

# COUNTY OF ULSTER

P.O. BOX 1800  
KINGSTON, NEW YORK 12402

Office of the Comptroller

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## Confidential Funds Review

January 1, 2012 through November 30, 2012

January 22, 2013

Prepared By:

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January 22, 2013

Dear County Officials:

One of the County Comptroller's Office top priorities is to identify areas where county departments and agencies can improve their operations and services in order to assist county officials in performing their functions. This includes the development and promotion of short-term and long-term strategies to achieve reduced costs, improved service delivery, and to account for and protect the County's assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current emerging fiscally related problems and provide recommendations for improvement.

The following is our review of the Ulster County Sheriff Office's (UCSO) handling of confidential investigation funds. Our office focused on the disposition, expenditure, accounting and internal controls over these funds as set forth by the Sheriff's Office. A copy of this report was provided to UCSO in advance of its release and their comments taken into consideration in the final draft.

If we can be of assistance to you, or if you have any questions concerning this report, please feel free to contact us.

Respectfully submitted,

Ulster County Comptroller

## CONFIDENTIAL FUNDS REVIEW

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January 22, 2013

### **I. AUTHORITY**

The Office of the County Comptroller conducted this report in accordance with the Comptroller's authority as set forth in Article IX, Section 57, first paragraph, and Sections 57(A) and (G) of the Ulster County Charter, as well as applicable State laws, rules and regulations.

### **II. BACKGROUND**

The Ulster Regional Gang Enforcement Narcotics Team ("URGENT") conducts undercover activities as part of its mission to detect and deter gang members and affiliates involved in criminal activities, narcotic related offenses, and to enforce both state and federal laws. URGENT uses Confidential Funds to support these undercover activities. By using these funds, the members of URGENT are able to conceal their role and identity from criminals, vendors, and the public.

The manner in which URGENT processes and records Confidential Funds transactions presents special challenges and created potential vulnerabilities, especially since all transactions are cash transactions. The Ulster County Sheriff's Office ("UCSO") acts as primary custodian of the Confidential Funds and has been subject to scrutiny in recent years in relation to the safekeeping of these funds, primarily linked to the misappropriation of such funds by former Kingston Police Department Lieutenant and URGENT officer, Tim Matthews. Since that time the UCSO has dutifully considered their risks and developed internal controls and procedures for the handling of these funds.

### **III. OBJECTIVES**

This review was performed to determine if the UCSO is following their general procedures for "Handling of Funds" as per their General Order. In particular, the UCSO issued General Order 003-2011 dated March 23, 2011 ("General Order") in an effort to formalize procedures for the proper handling of these Confidential Funds.

Our review covered the period of January 1, 2012 through November 30, 2012. Our objectives were:

- To determine the adequacy and effectiveness of internal controls over confidential investigation funds.
- To evaluate compliance with departmental procedures and guidelines regarding expenditures and withdrawal of funds, and those related to the receipt and use of such.
- To verify the cash in the possession of UCSO in regards to the Confidential Funds money and trace it back to their schedule and accounting.
- To confirm whether the Confidential Funds are safeguarded and to what extent.
- To determine if the "Fund Request Form(s)", utilized to track the use of Confidential Funds, contained the required information according to UCSO policies.

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#### **IV. THE PROCESS**

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Due to the large amount of money involved with the confidential division, the funds are divided and kept in two separate locations. The largest portion is kept in a combination safe in management's office, while the daily funds are kept in a locked cash box that is in a secured office space only accessible by swipe cards in the possession of officers of that unit. The safe is locked at all times, and the combination for access is only known by two officers of management status. The cash box is locked by key, and is only to be accessed by two individuals of a certain rank that have the authorization to disperse the funds.

To obtain monies from either of the sources (the combination safe or the lockbox), a fund request form ("FRQ") must be completed, which is kept in a three-ring binder. This is a sequentially numbered form that is used for tracking and reconciliation purposes when the funds are requested, replenished and accounted for. This form, according to the UCSO policy, is to include the name of the officer requesting the funds, the amount of funds requested, the specific purpose of the expense, the specific case numbers and confidential informant ID numbers, the amount that will be returned (if applicable), and the cash balance before and after the request. A copy of the form is attached as **Exhibit 1**.

The type of expenditures for which the Confidential Funds have unofficially been permitted for are: evidence, confidential informant payments, and confidential operations. These funds should be requested and dispersed from the cash box by an URGENT Sergeant or above.

When the cash box needs to be replenished another FRQ is filled out and submitted to the Undersheriff, at which time the cash is removed from the safe and deposited into the cash box in the presence of the Undersheriff and three other URGENT officers.

When funds are requested from the safe for the purpose of replenishing the cash box, a reconciliation of the box and the FRQs is performed and logged into a "Master Sheet" that compiles the information in excel of when funds are expended or returned. When the safe needs replenishment of funds a request is made following the guidelines set forth in the County of Ulster Standard Operating Procedures Manual. Once funds are received, they are immediately entered on the Excel Master Sheet.

