

## **Performance Audit 25-05: Chattanooga Police Department Confidential Funds**

**December 2025**

**City Auditor**

Stan Sewell, CPA, CGFM, CFE

**Senior Auditor**

Lisa Culver, CFE





# OFFICE OF INTERNAL AUDIT

**Stan Sewell, City Auditor**

December 3, 2025

To: Mayor Kelly  
City Council Members

Subject: CPD Confidential Funds, Audit 25-05

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 identified areas of non-compliance when administering confidential funds and expenditures of Drug Fund revenue. 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 and the Drug Fund expenses.

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

Sincerely,

Stan Sewell, CPA, CGFM, CFE  
City Auditor

Attachment

cc: Audit Committee Members  
Kevin Roig, Chief of Staff  
Mande Green, Chief Operating Officer  
John Chambers, Police Chief  
Kevin Trussell, Assistant Police Chief  
Jim Arnette, Tennessee Local Government Audit [jim.arnette@cot.tn.gov](mailto:jim.arnette@cot.tn.gov)

## TABLE OF CONTENTS

AUDIT PURPOSE .....	2
BACKGROUND .....	2
Accessing Confidential Funds.....	2
Accounting for Confidential Funds.....	3
Prior Audits of Confidential Funds.....	3
Statistical Information .....	4
FINDINGS AND RECOMMENDATIONS.....	4
Noncompliance with CPD policies and documentation requirements.....	4
Narcotics Officer's Buys.....	4
TFO Buys.....	5
Task Force Officers.....	6
Drug Fund expenditures .....	6
Controls needed for confidential funds check processing .....	7
Excessive and unused confidential funds.....	9
APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS.....	11
APPENDIX B: PRIORITY LEVEL DEFINITIONS .....	12

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## AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's (OIA) 2025 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.

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## 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.<sup>1</sup> The Comptroller procedures apply to all cash transactions in undercover narcotics operations, which for confidentiality reasons are distributed in cash. 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 the CPD Finance staff as the log custodian of these accounts. The log custodian is responsible for receiving, dispersing, and accounting for these two separate bank accounts.<sup>2</sup>

### Accessing Confidential Funds

CPD officers assigned to the Narcotics/Vice Division and Task Force Officers (TFOs) obtain funds by completing an A-2 form (Transaction Record of Each Advance or Return of Confidential Funds).<sup>3</sup> This form requires approval from the Police Chief or designee. Advances and returns are also tracked on the A-1 form (Custodian's Activity Log), which allows the log custodian to monitor disbursements and account balances.

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<sup>1</sup> T.C.A. § 39-17-420(e)

<sup>2</sup> CPD SOP-01 states the log custodian shall maintain all records of these accounts.

<sup>3</sup> TFO can be 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.

## Accounting for Confidential Funds

After receiving funds, officers must comply with the monthly accounting requirements as shown in Exhibit 1:

### Exhibit 1: Officer Confidential Fund Forms

Form #	Official Form Title	Purpose/Requirement
A-3	Agent's Activity Log	Documents all confidential fund transactions made by the officer during the month.
A-4	Accountability of Confidential Funds	Prepared for each expenditure, detailing the date, amount, and evidence purchased. Requires attaching all available receipts.
A-5	Receipt for Payment to Informant	Prepared for each informant payment. Serves as an agreement and requires supervisor approval for payments exceeding \$200.
A-6	Informant Payment Record	Prepared by the Narcotics/Vice supervisor upon notification of payment. Records all payments made to an informant and is maintained in the informant's secure file.

## 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 December 2024 and determined CPD's administration of confidential funds was not fully in compliance with state regulations and departmental procedures. During the current audit, we verified implementation of the prior audit recommendations with the following exceptions:

- Cash counts are not performed: One supervisor is not performing cash counts when signing the A-3 form monthly.

- Policy noncompliance: CPD has not achieved full compliance with confidential fund policies, as detailed in other findings within this report.

### Statistical Information

The Drug Fund (Fund 2040) is a special revenue account authorized by T.C.A. 39-17-420. The law requires all fines, forfeitures of bonds, proceeds of goods seized and forfeited shall be accounted for in a special revenue fund of the jurisdiction that initiated the arrest. The information below in Exhibit 2 shows the revenue streams and expenditures for the last three fiscal years.

