FISCAL AUDIT

Confiscated Narcotics Proceeds Trust Fund (CNPTF) Imprest Fund

Report by the
Office of City Controller

MICHAEL E. LAMB
CITY CONTROLLER

Douglas W. Anderson, Deputy Controller

Elizabeth Dille, Fiscal Auditor
William Vanselow, Fiscal Auditor

November 2010
November 15, 2010

To the Honorables: Mayor Luke Ravenstahl and
Members of Pittsburgh City Council:

The Office of City Controller is pleased to present this Fiscal Audit of the
Confiscated Narcotics Proceeds Trust Fund, conducted pursuant to the Controller’s
powers under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The Confiscated Narcotics Proceeds Trust Fund (CNPTF) was established in 1987 for the
deposit of cash and proceeds derived from the confiscation of narcotics and related items.
Establishment of the trust fund authorized said proceeds to be used for any and all
expenses associated with investigations of narcotics violations. The CNPTF is
administered by detectives within the Narcotics and Vice Squad of the Investigations
Branch of the City of Pittsburgh Police Bureau. This audit examines the expenditures
charged to the CNPTF along with the support documentation provided in support thereof.

Findings and Recommendations

Adequacy of Support Documentation

Finding: Support documentation provided for the expenditures incurred is frequently
incomplete, both in terms of individual transactions and also in terms of entire portions
of vouchers. Support documentation for travel and training often lacked actual receipts,
consisting rather of emails or Request for Funds forms which cite only the totals per
expenditure category, in lieu of actual receipts.

Recommendation: Proper support documentation is critical in validating the requests
for reimbursement. Actual receipts constitute a vital component of support
documentation, and confirm the legitimacy of the claim. Routine practice should be
established to retain and submit actual receipts, and to regard any claim voucher as
incomplete unless actual receipts are included.

Finding: Lack of sufficiently complete/valid receipts for mobile phone service charges.
The repeated practice of submitting receipts pages that completely lack any dates or
billing periods was frequently noted, further eroding the utility of the support
documentation.
**Recommendation:** Effort should be made to ensure that receipts provided for each reimbursement claim for mobile phone service specifically include the billing period to which the invoice applies. Submission of receipts pages that do not cite the time period of service coverage is not acceptable and constitutes the equivalent of no support documents having been submitted.

Expenditure Authorization

**Finding:** Missing or incredulous approval signatures on the Expense Voucher Forms were routinely submitted. Identical signatures for both the requestor and the approver on the Voucher and the Request for Funds forms indicate inadequate review and authorizations. Photocopied forms suggest potential for the use of templates with affixed approval signatures.

**Recommendation:** Proper support documentation is critical in validating the requests for reimbursement. Actual receipts constitute a vital component of support documentation, and confirm the legitimacy of the claim. Routine practice should be established to retain and submit actual receipts, and to regard any claim voucher as incomplete unless actual receipts are included.

Inter-fund Transfers

**Finding:** Loans are being made to the CNPTF imprest fund in the form of transfers from other imprest funds, to cover short term lapses in cash flow. These loans are created by either checks made payable to the current administrator of the CNPTF imprest fund, or by transfers of cash. Actual receipt of these loans, however, is not reflected in the CNPTF imprest fund logbook; likewise, actual repayments are not logged upon repayment.

**Recommendation:** Any short-term transfer or loan between funds must be correctly initiated with proper authorization and documentation. Closer oversight regarding the justification for loans totaling such magnitude should be established. If an inter-fund transfer is required, the exact balance taken and the partial repayments should be clearly logged in the receiving fund’s record log, with identical entries in the issuing fund’s records. All repayment transactions should be readily traceable via both the issuing and the receiving fund’s logbooks.

Checks should never be made out to individual officers or fund administrators, requiring them to cash the checks via their personal accounts.

**Finding:** The current handling of “returned funds”, wherein a greater amount was claimed on the voucher than was actually used, thereby necessitating the return of the residual amount back into the account balance, does not adequately account for the actual return of these funds.
**Recommendation:** Greater effort must be made to review the claim submission to ensure that all claims for charges incurred by the fund are accounted for, with receipts provided thereof. Any differences between the totals of the amounts claimed and the amounts actually incurred should be properly identified and included in the calculation of the fund balance remaining on hand.

**Fund Administration**

**Finding:** Delays in submissions wherein reimbursement claims are generated months after incurrence occur routinely. Additionally, significant lapses between service dates vs. payment dates vs. voucher submission dates were frequently noted.

**Recommendation:** The submission of claims for reimbursement should follow the cycle and general timing of the costs as they are incurred. This ongoing flow should be the model for administering this fund throughout the reiterations of the claim submission cycles.

