



**Compliance Audit 2020-03
Police Department Confidential Funds**

January 2020

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EXECUTIVE SUMMARY

The purpose of the audit was to evaluate compliance with the organization's policies and procedures; applicable laws, regulations and guidelines, and evaluate internal controls for the Police Department's confidential funds. In addition, the auditors reviewed to determine if sufficient corrective action was taken by management to address recommendations detailed in prior year audit reports.

The Office of Internal Audit reviewed use, security and maintenance of confidential funds for eight of 27 (30%) personnel that utilized and/or maintained confidential funds for the period of January 1, 2019 to October 31, 2019. The review included the accounting records and documents pertaining to confidential funds. In addition, the auditors interviewed Police Department personnel involved in the administration, maintenance and use of the funds, and traced contraband purchased during operations to the Property and Evidence Room.

The Office of Internal Audit concluded the Police Department was generally in compliance with the organization's policies and procedures; applicable laws, regulations and guidelines regarding the Police Department's confidential funds. However, prior findings relating to Operating Procedure 6.2 had not been updated to address a prior year finding to ensure RMS disposal records provided adequate documentation to account for transfers from the Property and Evidence Room to the Narcotics Unit, and Operating Procedure 5.8 had not been updated to address the reporting and review process for confidential funds.

BACKGROUND

The Fayetteville Police Department's Special Investigative Division administers and controls an informant/expenditure cash fund. The units within this Division conducted covert operations and had an original annual budget for fiscal year ending June 30, 2019 and June 30, 2020 of \$100,000 for each fiscal year. Allowable uses of this fund were to pay informants, purchase contraband or otherwise maintain and finance undercover or investigative operations approved by the Chief of Police or designee. By using these funds, the units were able to conceal their identity from criminals, vendors and the public.

The Narcotics Unit Lieutenant, within the VICE Investigative Division, is the custodian for the cash fund. The custodian is responsible for the physical safeguarding of the cash in the fund, as well as assuring the money is used for authorized purposes. Separate ledgers are maintained by the Lieutenant and the Sergeants identifying all cash coming into the fund and all cash payments to personnel. All personnel sign a cash payment receipt (Form POL-518 – Receipt of Special Investigation Funds Narcotics Investigation Division) each time funds are spent or received.

AUDIT OBJECTIVES

The objectives of this audit were to determine if:

- Confidential funds were sufficiently administered in accordance with established laws, regulations, guidelines, policies and procedures;
- Proper internal controls existed and were working as intended to safeguard confidential funds from loss, theft or fraud;
- Expenditures and withdrawals from the funds were properly authorized, approved and recorded;
- Complete and accurate manual records were maintained for all deposits, withdrawals and other transactions affecting the confidential fund accounts;
- To the extent possible, that security provisions for automated records were operating to provide for separation of duties, data integrity and an audit trail; and
- Sufficient corrective actions were taken by management to address the recommendations detailed in prior fiscal year audit reports.

This audit was conducted pursuant to *Fayetteville Police Department Operating Procedure 5.8 Confidential Funds and Use of Informants* effective December 21, 2018 which states an audit of the confidential funds account will be conducted annually. Additionally, the audit was scheduled to be performed as part of the Office of Internal Audit's approved *Annual Audit Plan Fiscal Year 2020*.

AUDIT SCOPE

The scope of the audit included all current practices related to confidential funds. In addition, the audit period covered fund activity from January 1, 2019 to October 31, 2019 for the Fayetteville Police Department's VICE Investigative Division.

AUDIT METHODOLOGY

To review compliance and determine the adequacy of internal controls, Internal Audit:

- Compared applicable written policies, procedures, laws, regulations and guidelines against actual practices of the Police Department;
- Interviewed Police Department personnel involved in the administration, maintenance and use of confidential funds;
- Reviewed the accounting records and documents pertaining to confidential funds to include Power DMS, and
- Traced contraband seized during operations to the Property and Evidence Room.

Through Power DMS, the Police Department can track and ensure all Police Department personnel have acknowledged receipt of documents, including new and/or updated operating procedures and other relevant documents. Reports from Power DMS were used to verify whether Police Department personnel involved in the administration, maintenance and use of confidential funds had acknowledged receipt of the most recent update to the operating procedure related to confidential funds.

For the period of January 1, 2019 to October 31, 2019, there were 27 personnel that utilized and/or maintained confidential funds. In order to conduct the audit, a sample size of eight personnel (30%) that utilized and/or maintained confidential funds was judgmentally selected to reasonably ensure the sample allowed for diversity within the population.