#### **V. THE CASH COUNT**

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On December 11, 2012, the Comptroller's Office Staff opened the safe and cash box and counted the cash contained in both. The cash amount of \$27,321.00 reconciled to the Excel schedules maintained by the UCSO as of November 30, 2012.

Below is a chart which summarizes the activity broken down between the safe and the cash box for the period January 1, 2012 through November 30, 2012 of the Confidential Funds.

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	<b>Safe</b>	<b>Cash Box</b>	<b>Total</b>
Beginning Balance @ 1/1/12	\$ 6,001.00	\$ 1,172.00	\$ 7,173.00
<b><u>CASH RECEIPTS:</u></b>			
Additional Funds Request 2012	30,512.00	-	30,512.00
Evidence dealing with old cases	1,500.00	-	1,500.00
Transfers In	4,300.00	18,312.00	22,612.00
<i>TOTAL CASH RECEIPTS</i>	36,312.00	18,312.00	54,624.00
<b><u>CASH DISBURSEMENTS:</u></b>			
Transfers Out	18,312.00	4,300.00	22,612.00
Evidence ("Buy Money")	-	8,941.22	8,941.22
Information	-	1,493.78	1,493.78
Operations	-	1,429.00	1,429.00
<i>TOTAL CASH DISBURSED</i>	18,312.00	16,164.00	34,476.00
Ending Balance @ 11/30/12	<u>\$ 24,001.00</u>	<u>\$ 3,320.00</u>	<u>\$ 27,321.00</u>

**CASH COUNTED:**

Amount in Safe	\$ 24,001.00
Amount in Cash Box	<u>3,320.00</u>
<b><i>TOTAL CASH</i></b>	<u><u>\$ 27,321.00</u></u>

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## **VI. SCOPE & METHODOLOGY**

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During this review, we interviewed personnel at the UCSO and reviewed documents relating to confidential investigation funds. We also performed an on-site analysis of written procedures, assessed methods of processing and oversaw the confidential case funding process.

For the period of review between January 2012 and November 2012, there were 170 transactions which went through the Confidential Funds process. In order to conduct the review, our office took a random sampling, by page number, of 30 FRQs from the Master Sheet excel file. This sample size amounted to approximately 20% of the transactions for the period. We also took an additional random sample of 6 FRQs to trace back to the Master Sheet from the binder provided to us.

We reviewed all of our samplings of FRQs taken from the transactions in the Master Sheet and performed the following:

- 1) Confirmed that there was a FRQ for the transaction.
- 2) Determined if disbursements were made to an URGENT officer with the rank of Sergeant or above.
- 3) Made sure all the required information was present on the FRQ (i.e. name of requesting officer, amount of funds requested, specific purpose, specific case number, confidential informant number, cash balance before and after, and sign offs of both issuing and receiving officers).
- 4) Determined if each FRQ was specifically numbered and traced it back to the Master Sheet.
- 5) Verified all operational expenses had a receipt present.
- 6) Verified FRQ math corresponded with the "Master Sheet" input.

## **VII. CRITERIA**

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Criteria represent the laws, regulations, contracts, standard, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation.

Criteria for this investigation consisted of the following:

1. General Order 003-2011 – "Procedures for the Handling of Funds"
2. General Order 002-2011 – "URGENT Informant Policy"

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## VIII. INTERNAL CONTROLS

We gained an understanding of internal controls by interviewing management and personnel staff at the UCSO. Internal controls relate to an organization's system of controls that are designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control weaknesses are discussed in the finding and recommendations section of this report.

## IX. FINDINGS AND RECOMMENDATIONS

Below is a summary of findings followed by recommendations. We note that none of the findings relate to irregularities in cash accounting. The findings relate to further administrative protections in the process.

1. **Finding; Custody and Recording of Confidential Funds:** Both custody (including deposits of new monies) and record keeping of the Confidential Funds were performed by the same individual; although we note that the physical placement of new deposits is done in the presence of three URGENT officers according to their procedures. Sound internal controls require that the individual who has access to cash should not also record the cash transactions. He or she should be separate from the person who controls the books where the cash transactions are recorded. The purpose is to protect both the custodian and the record keeper, as well as the institution (UCSO) from irregularities as to which only one person has material knowledge. Without a proper separation of duties, the confidential fund records can be altered at any time to agree with the cash on hand.

**Recommendation #1:** The confidential fund records should be maintained by an employee other than the fund custodian. We recommend that the custodians' access be restricted to "read only" to ensure a proper separation of duties. In addition, the procedures for establishing separation of duties should be documented and specifically identify the individual who will be responsible for the preparation of the Master Sheet and be made part of General Order 003-2011's Procedures for handling of funds.

