
OFFICE OF THE CITY AUDITOR

AUDIT OF THE DALLAS POLICE DEPARTMENT'S CONFISCATED FUNDS PROGRAM

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**November 15, 2002
Report No. 374**

Memorandum



CITY OF DALLAS

November 15, 2002

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted a performance audit of the Dallas Police Department's (DPD) confiscated funds program.

In our opinion, the DPD complied with the eligibility guidelines for the use of confiscated funds. However, the DPD should improve the processes used to receive, transfer, track, and report confiscated fund activities. Related opportunities for improvement and recommendations are presented in this report.

We appreciate the cooperation of City staff during our examination.

Thomas M. Taylor

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City Auditor

c: Teodoro J. Benavides, City Manager

**AUDIT OF THE DALLAS POLICE DEPARTMENT'S
CONFISCATED FUNDS PROGRAM**

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EXECUTIVE SUMMARY

We have conducted an audit of the Dallas Police Department's (DPD) confiscated funds program. As a result of our inquiries, examinations, and tests, we conclude that the DPD complied with the eligibility guidelines for the use of confiscated funds. However, the DPD should improve the processes used to receive, transfer, track, and report confiscated fund activities.

- Payment delays and incorrect application of agreement terms create additional costs. Delays in remitting District Attorney payments resulted in increased expenditures. The DPD incorrectly interpreted contract terms resulting in increased interest costs.
- Confiscated fund payments should be formalized. The DPD used both the escrow fund and spending fund to disburse District Attorney payments. Inconsistent fund disbursements may hamper tracking and reporting.
- The DPD does not prepare a separate budget detailing the planned uses of awarded confiscated (State) and shared (federal) funds to the City Council. The DPD presently includes all operations in its budget and lists confiscated funds as "additional operating resources."
- No procedures are in place to ensure that confiscated funds received are processed through the Asset Forfeiture Unit (AFU). The AFU is effectively pursuing, processing, and tracking drug related seizure awards. However, the AFU is not always notified of awards.
- The City is paying monies to Dallas County for activities that could be performed by the City. The City presently pays the County's District Attorney to be the attorney to effect the disposition of contraband forfeited to the State. State law allows the City Attorney to perform this service.
- The seized property procedural manual contains outdated material. Inefficiencies may result from following outdated procedures.
- Responsibilities are not clearly defined between the Narcotics Division and the Financial Services Unit (FSU). Written procedures that detail the lines of responsibilities of confiscated funds from seizure to distribution should be established.
- Communication links and correspondence need improvement. The two databases used to track State and federal seizures are not linked. The FSU does not have read-only access to the either database. For one seizure case, the FSU uses two memorandums to prepare a District Attorney payment or effect a fund transfer.
- The required State and federal report compilations need improvement. There are no standardized procedures for preparing the annual reports. Annual reports may be inaccurate and require excessive personnel resources to complete.

- Independent review and audit of annual reports are not assured. Annual audits are required and satisfied if the forfeited funds are considered for examination under the Single Audit Act. However, this requirement does not assure that forfeited funds will be selected for review.
- The external audit report is not reflective of the DPD reported amount. We did not receive work paper documentation from the external auditor to substantiate that confiscated funds were included in the grants subject to examination under the Single Audit Act.
- Inactive grants should be closed. Continuing to keep inactive grant funds open decreases efficiency and increases the risk of financial recording errors.
- There may be alternatives to the current crime laboratory use. The City proposes to use confiscated funds to pay for expanded drug testing. The Southwest Institute of Forensic Science estimates the cost of the expanded drug testing to approach \$1 million. The DPD should determine whether there is a more economic, effective, and efficient means to obtain forensic services.

We commend the department for accepting our recommendations and taking steps to resolve these issues.

INTRODUCTION

Authorization

We have conducted a performance audit of the Dallas Police Department's (DPD) confiscated funds program. We conducted this audit under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by the City Council.