Below is a chart which summarizes the expenditures audited from the sample:

<u>Audited Expenditures of Confidential Funds</u> ¹	<u># of Transactions</u>	<u>Amount</u>
Payments to Non-Departmental Personnel	48	\$9,633.04
Purchase of Contraband	42	\$48,183.44
Special Investigative Expense	1	\$20.50
Total Expenditures Audited	91	\$57,836.98

¹Does not include "administrative transfer of funds". These are funds that are transferred from one officer to another and are not expenditures of the funds.

Below is a chart which reflects the fund balances at the time of cash counts:

Summary of Cash on Hand	
Personnel²	Amount
Narcotics Lieutenant	\$4,000.00
Sergeant 1	1,080.00
Sergeant 2	2,760.00
Sergeant 3	1,340.00
Detective 1	40.00
Detective 2	-
Detective 3	20.00
Detective 4	-
Detective 5	1,280.00
Detective 6	20.00
Detective 7	-
Detective 8	230.00
Total	\$10,770.00

²Names were not used in this report, due to the sensitivity of undercover work.

***FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

Based on the audit work performed, the Office of Internal Audit concluded the Police Department's Special Investigation Division was generally in compliance with the organizations policies and procedures; applicable laws; regulations and guidelines, and adequate internal controls existed for the Police Department's confidential funds. There were no significant exceptions noted.

FOLLOW-UP AUDIT RESULTS

Based on the results of follow-up test work, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in personnel levels, or management has decided to assume the risk.

Original Finding 4 (Report A2016-01)

RMS disposal records did not provide adequate documentation to account for transfers from the Evidence Room to the Narcotics Unit.

City management is responsible for establishing and maintaining a system of internal controls to ensure financial activity is accurately reported and reliable. During the audit of confidential funds (buy money) transferred from the Evidence Room to the Narcotics Unit, the auditors identified \$8,871.00 recorded in the Narcotics Unit financial records. A report was requested from Police Department Evidence Room personnel showing all confidential funds (buy money) released from the Evidence Room to the Narcotics Unit confidential funds custodian from July 1, 2014 to June 30, 2015. Evidence Room personnel presented the auditors with a disposal report titled "Fayetteville Police Department" with disposition dates from January 29,

2010 to May 8, 2015. In addition, the Narcotics Unit provided Internal Audit with two Chain of Custody Signature Forms; dated August 26, 2014 for \$2,156.00 and May 8, 2015 for \$6,715.00. The following observations were noted:

1. When comparing the Evidence Room disposal report to the Chain of Custody Signature Forms, there was \$6.00 reflected on the Chain of Custody Signature Form with the disposition date of August 26, 2014 but not on the Evidence Room disposal report. Based on an Internal Audit inquiry, Evidence Room personnel were not able to identify the reason the \$6.00 was not removed from evidence when the barcode was scanned and the funds were transferred to the Narcotics Unit. Therefore, the \$6.00 did not show as disposed in RMS until Internal Audit identified the error and Evidence Room personnel corrected the evidence records.
2. Internal Audit noted \$4,000.00 on the Chain of Custody Signature Form with the disposition date of May 8, 2015 but was listed on the Evidence Room disposal report with a disposition date of January 29, 2010. Based on an Internal Audit inquiry, Evidence Room personnel were not able to identify the reason for the inconsistency in the disposed date. Once Internal Audit identified the discrepancy the Evidence Room personnel corrected the evidence records.

Overall, the Police Department Evidence Room personnel did not verify if disposed property was recorded accurately into RMS. Standard operating procedures in place did not incorporate this control. Verifying disposed property within RMS would ensure accurate recording of evidence records for the Police Department. In addition, processes were not in place to ensure confidential funds (buy money) disposed and transferred from Evidence to the Narcotics Unit was being independently reconciled and reviewed.

Original Recommendation

The Police Department personnel should update operating procedures regarding the transfer of confidential funds (buy money) to/from the Evidence Room and RMS. The operating procedures should include management oversight independent of the confidential funds process to perform periodic audits of the transfers to/from the Evidence Room to ensure confidential funds are accounted for and reconcile to the Evidence Room records.

FPD Management's Response: Management concurs.

