

FISCAL AUDIT

**DEPARTMENT OF PUBLIC SAFETY
BUREAU OF POLICE**

**CONFISCATED NARCOTICS PROCEEDS TRUST FUND (CNPTF)
SPECIAL REVENUE FUND**

Report by the
Office of City Controller

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January 28, 2013

To the Honorables: Mayor Luke Ravenstahl and
Members of Pittsburgh City Council:

The Office of the City Controller is pleased to present this Fiscal Audit of the Confiscated Narcotics Proceeds Trust Fund, conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The Confiscated Narcotics Proceeds Trust Fund (CNPTF) was established in 1987 via Resolution #1070 to account for the deposit of cash and proceeds derived from the confiscation of narcotics and related items. The fund was established as a special revenue fund to restrict resources deposited into the fund for any and all expenses associated with investigations of narcotics violations. The CNPTF is administered by detectives within the Narcotics and Vice Squad of the Investigations Branch of the City of Pittsburgh Police Bureau.

The objective of this audit is to determine if the fund is properly accounted for and administered in accordance with Resolution #1070 and the Federal Asset Forfeiture Program. In order to achieve our objectives, we performed certain procedures to evaluate the effectiveness and efficiency of the fund's fiscal operation and related internal controls. Our procedures were conducted in accordance with standard auditing procedures.

We observed areas in which fiscal oversight and internal controls over management of the fund could be strengthened. Specifically, we found that:

- Travel and training expenses were not always supported with actual receipts.
- Responsibilities for management of the fund are not clearly defined.
- There are no procedures in place to track forms submitted to request shared forfeitures.
- Lack of documentation to support expenditures reported on the annual report submitted to the Department of Justice.
- Annual Certification Report is not reconciled to city accounting system.
- Shared Revenues are not spent as they are received.
- Proceeds from the Department of Justice Asset Forfeiture Program are not accounted for in a separate revenue account.

These findings and our recommendations are discussed in greater detail in the Audit Result section of this report. We believe our recommendations will assist management in providing a more effective and efficient control over management of the CNPTF fund.

We appreciate the cooperation of the staff during the course of our audit.

Sincerely,
Michael E. Lamb
City Controller

INTRODUCTION

This fiscal audit of the Confiscated Narcotics Proceeds Trust Fund was conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter. The last fiscal audit of the Confiscated Narcotics Proceeds Imprest Fund was released in November, 2010.

SCOPE AND METHODOLOGY

This audit was conducted pursuant to Article IV, Section 404 (b) of the City of Pittsburgh Home Rule Charter. Our procedures covered the period January 1, 2011 through June 30, 2012.

The objective of the audit is to determine if the fund is properly accounted for and administered in accordance with Resolution #1070 and the Federal Asset Forfeiture Program. In order to achieve our objective, we performed the necessary audit procedures as follows:

- Interviewed Police Bureau personnel to gain an understanding of the processes and internal controls over the management of the Fund.
- Examined supporting documentations to determine compliance with established policies, procedures and federal guidelines.
- Examined records relating to revenues and expenditures recorded in the fund.
- Applied procedures, on a sample basis to determine whether expenditures were properly documented, authorized and are in accordance with federal equitable sharing guidelines.
- Traced a sample of shared forfeiture requests (DAG-71 Forms) submitted to the DOJ to verify funds were received and deposited into the CNTPF fund.
- Reviewed Imprest account management procedures and examined a sample of expense vouchers paid from the account.
- Reviewed reporting requirements under the federal equitable sharing program for compliance.
- Performed reconciliation of shared forfeiture receipts and expenses reported on the 2011 annual certification report submitted to the DOJ to the city's accounting system.

We performed these procedures during the last week of August, 2012.

OVERVIEW

The Confiscated Narcotics Proceeds Trust Fund (CNPTF) was established in 1987 to account for the deposit of cash and proceeds derived from the confiscation of narcotics and related items. The fund was established as a special revenue fund to restrict resources deposited into the fund for any and all expenses associated with investigations of narcotics violations. The CNPTF is funded by shared proceeds from federally forfeited properties as a result of participation in the Department of Justice (DOJ) Asset Forfeiture Program.

Detectives from the Narcotics and Vice Squad of the Investigations Branch of the Pittsburgh Police Bureau often participate in joint investigations with several DOJ agencies and may request an equitable share of federally forfeited properties. Specific guidelines and requirements for participating in the program are documented in the Department of Justices' *"Guide to Equitable Sharing for State and Local Law Enforcement Agencies"* (Guide). These guidelines include standard accounting procedures and internal controls that must be followed by all local law enforcement agencies participating in the program.

In order to receive any federally forfeited property, an application is required to be submitted to the DOJ within 60 days after the seizure date by completing and submitting a Form DAG-71, *Application for Transfer of Federally Forfeited Property* to the federal seizing agency. A separate form must be completed for each property to be shared. Requesting an equitable share of forfeited properties does not automatically guarantee receipt. All approved equitable sharing proceeds are electronically transferred into the fund's bank account. An email (E-Share) notification is sent to alert the Police Bureau that forfeiture proceeds are being deposited into their account. The Department of Justice asset forfeiture program requires all shared monies to be used for law enforcement purposes. We verified forfeitures revenues expended by CNPTF were for expenditures permissible under the program.

The CNPTF maintains an imprest fund in the amount of \$30,000 (increased from \$15,000 in 1989 via Resolution #978) to pay for routine expenses incurred during investigations. As the imprest fund nears depletion, a request for replenishment is submitted to the Controller's Office. Fiscal Audit staff performs a review of the expense vouchers and supporting documentation prior to replenishment of the fund. There were a total of seven replenishment requests processed during the audit period January 1, 2011 to June 30, 2012.

