

City and County of Denver



TIMOTHY M. O'BRIEN, CPA
AUDITOR

201 West Colfax Avenue, #705, Denver, Colorado 80202
(720) 913-5000 | Fax (720) 913-5253 | www.denverauditor.org

AUDITOR'S LETTER

July 1, 2021

In keeping with generally accepted government auditing standards and Auditor's Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure city agencies address audit findings through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the "High Intensity Drug Trafficking Areas Grant" audit report issued in March 2020, we determined the Denver Police Department and Front Range Task Force partially implemented one recommendation and fully implemented five other recommendations they agreed to in the original audit report. However, despite these efforts, five other recommendations have not been implemented and the risks associated with the audit team's initial findings have not been fully mitigated. As a result, we may revisit these risk areas in future audits to ensure the city takes appropriate corrective action.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to the personnel at the Denver Police Department and Front Range Task Force who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien".

Timothy M. O'Brien, CPA
Auditor



High Intensity Drug Trafficking Areas Grant

JULY 2021

Objective

To determine whether the Denver Police Department is complying with requirements of the High Intensity Drug Trafficking Areas grant and whether the department has adequate controls to properly manage and track grant expenditures and assets.

Background

The High Intensity Drug Trafficking Areas, or HIDTA, grant is administered by the White House’s Office of National Drug Control Policy. The program enables cooperation between federal, state, local, and tribal law enforcement in disrupting large-scale drug trafficking operations around the country.

The grant has been awarded annually to the Denver Police Department since the inception of the HIDTA’s Rocky Mountain region in 1996. To fulfill the mission of the HIDTA grant, the Denver Police Department acts as fiduciary, or fiscal agent, of the Front Range Task Force — helping to administer expenditures and subsequent reimbursements.

ORIGINAL REPORT HIGHLIGHTS

The Denver Police Department Substantially Complied with Requirements for the High Intensity Drug Trafficking Areas Grant, but Process and Policy Gaps Exist

- The HIDTA equipment inventory process lacked adequate internal controls to ensure proper accountability of grant-funded assets.
- The Front Range Task Force did not consistently follow its own policies for the purchase of information and evidence, and the duties of those responsible for handling the funds were not properly segregated.
- Denver police officers working on the Front Range Task Force did not track overtime to the minute, as required by policy.
- We identified questioned costs related to incorrect use of travel reimbursement rates and a lack of proper approval on a training expenditure.
- The Front Range Task Force did not submit the budget proposal for the 2018 grant period on time, and the proposal was incomplete.
- The Denver Police Department and the Front Range Task Force did not submit on time two of the required financial and performance reports for the 2018 grant period.
- The Front Range Task Force did not have required position descriptions on file for the two full-time positions funded by the grant.

Why This Matters

Fixing compliance gaps and process controls helps the Denver Police Department and the Front Range Task Force remain compliant with the HIDTA federal grant requirements, to continue the task force’s mission of fighting organized drug trafficking, and to protect the funding source through fiscal and operational accountability.



5

FULLY IMPLEMENTED



1

PARTIALLY IMPLEMENTED



5

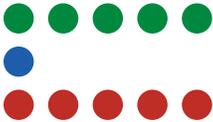
NOT IMPLEMENTED

July 1, 2021

Action Since Audit Report

High Intensity Drug Trafficking Areas Grant

11 recommendations proposed in March 2020



**FULLY
IMPLEMENTED**

5



**PARTIALLY
IMPLEMENTED**

1



**NOT
IMPLEMENTED**

5

The Denver Police Department and Front Range Task Force fully implemented five recommendations made in the original audit report, but five others have not been implemented. One further recommendation was partially implemented. Therefore, risks remain.

For example, the Front Range Task Force is still improperly tracking HIDTA inventory by not completely segregating custody, recording, and approving duties, and it is not tracking items under the threshold of \$5,000 that are highly susceptible to theft or loss.

Also, the Front Range Task Force has not mitigated the risk of fraud, waste, and abuse, because it did not complete its cash handling procedure outlining segregation of duties, the reconciliation process, and the required frequency of reconciliations. Favorable rounding, from the tenth of the hour to the half hour – outside of the terms of the collective bargaining agreement – still exists, risking overpayments to officers receiving HIDTA-funded overtime. Measures taken by Denver Police to ensure timely submissions for both operational and financial reports were also unsuccessful.