FPD Explanation: The Evidence and Property Management Section is conducting a 100% inventory of currency due to restrictions generated from our antiquated hand written evidence card system used prior to 2011. By conducting this inventory and updating RMS there will no longer be a need to sign the older evidence card when a transfer of funds is conducted. With each individual item receiving a barcode all items will be scanned in the system, signed by an evidence clerk and the person receiving the transfer. A copy will be presented to the individual receiving the transfer. When the item is transferred the Evidence section will ensure that all boxes in RMS have been updated to reflect the transfer is complete.

FPD Solution: FPD will update Operating Procedure 6.2, Evidence and Property Management to identify management oversight independent of the confidential funds process. The Technical Services Unit Supervisor will include an audit sampling of the transfers to/from the Evidence Room to be documented in the Monthly Evidence Room Inspection Report. Training on the revised policies will be provided to all personnel assigned to the Property and Evidence function.

Responsible Party: Evidence Lieutenant

Implementation Date: February 1, 2016

Follow-up Report (A2017-02)

Police Department Operating Procedure 6.2 - *Evidence and Property Management* was updated effective March 18, 2016 to include procedures for disposal and transfer of confidential funds. Based on Internal

Audit's review of confidential funds cash records, there were no transfers of cash from the Evidence Room to the confidential funds safe during the current audit period. Therefore, Internal Audit was unable to determine if the current practice and the policy update sufficiently addressed this recommendation. However, based on Internal Audit inquiry, the Police Department provided a memorandum proposing a process to require confidential funds to be released from the Evidence Room and be deposited into the City's general fund instead of returning the funds to the Narcotics Lieutenant's confidential funds safe.

Follow-up Report (A2018-03)

During the prior audit period, there were no transfers of cash from the Police Department Property and Evidence Room to the Narcotics Lieutenant's confidential funds safe. However, there was one cash reimbursement from the U.S. Department of Justice, Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). During the 2017 year audit (A2017-02), the Narcotics Lieutenant proposed reimbursement of confidential funds, whether from the Property and Evidence Room or outside agencies to be deposited to the general fund via depositing with the City of Fayetteville Finance Department. Although the operating procedures were not updated with the proposed process, the payment received from ATF was deposited to the general fund as the memorandum proposed.

Based on Internal Audit inquiry, Police Department management continued to design procedures that will provide optimal improvement to the processes, to include overall effectiveness and efficiencies. Additionally, Internal Audit was conducting an audit of the Police Department Property and Evidence Room and changes would not be incorporated into operating procedures until the audit was completed.

Follow-up Observation (A2019-01)

The Narcotics Unit received \$5,660 of confidential funds from the Property and Evidence room during the audit period, and Internal Audit reviewed the chain of custody and currency envelopes for the money received. In addition, Operating Procedures 5.8 was updated in December 2018 to provide guidance for treatment of recovered funds.

However, the recommendation for this finding was to update the operating procedures regarding the transfer of confidential funds (buy money) to/from the Evidence Room and RMS. Management's response was that *Operating Procedure 6.2 Evidence and Property Management* would be updated. Based on the January 24, 2019 corrective action plan update to A2018-01 Evidence and Property Management Audit, Operating Procedure 6.2 is currently in draft format and is being updated.

Current Observation (A2020-03)

Based on Internal Audit inquiry, Police Department management stated: "The Police Department has been working on updating this operating procedure policy and it is currently being reviewed by staff for updating to address this section of the policy. The policy should be finalized and updated by the end of the first quarter of 2020. The Chief will ensure we forward a copy of the policy to the Audit Director upon completion."

Status of Recommendation

In Progress

Original Finding 1 (Report A2018-03)

Documentation of review and timely reporting were lacking.

1.1 – Documentation of review. Operating Procedure 5.8.6 as updated effective March 18, 2016, states: "Detectives will submit their completed Monthly Expenditure Report packet to their immediate supervisor for initial review. After the supervisory review is completed, the supervisor will submit all Monthly Expenditure Report packets to the Narcotics Office Assistant for the initial reconciliation. The Narcotics Office Assistant is responsible for the initial reconciliation of funds for review by the Narcotics Lieutenant. If the Narcotics Office Assistant is not available then the initial reconciliation will be done by the VCU Office Assistant. Completed packets will be forwarded to the Narcotics Lieutenant for initial review and

then to the Major Crimes Division Captain for final reconciliation and review. The Narcotics Lieutenant will include a memorandum documenting significant activity involving confidential funds and will also document the monthly CI log file review and the random check of detective's cash balance on hand completed during the month. The final packet and audit findings will be forwarded to the Division Captain by the Major Crimes Division Captain." Furthermore, "The Division Captain will submit the completed monthly Confidential Funds file to the Bureau Commander each month for review."

