

**Performance Audit 24-04:
Chattanooga Police Department
Confidential Funds**

December 2024

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

December 2, 2024

To: Mayor Kelly
City Council Members

Subject: CPD Confidential Funds, Audit 24-04

Dear Mayor Kelly and City Council Members:

The attached report contains the results of our audit of the Chattanooga Police Department's (CPD) confidential funds accounts. Our audit found CPD is not in compliance with all the requirements when administering confidential funds. In order to address the noted areas for improvement, we recommended actions to revise CPD policies to be in line with current practices and to ensure CPD staff follow the requirements for handling confidential funds.

We thank the CPD's staff of the Narcotics/Vice Division, Budget and Finance and Task Force Officers as well as the Finance Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Jermaine Freeman, Chief of Staff
Mande Green, Chief Operating Officer
Steven Wilson, Deputy Chief Operating Officer
John Chambers, Police Chief
Jason Lewis, Assistant Police Chief
Jim Arnette, Tennessee Local Government Audit jim.arnette@cot.tn.gov

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's (OIA) 2024 Audit Agenda. The objective of this audit was to determine if CPD administers confidential funds in compliance with State law and CPD policies and procedures.

BACKGROUND

State law requires the Tennessee Comptroller of the Treasury (Comptroller) to develop procedures for handling cash transactions in undercover narcotics operations by county and municipal drug enforcement programs.¹ The Comptroller procedures apply to all cash transactions in undercover narcotics operations, which for confidentiality reasons are distributed in cash.² Examples of confidential transactions include payments to informants for information and purchasing narcotics in undercover investigations.

To comply with the Comptroller procedures, CPD maintains two (2) bank accounts for undercover operations: Narcotics and Part I Offenses. CPD uses funds from the Narcotics account for drug-related undercover operations, and funds from the Part I Offenses account for all other types of undercover operations, including prostitution, burglary, homicide, and organized crime investigations. CPD has assigned their Office of Budget and Finance (CPD Finance) as the log custodian of these accounts. The log custodian is responsible for receiving, dispersing, and accounting for these two separate bank accounts.

Accessing Confidential Funds

CPD officers assigned to the Narcotics/Vice Division and Task Force officers assigned to various outside agencies³ can obtain confidential funds by completing a Transaction Record of Each Advance or Return of Confidential Funds (A-2 form). The A-2 form details each advance or return of confidential funds and must be approved by the police

¹ T.C.A. § 39-17-420(e)

² CPD has expanded the scope of the Comptroller procedures to apply to cash transactions in all undercover operations.

³ Task Force Officers (TFO) are assigned to outside agencies of Federal Bureau of Investigation, Bureau of Alcohol, Tobacco, Firearms and Explosives, Drug Enforcement Administration, and the US Marshals Service Office. These officers conduct investigations under these agencies' authority and are supervised by a CPD Lieutenant and Sergeant. However, their case numbers and files are not maintained by CPD Narcotics Division.

chief or designee. Advances and returns of confidential funds are also reported on the Custodian's Activity Log (A-1 form). The A-1 form serves as a record of payments into and out of the confidential fund accounts, allowing the custodian to monitor disbursements and account balances.

Accounting for Confidential Funds

After receiving confidential funds, officers must comply with the following requirements to account for funds in their possession:

- 1) Maintain an Agent's Activity Log for Confidential Funds (A-3 form). The A-3 form documents all confidential fund transactions made by the officer during the month.
- 2) Prepare an Accountability of Confidential Funds (A-4 form) for each expenditure. The A-4 form includes the date, amount, and purpose of each confidential fund expenditure. Officers are required to attach all available receipts to the A-4 form.
- 3) Prepare a Receipt for Payment to Informant (A-5 form) for each informant payment. The A-5 form also serves as an agreement between the officer and the informant as to how the funds will be used. Approval by a supervisor is required for informant payments exceeding \$200.
- 4) Notify the Narcotics/Vice supervisor when making an informant payment. The Narcotics/Vice supervisor is responsible for preparing an Informant Payment Record (A-6 form) for each informant receiving confidential funds. The A-6 form records all payments made to the informant and must be maintained with the informant's file in a secure location.
- 5) Submit the required accounting forms to the CPD log custodian at the end of each month.⁴

Prior Audits of Confidential Funds

CPD SOP-01 Section VII.I.2 requires annual audits of confidential funds by OIA. OIA most recently performed an audit of confidential funds in November 2022 and determined CPD's administration of confidential funds complied with state regulations and departmental procedures.

⁴ The log custodian shall maintain all the records of these accounts and shall prepare monthly and quarterly reports for the City's Finance Office regarding the transactions of the Narcotics and Part 1 accounts.