Scope and Methodology

We performed our audit in accordance with generally accepted government auditing standards and included tests of the accounting records and other audit procedures that we considered necessary in the circumstances.

The objectives of our audit were to determine whether:

- There are adequate policies, procedures, and internal controls to monitor confiscated funds.
- The DPD administers and adheres to policies, procedures, and internal controls related to confiscated funds.
- The DPD spent confiscated funds for items eligible under federal and State of Texas regulations.

Our audit covered March 1, 2000, through March 31, 2002, although we examined certain events and transactions occurring before and after that period.

To develop an understanding of relevant control structure policies and procedures, we reviewed the following:

- Applicable Laws and Ordinances/Agreements
- Applicable Reports
- Policies and Procedures
- Financial Transactions, Statements, and Reports

Additionally, we interviewed management and staff concerning relevant internal controls. We examined individual departmental related reports and analyzed historic results. We compared data from various reports and observed operating procedures. We conversed with representatives from the Texas Attorney General's Office and the U.S. Department of Justice.

INTRODUCTION

Overall Conclusion The DPD complied with the eligibility guidelines for the use of confiscated funds. However, the DPD should improve the processes used to receive, transfer, track, and report confiscated fund activities.

Background The DPD receives monies from property forfeited due to criminal activity. The Texas Code of Criminal Procedures, Articles 59.06, 18.17, and 47.01, authorizes State of Texas seizures. Federal seizures are pursued by federal authorities and are either a shared forfeiture between the City and applicable federal agency or an adopted case. *A Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies* lists the regulations related to federal seizures.

Within Dallas County, the Dallas County District Attorney's Office (DAO) administers the judicial proceedings related to State seizures for the City. In addition to Dallas County, the DPD has law enforcement responsibilities in Denton, Collin, Kaufman, and Rockwall Counties. In order to receive monies or property from seizures, a local law enforcement entity must have formal local agreements in the counties in the entity's jurisdiction.

The City maintains three funds relating to forfeitures:

- Fund 411. The DPD records financial activity related to State adjudicated forfeiture cases. The DPD uses monies in this fund to pay for authorized law enforcement expenditures.
- Fund 412. The DPD records activity related to federal forfeiture cases. Outflows from this fund must comply with federal guidelines.
- Fund 413. Intended to be an escrow account for State forfeitures pending adjudication. This fund is used to pay for DAO assistance, defendant payments, and forfeiture expenses. The DPD transfers adjudicated amounts from this fund to Fund 411.

For narcotic related seizures, the Narcotics Division maintains an officer that acts as a liaison with the DAO and assists with forfeiture proceedings. One officer is assigned to the Federal Task Force to facilitate the Federal Share Program. The

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Narcotics Division's Asset Forfeiture Unit (AFU) tracks related proceedings from seizure through final adjudication. The DPD's Financial Services Unit (FSU) maintains the accounts and submits required annual reports to the appropriate State and federal agencies.

In situations where the seizures do not meet State criteria, the DPD may elect to participate in the Federal Adoptive Seizure program by transferring the seized amounts (by check) to the federal authorities. The checks are not cashed until the case is disposed by the U.S. Department of Justice; thus, the City can earn additional interest. From adoptive seizures, the federal authorities receive 20% of the awarded proceeds. The City receives a check from the federal authorities for its share of the net amount of the award.

OPPORTUNITIES FOR IMPROVEMENT

We identified certain policies, procedures, and practices that should be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not be comprehensive of the areas where improvements may be needed.

1. Payment delays and incorrect application of agreement terms create additional costs.

The DPD pays the DAO twenty-five percent of all related monies received including net real estate sale proceeds for administering the forfeiture proceedings. The DPD pays the prosecuting attorney \$250 for each seized motor vehicle awarded to the City plus all interest earned from the seizure date to the payment date. The percentage and amount escalate to 30% and \$500 respectively if the DPD does not pay within sixty days of the specified time.

