

INTRADEPARTMENTAL CORRESPONDENCE

March 27, 2012
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BPC #12-0158

TO: The Honorable Board of Police Commissioners

FROM: Inspector General, Police Commission

SUBJECT: FINANCIAL DISCLOSURE AUDIT

RECOMMENDED ACTION

REVIEW and APPROVE the Office of the Inspector General's (OIG) Financial Disclosure Audit.

DISCUSSION

The Office of the Inspector General (OIG) has completed its third Financial Disclosure Audit, in accordance with its Annual Audit and Review Plan. The purpose of the Audit was to determine whether the Los Angeles Police Department (Department) is in compliance with Special Order No. 20, 2008 (SO 20), entitled "*Confidential Financial Disclosure Policy and Procedures for Gang Enforcement Detail and Narcotics Field Enforcement Section Units – Established,*" effective March 29, 2009.

The Transition Agreement entered into between the Los Angeles Board of Police Commissioners (BOPC or Commission) and the United States requires that certain specified Department personnel assigned to gang and narcotics units complete financial disclosure forms. Based upon these requirements, the Department instituted SO 20, which was drafted and subsequently approved on December 20, 2007, and became effective on March 29, 2009. Special Order 20 requires financial disclosures for all "sworn officers of the rank of lieutenant or below assigned to the Gang Impact Team (GIT), Gang Enforcement Detail (GED), Community Law Enforcement and Recovery (CLEAR) Unit, Narcotics Division (ND), and Narcotics Enforcement Detail assignments (NED)."

This Audit, which commenced in October 2011, reviewed the financial disclosure forms submitted by incumbent officers as well as those officers transferring into covered assignments. The Department provided the OIG with financial disclosure reports for 631 officers. From those reports, the OIG randomly selected 117 incumbent officers and 60 transferring officers for review. In addition to testing the sample of officers for compliance with policies, the OIG also reviewed the procedures and controls utilized during the intake, review, approval, and storage of the financial disclosure forms.

The Audit assessed six Audit objectives. Test results revealed five objectives with 100% compliance rates while the remaining objective received a compliance rate of 99%.

When reviewing the various covered units, the OIG learned that one covered unit, namely ND, was no longer in existence. Upon further analysis, the OIG determined that ND ceased to exist on January 4, 2009, when the Department created the Gang and Narcotics Division (GND). On that date, the units under ND's operational control and the units under Gang Operations Support Division (GOSD) were merged under a single, unified command. This merger occurred approximately two months before SO 20 became effective.

Special Order 20 makes no allowances for the treatment of covered units or subunits that are reorganized into other commands. Notwithstanding this ambiguity, the OIG attempted to reconcile the requirements of SO 20 with the current organizational structure of the various covered units.

The OIG reviewed the previous organizational structure of ND and determined that most of the subordinate units continued to exist within GND. The OIG therefore reviewed whether the officers within these subordinate units provided the necessary financial disclosure forms. The OIG found that all of the officers had completed the forms.

Additionally, the OIG determined that 98 officers assigned to GND did not submit financial disclosure forms. The OIG learned that these 98 officers had previously belonged to GOSD or were members of subunits of GND created after the approval of SO 20.

The OIG concluded that the procedures and controls over the intake, review, approval, and storage of financial disclosure forms are adequate to ensure compliance with SO 20.

I am available to provide any information the Board may require.