**Finding:** The splitting of individual transaction totals between different vouchers was noted. Partial use of claim totals to puzzle together parts of multiple transaction totals in order to derive a specific dollar amount for use as a plug number to round out the voucher totals, appears to be an ongoing practice.

**Recommendation:** The practice of splitting individual transactions across various vouchers in order to generate a plug number to round out the voucher total should cease. Voucher totals should be the exact total of the costs incurred, and any residual amounts should mirror the cash remaining on hand for the fund at that time.

**Finding:** Duplication of receipts from both prior years and from within the same voucher submittal (consecutive vouchers within same year) was noted in the reimbursement claims submissions.

**Recommendation:** Adherence to the correct sequence and timing of the steps involved in the proper use and administration of this fund (as noted in Finding 6) would help to preclude the possibility of duplicate claim submissions. A final review of the claims submission package by the fund administrator prior to submittal to the Controller’s Office would reduce the likelihood of duplicate claim submissions.

**Finding:** Administration of the fund has been handled by the current administering officer for the past five years.

**Recommendation:** Routine periodic rotation of responsibility for the CNPTF imprest fund should be implemented to facilitate continued efficiencies and to help preclude the potential for perceptions of laxness regarding administration of the fund. A definitive
time limit should be imposed regarding the duration of responsibility for administrative leadership for the fund.

We observed areas in which controls could be strengthened. Our suggestions are set forth in this report. Comments and assessments in this report pertain exclusively to the techniques and procedures currently in place, and do not reflect in any way upon the integrity or ability of personnel involved.

We wish to acknowledge the assistance and cooperation of the staff and officers of the Narcotics & Vice squad during the course of our examination. Our findings and recommendations in this report are intended to assist management in providing more effective and efficient controls for the use of CNPTF Imprest Fund.

Sincerely,

Michael E. Lamb
City Controller
INTRODUCTION

This fiscal audit of the Confiscated Narcotics Proceeds Trust Fund was conducted pursuant to the Controller’s powers under Section 404(b) of the Pittsburgh Home Rule Charter. The last fiscal audit of the Investigation & Narcotics Imprest Fund was released in 1996.

OVERVIEW

The Confiscated Narcotics Proceeds Trust Fund (CNPTF) was established in December, 1987 (via Resolution #1070), for the deposit of cash and proceeds derived from the confiscation of narcotics and related items. This resolution authorized the use of these funds for any and all expenses associated with investigations of narcotics violations. Said proceeds would then comprise the funding source of the Confiscated Narcotics Proceeds Imprest Fund. Resolution #1070 was amended December, 1989 via Resolution #978, resulting in an increase to the fund balance from $15,000 to $30,000. The current replenishment frequency averages $30,000 every five to six weeks; expenditures submitted over a three and a half-year period (January 2007 – July 2010) totaled over $900,000.

The CNPTF Imprest Fund is administered by detectives within the Narcotics and Vice Squad, an organizational component of the Investigations Branch of the City of Pittsburgh Police Bureau. Currently, the Narcotics and Vice Squad consists of over 70 squad and staff members; primary users of the CNPTF Imprest Fund usually include three to four individual squad members.

As expenditures are incurred and the balance of the fund incrementally depleted, applicable support documentation in the form of receipts and adequately approved Request for Funds forms are compiled. As the fund balance nears depletion, the documentation is compiled and submitted to the Fiscal Audit staff of the Controller’s Office for review prior to replenishment of the fund balance.
SCOPE

The scope of our audit included fiscal years 2007 - 2009, and the first half of fiscal 2010. This audit was conducted pursuant to Article IV, Section 404 (b) of the City of Pittsburgh Home Rule Charter.
OBJECTIVES

1. To review the expenditures incurred and charged to the Confiscated Narcotics Proceeds Trust Fund (CNPTF).

2. To assess the adequacy and validity of the support documentation submitted for these expenditures.

3. To evaluate compliance with stipulations cited in the Resolutions #1070 and #978, regarding proper usage and continuation of the CNPTF.

4. To make recommendations for improvement.
DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1
Support documentation provided for expenditures incurred by the CNPTF Imprest Fund is often incomplete, both in terms of individual transactions and in terms of entire portions of the voucher submission. For example, voucher requests submitted for reimbursements totaling $10,000 are accompanied with only $5,993 in receipts. Particular commodities, such as travel and training, routinely lack receipts for hotel and airfare; emails citing only the total dollar amounts spent are submitted in lieu of actual receipts. Entire vouchers, as in mid-2008 for example, involving 54 transactions for auto repair work totaling over $8,000 are submitted with no receipts.

