



DALLAS COUNTY
COUNTY AUDITOR

To: The Honorable Lupe Valdez, Dallas County Sheriff
Commissioners Court

From: Darryl D. Thomas, County Auditor *Darryl D. Thomas*

Date: June 9, 2017

Re: Dallas County Sheriff's Office – State Forfeiture FY2016

Scope

We performed a review of financial records relevant to the Dallas County Sheriff's Office use of State forfeiture funds. Code of Criminal Procedure Article 59.06 controls and limits expenditures. The forfeiture activity includes \$73,265 seized, \$34,695 forfeited, and \$46,773 (includes \$5,580 transferred to other agencies) expended during the state fiscal year ending September 30, 2016. Forfeited funds are held in a special account in the treasury, to be used by the Sheriff's office solely for law enforcement purposes.

Procedures

Internal controls for financial management by the Sheriff's office including purchasing, accounting, compliance, and reporting are tested at year-end. A review of the total budget activity was selected for all categories. Review steps included, but were not limited to:

- A. Purchasing
 - Approvals: documented prior to allocations or purchase/obligation
 - Policies/Travel (hotel – meals – transportation)
- B. Accounting
 - Approvals/Support: documented on receipt of service/goods
 - Allocation/Justification: category coding
 - Transfers/Loans: activity between other Sheriff or County funds
 - Bank Reconciliation: Sheriff's office records vs. General Ledger vs. bank and outstanding entries
- C. Compliance – used by Sheriff solely for official law enforcement purposes (see Attorney General's opinions on "official law enforcement purposes")
 - Budget/Categories: filed with Commissioners Court at sufficient level both for investigation and non-investigation disclosure
- D. Reporting
 - Budget and Categories: consistent with Attorney General's format
 - Audit: timely signed and remitted
- E. Walkthrough
 - Documents internal controls for the complete procurement process
 - Document internal controls for handling of seized and forfeited funds; handling of seized and forfeited assets
 - Document internal controls for handling of capital and non-capital property (recordkeeping /tracking / tagging)
 - Determine if written procedures are in place

Consideration of Internal Control

Tests were performed for limited purpose of compiling financial transactions in format required by the Attorney General. A deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Prior Year Status:

- Fourteen instances of abandoned funds totaling \$22,050.39, not held as evidence, remain in the seized account. A good faith effort should be made to return funds to defendants or process the funds as unclaimed money, pursuant to Code of Criminal Procedure, Art. 18.17 (h).

Response: Going forward the Sheriff's Office will follow the State of Texas Escheat laws regarding abandoned property.

The following findings were identified during current fiscal year test work:

- Nine out of 50 expenditures were coded to incorrect expense accounts.
- \$366.62 of \$3,333.63 paid in FY2016 from state forfeiture funds and turned over to the Intelligence Section for informant fees/buy money was not supported by documentation provided. Additional research revealed:
 - \$4,500 paid from Federal Forfeiture Funds in 2010 was expensed and not recorded to the General Ledger as an Imprest Fund or other controllable asset.
 - \$3,333.63 was incorrectly coded as other professional fees and included \$72.01 reimbursed for food purchased during surveillance.
- Incomplete budget appropriations at the detailed account code level noted while funds available at the overall operating appropriation level adequate. Dallas County Code Sec. 70-53 provides the formatting of operating and maintenance expenditures by object code; major expense categories, functionally related department and program summaries.

The following findings were identified during the walkthrough:

- Officers may not complete the documentation of evidence and evidence handling on the evidence bag while at the crime scene, due to limited time, and relies on the notations of the note taker when completing the evidence bag write up at the Sheriff's office. The Intelligence Unit should at minimum require officers to document the description of evidence, evidence recovered by, and evidence sealed by fields on the evidence bags while in the field.
- Officers who take custody of evidence do not retain copies of the Chain of Custody Form, which remains with the evidence, before another party takes custody of the evidence, creating difficulty in tracking the asset through the evidence lifecycle. The Sheriff's Office should require all custodians listed on the chain of custody form to retain a copy of the form, or the office should utilize Q-Tel (the electronic evidence tracking system) to transfer custody between parties. If the asset is lost, then the department should be able to identify the last custodian of the asset.
- The Accounting Clerk III takes the seized money to a bank other than the county's contracted depository bank, sometimes alone, for deposit in the seizure bank account. We recommend that the Sheriff's office coordinate with the County Auditor's Financial Audit section to establish a new liability account for seized funds within the depository bank. We also recommend that the Sheriff's office coordinate with the County Treasurer for armored service to transport seized cash to the Treasurer's office for deposit. In the event a deposit should be expedited, then the Accounting Clerk III and an officer can transport the cash to the Treasurer's office for deposit. However, the Sheriff's office accounting personnel should not transport cash alone or deposit cash outside of the Treasurer's office.

