PROCEDURES FOR HANDLING CASH TRANSACTIONS RELATED TO UNDERCOVER INVESTIGATIVE OPERATIONS OF COUNTY AND MUNICIPAL DRUG ENFORCEMENT PROGRAMS

Revised May 2012

TENNESSEE COMPTROLLER OF THE TREASURY
# PROCEDURES FOR HANDLING CASH TRANSACTIONS RELATED TO UNDERCOVER INVESTIGATIVE OPERATIONS OF COUNTY AND MUNICIPAL DRUG ENFORCEMENT PROGRAMS

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SECTION I

BACKGROUND

Local drug funds in county and municipal governments have been established pursuant to Section 53-11-415, Tennessee Code Annotated (TCA). That statute provides for the county trustee or city recorder to set up a special revenue fund (or special account in any county having a metropolitan form of government and a population in excess of 500,000) for all funds received under provisions of Section 39-17-420, TCA. These funds include grants, donations, local appropriations, fines, any cash that is forfeited to the county or city, and proceeds from the sale of any forfeited property. The trustee or recorder will, upon demand from the chief executive of the arresting law enforcement agency, pay to that agency such demanded funds for use in the drug enforcement program. The law enforcement agency will make an accounting to the county trustee or city recorder of all expenditures from such funds.

Section 39-17-420(e), TCA, provides that:

“The Comptroller of the Treasury and the Department of Finance and administration, in consultation with the Tennessee Bureau of Investigation, the Tennessee Sheriff's Association and the Tennessee Association of Chiefs of Police shall develop procedures and guidelines for handling cash transactions related to undercover investigative operations of county or municipal drug enforcement programs. Such procedures and guidelines shall be applicable to the disbursement of proceeds from the drug enforcement programs which are acquired on and after January 1, 1991, or such earlier date as may be adopted.”

These procedures were prepared in compliance with directives of the aforementioned statute.
SECTION II

1. GENERAL APPLICABILITY

The following guidelines shall apply only to those transactions which for confidentiality reasons must be disbursed in cash for undercover drug investigations by the law enforcement agency. Payments from local drug funds for all nonconfidential expenses should be made consistent with statutes, policies, and procedures governing the payment of normal operating expenses of the sheriff or police department. These are minimum guidelines. The chief law enforcement official may require additional guidelines.

2. TRAINING

All sheriffs, chiefs of police, and their agents who will be involved in the handling of confidential funds shall review and be familiar with these guidelines. Documentation of this review shall be maintained in the law enforcement agency’s office.

3. REQUEST FOR FUNDS FOR CONFIDENTIAL OPERATIONS

The chief law enforcement official shall account for confidential funds in a separate column of the cash journal. As an alternative the confidential funds may be handled through a separate bank account. The chief law enforcement official for cities shall account for these funds in accordance with provisions of the city charter. An initial advance should be requested from the county trustee/city recorder to establish the account. The amount at which the account is established will be determined by the chief law enforcement official but should not exceed the amount of funds expected to be used within 45 days.

A form titled “Report of Confidential Funds Requested or Returned” (Report R-1 in Appendix B) has been provided with these procedures and must be submitted with each request for funds from the county trustee/city recorder. This report shall be signed by the chief law enforcement official.

4. RECEIPT AND DEPOSIT OF CONFIDENTIAL FUNDS

Prenumbered receipts shall be issued for all funds received for undercover investigations (fund transferred from the county trustee/city recorder and funds returned on settlement of cash advances made for undercover investigations). Also, these funds shall be deposited to the bank account.
5. **DISBURSEMENT OF CONFIDENTIAL FUNDS**

Disbursements of confidential funds must be made by official prenumbered checks. All checks shall be signed by the chief law enforcement official or his designated employee and shall be made payable to the person receiving the funds, either the chief law enforcement official or an employee. All employees handling cash transactions in any capacity shall have a fidelity bond to protect the law enforcement agency.