**Auditors’ Recommendation** – Proper support documentation is critical in validating the requests for reimbursement. Actual receipts constitute a vital component of support documentation, and confirm the legitimacy of the claim. Routine practice should be established to retain and submit actual receipts, and to consider any reimbursement claim voucher as incomplete unless actual receipts are included.

Finding 2
Proper documentation for mobile phone service charges is also often missing. Adequate documentation includes complete and applicable receipts that detail the specific accounts and billing periods involved. Current practice frequently involves submitting invoices from the mobile phone service provider which completely lack any dates or billing periods. Receipts with no designated billing periods are invalid as support documentation for reimbursement claim submissions.

**Auditors’ Recommendation** – Effort should be made to ensure that receipts provided for each reimbursement claim for mobile phone service specifically include the billing period to which the invoice applies. Submission of receipt pages that do not cite the time period of service coverage is not acceptable and constitutes the equivalent of no support documents having been submitted.

Finding 3
Proper approval signatures were missing in a significant number of request for reimbursement claims submittals. Approval signatures on both the Expense Voucher and the Request for Funds forms are required as evidence of adequate review and approval by the claimant’s supervisor. Omission of these approval signatures, as is the case when the
same signature is presented for the requestor and approver on the voucher and/or Request for Funds forms, indicates deficient review and missing authorization. Most submittals appeared to be comprised of photocopies, including the voucher and funds request forms with near identical approval signatures, which suggests the potential use of templates with pre-approved signatures.

**Auditors’ Recommendation** – Approval signatures are crucial to help confirm the validity of individual reimbursement claims. Submitting claims with missing approval signatures or using suspected template forms negates the concept of ‘approved expenditures’ and undermines the validity and credibility of the reimbursement claim. Current practice for claim submission has been revised to include the acceptance of original forms (i.e. no photocopies) with original approval signatures only.

**Finding 4**

Currently, loans are made to the CNPTF imprest fund via transfers from both the Witness Protection (WP) and the Weed & Seed II (W&S) imprest fund, to cover short-term lapses in cash flow. These transfers occur by either checks from the WP imprest fund that are made payable to the officer serving as the administrator of the CNPTF imprest fund, or by cash from the W&S fund. Specific forms, the Request for Funds form which is intended to properly document fund usage, are not being consistently used by the funds issuing these loans to the CNPTF, nor is there adequate documentation in the CNPTF fund records.

Presently, neither the receipt of these transfers nor the actual subsequent repayments are being recorded in the CNPTF logs. Purported partial repayment entries, identified as “payment to separate account”, were noted in the CNPTF log, but do not total to full repayments of balances loaned as shown in the logs of the funds issuing the loans.

Since 2007, $52,500 has been received by the CNPTF imprest fund from the Witness Protection (WP) fund and the Weed & Seed II (W&S) fund. A fund by year breakdown of said total includes the following:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010 thru 7/31/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Witness Protection</td>
<td>$7,000</td>
<td>$15,500</td>
<td>$12,500</td>
<td>$4,000</td>
</tr>
<tr>
<td>Weed &amp; Seed II</td>
<td>$0</td>
<td>$8,500</td>
<td>$0</td>
<td>$5,000</td>
</tr>
</tbody>
</table>
**Auditors’ Recommendation** –

Any short-term transfer or loan between funds must be correctly initiated with proper authorization and documentation. Closer oversight regarding the justification for loans totaling such magnitude is clearly needed. Imprest funds should not be drawn down to near total depletion without measures having already been taken to replenish the balance in a timely manner. In the rare case that short-term loans from other imprest fund may be necessary, the exact balance taken and the partial repayments should be clearly logged in the CNPTF (receiving fund’s) record log. Identical entries should exist in the issuing fund’s records. Complete repayment of these loans should be readily traceable via both the issuing and the receiving fund’s logbooks.

Checks should never be made out to individual officers or fund administrators, thereby requiring them to cash the checks via their personal accounts. In addition, proper documentation of such transfers should be generated. Specifically, this involves use of the Request for Funds forms by the fund issuing the transfer to properly identify the transfer and to document approval from higher levels of approval. Receipt of the loans must be documented in the logs of the receiving fund, along with clear reflection of receipt of the loan in the balance of said fund.

Subsequent repayment of the loan must be clearly traceable via documentation in both the repaying fund and the original issuing fund. Request for Funds forms need to be used for repayments, thereby helping to ensure that adequate approval and oversight from higher levels of approval is in place regarding each loan transaction.

