithfully reflect the underlying facts.

There was no process in place to reconcile verification report receipts to deposits with the Treasurer's Office.

Recommendation – Verification Fees

Beginning July 1, 2017, the Treasurer's Office will assume responsibility for miscellaneous revenue collections. We recommend that the Department of Finance, Treasurer's Office and Police Department work together to reevaluate the cash register drawdown process. The Police Department is staffed to provide the necessary segregation of duties, as one employee could drawdown the register and second could enter the collection report and/or deliver the funds to the Treasurer's Office for deposit. Once developed or amended, procedures should be documented in writing and be readily accessible by staff and management.

Cash register funds should be deposited weekly, or when the total exceeds \$1,000, according to the exception granted by the Director of Finance. Supporting drawdown documentation should be properly maintained in accordance with Library of Virginia records management requirements.

Management Response – Verification Fees

Finance now has written procedures, which incorporate Municipal Audit's recommendations. Cash is collected from the Police Department's cash register weekly. Two Finance staff members count and collect the cash and checks from the register, sign a cash count sheet, print tapes from the register, and verify that the funds collected matches the tapes. A collection report is processed in Advantage and the funds are taken to the Treasurer's office for deposit. The collection report, cash register tapes, and the deposit receipt from the Treasurer's office are filed together and maintained in accordance with Library of Virginia records management requirements.

CONCLUSION

With the exception of cash register drawdowns and deposits, the design and operation of the system of internal controls related to administering cash funds, fees, and other cash proceeds within the Police Department appears to be adequately designed and functioning properly.

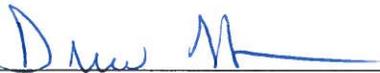
We want to thank the Roanoke Police Department, Department of Finance, Treasurer's Office, and City Attorney's Office, for their cooperation and assistance during the audit.



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