

**Performance Audit 14-06:  
Police Confidential Funds**

**December 2014**

**City Auditor**

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# OFFICE OF INTERNAL AUDIT

## Stan Sewell, City Auditor

December 23, 2014

To: Mayor Andy Berke  
City Council Members

Subject: Police Confidential Funds (Report #14-06)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of Police Confidential Funds. Our audit found overall the confidential fund policies and procedures were comprehensive and adequate. However, we found instances of non-compliance with the policies and identified opportunities for improvement. In order to address the noted areas for improvement, we recommended actions to identify and mitigate future deviations from the policies and procedures as well as minor additions to the policies.

We thank the management and staff of the Police Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE  
City Auditor

Attachment

cc: Travis McDonough, Chief of Staff  
Audit Committee Members  
Brent Goldberg, Chief Operating Officer  
Fred Fletcher, Chief of Police

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## AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2014 Audit Agenda, as requested by the Chattanooga Police Department. The objective of this audit was to determine if:

- The confidential funds were sufficiently administered in accordance with established policies and procedures.

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## BACKGROUND

The Major Narcotics and Vice Section (Narcotics & Vice) is a component of the Special Investigations Unit within the Police Department's Criminal Investigations Command. Narcotics & Vice officers conduct covert operations for the control of vice, narcotics, and organized crime violations.

To support the division's undercover operations, the department utilizes confidential funds. Confidential fund expenditures must adhere to the Tennessee Comptroller's guide for cash transactions related to undercover operations. These minimum guidelines, along with departmental policies developed by Chattanooga Police Department (CPD), apply only to those transactions which, for confidentiality reasons, must be disbursed in cash for covert operations. Examples of these expenditures include:

- Payments made to an informant for information are reported and witnessed on Form A-5;
- Payments made to an independent undercover agent are reported and witnessed on Form A-5;
- Money spent to actually purchase drugs as part of an undercover operation are reported and witnessed on Form A-5;
- Gasoline or minor maintenance for an undercover vehicle or informant's vehicle when used in undercover operations is reported on Form A-4, with receipts attached.

Because funds cannot be distributed to officers directly from the City's general fund, CPD has two confidential fund checking accounts for undercover operations: Narcotics and Part I Offenses. The department uses the same policies and procedures for both confidential funds. As required by State code, all expenditures from the narcotics confidential checking account are for drug-related undercover operations. Part I Offenses confidential checking account is used for all other types of undercover operations (i.e. prostitution, burglary, homicide, organized crime).

## Financial Information

There are several sources of revenue for the Drug Fund. All fines from drug offenses must be turned over to the local government of the arresting agency. T.C.A. 39-17-428 requires that 50 percent of each fine go to the city's General Fund and 50 percent to the city's Drug Fund special revenue account. Any cash that is forfeited to the city as well as the proceeds from the sale of any forfeited property go into the Drug Fund. Other sources of revenue can include donations and appropriations from the local governing body.

T.C.A. 39-17-420 allows expenditures from the Drug Fund for local drug enforcement programs, local drug education programs, local drug treatment programs and nonrecurring general law enforcement expenditures. All expenditures, with the exception of confidential fund expenditures, must follow the city's purchasing guidelines. The fund for confidential expenditures is actually a separate checking account under the control of the police chief or his designee. Funds for the confidential account are requested from the City Finance Officer, and then deposited in the confidential checking account.

### Exhibit 1: Narcotics Fund

Fiscal Year	2012	2013	2014
Revenues	300,568	1,049,833	259,044
Travel	14,568	13,384	19,462
Equipment	148,536	274,376	218,934
Investigative Services	178,825	81,173	156,033
Supplies and Services	81,125	52,636	152,840

Source: Oracle Financials

Sources of revenue for the Part I Offense Fund include proceeds from the sale of confiscated property. Investigative service expenses are typically related to Part I Offense undercover operations.

### Exhibit 2: Part I Offense Funds

Fiscal Year	2012	2013	2014
Revenues	6,678	12,984	7,857
Travel	81	0	0
Investigative Services	34,587	39,147	46,739

Source: Oracle Financials

The exhibit below provides the number of cases opened and average expenditure per case for calendar years 2012, 2013 and 2014. While the number of narcotic cases appears to have increased by only 16% since 2012, undercover operation expenditures increased over 61% per case. In contrast, the number of vice cases appears to have increased 26% while expenditures decreased 12.4% per case.