**Finding 5**

A formal process for administering “returned funds”, wherein a greater amount was claimed on the voucher than was actually used, needs to be implemented and consistently utilized. During the course of the review of claims submitted for reimbursement, numerous instances were found wherein the sum of the charges incurred did not total to the same amount as submitted on the reimbursement voucher. In some cases, this was clearly noted with the ‘difference’ being identified as “returned funds”, and subsequently logged in the CNPTF fund log as such, thereby constituting a component of the fund balance remaining on hand at that point in time. In other cases however, no recognition of such a difference between the two totals was recorded, thereby resulting in no mention or recognition of any “returned funds”. As a result, the validity of the requested reimbursement total overall is compromised, and the resulting account balance becomes obviously contrived.

The wording used for entries to the fund log involving credits or monies returned to the fund is vague and does not identify the transaction nor provide any relevant detail regarding the circumstance of the payback involved.
**Auditors’ Recommendation** – Greater effort must be made to review the claim submission to ensure that all claims for charges incurred by the fund are accounted for, with receipts provided thereof. Any differences between the totals of the amounts claimed and the amounts actually incurred should be properly identified and included in the calculation of the fund balance remaining on hand. A cumulative running total of all instances of “returned funds” should be maintained separately in the log for each date of entry, so as to confirm the inclusion of each occurrence of “returned funds”.

Entries made to the CNPTF fund log should be clearly labeled to properly identify the specifics of the transaction. The current practice of using generic labels such as “Money Moves” and “Voucher Cleared” as the only notation for credit entries to the account needs to change. All such adjusting entries should include sufficient detail to ensure clear identification of the original transaction to which it relates.

**Finding 6**

We noted that the timing of the reimbursement claim submissions did not logically correspond to the dates for which the charges were incurred. Due to the nature of an imprest fund in which the fund balance is drawn down as goods and services are acquired and paid for, it is expected that the sequence of claim submissions would roughly follow the timing sequence of costs as they are incurred. That, however, is not how the fund is generally administered. Delays in the submission of reimbursement claims of up to six to nine months are common, albeit other voucher submissions were made during the same time period. Instances wherein voucher forms were dated both before and after the actual payment date were noted. Additionally, significant time lapses between service dates vs. payment dates vs. voucher submission dates were seen, with widely varying durations of these lapses.

**Auditors’ Recommendation** – The submission of claims for reimbursement should follow the cycle and general timing of the costs as they are incurred, which involves a simple pattern of first incurrence of costs, followed by submittal for reimbursement, and finally replenishment of the overall account prior to its complete depletion. This ongoing flow should be the model for administering this fund throughout the reiterations of the fund’s cycles, which typically span a five to eight week time frame.

**Finding 7**

The splitting of individual transaction totals (such as a single towing charge) was observed, wherein only a portion of the transaction total is used to puzzle together portions of multiple claims in order to create specific dollar amount that is then split across different vouchers so as to round out their totals.
**Auditors’ Recommendation** – The practice of splitting individual transactions across various vouchers in order to generate a plug number to round out the voucher total, needs to cease. Voucher totals should be the exact total of the costs incurred, and any residual amounts should mirror the cash remaining on hand for the fund at that time. The current strategy of contrived manipulation of the fund balance weakens the credibility and validity of the claim submissions, and results in an uneven sequence of fund usage that does not mirror the actual fund drawdown, as noted in the prior finding (Finding 6).

**Finding 8**

We observed the duplication of claims submitted for reimbursement, both from prior years and from consecutive vouchers within the same submittal. Inclusion of duplicate receipts is partially facilitated by the uneven timing sequence in which these claims are currently being submitted for reimbursement.

**Auditors’ Recommendation** – Adherence to the correct sequence and timing of the steps involved in the proper use and administration of this fund (as noted in Finding 6) would prove highly effective in helping to preclude the possibility of duplicate claim submissions. Completion of a final review of the claims submission package by the fund administrator prior to submittal to the Controller’s Office would be very useful in diminishing the likelihood of duplicate claim submissions.

**Finding 9**

We noted that responsibility for the administration of the fund currently has been that of the same officer for the past five consecutive years, with no change in personnel primarily responsible for the fund.

**Auditors’ Recommendation** – Periodic routine rotation of responsibility for the CNPTF imprest fund should be implemented to facilitate continued efficiencies and to help preclude the potential for perceptions of laxness regarding administration of the fund.

Routine periodic rotation of responsibility for the CNPTF imprest fund should be implemented to facilitate continued efficiencies and to help preclude the potential for perceptions of laxness regarding administration of the fund. A definitive time limit should be imposed regarding the duration of a tour of service for administrative leadership for the fund.