Delays in remitting DAO payments resulted in increased expenditures. To eliminate increased DAO payments, DAO monies should be disbursed before penalties accrue. The DPD did not disburse DAO payments in a timely manner after receipt of State awards. We sampled sixteen DAO disbursements occurring from October 2001 to March 2002. We noted eight transactions that resulted in increased DAO payments.

Transactions Resulting in Increased DAO Payments						
Date Deposited	Date Adjudicated	Amount Seized	Award To DPD	Paid To DAO (30%)	If Paid At (25%) Net	Excess
12/22/98	08/02/99	\$10,471	\$10,471	\$3,141	\$2,618	\$523
01/25/98	05/26/99	\$3,028	\$2,428	\$728	\$607	\$121
08/20/97	10/28/99	\$31,580	\$28,080	\$8,424	\$7,020	\$1,404
11/19/97	03/18/99	\$921	\$921	\$276	\$230	\$46
08/19/98	11/19/97	\$5,854	\$5,000	\$1,500	\$1,250	\$250
01/06/99	11/23/99	\$27,332	\$24,599	\$7,380	\$6,150	\$1,230
07/23/99	01/14/00	\$8,360	\$8,360	\$2,508	\$2,090	\$418
04/01/98	03/23/99	\$1,459	\$1,209	\$362	\$302	\$60
Total excess payment (this amount does not include the interest paid)						\$4,052

The DPD incorrectly computed the interest period on a payment to the Collin County DAO. The DPD paid a small amount of interest from the seizure date to the payment date. The agreement requires interest from the time of award to the payment date.

The DPD calculates interest using the rate present on the day of deposit. The rate used remains constant during the seizure period despite fluctuations in the actual interest rate. Interest amounts should be accurately computed. The interest disbursed is not precise.

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We recommend that the Chief of Police:

- Ensure remitting payments to the DAO in a timely manner to prevent increased expenditures.
- Ensure disbursement amounts are limited to requirements in the written agreements.
- Recalculate the interest amount using actual daily interest rates and compare the result to the amount calculated in disbursements. Determine whether it is feasible to use daily interest rates instead of the constant rate present at deposit.

Management's Response:

Management partially concurs. Of the 122 cases presented for payment in FY 2001-02, eight cases identified in the audit were submitted late. These disbursements were from cases that had been adjudicated over two years prior, and the paperwork to issue payments to the District Attorney had been misplaced or overlooked, which took more time for the Police Department to process the payments. Personnel from the Police Budget and Grant Management Unit and the Narcotics Unit have met concerning the issue of late payments to the Dallas County DAO. The Narcotics Unit can't submit a request for payment to the Budget and Grant Management Unit until an invoice is received from the DAO. This could result in a delay that would cause a late payment to the District Attorney, requiring an increased percentage. Closer communication and follow-up between the Narcotics Division and the Budget and Grant Management Unit should help ensure that an oversight of this type is not repeated.

Terms of all agreements with District Attorneys in other counties will be carefully reviewed to ensure that DPD does not process payments based on the Dallas County Agreement.

Due to the heavy workload created by reduction in force, it will not be feasible to have personnel calculate interest earning on a daily basis for the huge number of seizures. Also, the administrative expense spent on the calculation will outweigh the minor differences of interest calculation.

2. Payments from confiscated funds should be formalized.

The DPD places funds seized under State rules in the escrow account (Fund 413) until adjudication. Fund outflows usually consist of DAO payments or amounts paid related to a seizure (i.e., defendant releases, payments to other jurisdictions).

After adjudication, the DPD transfers the City awarded amount from Fund 413 to Fund 411. In accordance with the *Texas Code of Criminal Procedures*, expenditures from Fund 411 are to be used solely for law enforcement purposes.

OPPORTUNITIES FOR IMPROVEMENT

We randomly selected 60 disbursements for review from Funds 411 and 413. All of the disbursements were for law enforcement purposes and thus compliant with the *Texas Code of Criminal Procedures*; however, we noted that the DPD used both Funds 413 and 411 to make payments to the Dallas County District Attorney. Fund 413, being an escrow fund, should be the fund from which disbursements for expenses associated with case adjudication are made. Inconsistent fund disbursements may hamper tracking and reporting.

