



## PROCEDURES FOR HANDLING CASH TRANSACTIONS

*RELATED TO UNDERCOVER INVESTIGATIVE  
OPERATIONS OF COUNTY, DRUG TASK FORCE AND  
MUNICIPAL DRUG ENFORCEMENT PROGRAMS*

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**Jason E. Mumpower**  
*Comptroller of the Treasury*



**DIVISION OF  
LOCAL GOVERNMENT AUDIT**

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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-5 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.