

CITY OF LOS ANGELES

INTER-DEPARTMENTAL CORRESPONDENCE

DATE: April 4, 2018

TO: Jorge Villegas, Assistant Chief
LAPD - OAS

FROM: Georgia Mattera, Chief Deputy Controller
Office of the Controller



**SUBJECT: LIMITED SCOPE FISCAL AUDIT AT THE LOS ANGELES
POLICE DEPARTMENT (LAPD)**

The Controller's Office conducted a limited scope audit of fiscal controls at the Los Angeles Police Department (LAPD). We conducted a limited payroll review, which entailed an analysis of hours worked, overtime and bonuses paid to a sample of LAPD civilian and sworn employees for a two-week period to ensure payments were properly supported. We also conducted a review of select bank accounts managed by your Department that are not controlled by the City Treasurer, and surprise cash counts at two locations, along with a review of controls related to those funds.

Overall Results

We found no issues with the Department's payroll activities, as hours worked and bonuses paid to sampled employees were properly supported. We identified no significant cash shortages or overages, and transactions were properly authorized; however, the Fiscal Operations Division should provide stronger oversight and guidance of LAPD's external bank accounts that are not controlled by the Office of Finance/City Treasurer.

Department Response

We provided a draft report to LAPD on January 11, 2018, and met with Department representatives on February 28, 2018. LAPD provided their formal response and action plan on March 23, 2018, which is attached to this report. Management indicated agreement with five of the seven recommendations, and we now consider Recommendations 1.2, 2.1, 2.2, 4.1 and 5.1 as Implemented. LAPD management disagreed with Recommendations 1.1 and 3.1 and consider the Department's current practices as providing sufficient internal controls. In lieu of implementing these recommendations, management should ensure there is sufficient

oversight of the Pre-Seizure Fund and Inmate Welfare Fund accounts to protect these funds from loss and ensure proper use of the funds.

We appreciate the cooperation and assistance provided by LAPD management and staff during our audit.

OBSERVATIONS

PAYROLL

We conducted a payroll observation and testwork to validate the overtime hours worked, additional pay, and bonuses paid to 20 employees (18 sworn and 2 civilian staff) assigned to the Southeast Division. Our review sought to ensure that payees were valid and current employees, and that all overtime hours, additional pay, and bonuses were properly supported and approved by supervisors. Employees in the sample received overtime premium pay; underwater dive, marksmanship, and POST bonuses; acting pay adjustments; and uniform allowance(s). We found all payments were authorized and properly supported.

EXTERNAL BANK ACCOUNTS

The Department identified that it maintains 48 external bank accounts with cumulative balances totaling more than \$3.9 million, which are not controlled by the Office of Finance/City Treasurer. In accordance with City policy, LAPD, through its Fiscal Operations Division (FOD) provides a certification of balances, along with bank reconciliations, to the Office of Finance on a quarterly basis. Cash held in external bank accounts is also reported to the Controller for inclusion in the City's Consolidated Annual Financial Report (CAFR).

LAPD's external bank accounts are used to maintain non-City monies that are intended for the benefit of others (e.g., Youth Program account) or until the proper disposition is determined (e.g., Pre-Seizure Fund for cash seized related to narcotics arrests). The Department has 32 Youth Program accounts and 16 accounts for other purposes. FOD provides oversight of the external bank accounts to ensure expenditures are supported by receipts and there are approved reconciliations by applicable supervisors and FOD. The reconciliations list all receipts received and expenditures paid during the month.

We selected a sample of five external bank accounts that carried large balances or had commonly used purposes, which accounted for \$3.1 million of the \$3.9 million cumulative total for all of the Department's accounts. A description of the purpose and uses of the bank accounts examined follows:

- 1) The *Unclaimed Monies account* is used to hold and account for funds when a suspect is taken into custody. Evidence, including currency, is seized and it may belong to another party or deemed to actually belong to the suspect. Disbursements are made to the rightful owner based on the outcome of the suspect's hearing.
- 2) The *Inmates' (or Prisoners')¹ Welfare account* holds funds to be used for the care of individuals while in custody. Section 4025 of the California Penal Code describes the use and restriction of these funds², which are received from commissions from bail bond advertisement boards and telephones located in the jails; and may be spent on items for detainees' use and improvements to jail facilities such as blankets, newspapers, personal items, televisions, security cameras, etc.
- 3) Excess funds from the *Inmates' Welfare account* (#2, above) were previously invested in a *Time Certificate of Deposit (TCD)*; however, these matured and the funds were subsequently redeposited into the *Inmates' Welfare* bank account.
- 4) The *Pre-Seizure Fund* is handled by the Asset Forfeiture Investigative Detail (AFID) and is used to temporarily hold monies seized during narcotics-related arrests until AFID detectives are notified by the L.A. County District Attorney if they will pursue a case. Depending on the case, funds are either forwarded to the L.A. County District Attorney pending a criminal prosecution, or the case is closed and funds are transferred to the property division for disbursement through the Unclaimed Monies account.
- 5) The *Youth Programs Unit account* provides outreach services to youth in the community. This is a fiduciary account managed by LAPD staff

