

**Performance Audit 20-02:
Drug Fund Revenues**

September 2020

City Auditor

Stan Sewell, CPA, CGFM, CFE

Senior Auditor

Jeff Connor, JD, CFE





OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

September 8, 2020

To: Mayor Andy Berke
City Council Members

RE: Drug Fund Revenues Audit (Report #20-02)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of Drug Fund revenues. Our audit determined that the Drug Fund's fiscal controls are reliable and effective, and the City's process for collecting and administering drug fund revenues complies with applicable state law, fiscal controls, policies and procedures.

We would like to take this opportunity to thank the Department of Finance and Administration, Chattanooga City Court, Chattanooga Police Department, and the Office of the Hamilton County Criminal Clerk for their courtesy, cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Kerry Hayes, Chief of Staff
Maura Sullivan, Chief Operation Officer
Daisy Madison, City Finance Officer
Brian Smart, Manager Financial Operations
David Roddy, Chief of Police
Vickie Haley, Purchasing Director
Jennifer Collins, City Court Operations Assistant
Jim Arnette, Tennessee Local Government Audit

TABLE OF CONTENTS

AUDIT PURPOSE.....	2
BACKGROUND.....	2
TEST RESULTS.....	3
Drug Fund Fiscal Controls and Compliance.....	3
APPENDIX A: Scope, Methodology And Standards.....	5

AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2020 Audit Agenda. The objective of our audit was to determine if the City's collection and administration of Drug Fund revenues comply with Tennessee law, fiscal controls, policies and procedures.

BACKGROUND

The Drug Fund (also referred to as the "Narcotics Fund") is a special revenue account administered by the City's Finance Department. *T.C.A. § 39-17-420* establishes the Drug Fund and places it under the control of the city recorder (or Finance Department). The Drug Fund is administered in much the same way as other special revenue accounts—although the Drug Fund has its own unique regulations.

Sources of Revenue

Drug Offense Fines. In narcotics cases where the CPD is the arresting agency, the Hamilton County Sessions and Criminal Courts remit the drug fines imposed on criminal defendants to the City.¹ The City is required to deposit 50 percent of the drug fines into the Drug Fund and the remaining 50 percent into the City's General Fund.²

Confiscated Cash and Property. Confiscated cash and proceeds from the sale of property awarded to the City pursuant to Tennessee drug control laws must also be deposited into the Drug Fund. Confiscated items may also be repurposed for use in drug enforcement activities.

Contributions. Drug Fund revenues may also come from criminal plea agreements, forfeiture agreements, and subsidies from federal and state agencies. City Council may also allocate funds to the Drug Fund.

Annual Budget

The Chattanooga Police Department (CPD) establishes the annual budget for the Drug Fund, subject to City Council approval. Proposed Drug Fund expenditures are based primarily on the operational and capital needs of the CPD Narcotics Division. With limited exceptions, the CPD uses Drug Fund money for the Narcotics Division operations. Generally, the CPD spends far less each year than the budgeted

¹ As part of the audit, we performed an on-site inspection of the Hamilton County Criminal Court Clerk's process for collecting and remitting drug fines to the City. Based on interviews and observation, we determined the Clerk's office maintains a sufficiently reliable process for collecting and remitting drug fines to the City.

² *T.C.A. § 39-17-428*

amount approved by City Council. All unspent funds “roll back” into the special revenue account for use in the following year budget.

Expenditures

Tennessee law limits Drug Fund expenditures to drug treatment, education, and enforcement programs, and nonrecurring general law enforcement expenses. In addition, Drug Fund expenditures (excluding Confidential Drug Fund expenditures discussed below) must follow the City’s normal purchasing procedures.³

Confidential Drug Fund Expenditures. Confidential Drug Fund expenditures are expenses related to undercover law enforcement operations.⁴ Typically, these expenditures include payments to confidential informants and money used to purchase narcotics in undercover operations. Confidential expenditures are governed by a comprehensive set of regulations established by the Tennessee Comptroller, and exempt from the City’s procurement guidelines.⁵