Exhibit 2: Narcotics Special Revenue by Fiscal Year

	FY2022	FY2023	FY2024
Federal Funds	33,948	12,829	0
State of Tennessee Funds	125	50	25
Confiscations	166,667	879,561	275,339
Investment Income	3,013	32,765	41,577
Miscellaneous	68,510	85,477	51,897
Total Revenues	272,263	1,010,682	368,838
Narcotics Program	219,125	245,967	147,345
Capital Outlay	77,061	13,981	4,689
Total Expenditures	296,186	259,948	152,034
Excess (Deficiency)	(23,923)	750,734	216,804

Source: ACFR

## FINDINGS AND RECOMMENDATIONS

### Noncompliance with CPD policies and documentation requirements

We reviewed all confidential fund buys completed between January 1 and June 30, 2025, involving five Narcotics Division officers and two TFO officers. We interviewed officers, supervisors, and CPD Finance staff and examined A forms and compared them to case files. Our review of buys found compliance with policies was inconsistent.

### Narcotics Officer's Buys

While all 59 buys over \$200 had supervisor approval on the A-5 forms, and confidential informant payments were properly noted on the A-6 forms, six of 59 (10%) A-4 forms lacked either the required

type or quantity of drugs purchased. Officers and supervisors are not carefully reviewing the forms prior to approval. *State of Tennessee Comptroller Procedures for Handling Cash Transactions* states the A-4 form provides a record of the officer's purchases with confidential funds.

### TFO Buys

The review of the two buys completed by TFO officers during the audit period found the following:

TFO Officer 1: Committed two policy violations on the \$200 buy:

- Paid an individual for information who was not an approved confidential informant, violating SOP-03, Section III (which requires background check, identity verification, and supervisor approval prior to setting up an individual as a confidential informant).
- Failed to acquire supervisor approval for the \$200 buy.

TFO Officer 2: Complied with policy; the \$300 buy was supervisor-approved, and all A-forms, including the A-6, were accurately completed. However, he failed to report a replenishment check on his A-3 form upon receipt.

Neither TFO officer provided documentation of required confidential funds training to the Narcotics Supervisor.

CPD's SOP provides no exceptions or alternate procedures for the TFO officers regarding confidential funds policies. The following CPD policies address the deviations noted above for the TFO officers:

- 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.a states that the Officer's A-3 form shows all the confidential funds transactions for the month.
- CPD SOP-01 Section VII D.4 states all officers handling confidential funds must review and be familiar with the Tennessee Comptroller's guidelines. Documentation of the review must be maintained by the Narcotics Supervisor.

Policies are in place to ensure CPD's risks are minimized. Noncompliance with SOPs increases the risk of fund misappropriation, theft, and a loss of accountability for both funds and evidence.

**Recommendation 1:**

We recommend CPD officers with confidential funds and their supervisors comply with all State laws and CPD policies regarding confidential funds. This recommendation was made previously in CPD Confidential Funds Audit 24-04.

**Auditee Response:** *We concur with the audit finding and recommendation. TFO officer 1 has gone through Corrective Coaching regarding the payment to the unapproved informant.*

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

**Priority Level:** *1*

**Task Force Officers**

The two TFOs are assigned to the Drug Enforcement Administration and the U.S. Marshals Service. These officers conduct investigations under the authority of those federal agencies. The evidence purchased with the confidential funds is not used in CPD cases. A review of SOP-01 found no language specifying that confidential funds can be used for non-city cases.

**Recommendation 2:**

We recommend CPD update their policies to address the assignment of confidential funds to the TFO Officers (who report to outside agencies) and the use of confidential funds for non-city cases. This recommendation was made previously in CPD Confidential Funds Audit 24-04.

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

**Estimated Implementation Date:** *May 13, 2026*

**Priority Level:** *2*

**Drug Fund expenditures**

The Drug Fund is a special revenue account authorized by T.C.A. 39-17-420. Expenditures from the fund are limited to local drug treatment programs, drug education and enforcement, and monthly recurring expenses for narcotics officers only (such as cell phone bills).<sup>4</sup> The

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<sup>4</sup> Drug enforcement expenditures include surveillance equipment, drug identification kits, and Narcotic officer's vehicles.

expenditures may also include non-recurring general law enforcement expenditures, usually fixed asset purchases.

A review of Drug Fund expenditures for Fiscal Year 2025 found the following recurring charges were approved and paid even though not assigned to or used by Narcotic officers:

- Verizon annual aircard charges totaling \$1,633 for four units; however, the Narcotics Division does not use aircards.
- Three active Verizon cell phone lines for officers that are no longer assigned to Narcotics; one line dating back to 2023.

CPD staff are not carefully reviewing these expenditures, which has resulted in the misallocation of restricted funds and a waste of funds on unused or non-essential services.

### **Recommendation 3:**

We recommend CPD diligently review all proposed Drug Fund expenditures to ensure compliance with T.C.A. 39-17-420 prior to final approval.