Exhibit 3: Average Undercover Operation Expenditures per Case<sup>1</sup>

	Number of Cases per Year	Average Expenditure per Case
<b>Narcotics</b>		
2012	162	\$ 476.75
2013	172	\$ 449.74
2014	188*	\$ 767.04
<b>Vice</b>		
2012	19	\$ 1,108.59
2013	28	\$ 1,147.05
2014	24*	\$ 970.75

Source: CPD's Case Log and A-5 Expenditure Forms

## FINDINGS AND RECOMMENDATIONS

**The integrity of the confidential funds process is dependent upon the documentation completed by its investigators.**

The Chattanooga Police Department (CPD) has developed comprehensive policies and procedures to ensure cash payments made during undercover operations are properly executed and documented. When followed, the internal controls in place protect both the City's assets as well as the confidentiality of the police personnel and informants.

To ensure compliance with policies and procedures, the CPD requests an annual audit of the confidential funds process. Audits were previously completed in 2012 and 2013. As part of these audits we perform surprise cash counts of confidential funds, review case files and support documentation and analyze undercover operation expenditures. Based on our review we noted the following two areas needing improvement:

<sup>1</sup> Data available for the 2014 year included January 1, 2014 through October 31, 2014. The 2014 average expenditure per case is based on actual figures.

\*Auditor extrapolated the estimated number of cases for the entire year using the available data.

## Informant payment forms not properly signed and witnessed

During our recent surprise cash counts, we found one investigator had failed to properly document a recent controlled drug buy and informant payment for services.<sup>2</sup> CPD's SOP-1, Part VII – *Fiscal Procedures – Confidential Fund Accounting* requires the officer to have the informant read and sign the form **before** any funds are disbursed. Both investigators present during the undercover operation failed to have the informant sign the informant payment form (A-5). In addition, neither of the investigators signed the form as required by policies. We promptly advised the immediate supervisor of the infraction.

We found additional indicators that officers were not immediately signing as witness to informant payments during our review of case files and related support documentation. We found 5 instances where the investigator listed in the investigative report as present during the controlled-buy operation did not sign as the witness on the related A-5 form.

Our review of the A-5 forms related to the sampled case files also found instances of noncompliance with CPD's SOP-3, Part VIII – *Paying Informants*. This policy requires the informant to sign the receipt in the informant's true name or fictitious name **and** controlled informant identification number. The informant signature is vital and the only independent validation that the expenditure was for a valid purpose. Forms signed with merely the ID number could be easily falsified.

Currently, the supervisor reviews all informant payment forms (A-5 forms) at the end of the month upon submission from the officer. In some cases, the review takes place several weeks after the payment is made. Having supervisors perform random surprise reviews immediately after the undercover operation would improve internal controls by quickly identifying non-compliance with policies.

### Recommendation 1:

We recommend supervisors periodically perform surprise reviews of A-5 forms immediately after operations to verify officer compliance with said policies and procedures.

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<sup>2</sup> The controlled informant buy and payment occurred two days prior to the surprise cash count.

***Auditee Response:*** *The Chattanooga Police Department Special Investigations Section will conduct training with all employees that use confidential fund accounts. Emphasis will be made to correct identified deficiencies noted in report. Additionally, the CPD will amend SOP-04 to require supervisors to conduct random and surprise reviews of paperwork associated with undercover/informant buys. These reviews will be conducted to ensure the policy is being correctly adhered to as it relates to the following:*

- *Paperwork is completed in a correct manner;*
- *Informant signatures are obtained prior to any funds being disbursed;*
- *Both investigators present during undercover operation have signed form; and,*
- *Informant signature includes name (true or fictitious) and the identification number.*

*Additionally, the officer who had failed to properly document a recent controlled buy and informant payment for services will be receiving a formal letter of reprimand. The witnessing officer has received verbal counseling.*

### **The custodian's monthly exceptions should be reported through the chain of command.**

After the supervisor reviews (documented by supervisor signature) the investigator's monthly report<sup>3</sup>, the original receipts and report are forwarded to the confidential fund custodian for review. If the custodian notates any issues with the forms she returns the documents to the investigator for correction.

We examined the custodian's records to determine if procedural issues were found during the custodian's review. We noted the custodian found and required investigator's to correct several procedural issues including:

- The monthly report was not signed by the supervisor;
- Witness signatures were missing from the A-5 form; and,

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<sup>3</sup> All officers holding confidential funds are required to submit a monthly Agent's Activity Log for Confidential Funds form (A-3) along with the original Accountability of Confidential Funds Expended form (A-4) and Receipt for Payment to Informant form (A-5) to the confidential fund custodian.