6. **INTERNAL ACCOUNTING FORMS**

Several internal accounting forms for use in confidential operations are provided with these procedures. Copies of the accounting forms and explanations of the forms are presented in Appendix A of this document. All applicable forms must be used to account for confidential funds transactions.

7. **QUARTERLY REPORT TO COUNTY TRUSTEE/CITY RECORDER**

The chief law enforcement official shall certify a quarterly report to the county trustee/city recorder on the use of confidential funds. A form for this quarterly report (Report R-2) is presented in Appendix B of this document. The county trustee/city recorder and chief law enforcement official shall keep a copy of this report on file.

8. **PURCHASE OF EQUIPMENT AND SUPPLIES FROM CONFIDENTIAL FUNDS**

The purchase of equipment and supplies should normally be made through the county/city purchasing process. However, if confidentiality is necessary for such purchase, then documentation shall be filed in support of the disbursement. Documentation shall include invoices and price quotes. A memorandum explaining the justification for making the purchase from confidential funds shall be prepared. This memorandum shall be signed by the chief law enforcement officer.

9. **MAINTENANCE OF INFORMANT FILES**

A separate file shall be established for each informant. A summary Informant Payment Record (See Form A-6 in Appendix A) shall be kept in the file and made available for audit. Other information in the file is normally confidential.

10. **USE OF FUNDS BY SECONDARY AGENCY**

Contracts or other written acknowledgment of receipt of funds and acceptance of responsibility shall be obtained by the law enforcement agency for any drug control funds remitted to another agency. These agreements shall be signed by the chief law enforcement official (or their designees) of both the agency receiving the funds and the agency providing the funds. Copies of all such agreements shall be retained for audit.
11. **AVAILABILITY OF RECORDS AND REPORTS FOR AUDIT**

All books and records involving confidential funds, with the exception of informant files, tapes involving undercover operations and evidence, shall be subject to inspection and audit by the Comptroller of the Treasury or his authorized representative. This right to inspection and audit of all books and records is applicable to an independent public accountant performing and audit under a contract approved by the Comptroller of the Treasury.

12. **UNACCOUNTED CONFIDENTIAL FUNDS**

Any confidential funds which are unaccounted must be immediately reported in writing to the district attorney general by the chief law enforcement official. A copy of the report should also be filed with the Comptroller of the Treasury, Division of Local Government Audit. The chief law enforcement official is responsible for initiating action to collect any unaccounted funds.
APPENDIX A

INTERNAL ACCOUNTING FORMS
Explanation of Internal Accounting Forms

Internal accounting forms to document controls, procedures and informant transactions are included in Appendix A and are discussed below. The administration and day-to-day operation of the confidential fund involve the use of several forms. Precisely how many forms are used will be determined by whether officers receive advances from the fund, whether informants are used and other factors.

**Form A-1** Custodian’s Activity Log for Confidential Funds - is the custodian’s key administrative tool. It is used for every transaction; the custodian uses the form to record payments into and out of the fund, to note the type of transaction, to provide key details about the transaction, and to maintain a running balance.

**Form A-2** Transaction Record of Each Advance or Return of Confidential Funds - records the details about fund advances to agents and the return of advances by the agents to the fund custodian.

**Form A-3** Agent’s Activity Log for Confidential Funds - is the agent’s primary administrative tool. It is used for every transaction. The agent uses the form to record the date and amount of every disbursement, the case it relates to, and the purpose. The agent also enters all funds received, which enables the agent to keep a running balance. This form should be turned in to the fund custodian at least monthly.

**Form A-4** Accountability of Confidential Funds - provides documentation of agent expenses. This form is available for audit once the case is closed.

**Form A-5** Receipt for Payments to Informant - is a receipt to be signed by an informant acknowledging a payment to him or her by the agency.

**Form A-6** Summary Informant Payment Record - is a record listing all payments to an informant. This record should be placed on top of the applicable informant file.