E-Copy – Original Signature on File with the Police Commission

ALEXANDER A. BUSTAMANTE

Inspector General
Police Commission

Attachment

- c: Executive Director Richard M. Tefank
- Chief of Police Charles L. Beck
- Police Administrator Gerald L. Chaleff, Special Assistant for Constitutional Policing
- Captain Jodi A. Wakefield, Internal Audits and Inspections Division

LOS ANGELES POLICE COMMISSION

THIRD FINANCIAL DISCLOSURE AUDIT



Conducted by the

OFFICE OF THE INSPECTOR GENERAL

ALEXANDER A. BUSTAMANTE
Inspector General

March 27, 2012

OFFICE OF THE INSPECTOR GENERAL THIRD FINANCIAL DISCLOSURE AUDIT

PURPOSE

The Office of the Inspector General (OIG) has completed the third mandated Financial Disclosure Audit (Audit) in accordance with the Transition Agreement and pursuant to its Audit and Review Plan. The purpose of the Audit was to determine whether the Los Angeles Police Department (Department) is in compliance with Special Order No. 20, 2008 (SO), entitled “*Confidential Financial Disclosure Policy and Procedures for Gang Enforcement Detail and Narcotics Field Enforcement Section Units – Established,*” effective March 29, 2009.

BACKGROUND

The Transition Agreement entered into between the Los Angeles Board of Police Commissioners (BOPC or Commission) and the United States requires that certain specified Department personnel assigned to gang and narcotics units complete financial disclosure forms. On December 20, 2007, the Commission approved SO 20, entitled “Confidential Financial Disclosure Police and Procedure for Gang Enforcement Detail and Narcotics Field Enforcement Units.” Although approved on December 20, 2007, SO 20 did not become effective until March 29, 2009. Special Order 20 requires financial disclosures for all “sworn officers of the rank of lieutenant or below assigned to the Gang Impact Team (GIT), Gang Enforcement Detail (GED), Community Law Enforcement and Recovery (CLEAR) Unit, Narcotics Division (ND), and Narcotics Enforcement Detail assignments (NED).”¹

The Special Order requires that each officer in a covered assignment complete a Confidential Financial Disclosure Face Sheet and Confidential Financial Disclosure Report (collectively referred to as a 1.74 Form). The 1.74 Form is used to document the officer’s assets, liabilities, and income sources. Internal Audits and Inspections Division (IAID) is responsible for the initial intake, review, and annual audit of the 1.74 Forms.

Officers selected for covered assignments on or after March 29, 2009, were immediately subject to the financial disclosure requirements. When an officer is selected for a covered assignment, the officer in charge (OIC) or commanding officer (CO) of the receiving division is required to provide the officer with the 1.74 Form and ensure its completion. In contrast, officers already in covered assignments as of March 29, 2009, (incumbents) received a two-year exemption from the reporting requirements, with the exemption expiring March 29, 2011.

Regardless of when the form is completed, the Financial Disclosure Coordinator (FDC) assigned to IAID meets and discusses the completed 1.74 Form with the officer and reviews the officer’s documents for obvious errors or omissions. The FDC and CO of IAID then approve the completed 1.74 Form and the FDC converts the completed documents to an electronic file. Each officer’s file is stored on a separate compact disc. The FDC destroys the 1.74 Form paper documents and any supporting documentation within seven days, unless retrieved by the officer. The FDC provides the compact disc to the Special Assistant for Constitutional Policing, who reviews the electronic file before delivering the compact disc to the Chief of Police. The Office

¹ Throughout this audit, these assignments are collectively referred to as covered assignments.

of the Chief of Police (OCOP) is responsible for storing all completed 1.74 Forms in a secure location until the officers leave their covered assignments. The Chief of Police reviews and approves the file documents. Once approved, the OIC of the receiving division is advised that the officer can begin work in the assignment.

METHODOLOGY AND SCOPE

This Audit began in October 2011, and reviewed the 1.74 Forms submitted by incumbent officers as well as those officers transferring into covered assignments.

The Department provided the OIG with financial disclosure reports for 631 officers. The OIG attempted to verify all personnel in covered assignments in order to determine the Department's compliance with SO 20. When reviewing the various covered units, the OIG learned that one covered unit, namely ND, was no longer in existence. Upon further analysis, the OIG determined that ND ceased to exist on January 4, 2009, when the Department created the Gang and Narcotics Division (GND). On that date, several covered units, including all units under ND's operational control and Gang Operations Support Division (GOSD), were brought under a single unified command. This merger occurred approximately two months before SO 20 became effective. The Department, however, did not modify SO 20 or otherwise seek guidance from the Commission concerning these organizational changes.