Disbursements should be consistent with authorized procedures and compliant with City guidelines and regulations.

We recommend that the Chief of Police restrict the use of Fund 413 to non-seizure related eligible law enforcement expenditures.

Management's Response:

The Police Department does not concur with the finding that the payments to the District Attorney be made from Fund 413 (State Escrow Fund). The Police Department consistently makes payments to the Dallas County District Attorney from Fund 411 (State Confiscated Monies Fund). The payment is made from Fund 411 after awarded funds are transferred from the escrow Fund 413. The payment is netted out from the awarded revenue just deposited to Fund 411 in order to identify and distinguish each award. The Police Department recommends that disbursements from the State Escrow Fund continue to be restricted since this fund mainly serves as a holding place for seizures not yet awarded.

Auditor's Comment:

We found that the DPD was inconsistent by using the two funds. We continue to maintain that Fund 413, being an escrow fund, should be the fund from which disbursements for expenses associated with case adjudication are made. Thus, the monies in Fund 412 would be amounts available solely for DPD purposes.

3. The DPD does not prepare separate budgets for funds confiscated under State rules or for funds obtained from federal confiscations.

Article 59.06 (d) of the *Texas Code of Criminal Procedures* states that proceeds awarded to a law enforcement agency may be spent by the agency after a budget for the expenditure of the proceeds has been submitted to the governing body of the municipality. The budget must be detailed and clearly list and define the categories of expenditures, but may not list details that would endanger the security of an investigation or prosecution.

OPPORTUNITIES FOR IMPROVEMENT

The *Guide to Equitable Sharing of Federally Forfeited Property* instructs local law enforcement agencies not to budget **anticipated** shared proceeds. However, Section A.4.c states:

Sharing monies should normally be expended for their designated use or uses as they are received. It is permissible to retain sharing monies in a holding account for a reasonable period of time so they can be used to satisfy future needs. Generally, monies received should not remain unspent for a period of time exceeding two years from the date of their receipt.

Both the State and federal authorities encourage a systematic methodology to disburse seized and awarded funds; federal and State guidelines also prohibit using money awards for supplementing. The DPD does not present a separate budget detailing the planned uses of awarded confiscated (State) and shared (federal) funds to the City Council. The DPD presents an annual budget that includes all operations. This budget lists confiscated monies as “additional operating resources.” This approach does not reasonably ensure that expenditures from State or federal confiscated fund awards are properly controlled.

We recommend that the Chief of Police prepare and present a separate budget to the City Council that details the planned uses of **awarded** confiscated (State) and shared (federal) funds.

Management's Response:

Management doesn't concur. The Police Department does prepare and submit a Confiscated Budget to the Council in the yearly budget process. This budget is appropriated based on availability of the awarded funds only. The majority of the budget is typically reserved for confidential funds, rental/repair or covert vehicles and equipment. The Police Department contends that the present budget reporting process is sufficient. If we separate budget by state and federal funds, it could create fluctuations year after year due to uncertainty of each year's awarded funds. Therefore, combining the funds into one overall budget is more favorable from a practical standpoint.

Auditor's Comment:

We contend that presenting a separate budget to the City Council that details the planned uses of awarded confiscated (State) and shared (federal) funds will place an additional control measure of accountability.

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4. There are no procedures in place to ensure that confiscated funds received are processed through the AFU.

The AFU of the Narcotics Division performs the following functions to identify potential forfeitable assets and subsequently obtain awards from drug related seizures:

- Investigates all drug seizures for possible forfeiture case filing.
- Processes paperwork to file a forfeiture case with the DAO.
- Inputs case information into an internal database.
- Processes results from the case adjudication and updates the database.
- Provides information to the Covert Vehicle Coordinator (if vehicle awarded) and/or to the FSU Manager (if money awarded).
- Provides award information to the FSU for the Annual Report requirements.