***Auditee Response:** We concur with the audit finding and recommendation. The air card and cell phone charges identified in the audit have been cancelled.*

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

***Priority Level:** 1*

### **Controls needed for confidential funds check processing**

A review of the Narcotics and Part 1 checking accounts found TFO Officer 1 retained a Narcotics replenishment check for two months without cashing it. During this time, CPD Finance completed the monthly bank reconciliations and reported the check as outstanding; however, CPD Finance did not contact the TFO Officer about this check.

CPD SOP-01 lacks language addressing controls for cashing confidential funds checks. In addition, CPD Finance lacks comprehensive written procedures regarding the two confidential checking accounts. OIA inquired of MTAS<sup>5</sup>, who advised that a check should be held for a maximum of one business day. This lack of

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<sup>5</sup> Municipal Technical Advisory Service

control presents a significant risk of check loss/theft, and potential bank account overdrafts.

**Recommendation 4:**

We recommend CPD update SOP-01 to require officers to cash confidential funds checks within one business day once the check has been approved.

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

***Estimated Implementation Date:** May 13, 2026*

***Priority Level:** 2*

**Recommendation 5:**

We recommend CPD require the Log Custodian to contact officers regarding any outstanding checks when performing the monthly bank reconciliation.

***Auditee Response:** We concur with the audit finding and recommendation. The new Internal Procedures -Confidential Funds Criteria Supplement manual addresses the recommendation.*

***Estimated Implementation Date:** Implemented*

***Priority Level:** 2*

**Recommendation 6:**

We recommend CPD develop comprehensive written procedures for confidential funds bank accounts. These procedures should include, but not be limited to, language addressing minimum bank balance limits, controls for outstanding checks, and supervisor review requirements.

***Auditee Response:** We concur with the audit finding and recommendation. CPD Finance Manager has developed Internal Procedures -Confidential Funds Criteria Supplement manual to address this recommendation.*

***Estimated Implementation Date:** Implemented*

***Priority Level:** 3*

## Excessive and unused confidential funds

During the audit period, minimal confidential fund activity was reported for three of seven officers assigned:

- Two Narcotics officers reported zero buys. Narcotics officer #2 is assigned both Narcotics and Part 1 funds but used only the Narcotics funds.
- Narcotics officer #2 remains on administrative leave since June 25, 2025, but has confidential funds.<sup>6</sup>
- Two TFO officers completed only one buy each during the period.

### Exhibit 3: Analysis of Confidential Funds held by officers from January 1 to June 30, 2025

CPD/Officer	Fund Type	Total Funds held on Jan 1, 2025	No. of buys	Total \$ of buys	Total funds added	Total Funds held on Jun 30, 2025
Narcotics #1	Narcotics	\$5,679.99	0	-	-	\$ 5,679.99
Narcotics #2	Part I	\$2,813.00	0	-	-	\$ 2,813.00
Narcotics #2	Narcotics	\$ 910.00	11	8,460	12,400	\$ 4,850.00
TFO #1	Part I	\$2,627.42	1	200	-	\$ 2,427.42
TFO # 2	Narcotics	\$1,420.00	1	400	4,000	\$ 5,020.00

Source: Compiled by Auditor

CPD has not established written guidelines for the amount of confidential funds officers should hold. This lack of policy guidance results in excessive funds being held unnecessarily, which increases the risk of misappropriation and creates an administrative burden (monthly A-form completion and counting). MTAS advised that best practice is for officers to hold no more than a 30-day usage amount, and funds should be returned if an officer is not on active duty.

### Recommendation 7:

We recommend CPD update their SOP to mandate the return of an officer's confidential funds to the Log Custodian when the officer is placed on administrative leave.

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

**Estimated Implementation Date:** *May 13, 2026*

<sup>6</sup> OIA verified both of Narcotics officer #2 confidential funds on 10/2/25.

***Priority Level: 2***

**Recommendation 8:**

We recommend CPD develop a written policy in SOP-01 to establish mandatory confidential fund holding limits based on operational need and best practice (e.g., a 30-day usage amount). This recommendation was previously made in Police Special Investigation Funds Audit 11-11.

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

***Estimated Implementation Date:*** *May 13, 2026*

***Priority Level: 3***

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## 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 January 1, 2025 to June 30, 2025. When appropriate, the scope was expanded to meet the audit objectives. We reviewed source documentation obtained from CPD Finance and Organizational Learning Division as well as the CPD Narcotics Division and TFO officers. 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 all buys conducted during the audit period by Narcotics and Task Force Officers assigned confidential funds to verify they were in accordance with applicable laws and policies. We reviewed expenditures posted to Narcotics (2040) and Part 1 (9025) funds to ensure they followed set guidelines.

We conducted this performance audit from August 2025 to October 2025 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.

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## 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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