



# **Compliance Audit 2021-01 Police Department Confidential Funds**

**November 2021**

**Director of Internal Audit**  
Elizabeth Somerindyke

**Senior Internal Auditor**  
Rose Rasmussen

**Internal Auditor**  
Amanda Rich



**OUR MISSION**

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville’s operations.

**Director of Internal Audit**  
Elizabeth Somerindyke

**Senior Internal Auditor**  
Rose Rasmussen

**Internal Auditor**  
Amanda Rich

**TABLE OF CONTENTS**

[Executive Summary.....1](#)

[Background.....2](#)

[Findings, Recommendations and Management Responses..... 3](#)

[Follow-up Audit Results..... 3](#)

[Conclusion..... 3](#)

[Internal Audit | Fayetteville, NC \(fayettevillenc.gov\)](http://fayettevillenc.gov)

**Mailing Address: 433 Hay Street, Fayetteville, NC 28301**

## ***EXECUTIVE SUMMARY***

The audit was conducted pursuant to *Fayetteville Police Department Operating Procedure 5.8 Confidential Funds and Use of Informants* effective December 21, 2018 which stated 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 2021*.

### **Background**

The Fayetteville Police Department's Vice Investigative Division administered and controlled an informant/expenditure (confidential) cash fund to be used for covert operations with a budget of \$100,000 for each fiscal year.

### **Objective**

The purpose of the audit was to determine if the Police Department's confidential funds were sufficiently administered in accordance with established laws, regulations, guidelines, policies and procedures, to include evaluating the effectiveness of established internal controls. Internal Audit also reviewed to determine if sufficient corrective actions were taken by management to address recommendations detailed in prior year audit reports.

### **Scope**

The scope of the audit covered the period of December 1, 2019 through June 30, 2021 and sampled 7 of 27 (26%) personnel that utilized and/or maintained confidential funds. The sample resulted in Internal Audit reviewing 201 expenditures totaling \$106,398.

### **Conclusion**

Based on audit work performed, the Vice Investigative Division administered the confidential funds in accordance with established procedures, and internal controls were satisfactory and worked effectively. There were no significant exceptions noted.

Corrective actions had not been finalized by management to address recommendations detailed in fiscal year 2016 and 2018 audit reports. Audit recommendations related to updating operating procedures remained not implemented.

\*\*\*\*\*END OF EXECUTIVE SUMMARY\*\*\*\*\*

## ***BACKGROUND***

The Fayetteville Police Department's Vice Investigative Division administered and controlled an informant/expenditure (confidential) cash fund to be used for covert operations with a budget of \$100,000 for each fiscal year.

The Narcotics Unit Lieutenant was the cash custodian with the responsibility of safeguarding the physical cash and ensuring authorized use of the funds. In addition, cash ledgers were maintained and completed along with required receipts when funds were spent by personnel who received or used cash. Based on operating procedures, the fund had the following allowable uses:

1. Pay informants or citizen sources;
2. Purchase contraband; or
3. Expenses incurred while working undercover or investigative operations.

Fayetteville Police Department officers and detectives were required to submit purchases of contraband, stolen goods, firearms, or other illegal items to the Property and Evidence Section.

## ***AUDIT OBJECTIVES***

The objectives of the 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; and
- Sufficient corrective actions were taken by management to address the recommendations detailed in prior fiscal year audit reports.

## ***AUDIT SCOPE***

The scope of the audit covered fund activity from December 1, 2019 through June 30, 2021. In order to conduct the audit, a sample size of 7 (26%) of the 27 personnel that utilized and/or maintained confidential funds was judgmentally selected to reasonably ensure the sample allowed for diversity within the population.

A scope limitation existed in receiving all required information from external public safety agencies due to the sensitive nature of the work performed.

The sample of expenditures reviewed during the audit scope for the sampled personnel were as follows:

<b><u>Audited Expenditures of Confidential Funds<sup>1</sup></u></b>	<b><u># of Transactions</u></b>	<b><u>Amount</u></b>
Payments to Non-Departmental Personnel	102	\$ 20,432
Purchase of Contraband	91	83,650
Special Investigative Expense	8	2,316
<b>Total Expenditures Audited</b>	<b>201</b>	<b>\$ 106,398</b>

<sup>1</sup>Does not include "administrative transfer of funds." These are not expenditures of the fund.

## **AUDIT METHODOLOGY**

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

- Reviewed applicable written policies, procedures and guidelines;
- Interviewed and conducted cash counts of 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 training provided through Power DMS; and
- Traced contraband purchased during operations to the Property and Evidence Section.

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

Based on audit work performed, the Vice Investigative Division administered the confidential funds in accordance with established procedures, and internal controls were satisfactory and working effectively. There were no significant exceptions noted.

## **FOLLOW-UP AUDIT RESULTS**

The Police Department has two outstanding audit recommendations that will be added to the quarterly management implementation status report until fully implemented:

	<b>Original Recommendation</b>	<b>Observation</b>	<b>Status</b>
A2016-01: Recommendation 4	RMS disposal records did not provide adequate documentation to account for transfers from the Evidence Room to the Narcotics Unit.	Management's response was to update <i>Operating Procedure 6.2 Evidence and Property Management</i> . However, an update of OP 6.2 was in progress but had not been finalized.	<b>Not Implemented</b>
A2018-03: Recommendation 1	Documentation of review and timely reporting were lacking.	Management's response was to update <i>Operating Procedure 5.8 Confidential Funds &amp; Use of Informants</i> . However, OP 5.8 had not been updated.	<b>Not Implemented</b>

## **CONCLUSION**

Internal Audit has concluded work on the audit of Police Department Confidential Funds. Based upon test work performed, Internal Audit concluded the Department was in compliance.

Internal Audit would like to thank Department personnel for their assistance and numerous courtesies extended during the completion of this audit.

### ***Distribution:***

Audit Committee  
Douglas J. Hewett, City Manager  
Gina Hawkins, Chief of Police