The AFU is effectively pursuing, processing, and tracking drug related seizure awards. However, the AFU is not always notified of awards. Usually, the AFU is not notified when the awards are associated with a combined law enforcement effort (i.e., federal share program, another municipality) and are sent directly to the Police Chief or to the FSU.

For example, on January 7, 2000, the Treasury Department sent an \$18,129 check directly to the Police Chief's Office. The Police Chief sent the check to the FSU for deposit into a DPD account without notifying the AFU. The AFU was made aware of the award upon receiving correspondence from the Treasury Department. This correspondence stated that the DPD failed to submit an Annual Certification Report and warned, "your agency's submission of timely and accurate certification reports is a prerequisite to the approval of equitable sharing requests. If your agency fails to comply with these requirements, all pending and future sharing requests will be suspended."

The AFU should be notified immediately and receive all correspondence pertaining to all award receipts to ensure proper tracking and report processing. In this case, the Chief's Office and the FSU failed to notify the AFU of the award. If inaccurate reports are submitted in the future, the City may lose funding.

We recommend that the Chief of Police establish procedures to ensure that all drug related seizures are given to and processed through the AFU immediately upon receipt.

Management Response:

Management concurs. Currently, the Budget and Grant Management Unit notifies the Asset Forfeiture Squad of the Narcotics Division by fax that the check has been

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received and deposit instructions are requested. Once these instructions are received, the check is deposited accordingly. This procedure will be incorporated into the Units' Standard Operating Procedures.

5. The City is paying monies to Dallas County for activities that could be performed by the City.

The *Texas Code of Criminal Procedures, Article 59.06* mandates that a local agreement be reached between the attorney representing the State and the seizing law enforcement agency to effect the disposition of contraband forfeited to the State. Article 59.01 states that the "attorney representing the state" means the county prosecutor or the city attorney of a municipality if the property is seized in that municipality by a peace officer employed by that municipality and the governing body of the municipality has approved procedures for the city attorney acting in a forfeiture proceeding.

The DPD gives the DAO twenty-five percent of the awarded forfeiture proceeds. The City could forgo this payment if the City Attorney acted as the attorney for forfeitures.

According to the AFU, the DPD made the following Dallas County DOA payments:

Fiscal Year	Payment
1999	\$221,354
2000	\$285,466
2001	\$198,903
3 Year Total	\$705,722

The City Attorney agreed that her office could perform this service.

We recommend that the Chief of Police consult with the City Attorney to determine the feasibility of the City Attorney assuming the duties for forfeiture proceedings and take additional actions warranted, if any, from the results of that review.

Management's Response:

The Chief of Police will consult the City Attorney to determine the feasibility of the City Attorney assuming the forfeiture proceedings. Depending on the number of forfeitures and fluctuating caseloads, there may not be sufficient justification to hire additional permanent staff in the City Attorney's Office.

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6. The seized property procedural manual contains outdated material.

The DPD identifies seized property procedures in the *Seized Property Manual*, dated June 1996. There have been no subsequent revisions since 1996. Therefore, some information is no longer relevant and refers to procedures no longer practiced.

We noted that there are some areas in the manual that are outdated. For example, reference is made to searching the DPD APRIS system for property tags. Since the manual was written, the DPD property system has adopted a new tracking system (PRIMS), which is now in use for all items brought into the property room. (However, the APRIS is still available for searching older items.)

Procedure manuals should be current and reflect present operations. The DPD has not initiated a procedural manual update. Inefficiencies may result from following outdated procedures.

We recommend that the Chief of Police update the Seized Property Manual to reflect current operations and establish periodic reviews and updates to prevent obsolescence.

Management's Response:

Management concurs. The Narcotics Division will update the Seized Property Manual to incorporate current procedures, as well as any new policies implemented from the findings of this audit. This update will be completed within 180 days of the conclusion of an investigation currently being conducted at the Narcotics Division by the FBI in order to incorporate any needed procedural changes identified in the investigation.