Financial Information

Exhibit 1. Drug Fund Revenues & Expenditures

<i>Drug Fund (9250)</i>	<i>FY2018 Actual</i>	<i>FY2019 Actual</i>	<i>FY2020 Budgeted</i>
Revenues	\$389,134	\$295,601	\$310,000
Expenditures	\$229,101	\$151,316	\$310,000

Source: 2020 Comprehensive Annual Budget Report (CABR)

TEST RESULTS

Drug Fund Fiscal Controls and Compliance

We determined that the Drug Fund’s fiscal controls are reliable and effective, and the City’s process for collecting and administering drug fund revenues complies with applicable state law, internal fiscal controls, policies and procedures.

Audit Test: Confiscated Cash/Property

Standard(s): T.C.A. § 39-17-420 requires that all confiscated cash and proceeds from the sale of property awarded to the City pursuant to drug control laws be deposited into the Drug Fund. T.C.A. § 53-11-451

³ T.C.A. § 39-17-420

⁴ The Office of Internal Audit previously audited the Confidential Fund expenditures by the CPD in 2019. Refer to Police Confidential Funds Audit 19-02.

⁵ See Tennessee Comptroller Procedures for Handling Cash Transactions Related to Undercover Investigative Operations.

describes the goods/property subject to forfeiture and the process for disposition.

Findings: All Drug Fund transactions reviewed involving revenues from confiscated cash/property complied with *T.C.A. § 39-17-420 and §53-11-451*.

Audit Test: Drug Offense Fines

Standard(s): *T.C.A. § 39-17-428* requires that 50 percent of each drug fine go to the City's General Fund and the remaining 50 percent to the Drug Fund special revenue account.

Findings: All Drug Fund transactions reviewed involving revenues from drug offense fines complied with *T.C.A. § 39-17-428*.

Audit Test: Collection Reports and Support Documents

Standard(s): *T.C.A. § 6-56-111* requires that funds collected by municipal employees be turned over to the City Treasurer within three (3) days of receipt. Additionally, the Finance Collections Manual requires collection reports and support documentation to specify the date and source of funds received, method of payment, mail list (if applicable), amount, and specific purpose.

Findings: All transactions reviewed involving the collection of Drug Funds showed the City employee who received the funds deposited them within three (3) days of receipt. The collection reports and supporting documentation reviewed properly described the date and source of funds received, method of payment, amount, and specific purpose.

Audit Test: Expenditures

Standard(s): *TCA § 39-17-420* limits Drug Fund expenditures to drug treatment, education, and enforcement programs, and nonrecurring general law enforcement expenditures; and further requires all expenditures (excluding Confidential Fund expenditures) to follow the City's normal purchasing guidelines.

Findings: All Drug Fund expenditures reviewed complied with *TCA § 39-17-420* and followed the City's procurement process.

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers the collection and administration of Drug Fund revenues from July 1, 2018 to June 30, 2020. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from archived records and the Oracle system. Original records as well as copies were used as evidence and verified through physical examination.

To develop our recommendations, we reviewed fiscal policies, procedures, and controls governing the Drug Fund special revenue account, researched applicable state law and standard operating procedures for municipal Drug Funds developed by the Municipal Technical Advisory Services Institute for Public Service (MTAS), examined records maintained by the City of Chattanooga and Hamilton County Criminal Clerk, interviewed staff, assessed key risk factors, and evaluated best practices for administering municipal Drug Funds.

We used non-statistical sampling to determine the sample size and selection of the Drug Fund transactions and records we tested for compliance. Non-statistical sampling is the selection of a test group based on the auditor's judgment, rather than a formal statistical method. To determine the appropriate sample size, we considered sampling risk and the extent to which errors were expected. Sampling risk arises from the possibility that a conclusion may be different from the conclusion reached by subjecting the entire population to the same testing procedure. We did not extrapolate the results of our testing to draw conclusions over the population as a whole.

We conducted this performance audit from March 2020 to August 2020 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, Navex Global, 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