Statistical Information

Each year CPD compiles a summary of the Narcotic Drug Fund and Part 1 Fund activities. The information is listed in Exhibit 1.

Exhibit 1 Summary of annual revenues and expenditures.

Narcotics Fund (9250)	FY21	FY22	FY23
Revenues	329,295	230,895	909,024
Equipment	189,146	413	13,981
Evidence Purchased	29,900	56,811	35,916
Payments to Informants	47,415	70,780	118,340
Supplies and Services	69,845	38,141	14,849
Travel	558	5,472	2,596
Part 1 Fund (2040)	FY21	FY22	FY23
Revenues	4,730	35,936	1,087
Equipment	0	0	0
Evidence Purchased	570	570	624
Payments to Informants	2,730	6,140	4,360
Supplies and Services	0	1,890	7,935

Source: (R-3 Report) Annual Report of County or Municipal Part 1 Fund Activities

FINDINGS AND RECOMMENDATIONS

Noncompliance with policies

Our review of buys made with confidential funds during the period July 1, 2023 to June 30, 2024 found policies were not always followed. The review included interviewing officers and supervisors, examining A forms and comparing them to case files. For the Narcotics/Vice Division officer’s we sampled 39 cases. For officers assigned to the various task forces we reviewed all available source documentation⁵.

Narcotics/Vice Division

A sample of 39 cases logged by the Narcotics Supervisor was chosen to verify if the A forms were completed and approved as required and if the investigative and property reports information matched the A forms data. The review found:

⁵ One of the five TFO officers is assigned case numbers by the Narcotics Division. The officer’s case files and forms are maintained with Narcotics Division and therefore were included in our sample selection.

- Six out of 39 (15%) cases did not obtain the supervisor's written approval for buys over \$200 on the A-5 form.
- Four of the 39 (10%) cases did not document the buy information on the A-6 Informant form.

Task Force Officers

Our review of eight cases completed by the four TFO Officers found the following:

- Six out of eight (75%) cases did not obtain the supervisor's written approval's for buys over \$200 on the A-5 form.
- Two out of eight (25%) cases did not document the buy information on the A-6 Informant forms.
- TFO training documentation was not provided to the Narcotics Supervisor.
- TFO supervisors do not maintain case logs nor do they review and approve closed cases.
- TFO's do not set up cases for buys when only information is purchased.

In addition to reviewing the TFO Officers A forms, OIA planned to verify if the buy information on the A forms matched the investigative and property reports. However, OIA was not granted access to review the outside agency case files.

CPD's SOP provides no exceptions or alternate procedures for the TFO Officers with regard to confidential funds policies. The following CPD policies address the deviations noted above for all officers assigned confidential funds:

- CPD SOP-01 Section VII E.1.c requires payments made to informants of \$200 or more must be approved by a supervisor.
- CPD SOP-01 Section VII, E.1.e, states the officer shall notify the Narcotics supervisor when a payment is made to an informant. The supervisor shall note the funds paid on the A-6 form.
- CPD SOP-04 IX states investigative supervisors will maintain an electronic log for the assigned case numbers.
- Each investigator will maintain an updated case file on all open cases. Once the case is closed, the completed file will be submitted to the investigative supervisor for review/approval.

Policies are in place to ensure CPD's risks are minimized. When SOP's are not followed this increases the risk of misappropriation of funds.

Recommendation 1:

We recommend CPD ensure staff assigned confidential funds and their supervisors are complying with all State laws and CPD policies regarding confidential funds. This recommendation was made previously in an OIA Memorandum dated 8/3/2017.

***Auditee Response:** We concur with the audit finding and recommendation.*

***Estimated Implementation Date:** May 15, 2025*

***Priority Level:** 1*

Recommendation 2:

If CPD intends to continue allowing TFO Officers to follow different procedures than the other officers, we recommend CPD revise their policies to address the assignment of confidential funds to the TFO Officers and the use of confidential funds for non-city cases. The revision should ensure compliance with the Comptroller's procedures. This recommendation was made previously in an OIA Memorandum dated 8/3/2017.

***Auditee Response:** We concur with the audit finding and recommendation.*

***Estimated Implementation Date:** May 15, 2025*

***Priority Level:** 2*

Recommendation 3:

We recommend CPD ensure the TFO Officers complete case reports when confidential funds are used, and the reports are reviewed/approved by their supervisors as required by SOP-04 IX. This recommendation was made previously in an OIA Memorandum dated 8/3/2017.

