

**Compliance Audit 13-08:
Police Confidential Funds**

December 2013

City Auditor

Stan Sewell, CPA, CGFM, CFE

Internal Auditor

Pam Swinney, CPA





OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

December 13, 2013

To: Mayor Andy Berke
City Council Members

Subject: Police Confidential Funds (Report #13-08)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of Police Confidential Funds. Our audit found that the Police department has updated its policies and procedures as recommended in our previous audit report (#11-11). However, we found the division had not implemented three of the policies as required by the Police Department's – Policy Manual *SOP-4 Organized Crime, Narcotics, Vice Investigation Procedures*. In order to address the noted area for improvement, we recommended the division ensure updated policies are implemented and adhered to by division staff.

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
Jeff Cannon, Chief Operating Officer
Audit Committee Members
Bobby Dodd, Chief of Police

TABLE OF CONTENTS

AUDIT PURPOSE.....	1
BACKGROUND.....	1
Financial Information.....	2
FINDINGS AND RECOMMENDATIONS.....	2
All policy updates should be implemented by the division.....	2
APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS.....	4

AUDIT PURPOSE

This audit was conducted at the request of the Chattanooga Police Department (“CPD”) to comply with their accreditation requirements. The objectives of this audit were to determine if:

- Confidential funds were administered in accordance with all applicable laws, policies and procedures.

BACKGROUND

The Major Narcotics and Vice Section (Narcotics & Vice) is a component of the Special Investigations Unit within the 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 Comptroller’s guide for cash transactions related to undercover operations. These minimum guidelines, along with departmental policies (*SOP-1 – Fiscal Procedures*) developed by the 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

Fiscal Year	2011	2012	2013
Investigative Expenses - Narcotic	96,479	178,825	81,173
Investigative Expenses - Part I	24,216	34,587	39,147

Source: Oracle Financials

FINDINGS AND RECOMMENDATIONS

All policy updates should be implemented by the division.

Our prior audit (Confidential Funds Audit 11-11) recommended additional procedures to improve internal controls and facilitate compliance with all applicable laws. Although the policies issued in November 2012 include our recommendations, the division has not fully implemented the updated policies. Based on our review, the Special Investigations division experienced supervisory and personnel changes in the past year.

The following policies described in SOP-4 were not being followed during the audit period:

- Section VIII, Part F(6) requires the supervisor(s) to evaluate on a monthly basis the funds held by each investigator to evaluate the appropriateness of amounts on hand;
- Section VIII, Part F(7) requires random surprise cash counts of confidential funds be documented; and,
- Section IX, Part B requires at the conclusion of an investigation, the investigative supervisor should review and approve both the case file along with the associated A-4s and A-5s.

Recommendation:

We recommend management implement and ensure all personnel are following the most current policies and procedures.

***Auditee Response:** Procedures have been implemented by Supervision to evaluate on a monthly basis the amount of funds held by each investigator. Supervisors have been conducting random end of*

the month money counts. A log has been developed and will be utilized to document all random & unannounced money checks. This log will include: date/time, investigator, amount on balance sheet, amount present at count and the supervisors initials. Random/surprise cash counts will be conducted at Supervisors discretion to assure the Investigators have no shortages or overage with the cash on hand. In order to follow the departmental policies and directives, corrective measures have been made to insure that Supervisors shall compare each Investigators A-4 and A-5 forms to his or her case files at the conclusion of the Investigation as they receive them for review/approval.

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers confidential funds transactions from December 1, 2012 to September 30, 2013. 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 reviewed the Police department's policies related to fiscal procedures (SOP-1) and organized crime, narcotics, and vice investigation procedures (SOP-4). 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 conducted interviews and reviewed a sample of closed case files to verify compliance with all applicable laws and policies related to confidential fund expenditures. We performed surprise cash counts of randomly selected officers to verify confidential funds were intact and properly accounted for and safeguarded.

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 September 2013 to November 2013 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.

City of Chattanooga Fraud, Waste, and Abuse Hotline

Internal Audit's Fraud, Waste, and Abuse Hotline gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any City facility or department.

Internal Audit contracts with a hotline vendor, The Network, to provide and maintain the reporting system. The third party system allows for anonymous reports. All reports are taken seriously and responded to in a timely manner. Reports to the hotline serve the public interest and assist the Office of Internal Audit in meeting high standards of public accountability.

To make a report, call 1-877-338-4452 or visit our website:
www.chattanooga.gov/internal-audit