FINDING | The Denver Police Department Substantially Complied with Requirements for the High Intensity Drug Trafficking Areas Grant, but Process and Policy Gaps Exist

Recommendation 1.1

ADHERE TO EXISTING GRANT EQUIPMENT REQUIREMENTS – The Denver Police Department should ensure equipment-related requirements for the High Intensity Drug Trafficking Areas grant are adhered to by:

- Ensuring the inventory listing includes all required elements, such as asset condition, source, and percentage of HIDTA funding used to purchase the equipment; and
- Creating and following maintenance procedures for HIDTA-funded equipment.



**NOT
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: May 8, 2020

The Denver Police Department provided documentation showing the inventory list contains all required elements, including asset condition, source, and percentage of HIDTA funding used to purchase equipment. When we initially performed the audit, the Front Range Task Force maintained an inventory list that included 393 items valued at about \$274,000. Since the audit, the Front Range Task Force no longer inventories items under \$5,000 in value. Based on this \$5,000 threshold, there are currently only three items on the inventory list with a combined value of \$4,455. The Front Range Task Force’s rationale for no longer tracking the vast majority of its items is that the Office of National Drug Control Policy’s property management policy only requires tracking items valued at \$5,000 or more, which does not explain why the three items listed cumulatively are below the \$5,000 threshold.

While the Office of National Drug Control Policy’s property management policy does say HIDTA grantees must maintain a tracking system to account for all HIDTA-purchased equipment valued at \$5,000 or more at the time of purchase, the policy goes on to say that lower-cost items with higher theft or loss risk may also be included.¹ When we performed the initial audit, we found that the police department applied the suggested property management policy guidance and tracked all inventory items – not just items valued at \$5,000 or more, but also items that are prone to theft or loss. Since our audit in 2020, the police department has changed its

¹ Office of National Drug Control Policy, “HIDTA Program Policy and Budget Guidance,” accessed Jan. 28, 2020, http://www.nhac.org/hidta_guidance/Program_Policy_and_Budget_Guidelines2017.pdf, 8-1.

interpretation of the property management policy and has opted to track only three items that cumulatively amount to less than \$5,000.

To determine whether the items valued below \$5,000 pose a risk of theft or loss, we evaluated the Front Range Task Force’s inventory of HIDTA-funded equipment from our initial audit, as shown in Table 1.

TABLE 1. The Front Range Task Force’s Inventory of HIDTA-Funded Equipment

	Miscellaneous Electronics	Computers and Accessories	Surveillance Equipment
Total Number of Items	20	13	18
Total Value	\$36,781	\$157,900	\$59,127

Source: Table created by Auditor’s Office staff using the Front Range Task Force’s inventory listing from the March 2020 audit.

A significant portion of HIDTA-purchased equipment is composed of valuable electronics susceptible to theft or loss. As of June 18, 2021, the Washington D.C. Metropolitan Police Department listed on its website that “laptop computers, tablets, cellular phones, and other personal electronics have become a target of choice for theft all over the country because they are small, valuable, can be removed quickly, are easily hidden, and there is a market for them.”² Additionally, a publication by the Association of Certified Fraud Examiners says that information found in police files housed on electronic devices is irreplaceable to law enforcement organizations and fraudsters outside of policing are eager to pay significant sums of money to get their hands on it.³

The police department’s inventory tracking efforts are less now than during our initial audit. As such, the risks identified in our original audit not only remain but are exacerbated. The Denver Police Department’s decision to track fewer inventory items increases the potential for exposure of lost or stolen confidential police data – a cost far greater than the dollar amount of the equipment itself.

We also found that the Denver Police Department did not create or follow maintenance procedures for HIDTA-funded equipment. Procedures are defined as “step-by-step descriptions of the tasks required to support and

² Washington D.C. Metropolitan Police Department, “Tips for Preventing Theft of Laptops and Personal Electronics,” accessed June 18, 2021, <https://mpdc.dc.gov/page/tips-preventing-theft-laptops-and-personal-electronics>.

³ Sean McGrath, “It’s Not Just VCRs They’re After Anymore,” *Fraud Magazine*, September/October 2019, accessed June 18, 2021, <https://www.fraud-magazine.com/article.aspx?id=4295006824>.

carry out organizational policies.”⁴ By definition, procedures detail how something is done, when it is to be done, and by whom.

The Denver Police Department sent us documentation showing the addition of a single sentence to its procedures, requiring only that equipment be maintained according to the manufacturer’s recommended guidelines. The update is simply a reference pointing toward manufacturer guidelines — not maintenance procedures — and assumes that a manufacturer’s guideline is comprehensive and lays out step-by-step how to keep equipment in good condition.

By not properly tracking or maintaining grant-funded equipment, there is a potential risk of equipment being lost, stolen, or improperly maintained — all of which may render the assets unavailable for use in pursuing the Rocky Mountain HIDTA’s initiatives.