Special Order 20 requires officers within specified units to provide financial disclosure forms. The special order, however, makes no allowances for the treatment of covered units or subunits that are reorganized into other commands. Notwithstanding this ambiguity, the OIG attempted to reconcile the requirements of SO 20 with the current organizational structure of the various covered units.

The OIG attempted to identify whether all officers in covered units, as defined by SO 20, provided the necessary financial disclosure forms. The OIG first reviewed those covered units still in existence and determined that the following covered commands provided the necessary financial disclosure forms: GED, the CLEAR Unit, and NED. When reviewing GIT, the OIG determined that one officer did not submit the necessary financial disclosure forms.²

The OIG then reviewed the previous organizational structure of ND to determine the various units that comprised ND. Although ND ceased to exist on January 4, 2009, most of the subordinate units continued to exist within GND. The OIG therefore reviewed whether the officers within these subordinate units provided the necessary financial disclosure forms. The OIG determined that these officers had provided all the necessary financial information.

² Once the OIG notified the Department of this discrepancy, the Department immediately remedied the situation by requiring this employee to complete the necessary financial disclosure forms. The Department explained that, although assigned to GIT, this individual's responsibilities were entirely administrative and that he had no street responsibilities.

Lastly, the OIG reviewed whether all officers within GND provided financial disclosure paperwork. As previously noted, the OIG specifically evaluated GND because it absorbed various covered units into a single unified command and because its creation or operation was not contemplated by SO 20. When reviewing the financial disclosure forms for GND, the OIG found that 98 of the approximately 250 officers assigned to the division did not submit financial disclosure forms. The OIG learned that 94 of these 98 officers who did not submit financial disclosure forms belonged to units originally within GOSD. The remaining four officers belonged to two units that did not exist when SO 20 was approved.³ When SO 20 was originally approved, the units within GOSD were not covered and therefore its officers did not have a financial disclosure duty.

If GOSD is not included in the financial disclosure requirements, then there were a total of 632 officers in covered assignments. The Department provided completed financial disclosure forms for 631 officers. The OIG audited the financial disclosure reports for the 631 officers who completed the required 1.74 Forms to determine the Department's compliance with the Special Order. From this population of 631 officers, the OIG selected the following sample for testing:

- 117 randomly selected incumbent officers, and
- 60 randomly selected transferring officers.

The sample was selected from the total population of officers that completed the disclosure forms as of September 30, 2011.⁴ The population of 631 officers was identified from the FDC's log of officers who had completed disclosure documentation. The sample size of 177 was calculated based on a 95% one-tail confidence level, an expected error rate of 6%, and a plus precision of 3%.⁵ After the 177 officers were selected, the OIG determined for each officer whether they were a transferee or an incumbent.

In addition to testing the sample of officers for compliance with policies, the OIG also reconciled the aforementioned Financial Tracking Sheets to the FDC's log, ensuring that all transferees and incumbents had been properly identified and had completed the required disclosure documentation. The OIG also reviewed the procedures and controls utilized during the intake, review, approval, and storage of the 1.74 Forms.

The OIG conducted this Audit in accordance with generally accepted government auditing standards. These standards require that the Audit is adequately planned, performed, and supervised and that sufficient, appropriate evidence is obtained by applying review procedures which assess whether a reasonable basis for the findings and conclusion were contained herein.

³ The Graffiti Task Force (three officers) and the TEAMS II Coordinator (one officer) were both created after the approval of SO 20 and are currently under the operational control of GND.

⁴ Officers previously tested by the OIG in either its first or second Financial Disclosure Audit were excluded from the testing sample although they were included in the total population count.

⁵ This sample size calculation formula represents a generally accepted auditing practice. A detailed explanation of each parameter is available from the OIG Audit Sections.