7. Responsibilities are not clearly defined.

A portion of the Narcotics Division Chief's performance evaluation is based on the financial aspects of the confiscated funds; however, the Narcotics Division command staff does not have final control or authority over these monies after they are seized. The FSU has the authority to initiate and disburse amounts from the confiscated funds; the Narcotic Division command staff is not always notified of disbursements made from these funds.

Assessed responsibilities should be limited to those areas that the individual has the authority to control. These responsibilities should be linked so that responsible management will not be held accountable for actions over which they had no control.

We recommend that the Chief of Police establish written procedures detailing the lines of responsibility of confiscated funds from seizure through distribution and ensure that assigned responsibilities are consistent with given authority.

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Management's Response:

Management partially concurs. Standard Operation Procedures already in place within the Narcotics Division, Budget and Grant Management Unit, and the Property Unit establish areas of responsibility of confiscated funds for each of these organizational units. Once updated, the Seized Property Manual will also detail responsibility for each aspect of a seizure from deposit through distribution.

8. Communication links and correspondence need improvement.

A. Forfeiture Case Tracking.

The Narcotics Division reviews all seizures to determine whether there is a reasonable potential for the City to be ultimately awarded related asset forfeitures. A Narcotics Division sergeant is responsible for tracking case proceedings through the use of an internally developed database. This sergeant reports case dispositions that lead to an award to the DPD FSU. The sergeant will also refer seizures that do not meet the State forfeiture criteria to the federal authorities to pursue (case adoption). A liaison detective assigned to work with the federal authorities tracks these seizures through the use of a separate database. The two databases do not share a communication link. The sergeant must rely on the liaison detective to determine the status of case adoptions. The FSU does not have read-only access to the database and relies on correspondence from the sergeant to effect transfers within the confiscated funds. Automated and manual operating procedures should be coordinated to achieve maximum efficiency. Compiling financial and statistical information related to both federal and State seizures may be cumbersome.

B. Correspondence to the FSU.

Once cases are adjudicated, the court of record issues orders to distribute the seized funds. The Narcotics Division attaches the court order to memorandums that instruct the FSU on the amounts to distribute to the District Attorney and the amounts to transfer within the confiscated funds. On various occasions the Narcotics Division has used the same court order to generate separate memorandums to initiate District Attorney disbursements and fund transfers. Each memorandum (with the same court order copy attached) instructs the FSU to either prepare a District Attorney payment or effect a fund transfer (from Fund 413 to Fund 411). Transactions processing should be efficient. Doubling the number of notifications is inefficient and increases the possibility of errors.

We recommend that the Chief of Police:

- A. Employ the Police Technology Technical Service Unit to link the databases and related departmental units.

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B. Require all related disbursement and transfer instructions to be submitted on one document.

Management's Response:

Management concurs. The Police Technology and Technical Service Unit will be consulted as to the feasibility of creating an on-line database within the Narcotics Division and the Budget and Grant Management Unit. This may require the Unit to write new programs to create the shared database. Staffing shortages within the Unit prevents the Police Department from establishing an exact time frame for implementation.

The forfeiture case tracking and efficient correspondence system require both divisions to work together to come up with a best workflow in order to increase efficiency.

9. The required State and federal report compilations need improvement.

During our review of the documentation for the required annual federal and State reports, we were unable to substantiate various reported amounts.

In the 2000-01 State report, we noted:

- The earned interest amount could not be calculated from the attached documentation.
- The "returned to defendants" line item was comprised of the following:
 - A \$32,425.86 defendant return completed after the reporting year.
 - A shared payment to a law enforcement agency for \$1,590. A law enforcement agency is not a defendant.
 - Disbursements to the U.S. Marshal's Office totaling \$229,954. The DPD listed all disbursements for federal adoption by the U.S. Marshal as amounts "returned to defendants." The U.S. Marshal is not a defendant.
- We were unable to fully confirm the entry for amounts shared with other agencies.