We consider this recommendation not implemented.

Recommendation 1.2

ESTABLISH PHYSICAL INVENTORY PROCEDURES – The Denver Police Department should establish written procedures for physically counting equipment funded by the High Intensity Drug Trafficking Areas grant — including defining the count process and defining the individual tasks associated with that process.



**NOT
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: May 8, 2020

In the original audit, the Denver Police Department agreed to establish inventory procedures laying out how it would physically count HIDTA-funded equipment. However, during follow-up, the department sent only a copy of the Office of National Drug Control Policy’s property management policy, which provides overall guidelines for HIDTA grantees and not a detailed description of the steps required to support and carry out this property management policy.

During our follow-up effort, we expected to see procedures that — at a minimum — defined the count process and defined the individuals and the tasks associated with that process. Denver Police personnel told us that they thought the Office of National Drug Control Policy’s guidelines were sufficient and further guidelines were unnecessary. Because the police department has taken no action to implement this recommendation by creating detailed steps laying out how it intends to uphold the required

⁴ University of California Policy Office, “Determining Whether a Statement is a Policy or a Procedure.” Accessed Jan. 23, 2020, https://www.ucop.edu/ethics-compliance-audit-services/_files/policy-toolkit/policy-or-procedure.pdf.

Office of National Drug Control Policy's property management policy, we consider this recommendation not implemented.

Recommendation 1.3

SEGREGATE EQUIPMENT-RELATED DUTIES – The Denver Police Department should segregate the duties related to equipment funded by the High Intensity Drug Trafficking Areas grant, so that no one person has responsibility for more than one of the following:

- Custody or physical control of equipment.
- Processing and recording of equipment transactions.
- Approval of equipment transactions and adjustments.
- Performance of the physical inventory at least every two years.



**NOT
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: May 8, 2020

Responding to our initial audit, the Denver Police Department agreed to reassign the Front Range Task Force's administrative assistant to help with some equipment-related duties. The Denver Police Department did update its operational guidelines to include an additional person to help with the inventory process. In the operational guidelines, department personnel pointed out that the change was intended to serve as a safeguard preventing only one person from both maintaining custody and record-keeping functions.

While we were able to validate that two people conducted the inventory, the police department did not provide evidence showing how duties were segregated. We were only able to conclude that two individuals performed the physical count, but we could not determine the roles or functions the individuals performed during the count process.

Furthermore, the Denver Police Department was unable to provide evidence showing that the functions of custody, record keeping, and authorization over inventory transactions are performed by separate individuals. When we followed up, police department personnel said that it was unnecessary to account for specific duties because there are only three items in the inventory for which HIDTA rules mandate tracking.

Having separation of duties in the inventory process should be independent from the number of items in the inventory. As a result, we consider this recommendation not implemented.

Recommendation 1.4



**FULLY
IMPLEMENTED**

UPDATE OPERATIONAL GUIDELINES – The Denver Police Department should amend Section 1.72 of the Front Range Task Force’s operational guidelines to align the guidelines with task force members’ actual practices regarding how soon unused funds can and should be returned to the safe.

AGENCY ACTION

Original target date for completion: May 8, 2020

The Denver Police Department successfully amended Section 1.72 of the Front Range Task Force’s operational guidelines to allow task force commander-issued extensions beyond the normal seven-working-day policy. The guidelines now align with task force members’ actual practices concerning when unused funds are returned to the safe. As a result, we consider this recommendation fully implemented.

Recommendation 1.5



**FULLY
IMPLEMENTED**

SEGREGATE DUTIES FOR PURCHASES OF CONFIDENTIAL INFORMATION AND EVIDENCE – The Denver Police Department should segregate the duties related to the purchase of confidential information and evidence as part of High Intensity Drug Trafficking Areas grant initiatives, so that no one person has responsibility for more than one of the following:

- Custody or physical control of the funds.
- Processing and recording of confidential information and evidence purchases.
- Approval of confidential information and evidence purchases.

AGENCY ACTION

Original target date for completion: June 1, 2020

During follow-up, we saw evidence that the Denver Police Department conducted safeguarding activities to mitigate the risk associated with having limited personnel performing the tasks of custody, processing, and approval of confidential information and evidence funds. Specifically, the Denver Police Department’s Finance Bureau now says it will conduct a twice-yearly reconciliation of the Front Range Task Force’s confidential information and evidence funds.

The police department provided evidence that the Finance Bureau had conducted two reconciliations in the last 12 months since the June 2020 implementation date – one in June 2020 and the second in April 2021.