SUMMARY OF RESULTS BY OBJECTIVE

The table below shows a summary of results by Audit objective:⁶

Audit Objectives	Compliance %
1. Determine if all sworn employees of the rank of lieutenant or below in covered assignments have completed a 1.74 Form.	99% (631/632) ⁷
<i>For all 60 transferees to covered assignments</i>	
2. Determine if each transferee submitted a completed 1.74 Form.	100% (60/60)
3. Determine for each transferee if the completed 1.74 Form was received prior to the effective date of the transfer.	100% (60/60)
<i>For all 177 officers tested</i>	
4. Determine for each officer if all required sections of the 1.74 Form were completed.	100% (177/177)
5. Determine for each officer if the completed 1.74 Form was stored in a secured and locked location at the OCOP.	100% (177/177)
6. Determine if there was evidence that the Department reviewed the 1.74 Forms to ensure completeness.	100% (177/177)

DETAILED RESULTS BY OBJECTIVE

Objective No. 1 - Determine if all sworn employees of the rank of lieutenant or below in covered assignment have completed a 1.74 Form.

Background

The Transition Agreement requires that the OIG assess whether all officers subject to the requirements of the financial disclosure program have submitted a 1.74 Form.

The Special Order requires that all officers of the rank of lieutenant or below transferring to covered assignments after March 29, 2009, submit the 1.74 Form at the time of transfer. Incumbent officers in covered assignments received a two-year exemption.

To ensure compliance with the Special Order, the Department maintains Financial Tracking Sheets which list all officers in covered assignments. Each deployment period, the FDC receives and examines these Financial Tracking Sheets as well as Deployment Planning System (DPS) records to identify all employees currently assigned to covered assignments and those

⁶ The 99 officers not completing Financial Disclosure documents were deselected from the testing sample. Deselecting is a standard auditing procedure to ensure the resulting sample has all required attributes for testing. In this instance, the 1.74 Forms cannot be tested for completeness, timeliness and proper security without the documents first being created.

⁷ As previously noted, there were 98 officers within GND that did not complete financial disclosure documents and therefore, if GND were considered a covered division, the total compliance rate for this audit would be lower.

transferring into the assignments.⁸ The FDC then ensures that each identified officer, who has not previously disclosed, begins the financial disclosure process.

Testing Results

The Department was 99% compliant.⁷ A completed 1.74 Form was submitted for 631 of the 632 sworn employees of the rank of lieutenant or below in covered assignments.

Objective No. 2 - Determine if each transferee submitted a completed 1.74 Form.

Background

The Transition Agreement requires that the OIG assess whether all officers subject to the requirements of the financial disclosure program submit a 1.74 Form.

The Special Order requires that all officers of the rank of lieutenant or below transferring to covered assignments after March 29, 2009, submit the 1.74 Form at the time of transfer. Incumbent officers in covered assignments received a two-year exemption.

Testing Results

The Department was 100% compliant. A 1.74 Form was submitted by each of the 60 officers tested who transferred to covered units.

Objective No. 3 - Determine for each transferee if the completed 1.74 Form was received prior to the effective date of the transfer.

Background

The Special Order requires that the transferring officers complete and return the 1.74 Form within ten days of transferring to covered units. The Department's application of the Special Order was to require that the 1.74 Form be received and approved *before* the effective date of the officer's transfer.

Testing Results

The Department was 100% compliant. A 1.74 Form was received for each of the 60 transferring officers prior to the effective date of the transfer. The OIG compared DPS record transfer dates with the 1.74 Form approval dates to determine compliance.

⁸ The DPS is the Department personnel scheduling and time-keeping system which interfaces with the Department's Training, Evaluation, and Management System II.

Objective No. 4 - Determine for each officer if all required sections of the 1.74 Form were completed.

