



# OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

December 17, 2012

Mayor and City Council  
City of Chattanooga  
Chattanooga, TN 37402

RE: Post Audit Review of Police Special Investigation Funds, Audit 11-11

Dear Mayor Littlefield and Council Members:

On March 22, 2012, the Internal Audit Division released an audit on the Police Special Investigation Funds. We performed certain procedures, as enumerated below, with respect to activities of the Police department in order to render a conclusion on the status of the recommendations made as a result of that audit.

This Post Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards.

The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

The conclusions of Audit 11-11 were that:

1. Expenditures from the Drug Fund complied with applicable laws; and
2. Confidential funds were administered in accordance with established policies and procedures; however, additional safeguards are needed.

The audit contained four (4) recommendations that addressed the audit's findings. Based on the review performed, we concluded that recommendations 2 and 3 were implemented, recommendation 1 was partially implemented and recommendation 4 was not implemented.

## Recommendations Implemented [2, 3]

We recommended (**Recommendation 2**) the Police department implement the additional policies and procedures discussed in the finding and include the new procedures in its SOP manual. The additional procedures included:

- Consistent use of case numbers on all related forms
- Confidential expenditure forms should be filed by case number to facilitate both supervisor reviews and the annual audit required by the department's SOP-1.
- Guidance related to investigative report content requirements.

*The updated policy manual section IX has included the procedures recommended in the audit report. We reviewed a random sample of case files and related documentation to verify the new procedures were followed by investigators. Overall, the case numbers were consistently used on all related forms and the report content requirements were included in all reports we reviewed. We noted a couple of instances of noncompliance with the case number policy and one informant payment that did not have the required witness signature. The narcotics supervisor was advised of the post audit review findings.*

We recommended (**Recommendation 3**) the department perform random, annual cash counts of confidential funds held by officers and verify to support documents. Upon request by the Chief of Police, Internal Audit will perform the cash counts as part of its annual petty cash count special project.

*We reviewed the updated policy manual (SOP-4 Organized Crime, Narcotics, Vice Investigation Procedures) and noted section VIII, part F.7 requires the supervisor to conduct random and unannounced audits of confidential funds. The policy states the investigators cash on hand will be counted and compared to the current month's expenditure report/balance. Further, supervisors will document each random count through a log that notates the specifics of the inspection including date/time, investigator, amount on balance sheet, and amount present at count.*

*We interviewed the Narcotics supervisor and reviewed the audit log. According to the supervisor, he has performed **monthly** audits of each investigator's cash on hand. The log indicates the date/time and investigator's name but doesn't include the amount of funds that should be on hand or the amount of funds present at count. The supervisor advised us no discrepancies were found during any of the random counts.*

*Although the supervisor has performed counts of funds, it doesn't appear adequate documentation has been maintained. Further, we reviewed the month end reports and found discrepancies in calculations made by the investigator that should have been discovered during the cash count. The discrepancy has carried forward from May 2012 to November 2012. The supervisor was advised of our post audit review finding.*

## **Recommendations Partially Implemented [1]**

We recommended (**Recommendation 1**) the Police department develop and implement procedures for determining the amount of confidential funds necessary per officer. Further, we recommended periodic review of the established criteria to ensure cash held by officers is not excessive.

*The updated policy manual section VIII part F.6 states the supervisor will evaluate, on a monthly basis, the amount of confidential funds held by each investigator. As part of the evaluation, funds utilized during the month are compared to funds held by the investigator. In general, the amount held by the investigator should not exceed \$1,000 more than the average monthly expenditures.*

*We reviewed the monthly expenditures and cash held by eight narcotics investigators from May 2012 through November 2012. We calculated the average monthly expenditure and average monthly cash on hand for each investigator. We noted only two (2) of the eight (8) investigators average cash on hand adheres to the new policy. Overall, we found the narcotics divisions' cash on hand continues to exceed three (3) times their average monthly expenditures. Based on our review, it appears the policies were developed but not fully implemented by personnel.*

## **Recommendations Not Implemented [4]**

We recommended (**Recommendation 4**) the Finance department be removed from signatory responsibilities on the confidential funds checking accounts. Further, we recommended the Police Chief establish a policy to designate an individual to sign checks (written from the confidential funds accounts), and to provide a threshold amount requiring dual signatures (with Police Chief).

*No changes were implemented by management.*

We thank the personnel in the Police department for their assistance in conducting this review. We will consider this report to be final unless directed to continue our review.

Sincerely,

Stan Sewell, CPA, CGFM  
City Auditor

cc: Audit Committee Members  
Dan Johnson, Chief of Staff  
Daisy Madison, Finance Administrator  
Bobby Dodd, Chief of Police  
Kirk Eidson, Assistant Chief of Investigative Services