**Form A-7** Confidential Fund Monthly Reconciliation Report - is used on a monthly basis to reconcile the fund’s bank account or cash journal with the Custodian’s Activity Log for Confidential Funds.
CUSTODIAN'S ACTIVITY LOG
FOR CONFIDENTIAL FUNDS

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Type*</th>
<th>For Receipts: Source, Check #</th>
<th>(+) Received</th>
<th>(-) Paid Out</th>
<th>Balance</th>
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* Transaction Type Numbers:
(1) Initial advance from treasury
(2) Advance to officer
(3) Repayment of advance in part or in full
(4) Reimbursement payment to officer upon submission of voucher documenting expenses
(5) Replenishment of funds received from treasury or main fund
(6) Miscellaneous amounts: plus or minus

Note: Balance should equal cash in bank plus cash on hand maintained by the fund custodian.
TRANSACTION RECORD OF EACH
ADVANCE OR RETURN OF CONFIDENTIAL FUNDS

A. ADVANCE

Transaction #   _______

Agent's Name    ____________________
Agent's ID #     ____________________
Unit             ____________________

Amount of Advance   ____________________
Case or Reference # ____________________
Intended Purpose:  
[ ] Investigative Advance
[ ] Use as a Flash Roll *

Advance Approved By 
[signature of chief law enforcement official or designee]
Date Approved     ____________________

Advance Received By ____________________
[agent's signature]
Date Received     ____________________

Check #          _______    Check Date    _______

* Flash rolls shall be returned within 48 hours, unless extended for an additional 48 hours.

B. RETURN

Transaction #   _______

Agent's Name    ____________________
Agent's ID #     ____________________
Unit             ____________________

Amount of Advance Returned    ____________________
Case or Reference #            ____________________

Advance Returned By           ____________________
[agent's signature]
Date Returned     ____________________

Advance Returned To          [signature of chief law enforcement official or designee]
Date Received     ____________________

Receipt #          _______    Receipt Date    _______

Original Filed With Fund Custodian
Copy Retained By Agent
**AGENT'S ACTIVITY LOG**
FOR CONFIDENTIAL FUNDS
MONTH OF ________________, 20___

<table>
<thead>
<tr>
<th>Agent's Name</th>
<th>ID No.</th>
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<tbody>
<tr>
<td>Unit</td>
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<th>Date</th>
<th>Case #</th>
<th>Purpose</th>
<th>(+)</th>
<th>(-)</th>
<th>Received</th>
<th>Paid Out</th>
<th>Balance</th>
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Total

I do solemnly swear (or affirm) that the amounts reported above are just and true in all reports.

Submitted By ________________________________  Agent's Signature  _____________

Approved By ________________________________  Supervisor's Signature  _____________

Original Filed with Fund Custodian
Copy Retained by Agent
ACCOUNTABILITY OF CONFIDENTIAL FUNDS - FUNDS EXPENDED

Transaction #

Case File #  Date Opened

EVIDENCE
Type and Quantity
Date  Amount Spent

UNDERCOVER MOTOR VEHICLE
Gasoline and Oil:
Date  Amount Spent
Station
Date  Amount Spent
Station
Date  Amount Spent
Station

INFORMANT EXPENSES
Code Name
Ci#
Date  Receipt  Yes__ No__  Amount

MISCELLANEOUS
Explanation
Date  Amount Spent
Explanation
Date  Amount Spent
Explanation
Date  Amount Spent

Total Spent on Page

I certify that the above expenditures are true and correct.