Fiscal year 2001 financial data provided by the Narcotics Division listed State awards of \$768,611 and total payments to the District Attorney of \$198,903. We could not determine a direct relation of these amounts to the State report. The State report notes \$515,457 as the amount for *seized during period*, \$736,951 as the amount for *transferred to forfeitures*, and \$254,255 as the amount for *shared with other agency(s)*.

We reviewed copies of the Federal Annual Certification Reports for fiscal years 2000 and 2001. Although we could reconcile the activity during the fiscal year, we could not determine a direct relation between the report's beginning fund balance and the fund balance noted on the City's RESOURCE accounting system. The FSU completed the two annual audit reports.

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There are no standardized procedures for developing the annual reports. Documentation does not exist to explain which financial records to use to obtain the required information or the relationship of the report line items to the revenue and expense object codes in the City's financial records.

Annual reports may be misleading, may be inaccurate, and may be inconsistent between reporting years. Excessive personnel resources may be used to generate the required reports. Procedures should be in place to ensure uniform and standardized methods are used to obtain and compile annual report data.

We recommend that the Chief of Police establish all necessary written procedures to ensure uniform and standardized methods are used to obtain and compile federal and State confiscated funds annual report data.

Management's Response:

A written procedure will be prepared outlining the detailed steps taken in preparing both the State and Federal Certification Reports.

10. Independent review and audit of annual reports are not assured.

The *Texas Code of Criminal Procedures, Article 59.06, (g)(1)* states that all law enforcement agencies that receive proceeds under this chapter shall account for the seizure, forfeiture, receipt, and specific expenditures of all such proceeds and property in an audit. The audit form is provided by the Texas Attorney General's (AG) Office.

We contacted the AG's Office for clarification on the annual audit requirement. The AG does not require an independent audit, but it does require the person signing the report to be knowledgeable about the funds and to be available if the State Comptroller's Office decides to question and/or audit the contents of the report.

Section 3.B of the U.S. Department of Justice Addendum to *A Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies* (March 1994) states that the Annual Certification Report is due sixty days after the close of the requesting agency's fiscal year. The head of the law enforcement agency and a designated official of the governing body must sign the Annual Certification Report. By signing the report, the signatories certify that the accounting of funds received and spent by the law enforcement agency is accurate and in compliance with the guidelines and statutes that govern the equitable sharing program.

A Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies, Chapter XI states that local law enforcement agencies that receive federal shared cash, proceeds, or tangible property valued at over \$100,000 in

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a single year shall ensure that an independent financial audit is performed annually consistent with the audit requirements set forth in Appendix D. (Appendix D lists compliance requirements and audit procedures.) A copy of a state or local government report, if consistent with Appendix D, will satisfy this requirement. Alternatively, an independent accounting firm may be engaged to perform the required audit, in which case the audit may be paid for from shared cash or proceeds. Generally, the local law enforcement agency that has received equitable sharing proceeds should initiate an audit of such monies whenever circumstances that indicate the need for such an audit exist.

We contacted the Asset Forfeiture and Money Laundering Section of the U.S. Department of Justice, who advised us that an audit is required if the law enforcement agency annually spends at least \$300,000 of federal monies. The audit requirement is satisfied if the forfeited monies are considered for examination under the Single Audit Act.

Regular independent audits could increase the assurance that financial activity is accurately reported.

We recommend that the Chief of Police consider soliciting separate audits of the reports submitted to the State and federal authorities for seized and forfeited assets.

Management's Response:

Management concurs. The Police Department will utilize its Inspection Unit to conduct an audit of the State and Federal Certification Reports.

11. The external audit report is not reflective of the DPD reported amount.

Section 3.C of the U.S. Department of Justice Addendum to *A Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies* states, "Audits will be conducted as provided by the Single Audit Act Amendments of 1996 OMB Circular A."