A twice-yearly reconciliation by an individual outside the Front Range Task Force is a strong control that mitigates the risk of fraud or loss. The police department also provided evidence of the cash-count forms used. As a result, we consider this recommendation fully implemented.

Recommendation 1.6

DEVELOP PROCEDURES FOR RECONCILIATIONS – The Denver Police Department should create procedures for High Intensity Drug Trafficking Areas grant funds that document how to reconcile cash in the safe with the expenditure record (i.e., the cash log). These procedures should contain:

- Segregation of duties, so that the person responsible for reconciliation is also not responsible for the functions listed in Recommendation 1.5.
- How the reconciliation should be performed.
- How often the reconciliation should be performed.



**NOT
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: May 8, 2020

The twice-yearly reconciliation of the Front Range Task Force's confidential information and evidence funds that we mentioned in the agency action for Recommendation 1.5 is a necessary safeguard to reduce the risk of fraud or loss when a lack of segregation of duties exists.

However, this is not the only safeguard needed. A more stringent effort is needed beyond what was called for in Recommendation 1.5. Specifically, Recommendation 1.6 called for creating written procedures for an ongoing reconciliation, such as every month, to be performed by someone outside of those who currently record, authorize, and maintain possession of the funds.

In our initial audit, the Denver Police Department agreed to develop written cash handling procedures and segregation of duties for cash funds used to purchase evidence and confidential information. However, during our follow-up, we were provided only with the city Controller's Office's fiscal accountability rules 2.2 and 3.4.

Fiscal rules 2.2 and 3.4 are not relevant to the implementation of Recommendation 1.6 for multiple reasons.

First, Rule 2.2 is merely a policy and does not contain any procedures as to how the policy is to be upheld, which is what our recommendation specifically calls for. As mentioned with the agency action for Recommendation 1.1, procedures are detailed steps that explain the necessary actions that must be taken to carry out organizational policies and they include specifics such as how something is to be done, when it is to

be done, and by whom — none of which is included in Rule 2.2.

Second, the explicit purpose of Fiscal Accountability Rule 3.4 is “to document city policy as to the proper acceptance, processing, depositing, and accounting of receipts.”⁵ Rule 3.4 goes on to say it is intended for city agencies that collect receipts from items such as taxes, fees, fines, licenses, forfeitures, and penalties. The key element of Rule 3.4 is that it deals with receipts.

The Denver Police Department performs nothing related to what is prescribed in Rule 3.4. Rather, the department is using HIDTA grant funds similar to a petty cash fund, whereby it disburses — not receives — funds to confidential informants and undercover personnel to purchase information and evidence. Based on how the police department uses these funds and because Rule 3.4 governs receipts, we believe 3.4 is not the most applicable Fiscal Accountability Rule.

Rather, we suggest the Denver Police Department consult with the Controller’s Office to identify which Fiscal Accountability Rule should apply and then develop procedures specific to the department’s use of funds to purchase evidence and information.

Our recommendation specifically called for procedures to be created detailing who will be responsible for performing the reconciliation of the purchase of evidence and information funds, how that reconciliation will be performed, and when it will be performed. Fiscal rules 2.2 and 3.4 do not address procedures that cover implementation of Recommendation 1.6. Therefore, the Denver Police Department has not mitigated the risk of fraud, waste, and abuse. For these reasons, we consider this recommendation not implemented.

Recommendation 1.7

TRACK OVERTIME COSTS ACCURATELY – The Denver Police Department should ensure overtime for its investigative personnel working on the Front Range Task Force is tracked in accordance with the department’s policy included in its collective bargaining agreement with the Denver Police Protective Association.



**NOT
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: May 6, 2020

⁵ City and County of Denver, Fiscal Accountability Rules, “Rule 3.4 – Receipt and Deposit” (last revised 2017), accessed May 31, 2021, https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_3_Cash_Mgmt/Rules/Rule_3_4_Receipts_and_Deposits.pdf.

The 2021-22 collective bargaining agreement between the city and the Denver police officers' union requires supervisory approval for overtime and that the calculation of overtime be to the minute if a system is in place that can calculate and pay by the minute. Telestaff, the department's scheduling and timekeeping system, has the capability of tracking to the minute. Therefore, overtime should be recorded down to the minute.

Despite the department agreeing with this recommendation in the original audit, our follow-up testing found that out of the 295 paid overtime submissions from January 2020 through January 2021, only 27, or 9%, had calculations down to the minute.