Agent's Signature  Date

Original Filed with Fund Custodian
Copy Retained by Agent
RECEIPT FOR PAYMENT TO INFORMANT

A. Case or Reference # ______________________ Date ______________________

   I hereby acknowledge receipt of $__________ (words: ______________________) paid to me by __________________________ for consideration of [ ] information and/or [ ] services as follows: __________________________________________________________
   ___________________________________________________________________
   ___________________________________________________________________

B. Section B is to be filled out when funds are advanced to informant for future purchases.

   It is understood that this money is to be expended by me only for the purchase, as evidence, of controlled substances. If no such purchase is made, or if such a purchase is made for less than the total sum furnished to me, before (date: __________) (time: __________), I will forthwith refund the sum so furnished or the balance thereof, as the case may be, to the above-named officer of the (agency name: ____________________). At any time, I will forthwith refund to him or her the total amount of any sum thus furnished to me that has not yet been expended by me for the purchase, as evidence, of controlled substances. Furthermore, it is understood that this money is the property of (city/county ____________________) and that misuse or conversion of the same to my personal use will render me liable to prosecution.

C. Officer's Signature ______________________ Date ______________________

   Payee (Code name or number) ______________________
   Date/Time ______________________

   Witness's Signature ______________________ Date ______________________

Original Filed with Fund Custodian
Copy Retained by Agent
This form should be filed on top of the applicable informant file and should reflect all payments made to the informant. Receipts for payments to informants should back up this file.
CONFIDENTIAL FUND MONTHLY RECONCILIATION REPORT

A. RECONCILIATION
Bank Balance per Statement
Date of Bank Statement

Add:
- Deposits in transit (from Section B) [Deposits recorded on Activity Log (Form A-1) but not appearing on the bank statement]

Subtract:
- Outstanding checks (from Section C) [Checks written and recorded on Activity Log (Form A-1) but not appearing on the bank statement]

Balance per Activity Log

B. DEPOSITS IN TRANSIT

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Check #</th>
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Total

C. OUTSTANDING CHECKS

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<th>Date</th>
<th>Amount</th>
<th>Check #</th>
<th>Amount</th>
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Total

D. CONFIDENTIAL FUNDS WITH AGENTS

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<th>Name</th>
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Total

* Parts A, B, and C are completed only if confidential funds are maintained in a separate bank account.

E. SUBMISSION AND APPROVAL

Prepared by
Date

Approved by
Date
REPORT OF CONFIDENTIAL FUNDS REQUESTED OR RETURNED

To: ________________________________  
(County trustee or city recorder)

[ ] I am requesting funds in the amount of $__________________ for use in the drug enforcement program.

[ ] I am returning funds of $____________________ which have accumulated in the drug control account.

____________________________________________________________________________________

LAW ENFORCEMENT AGENCY'S CERTIFICATION:

Submitted by: ________________________________  
(chief law enforcement official)

Title: ____________________________________

Date: ____________________________________

____________________________________________________________________________________

COUNTY TRUSTEE'S/CITY RECORDER'S CERTIFICATION OF RECEIPT OR PAYMENT

Amount received _________________
Receipt # _______________________
Amount paid _________________
Check # _______________________
By _______________________
Title _______________________
Date _______________________

Original filed with the county trustee/city recorder each time confidential funds are requested or returned.

Copy Filed with Law Enforcement Agency
FORM R-2

QUARTERLY REPORT OF CONFIDENTIAL FUNDS
FOR THE QUARTER ENDING ________________, 20____

TO: __________________________________________
 (county trustee or city recorder)

The following represents a true and accurate accounting of confidential funds
held by the office of ____________________________ for the quarter stated above:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Balance of confidential funds, first of quarter</td>
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<tr>
<td>Add: funds received from county trustee/city recorder</td>
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<tr>
<td>Less: expenditures from confidential funds</td>
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<tr>
<td>funds returned to county trustee/city recorder</td>
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<tr>
<td>Balance of confidential funds, end of quarter</td>
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</tbody>
</table>

Submitted by ______________________________________

Title ____________________________________________

Date ____________________________________________

This report must be filed with the county trustee/city recorder within 30 days after
the end of the months of September, December, March, and June each year.

Note: balance of confidential funds at the end of the quarter should equal
balance on Form A-1 plus sum of Form A-3 of all agents.

Original Filed with County Trustee/City Recorder
Copy Retained by the Law Enforcement Agency