- Expenditures of \$200 or more were not properly approved by the supervisor

It appears the supervisor's review process failed to identify the above noted issues prior to submission to the custodian. To improve quality control procedures, management should be apprised of errors found during the secondary review (the custodian review).

### **Recommendation 2:**

We recommend any procedural issues noted by the Custodian during the monthly reviews be reported through the chain of command. Management should perform immediate counseling and/or disciplinary action it deems necessary. We also recommend the division develop a standard review checklist to assist the review process. The staff responsible for reviewing case files and associated confidential fund forms should receive appropriate training.

***Auditee Response:** The CPD confidential funds custodian will be directed to notify the Special Investigations Commander when procedural issues/discrepancies are noted during the secondary review. Procedural discrepancies will be addressed with the initial reviewer by their immediate supervisors. Additionally, the narcotics supervisors will develop and implement use of a check off sheet to assist in the review process.*

### **Additional policies and procedures are needed to improve internal controls.**

SOP-4 requires the investigators to maintain updated and complete records, reports and **field notes**. All support documents related to an undercover operation should provide an accurate account of the operation.

According to all the investigative reports reviewed, the officer provides the informant with the buy money and once the buy is completed the informant is paid for their services (if payment provided). The investigator completes only one A-5 form for both the buy money and the payment for services. We noted inconsistent completion of the A-5 forms among investigators. In addition, we noted instances when the dollar amounts indicated in the investigative report did not match the amounts on the related A-5 form. Forms should be completed in a consistent manner to assist with supervisor reviews.

We also observed a practice not noted during previous audits. We found informant payments for "information only" for two narcotic cases. We didn't find mention of the "information payments" in the investigative report or what information was received to support the

payment. Based on the review process, it is unlikely the supervisor reviewed and associated these expenditures to the related cases.

### **Recommendation 3:**

We recommend the department update the policies. The policies should require “information only” payments are documented in the investigative reports stating what information was obtained. We also recommend the supervisor review and verify the A-5 forms related to each case correspond to the investigative report. In addition, the A-5 forms should be completed in a consistent manner. All investigators should be trained on the updated policies and procedures.

***Auditee Response:** SOP-04 will be amended to require “information only” payments to be properly documented in the investigative reports. Additionally, the reviewing supervisor will review and verify A-5 forms related to each case correspond to the investigative report. Training will be developed and provided to all investigators in the consistent use of associated confidential fund paperwork.*

**Policies and procedures should be distributed immediately to all affected personnel.**

Prior audits performed in this area resulted in the implementation of several new policies and procedures. The revised policies were reviewed and initially implemented in November 2012. However, our current audit discovered an additional version of the policies was updated in December of 2012. The later version included all the recommended policies from the previous audit.

Even though it appears the division had implemented said policies and procedures, we found not all personnel were provided with the latest version. To ensure compliance with the latest policies and procedures management should immediately distribute revised policies (with revision date noted) to all necessary personnel. Department personnel should review the updated policies and certify receipt and understanding of said policies through signature.

### **Recommendation 4:**

We recommend updated policies be distributed immediately to staff.

***Auditee Response:** Due to its restricted nature, SOP-04 has historically not been stored on the server. This regulated unauthorized viewing of the policy. The policy was then distributed to effected personnel as needed. As of the writing of this response, SOP-04 has been distributed to all personnel whose operations are governed by it. This has been done in PowerDMS and all of these*

*officers will be notified of and required to electronically sign for policy revisions.*

**Recommendation 5:**

We recommend management keep a written record of receipt of such policies by all staff.

***Auditee Response:*** *With the addition of this policy into PowerDMS an electronic record of receipt will be generated by all assigned users.*

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## APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers Police Confidential Fund investigative expenses from October 1, 2013 to October 31, 2014. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the Police Department. Original records as well as copies were used as evidence and verified through physical examination.

We interviewed Police Department staff. We reviewed the Police department's policies related to fiscal procedures (SOP-1), confidential informants (SOP-3), organized crime, narcotics, and vice investigation procedures (SOP-4), investigative services (OPS-38) and confiscated property (OPS-17). In addition, we reviewed *Internal Control and Compliance Manual for Tennessee Municipalities*, *Procedures for Handling Cash Transactions Related to Undercover Investigative Operations of County and Municipal Drug Enforcement Programs*, Chattanooga City Code and Charter, and Tennessee Code Annotated for pertinent facts related to our audit.

We reviewed a sample of closed case files to verify confidential expenditures were in accordance with all applicable laws and policies. The sample size and selection were statistically generated using a desired confidence level of 95 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

We conducted this performance audit from October 2014 to December 2, 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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