2. **Finding; Money in the Cash Box is Not Adequately Secured:** It appears a possibility that the cash box may not be as adequately secured as it could be. During our interview we were told that the cash box, which may hold up to \$3,000 at any given time, is locked and kept in the URGENT squad room and the key for such is kept in an unlocked drawer. Although the key is to be used by an URGENT Sergeant or above, meaning there are currently two individuals with authority, we discovered that this procedure was not always followed. This may have been to address separation of duties when a transaction involved the Sergeant and/or when monies were needed and the two individuals with authority to access were not present.

**Recommendation #2:** If the URGENT unit is experiencing situations where it may not always be possible for a Sergeant or above to be a part of the distribution or access to the box process, we recommend that alternate procedures be put in place to safeguard the key, and made part of the General Order.

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3. **Finding; The “Operations” Category of Expenses is Too Broad:** It is known that Confidential Funds by nature are to aid in undercover investigations. In our review of the UCSO’s Confidential Funds account we took note that monies were recorded under one of three categories: “evidence” (meaning that the items or product purchased with the Confidential Funds become “evidence”), “information” (meaning that Confidential Funds were used to pay Informants), and “operations.” The operations portion, amounting to \$1,429.00 for the period in review, covered purchases such as antennae repair, battery replacements, and training seminar materials. Purchases of this category would normally go through the County procurement procedures to ensure proper pricing, purchasing, and billing measures were followed.

**Recommendation #3:** When we inquired as to why certain operational purchases did not go through typical County procurement procedures, it was explained to us that such purchases, when made, were of an emergency nature. It is our recommendation that UCSO modify their procedures to detail specifically what types of transactions are authorized to be expended through the Confidential Funds account. We further recommend that any operational expenses, emergency or not, be billed to the County to ensure proper procurement procedures are being followed.

4. **Finding; Reporting Procedure Should Be Adopted:** According to the UCSO’s General Order, detailing procedures for the handling of funds, there is an expectation that a monthly report will be compiled by the Sheriff’s Fiscal Assistant 3. This information is to be gathered on a bi-monthly basis. During our interview we requested this information and were informed this report was not being produced as a distinct separate report. We determined however, that this same information was being recorded during the reconciliation process and therefore this procedural statement would be duplicative.

**Recommendation #4:** We see this reporting feature to be a beneficial control for the UCSO and would recommend they implement the creation of such report which should be supplied to the Comptroller’s office, although a monthly report may not be necessary. Provisions of such a report on a quarterly basis would suffice. This report should be a summarization of the Master Sheet activity and will allow both offices to monitor the activities. We further recommend that the General Order be amended to reflect such recommendations.

5. **Finding; Fund Request Forms Inconsistencies:** During the review of our sample of FRQs there were several inconsistencies and/or lack of completeness that should be brought to the attention of UCSO. Among these exceptions we noted were:

- 2 forms were not signed off by the issuing officer,
- 1 form did not complete the cross reference number on funds being returned to the safe,
- 3 forms did not have funds being returned to a Sergeant or above,
- 5 forms had information entered in the “Master Sheet” that was not accurate to the original form, and
- 1 form was missing the case number.

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**Recommendation #5:** It is our recommendation that transactions not be considered complete until all the required information is properly filled in and reviewed by the custodian in charge of issuing the funds. In relation to the “Sergeant or higher” issuing requirement, we suggest the procedures be amended to allow more flexibility in times of short staffing. We further recommend that proper data entry checks be implemented to aid in the accurateness of information being recorded.

### **X. CONCLUSION**

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Our primary objective was to ascertain that the cash on hand agreed to the accounting kept at the UCSO as documented by the Master Sheet. We are pleased to report that the amount of cash on hand at November 30, 2012 did agree to this excel file. The UCSO’s internal efforts to adopt and follow established protocols have been effective in this key objective.

Our recommendations principally deal with amending the General Order to continue in the development of safeguards for the benefit and protection of the Sheriff’s personnel, and we are available to help in this endeavor.

We would like to thank the UCSO staff and personnel for their cooperation and assistance in gathering the information needed to complete this report.

Respectfully submitted,

Ulster County Comptroller



ULSTER REGIONAL GANG ENFORCEMENT NARCOTICS TEAM  
**U.R.G.E.N.T.**

Area Code 845	
URGENT (Main)	334-5732
URGENT (Secondary)	340-3589
URGENT Tips Hotline	340-3570
URGENT Fax	338-2313
URGENT Supervisor	340-5757
URGENT Supervisor	384-6232

Ulster County Law Enforcement Center  
 380 Boulevard, Kingston, NY 12401

## Funds Request Form

To:

From:

Date:

Member requests the following funds:

\*\*\*\*IF THIS IS A RETURN OF FUNDS, CROSS REFERENCE PAGE #: \_\_\_\_\_

Page:

Beginning Balance: \$

	Total Amount Requested	Purchase of Evidence	Purchase of Information	Operational Expenses
Amount Requested	\$	\$	\$	\$
Reason Case# and/or CI#	Case # :	Case # :	CI # :	Case # :
Amount Returned	\$	N/A	N/A	N/A

Member receiving funds signature:

Member issuing funds signature:

Ending Balance: \$