¹ "Inmate" or "Prisoner" is used in the report to be consistent with legal references regarding these monies and the Department's bank account name. However, it should be understood that these terms refer to the detainees or arrestees who are held in custody by the LAPD for a limited time and the funds are used for the benefit of these individuals.

² Reference to the Inmates' Welfare Fund is included in Section 350.40 of the LAPD Police Manual.

who oversee youth programs (e.g., the LAPD Cadet program) and handle cash activity for youth programs. Receipts are donations or stipends earned by cadets performing services to the community (e.g., Dodger promotional giveaways) and are spent on refreshments and activities for the cadets.

Issues related to the need for improved controls relative to the use of external bank accounts are noted below.

Observation #1: Some checks from the Pre-Seizure Fund create an unnecessary fraud risk since the checks are made payable to "Cash" or an abbreviated payee name is used, such as USMS or LADA.

In reviewing the Pre-Seizure bank account, we noted a number of checks issued to "Cash" for funds seized in cases that did not meet prosecution standards and are due back to the arrestee from whom the funds were seized. These monies must be provided to the Property Division, which is responsible for returning the assets; however, instead of issuing a check for deposit into the Property Division's bank account, the AFID issues a check to "Cash", which is prohibited per Section 1.17 of the Controller's Manual. The AFID detectives cash the check at a bank and transport the cash for the seized monies back to the Property Division, which is unnecessary, time-consuming and risky.

We also noted that checks were written to abbreviated payee names, such as "LADA" rather than Los Angeles District Attorney. The use of short and abbreviated payees should be avoided, as they could easily be altered.

Recommendations

LAPD management should:

- 1.1 Revise practices to prevent checks from being issued as payable to "cash". Intradepartmental transfers should be handled through EFT or checks written from one account to the other to reduce risk.**
- 1.2 Limit the use of abbreviations for payees to reduce the risk of check alterations.**

Observation #2: Bank reconciliations have carried over stale-dated checks as reconciling items, rather than clearing them.

Reconciliations for two bank accounts included stale-dated checks³; some dating back five years. One account carried over 63 reconciling items totaling \$10,147 dating back to August 2012, while another carried over several items that required corrections to be recorded in its accounting (book balance). Section 1.17 of the Controller's Manual provides instructions to departments on stale-dated items. The policy states that any checks outstanding for six months or more should be investigated and that checks outstanding for more than one year should be stopped. Further, a fund custodian was not aware of how to properly complete the Department's bank reconciliation (LAPD form 15.47.0), and had not received adequate instructions.

Recommendations

LAPD's Fiscal Operations Division should:

- 2.1 Train staff to properly perform bank reconciliations, including how to address stale checks.**
- 2.2 Investigate and clear any stale checks on bank accounts according to established criteria in the Controller's Manual.**

Observation #3: One bank account (Inmates' Welfare Fund) held excessive cash balances, for which the Department should consider how to best use funds.

We noted that the Inmates' Welfare Fund bank account balance exceeded \$1 million. Penal Code Section 4025(i) allows jurisdictions to "*deposit, invest or reinvest any part of the inmate welfare fund, in excess of that which the treasurer deems necessary for immediate use. The interest or increment accruing on these shall be deposited in the inmate welfare fund.*"

Bank balances should not be left to accumulate cash. The Department should consider detainees' needs that could be paid for with these funds and develop

³Stale-dated checks are those 6 months or older, which have not been cashed and are carried over to subsequent month's reconciliations rather than researching and replacing them. The Uniform Commercial Code (UCC) 4-404 allows the bank to decide on accepting or refusing the check; however, if a party has not cashed a stale check, it has most likely been lost.

a plan for appropriate use of these funds. Until a plan is developed and actual expenditures are to occur, excess amounts could be invested into an interest-bearing account, as was done in previous periods.

Recommendation

LAPD management should:

- 3.1 Develop a plan to utilize the monies held within the Inmates' Welfare Fund; in the meantime, develop appropriate procedures to enable the excess funds within the Inmates' Welfare Fund account to earn interest, which can be redeposited and available for use to benefit detainees.**

Observation #4: LAPD's bank account oversight procedures included an account that was owned by a non-profit entity and was not controlled by the City.