***Auditee Response:** We concur with the audit finding and recommendation. Discussions have taken place with the TFO Supervisor to develop a procedure for this recommendation.*

***Estimated Implementation Date:** May 15, 2025*

***Priority Level:** 1*

CPD Finance Division

Our review of the Log Custodian's documentation found collections from returned confidential funds were not reported to the Treasurer's Office within three days as required. Per Finance's *City of Chattanooga's Internal Control Manual* Section 3.3.1.1 all funds, regardless of source, received by the City must be reported to the Treasurer's Office within three business days of the initial receipt.

The delay in submitting the collection report timely was caused by not having an assigned backup employee to ensure collections were made timely.

Recommendation 4:

We recommend CPD ensure an employee is assigned the duties of backing up the individual responsible for preparing their collection reports.

***Auditee Response:** We concur with the audit finding and recommendation. Cross training is currently underway and should be completed in a few weeks.*

***Estimated Implementation Date:** December 14, 2024*

***Priority Level:** 2*

CPD policies need updating

OIA compared *Tennessee Comptroller's Procedures for Handling Cash Transactions* and CPD policies to ensure CPD's policies include all the requirements. We found processes are established that address the Comptroller's requirements. However, without written policies in place, the continuity of the processes can be lost when there is employee turnover.

The review found CPD policies do not include language regarding the following:

- The use of pre-numbered receipts when confidential funds are exchanged between employees. A receipt documents the fund's chain of custody.
- Employees participating in cash transactions are required to have a fidelity bond.
- The collection process by the log custodian when an officer closes out his assigned confidential funds account upon leaving the division.

Recommendation 5:

We recommend CPD update their policies to include language regarding the State requirement for fidelity bonds, issuing receipts when funds change hands, and collection of confidential funds from officers by the Log Custodian.

***Auditee Response:** We concur with the audit finding and recommendation.*

***Estimated Implementation Date:** May 14, 2025*

***Priority Level:** 3*

**Cash counts are
needed to verify
officer's
confidential funds**

During our review of case files, we identified a reported buy of \$120 that was not documented on an officer's A-3 form. During our inquiry, the A-4 and A-5 forms for this buy were found in the officer's desk. The forms had been signed by the informant and witnessed by another officer, as required. However, they were not turned into the supervisor or log custodian. Even though the \$120 should have reduced the officer's funds, the officer accounted for all of his confidential funds when leaving the division, which was prior to the initiation of the audit.

The Comptroller requires the A-3 form, Agents Activity Log, to record every transaction (disbursements and receipts) by the officer for their confidential funds. The form records the running balance of the officer's funds. The form also requires the officer and the supervisor to attest the amounts reported are true. However, the supervisor did not count the funds to verify they matched the reported balance on the A-3 form prior to signing it. This would have identified the discrepancy.

Recommendation 6:

We recommend CPD ensure the supervisor who signs the A-3 form perform a cash count of the funds before affirming the amount reported on the form.

***Auditee Response:** We agree with the finding and recommendation. We implemented the procedure beginning in September 2024.*

***Estimated Implementation Date:** Implemented.*

***Priority Level:** 1*

Recommendation 7:

We recommend CPD update their policy to reflect this new procedure.

***Auditee Response:** We concur with the audit finding and recommendation.*

***Estimated Implementation Date:** May 14, 2025*

***Priority Level:** 1*

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers the administration of confidential funds from July 1, 2023 to June 30, 2024. When appropriate, the scope was expanded to meet the audit objectives. We reviewed source documentation obtained from CPD and the Finance department. We used original records and copies as evidence verified through physical examination.

We verified CPD performed monthly reconciliations of the confidential funds checking accounts as required. We compared the *Tennessee Comptroller's Procedures for Handling Cash Transactions* to CPD's policies to ensure compliance. To evaluate the efficiency of the process, we interviewed staff to gain an understanding of the process, reviewed policies and procedures and performed cash counts of the confidential funds.

We reviewed a random sample of the Narcotics Division cases and all buys for the Task Force Officers assigned confidential funds to verify the confidential expenditures were in accordance with 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.

To achieve the audit's objectives, reliance was placed on data maintained by CPD. We assessed the reliability of the data and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

We conducted this performance audit from May 2024 to November 2024 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.

APPENDIX B: PRIORITY LEVEL DEFINITIONS

Priority 1: Critical control weakness exists that exposes the City to a high degree of risk. Noncompliance with federal, state or local law, regulation, statute, charter or ordinance will always be considered a priority 1.

Priority 2: Control weakness exists that exposes the City to a moderate degree of risk.

Priority 3: The opportunity for improved efficiency or reduced exposure to risk exists.

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