The police department took no action to implement Recommendation 1.7, such as changing the terms of the bargaining agreement or the department's internal policy to reflect the task force's practice of rounding to the next quarter or half hour. Furthermore, the department was unable to provide evidence that it has told Front Range Task Force officers that recording overtime to the minute is required under the bargaining agreement. As such, favorable rounding not in accordance with the terms of the collective bargaining agreement still exists. We consider this recommendation not implemented.

Recommendation 1.8

REQUEST REIMBURSEMENT ONLY FOR ALLOWABLE COSTS – The Denver Police Department should ensure reimbursement requests for High Intensity Drug Trafficking Areas grant funds are submitted only for allowable costs, as prescribed by grant guidelines.



**FULLY
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: Feb. 25, 2020

As part of follow-up testing, we reviewed supporting documentation for two months of reimbursements that occurred since our original audit. Specifically, we reviewed all expenditures incurred during July 2020 and March 2021.

Based on our review, we did not identify any expenditures considered unallowable according to the rules of the HIDTA grant. Furthermore, our review found that all reimbursement documentation submitted by the Denver Police Department for these months was properly completed and reviewed by appropriate department financial reviewers.

Lastly, we confirmed that the police department's financial staff attended the Rocky Mountain HIDTA financial briefing held in January 2020. This briefing included topics such as budget guidance, how to account for specific types of expenditures, and internal controls – all of which will help

approving personnel to identify unallowable expenditures under the HIDTA grant.

We consider this recommendation fully implemented.

Recommendation 1.9



**FULLY
IMPLEMENTED**

COMPLY WITH BUDGET REPORTING DEADLINE AND REQUIRED FORMAT – The Denver Police Department should ensure the annual budget proposal is submitted to the Rocky Mountain High Intensity Drug Trafficking Areas office on time and that the budget proposal includes all required elements.

AGENCY ACTION

Original target date for completion: May 8, 2020

As part of follow-up testing, we verified that the Front Range Task Force submitted the 2022 budget proposal before the Feb. 15, 2021, deadline. We also verified the task force complied with the Rocky Mountain HIDTA-required formatting and the proposal contained all required elements and included HIDTA funding justification statements. Therefore, we consider this recommendation fully implemented.

Recommendation 1.10



**PARTIALLY
IMPLEMENTED**

COMPLY WITH REPORTING DEADLINES – The Denver Police Department should ensure both the quarterly financial and performance reports of the High Intensity Drug Trafficking Areas grant are submitted on time to comply with regional and national grant reporting requirements.

AGENCY ACTION

Original target date for completion: April 30, 2020

As part of our follow-up, we reviewed the submission dates of all quarterly operational reports and all quarterly financial reports that have been submitted since the end of our original audit in March 2020. We saw evidence that the Denver Police Department's finance office successfully submitted all five of its financial reports on time to the national office. We also found that the department's finance office established alternate staff who can prepare, certify, and submit financial reports to the Office of National Drug Control Policy – helping to ensure the timely submission of financial reports. However, we also learned that the Front Range Task Force commander submitted two of the four quarterly operational reports late. Therefore, we consider this recommendation partially implemented.

Recommendation 1.11



**FULLY
IMPLEMENTED**

CREATE AND MAINTAIN GRANT-FUNDED POSITION DESCRIPTIONS – The Denver Police Department should create and maintain on file the position descriptions for both full-time personnel supported by the High Intensity Drug Trafficking Areas grant. These descriptions should detail the duties and responsibilities performed by each employee under the grant.

AGENCY ACTION

Original target date for completion: May 8, 2020

The Denver Police Department successfully created position descriptions for both the Front Range Task Force commander and the Rocky Mountain HIDTA intelligence analyst position. Furthermore, these descriptions adequately detail the duties and responsibilities performed by the two employees under the HIDTA grant. Therefore, we consider this recommendation fully implemented.

Office of the Auditor

The **Auditor** of the City and County of Denver is independently elected by the residents of Denver. He is responsible for examining and evaluating the operations of city agencies and contractors for the purpose of ensuring the proper and efficient use of city resources. He also provides other audit services and information to City Council, the mayor, and the public to improve all aspects of Denver's government.

The **Audit Committee** is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the city's finances and operations, including the reliability of the city's financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of city operations, thereby enhancing residents' confidence and avoiding any appearance of a conflict of interest.



201 West Colfax Avenue #705

Denver CO, 80202

(720) 913-5000 | Fax (720) 913-5253

www.denverauditor.org

Our Mission

We deliver independent, transparent, and professional oversight in order to safeguard and improve the public's investment in the City and County of Denver. Our work is performed on behalf of everyone who cares about the city, including its residents, workers, and decision-makers.