We identified a Police Assistance League (PAL) bank account that is owned by a 501(c)(3) non-profit organization that was included in FOD's records of LAPD bank accounts. FOD provided copies of bank reconciliations to the Office of Finance and to the Controller's Office for inclusion in the City's Consolidated Annual Financial Report (CAFR); however, this is not a City-controlled account. While LAPD's external bank accounts hold restricted or fiduciary funds, we found that this PAL account was not a City asset, did not include City funds, and their use was not controlled by the City.

It is unnecessary for Departmental staff to provide oversight of an account owned and controlled by a non-profit organization. FOD's bank account oversight procedures should be restricted to external accounts that are managed as part of a Departmental program, or by legal requirement.

Recommendation

LAPD management should:

- 4.1 Report to the Office of Finance and the Controller's Office only those external bank accounts that are controlled by the Department.**

CASH

Cash Collection (Cashiering) Sites

LAPD reported 10 cash collection sites located either at the Police Administration Building (PAB) or at police stations throughout the City. Cash collection sites at police stations are used primarily for bail receipts. The funds received at PAB are for the central depository at Fiscal Operations Division (FOD) or at other divisions located at PAB to account for miscellaneous types of income (e.g., permit fees, report fees, alarm fees, and witness fees) received by other divisions.

We selected FOD and the Records and Identification Unit for surprise cash counts and review of internal controls, since LAPD reported the average daily collections at those sites as \$50,000 and \$4,400, respectively. FOD's collections are generally checks received through the mail for grant funds, witness fees, expense reimbursements, etc. The Records and Identification Unit has cashiering windows and receives payments from the public. We observed cash handling and deposit processes and noted good internal controls, with the exception of ensuring that incoming checks are restrictively endorsed immediately.

Observation #5: Checks are not restrictively endorsed in a timely manner.

We noted that incoming checks received by FOD and Records and Identification are not restrictively endorsed upon receipt, but are endorsed just before deposits are made. One division noted that they have previously requested more endorsement stamps, but have only been given one for the entire division, so it was allocated to the person making the deposit.

Recommendation

LAPD management should:

- 5.1 Ensure all incoming checks and money orders are immediately endorsed upon receipt as "For deposit only, payable to the City of Los Angeles" rather than waiting until bank deposits are processed.**

Petty Cash Accounts

LAPD has six petty cash accounts, which total \$10,000. Most of the Department's petty cash is managed by FOD who maintains \$2,000 in cash and \$5,500 in a bank account, and it was selected for a cash count and internal control review. The petty cash fund was properly accounted for and adequate internal controls are in place to ensure disbursements are appropriate and authorized.

LOS ANGELES POLICE DEPARTMENT

CHARLIE BECK
Chief of Police



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ERIC GARCETTI
Mayor

March 23, 2018

The Honorable Ron Galperin
City Controller, City of Los Angeles
200 North Main Street, Room 300
Los Angeles, California 90012

Attention: Georgia Mattera, Chief Deputy Controller

**SUBJECT: RESPONSE TO LIMITED SCOPE FISCAL AUDIT AT THE
LOS ANGELES POLICE DEPARTMENT**

The Controller's Office completed a Limited Scope Fiscal Audit at the Los Angeles Police Department (LAPD) that included a limited payroll review, a review of bank accounts not controlled by the City Treasurer, and surprise cash counts at two locations, along with a review of controls related to those funds.

The LAPD has reviewed the results and generally agrees with the findings contained in the fiscal audit. Please see the attached status of recommendations for the Limited Scope Fiscal Audit.

Should you have any questions, please contact Police Administrator II Annemarie Sauer, Fiscal Operations Division at (213) 486-8590.

Very truly yours,

CHARLIE BECK
Chief of Police

A handwritten signature in blue ink, appearing to read 'Jorge A. Villegas', is written over a horizontal line.

JORGE A. VILLEGAS, Assistant Chief
Director, Office of Administrative Services

LIST OF AUDIT RECOMMENDATIONS

Report Title: Results of Limited Scope Fiscal Audit at the Los Angeles Police Department

Report Issuance Date:

Department responsible for Implementation: Los Angeles Police Department

Reported Status Date: March 23, 2018

Finding Number	Summary Description of Finding	Rec. No.	Recommendation	Current Status	DEPARTMENT REPORTED INFORMATION		
					Basis for Status	% of Implementation	Target Date for Implementation
			LAPD should:				
1	Some checks from the Pre-Seizure Fund create an unnecessary fraud risk since the checks are made payable to "Cash" or an abbreviated payee name is used, such as USMS or LADA.	1.1	Revise practices to prevent checks from being issued as payable to "cash". Intradepartmental transfers should be handled through EFT or checks written from one account to the other to reduce risk.	D	Checks made payable to cash is necessary for cases rejected by the District Attorney's Office as the Asset Forfeiture Investigative Detail (AFID) is required to put the cash back in the Property Division's vault to have it immediately available for release to the claimant. It is preferable to make checks payable to cash for the following reasons: 1. Checks made payable to cash allows AFID and Property Division to properly maintain chain of custody of the Claimant's property in its original form as cash for immediate release. 2. The Claimant is entitled to receive their monies back in its original form as cash, instead of check. 3. Intradepartmental transfers handled through EFT or checks written from one account to another may cause the appearance of the City depositing the Claimant's money into City accounts.	n/a	n/a
		1.2	Limit the use of abbreviations for payees to reduce the risk of check alterations	I	Gang and Narcotics Division was notified and they will follow the instructions accordingly.	100%	2/1/18
2	Bank reconciliations have carried over stale-dated checks as reconciling items, rather than clearing them.	2.1	Train staff to properly perform bank reconciliations, including how to address stale checks.	I	Staff were trained and the practice has been followed since July 31, 2016.	100%	7/31/16
		2.2	Investigate and clear any stale checks on bank accounts according to established criteria in the Controller's Manual.	I	Stale checks were cleared. The recommended practice has been followed since July 31, 2016.	100%	7/31/16
3	One bank account (Inmates' Welfare Fund) held excessive cash balances, for which the Department should consider how to best use funds.	3.1	Develop a plan to utilize the monies held within the Inmates' Welfare Fund; in the meantime, develop appropriate procedures to enable the excess funds within the Inmates' Welfare Fund account to earn interest, which can be redeposited and available for use to benefit inmates.	D	Custody Services Division has to maintain maximum liquidity for unforeseen expenditures; see January 19, 2018 response from Captain Solano (attached).	n/a	n/a
4	LAPD's bank account oversight procedures included an account that was owned by a non-profit entity and was not controlled by the City.	4.1	Report to the Office of Finance and the Controller's Office only those external bank accounts that are controlled by the Department.	I	We no longer report the Police Activity League (PAL) accounts in the Quarterly Bank Certification to the Office of Finance since January 2018.	100%	1/1/18
5	Checks are not restrictively endorsed in a timely manner.	5.1	Ensure all incoming checks and money orders are immediately endorsed upon receipt as "For deposit only, payable to the City of Los Angeles" rather than waiting until bank deposits are processed.	I	Records & Identification Division was issued (8) eight endorsement stamps on Jan 17, 2018, and they were instructed to follow the practice accordingly. Fiscal Operations Division consists of three checking accounts. Checks are endorsed after review and approval by the Senior Accountant.	100%	1/17/18

I - Implemented
 PI - Partially Implemented or In Progress
 NYI - Not Yet Implemented
 D - Disagree



LOS ANGELES POLICE DEPARTMENT

A NOTE FROM...

CAPTAIN ROLANDO SOLANO
CUSTODY SERVICES DIVISION

January 19, 2018

TO: ANNEMARIE SAUER, Commanding Officer
Fiscal Operations Division

RE: INMATE WELFARE FUND EXPENDITURE PLAN

Custody Services Division (CSD) has followed the California Penal Code Section 4025 in the administration of the Inmate Welfare Fund (IWF). Monies deposited in the fund are expended primarily for the benefit, education, and welfare of the inmates confined within the jail. Funds have been used in programs to benefit inmates, including, but not limited to, education, drug and alcohol treatment, welfare, and other programs. The Inmate Welfare Fund has also been used to augment required expenses in the best interests of inmates, such as special meals, clean clothing, newspapers, cable television and facility security.

In addition to routine, periodic, and as needed expenditures, the repair and augmentation of vital security systems, refrigeration units, painting materials and other disbursements not funded through City resources have been financed using the IWF. Depending on the results of future City budget requests, an evaluation of the feasibility of utilizing IWF resources may be undertaken on an as needed basis.

The long-term capability of the funding sources of the IWF are also somewhat unresolved for both inmate telephones and bail advertising. Rate caps on interstate long-distance calls were instituted by the Federal Communications Commission (FCC) in 2015 and new rate caps for local and long-distance inmate calling are pending judicial review. Bail reform has been instituted in the states of New Jersey and Kentucky. California is one of several states where a bail reform bill is currently in the legislature. If passed, this legislation could have a major effect on bail practices within the state and the majority funding source of the IWF.

It is for unforeseen expenditures and unknown future funding sources of this fund that CSD seeks to maintain maximum liquidity of the IWF. The Inmate Welfare Fund's readily available access helps to maintain the safety, security and operability of jail facilities.

Rolando