The DPD submitted a Federal Annual Certification Report for October 1, 2000, through September 30, 2001, which lists the beginning share balance as \$2,973,488 and the federal sharing funds received as \$487,768. However, the external auditor's (KPMG) report for the federal shared funds for fiscal year ending September 30, 2001, listed total confiscated funds as \$2,451,000.

With the data available, we were unable to determine which amount is correct.

On July 3, 2002, we requested support for the reported figure from KPMG. KPMG

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stated that they received the figure from a since departed City Controller accountant. We requested work paper documentation to support this reference and to substantiate that confiscated funds were included in the grants subject to examination under the Single Audit Act. We have not received the requested work paper confirmation.

Reported financial amounts may be inaccurate.

We recommend that the Chief of Police, in consultation with the City's external auditors, ensure that confiscated funds are included and tested as a component of the Single Audit Act.

Management's Response:

Management partially concurs. The Police Department relies on the City Controller's Office to coordinate the Single Audit Report. Often, DPD doesn't know what report was given by the City Controller's Office to the City's external auditors. The Police Department will ask the Controller's Office to notify us to ensure that confiscated funds are included and tested as a component of the Single Audit Act.

12. Inactive grants should be closed.

The DPD has two inactive grant funds (Funds G92 and S12). Amounts from these funds were to be consolidated into Fund 411. However, the consolidation has not taken place. Permission was given to close these funds, yet they are still open. Administrative Directive 2-19, Section 5-4, *Closing Grant Funds*, provides procedures for closing inactive grant funds.

Continuing to keep inactive grant funds open decreases the efficiency of administration and increases the risk of financial recording errors.

We recommend that the Chief of Police coordinate with Budget and Management Services to close the inactive grant funds and move any cash balances into Fund 411.

Management's Response:

The Police Department has consolidated various confiscated funds. Work continues to completely close out these funds. With assistance from the Budget and Management Services Department, this process should be completed prior to January 1, 2003.

13. There may be alternatives to the current crime laboratory use.

The DPD proposes to use confiscated funds to pay for expanded drug testing. Currently the DPD uses the Southwest Institute of Forensic Science (SWIFS) to conduct drug testing. SWIFS estimates the cost of the expanded drug testing to

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approach \$1 million.

We reviewed the SWIFS contract, which describes the work as toxicological, environmental, and physical evidence analysis and other similar forensic analytical services for the DPD and Dallas Fire Department. The contract also states that SWIFS shall perform services in a timely manner, consistent with the needs of the Dallas Police and Fire Departments.

DPD investigators have expressed concern with SWIFS in the following areas:

- Delays in receiving test results on submitted evidence.
- High cost.
- Charges for unauthorized evidence processing.

Various law enforcement agencies operate their own crime laboratories. The City of Fort Worth's Police Department has a crime laboratory headed by a civilian employee, who also supervises the police property room function. Fort Worth's in-house crime lab costs the City of Fort Worth less than the use of outside laboratories.

The Texas Department of Public Safety operates a free laboratory. However, the lab is not staffed or equipped to handle the volume of testing that the DPD would require.

Department of Public Safety personnel stated that they have, in the past, worked with the DPD to determine the requirements needed for an in-house crime laboratory and would continue to lend their technical assistance if the DPD decided to establish an in-house crime laboratory.

Goods and services should be procured economically and efficiently. The City may not be receiving the most efficient and economic forensic laboratory services.

We recommend that the Chief of Police determine whether there is a more economic, effective, and efficient means to obtain forensic services by:

- Determining the feasibility of conducting, in-house, all or part of the forensic services (i.e., drug tests) currently performed by SWIFS.
- Reviewing the costs for forensic services provided by other laboratories or instituting an in-house laboratory.

Management's Response:

The Police Department will review in-house laboratory or proposals from other laboratories to provide the services currently provided by SWIFS. A decision will then be made whether to pursue an alternative to SWIFS.