Response: The Sheriff's Office no longer continues this practice. It is mandatory all monies be transported either with the aid of a Deputy and or using an armored courier service.

Employees have been warned both in writing and verbally failure to abide by the practice is cause for disciplinary action.

- A segregation of duties risk exists as the Accounting Clerk III is responsible for counting the seized money, depositing seized funds, creating seizure check disbursements (Chief Financial Officer {CFO} required to sign checks as a compensating control), receiving the seizure account bank statements, and reconciling the statements. Duties concerning the seizure and forfeiture deposits, seizure account disbursement process, forfeiture account procurement process, and reconciliation process should be divided among several accounting staff. A separate clerk should open and receive the bank statements than the clerk who reconciles it.
Response: Due to the staffing size in the Fiscal Department, a complete segregation of duties is not possible. There is a segregation of duties in that the person receiving the currency is different than the person recording the transaction. All activity is reviewed by the Chief Financial Officer and checks signed by the CFO which mitigates segregation of duty risk.
- The office does not have a tracking system to record purchases made with forfeiture funds. Equipment should be tracked according to UGMS 2 CFR section 215.34, tagged and recorded promptly once it is received.

Compliance with Laws and Regulations

Audit examination, observation, inspection, and inquiry produced reasonable support or explanation for Chapter 59 conclusions and findings.

FY13 and prior abandoned funds (no Chapter 59 filing) remain in the seizure account without return to defendants or processed in accordance with in accordance with Code of Criminal Procedure, Article 18.17(h).

A sample inventory of items purchased with forfeiture funds within the last 3 years were also tested for existence with no exceptions noted. However, an asset tracking system, in accordance with UGMS 2 CFR Section 215.34, was not maintained.

Funds used supplemented versus supplanted the County budget. We did not identify expenditures inconsistent with permissible uses of Code of Criminal Procedure, Article 59.06 for “law enforcement purposes” (also see Attorney General Opinions GA-1059, DM-162, DM-246, and GA-613). However, \$366.62 in unsupported replenishment should be returned to the state forfeiture account. In addition, an asset account should be established on the General Ledger for the informant fees/buy money.

Response: The monies used for the informant fees are handled out of the State Forfeiture account and limited to \$5,000. As such all account activity is properly accounted for in one place which makes sound business sense. Additionally, adequate internal controls within the accounting and reimbursement of funds process for those funds insuring proper protection for Dallas County.

Summary

We obtained a reasonable assurance that support exists for financial transactions and walked through the process and procedures for seizing currency and property, storing seized assets, accounting for seized and forfeited assets, depositing seized and forfeited state funds in the seizure and forfeiture accounts, procuring supplies, assets, and services, expending forfeited funds, and tracking capital and non-capital items noting a lack of asset tracking system. We also compiled records for the financial report.

This report is intended for the information and use of County Officers. Our review was conducted on a test basis and was not designed to identify all deficiencies in internal control. We did not test compliance with all laws and regulations applicable to the Dallas County Sheriff's Office. Testing was limited to controls and regulations that have a direct and material effect on financial reporting of state forfeiture funds.

Dallas County Sheriff's administration is responsible for the establishment and maintenance of effective internal control and compliance with applicable laws, regulations, and contracts. Development of a detailed budget in accordance with Code of Criminal Procedure, Chapter 59.06 should be considered. \$366.62 in unsupported replenishment should be returned to the state forfeiture account and an asset account should be established on the General Ledger for the informant fees/buy money.

Management emphasis toward reduction of control weaknesses should provide for improved departmental processes.