While the Monthly Expenditure Report packets appeared to be routed according to policy, there was not always clear documentation of the review. For the fifteen month period covered in the audit, there were 12 months (80%) with no documented review by the Major Crimes Division Captain and 6 months (40%) with no documented review by the Bureau Commander. Internal Audit noted a form titled "CI File Transfer/Review" included in the Monthly Expenditure Report packets for the months of January 2017 through June 2017. However, this form included dates of transfer from one individual to another but did not include signatures representing the review had been performed.

Currently, operating procedures require a review of the completed monthly Confidential Funds file by management, but does not require documentation representing the review was performed. Because of inherent limitations in any system of internal controls; errors or irregularities may occur and not be detected. Without management providing documentation that proper reviews were completed Internal Audit could not reasonably ensure the reports were reviewed and accountability had been established.

1.2 – Timely reporting. The performance of ensuring the Monthly Expenditure Reports were prepared timely, which would allow for timely detection of errors and appropriate corrective action, is an effective internal control.

Internal Audit noted the Monthly Expenditure Reports were not submitted timely. Using the date of the memorandum prepared by the Narcotics Unit Lieutenant, Internal Audit determined that an average 53 days elapsed from the end of the month before the Monthly Expenditure Report packets were compiled. In addition, there was an average of 83 days from the end of the month before the Monthly Expenditure Report packets were signed by the Special Investigative Division Captain.

Based on Internal Audit's review, policies and procedures did not address reporting requirements to ensure the Monthly Expenditure Report is completed in a timely manner. Without the Monthly Expenditure Reports being timely submitted, errors may not be detected and addressed in a timely manner.

Original Recommendation

The Police Department personnel should assess the reporting and review process for confidential funds and take steps to correct any deficiencies in the process to ensure departmental objectives are achieved and departmental responsibilities are met. The process should be well documented in operating procedures so as to set forth requirements and expectations; to ensure consistency and reliability of information; and to provide adherence to applicable policies, laws and regulations.

FPD Management's Response

We concur. Management is in full agreement with the recommendation.

Departmental personnel will regularly review the process and document during their monthly reconciliation of confidential funds to ensure departmental objectives are achieved and the departmental policies are effective and efficient. Additionally, the Captain over the Narcotics Unit will be responsible for ensuring the process is reviewed and documentation is submitted in a timely manner no later than two months after the monthly reconciliation.

Responsible Party: Captain over Narcotics Unit

Implementation Date: Effective immediately, this process will begin and continue to be prioritized for accuracy and compliance.

Follow-up Observation (A2019-01)

During the current audit, Internal Audit reviewed CI File Transfer/Review logs to determine the timeliness of the monthly reconciliations. For the period under review, Internal Audit noted an overall average of 38 days elapsed from the end of the month to the time the Monthly Expenditure Report packets were signed by the Special Investigative Division Captain; whereas, previously the average was 83 days. For 10 (76%) out of 13 months, the reconciliation was completed and filed for storage in the Narcotics Unit in under 60 days as set forth in the management response.

Internal Audit reviewed Operating Procedure 5.8 and determined the procedures had not been updated to provide guidance for timeliness of this process. Based on the October 25, 2018 corrective action plan, the Police Department is still researching industry ‘best practices’ in considering a policy change that would specify an exact timeframe for confidential fund reconciliation reports. However, the Police Department did not recommend specifying a timeframe due to the possibility of unforeseen delays which would result in a potential violation of the policy. Therefore, although, it appeared the review process was timely, the operating procedures had not been updated as stated in the recommendation for this finding.

Current Observation (A2020-03)

Based on Internal Audit inquiry, Police Department management stated: “The Police Department has updated the process over the past year and has also worked to address updating this operating procedure policy. The department is currently staffing the policy for the monthly reconciliation of the Confidential Funds. The policy should be finalized and updated by the end of the first quarter of 2020. The Chief will ensure we forward a copy of the policy to the Audit Director upon completion.”

Status of Recommendation

In Progress

CONCLUSION

Based on audit work, Internal Audit determined the Police Department generally adhered to the organization’s policies and procedures; applicable laws, regulations and guidelines during the period January 1, 2019 through October 31, 2019. The Police Department’s VICE Investigative Division have continually reviewed and updated policies and procedures, which contributed to stronger controls and a general adherence to policies and procedures over confidential funds. However, Operating Procedures 6.2 and 5.8 should be updated to address prior year audit findings.

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