Background

The Special Order requires that each officer complete both a Confidential Financial Disclosure Face Sheet (Form 1.74.00) and a Confidential Financial Disclosure Report (Form 1.74.01). The primary purpose of the Form 1.74.00 is to certify that the officer has fully disclosed all required information and to document approving signatures from IAID's CO and FDC. The primary purpose of the Form 1.74.01 is to record the officer's assets, liabilities and income sources and to certify that the recorded information was true and complete.

Testing Results

The Department was 100% compliant. A Form 1.74.00, with the officer's signature and the required approvals, was completed for each of the 177 officers. A Form 1.74.01, with the officer's signature and all three completed sections (assets, liabilities, and outside income), was completed for each of the 177 officers. The OIG examined the digital copy of the 1.74.00 and 1.74.01 Forms for each officer to verify this objective.

Note: The Transition Agreement stipulates, "The Parties agree that the OIG's review of the financial disclosure program will be limited to a review of the procedures and protocols outlined in the Special Order. Neither the OIG nor the United States shall conduct a substantive review of the financial information contained within the submissions by individual employees." Hence, the OIG did not examine any documents to substantiate reported information (regarding assets, liabilities, or outside income) or to possibly discover unreported information (regarding assets, liabilities, or outside income).

Objective No. 5 - Determine for each officer if the completed 1.74 Form was stored in a secured and locked location at the OCOP.

Background

The Transition Agreement requires that the OIG evaluate whether the 1.74 Forms are being stored in the manner set forth in the Special Order.

The Special Order requires that the completed 1.74 Forms be stored in a secured and locked location in the OCOP. The Forms are considered confidential and the Special Order requires that the OCOP maintain the Forms until their date of destruction.

Testing Results

The Department was 100% compliant. The OIG inspected the storage facility and observed that all 177 of the 1.74 Forms were stored on compact discs, placed inside individually sealed envelopes, and maintained inside a locked file cabinet. The file cabinet was located inside a

locked windowless room located within the OCOP. Access to this room is controlled by a card reader at the door, and only three people (the Chief of Police and two aides) have access cards.

Objective No. 6 - Determine if there was evidence that the Department reviewed the 1.74 Forms to ensure completeness.

Background

The Transition Agreement requires that the OIG assess whether the Department is reviewing the 1.74 Forms to ensure completeness and verifying that the necessary supporting documentation is being provided.

The Special Order requires that IAID review each 1.74 Form for completeness, review the related supporting documentation, sign the 1.74 Form in the presence of the employee, and provide the employee an opportunity to respond in writing to any areas of concern.

Testing Results

The Department was 100% compliant. The OIG determined that the Department was reviewing the 1.74 Forms for completeness and was verifying that supporting documentation was being provided. To reach this conclusion, the OIG interviewed the FDC and examined documentation of officer meeting dates.

MANAGEMENT RESPONSE

Management will respond under a separate report submitted to the BOPC.

RECOMMENDATIONS

The OIG recommends the Department account for the reorganization of covered units into GND and then present a recommendation for the modification of SO 20 to the BOPC for their review and approval. Specifically, the Department should account for those covered units within the original special order that are now defunct or otherwise disbanded. Additionally, the Department should determine whether any newly created units or divisions, such as GND, should be considered covered units for financial disclosure purposes.

The OIG recommends that the Department verify the work responsibilities for those officers in uncovered assignments, such as those assigned to GOSD, that were reorganized into GND in order to confirm that financial disclosure requirements are not necessary for these officers. The Department should present its analysis for the Commission's review and approval. Additionally, the OIG recommends that the Commission direct the OIG to conduct an audit of this area to ensure that these officers are not performing covered-related services.

CONCLUSION

The OIG assessed six audit objectives for this report. Five of the six objectives tested with a 100% compliance rate. With the previously stated qualifications, Objective No. 1 had a 99% compliance rate given the methodology employed by the OIG. Overall, systems were adequate and controls are in place to ensure the Department's compliance with the Special Order.