All law enforcement agencies participating in the Asset Forfeiture Program are required to comply with established reporting requirements that include an annual submission of the Equitable Sharing Agreement and Certification form and, if applicable, an audit report. The agreement must be signed by the head of the law enforcement agency and a designated official of the governing body. By signing the annual agreement, the signatories agree to be bound by the statutes and guidelines regulating the asset forfeiture program. An audit is required under the guidelines of the Single Audit Act Amendments of 2011 and OMB Circular A-133, *Audits of States, Local Governments and Non Profit Organization*. These guidelines require agencies that expend more than \$500,000 in federal funds per fiscal year to conduct an external audit.

We noted an annual certification agreement form was filed with the DOJ for 2011, however the CNTPF did not fall under the audit requirements, therefore the fund was not included in the annual Single Audit of the City of Pittsburgh.

During the audit period January 1, 2011 through June 30, 2012, the CNPTF received a total of \$172,970 in shared forfeitures from the Department of Justice. The chart below, details expenditures of the fund for the same period.

Confiscated Narcotics Proceeds Expenditures January 1, 2011 - June 30, 2012 (Audit Period)	
Vehicles	\$ 74,584
Communications and Equipment	46,347
Travel and Training	41,131
Investigative Expenses	15,780
Other	3,921
TOTAL	\$181,763

AUDIT RESULT

Our audit disclosed areas in which fiscal oversight and internal controls over management of the fund could be strengthened. Our findings and recommendations are discussed in detail as follows:

Finding #1: Inadequate supporting documentation for Travel and Training expenditures

Although significant improvements were made regarding the adequacy of supporting documentation maintained by the CNPTF as a result of our last audit, there were several instances where supporting documentation for travel and training did not include actual receipts. During our routine review of Imprest Fund expense vouchers submitted as part of the replenishment process, we noted some travel expenditures were not supported by actual receipts. A Training/Travel Request Form is usually completed and approved in advance. However we noted actual receipts were not submitted for several approved lodging expense requests. Actual receipts for all expenditures should be maintained (even after the fact) to confirm validity of the expense and to verify funds have been expended as intended.

Recommendations

Establish policies and procedures that require all receipts be submitted as part of required documentation for all expenses, and to regard any claim voucher incomplete unless actual receipts are included. All receipts should be considered vital part of supporting documentation and should be retained.

Finding #2: Responsibilities for the fund's management are not clearly defined

Responsibilities for management of the fund appear fragmented with several individuals involved in different aspects of the fund's operations without coordination. One detective is responsible for maintaining all DAG-71 forms; another is responsible for expenditures made through the imprest system, while another staff completes the annual certification report that is submitted to the DOJ.

Our inquiries revealed that the detective maintaining the DAG-71 forms is not updated as to when the sharing request is received and the staff responsible for completing the annual certification report is not directly involved in the operation of the fund, and does not maintain any records relating to the fund. In order to ensure effective management of the fund, responsibilities should be clearly defined. The person responsible for completing the annual certification report should be involved with the operation of the fund and also be familiar with the reporting requirements as well as the numbers reported.

Recommendation

Establish a system of internal controls to provide assurance that the CNTPF is properly managed. Procedure should be implemented to ensure that appropriate records are maintained and responsibilities for the fund are clearly established.

Finding #3: Inadequate Tracking of Requests for Share of Forfeiture Monies

Forfeiture request forms (Forms DAG-71) that are submitted to the Department of Justice in order to receive shared forfeitures are not properly tracked. Our audit procedures revealed that although all copies of DAG-71 forms are maintained, there are no procedures in place to track those actually received, the amount received and those that are still outstanding. Federal forfeiture guidelines require all local law enforcement agencies that participate in their Asset Forfeiture program to maintain a log and copies of all Forms DAG-71 submitted to the Department of Justice. The log is to have a consecutive numbering system, including detailed information as to the seizure type, seizure amount, share amount requested, amount received and date received for each DAG-71 form. The guide also requires the log to be continually updated whenever an E-Share notification is received.

Recommendation

A system to track sharing requests should be established by creating and maintaining a detailed log of all DAG-71 forms submitted. The document should contain all pertinent information and should be continually updated as funds are received.

Finding #4: Lack of Supporting Documentation for Annual Certification Report

The Police Bureau does not have an adequate system for tracking and recording expense categories that are reported on the annual report submitted to the Department of Justice as part of the requirements for participating in the equitable sharing program. Although expense vouchers are maintained and recorded on a spreadsheet, no record exists as to what amounts make up each expense category. In the absence of adequate tracking and monitoring, proper records are not in place to verify amounts for each category. Tracking and reporting such expenditures will allow the Police Dept. to provide proper oversight to the funds' activities and ensure accuracy of amounts reported to the DOJ.

Recommendation

The Police Bureau should implement a system whereby all expenditures paid from the CNPTF account are adequately documented and tracked by the categories reported on the annual report filed with the DOJ. The Police Department should also consider designating one person as custodian of the fund who maintains records of the activities and is also responsible for completing and submitting the form.

Finding #5: Reconciliations not performed

There are no reconciliations performed to agree the funds' account balances reported on the annual certification report to the city's accounting system to ensure accuracy and allow for early detection of discrepancies. Performing periodic reconciliation is a good management control practice to ensure accuracy of records and allow for early detection of errors.

Recommendation

Perform periodic reconciliation of the funds' account balances reported on the annual report submitted to the Department of Justice to the City's accounting system.

Finding #6: Shared Revenues should not be retained unnecessarily

The Police Bureau is not spending shared forfeitures revenue as they are received. We noted a substantial balance of equitable sharing revenue on the CNPTF fund. The DOJ Guide indicates that shared forfeiture monies should be expended as received for permissible law enforcement purposes. Shared monies should not be accumulated unnecessarily; however funds may be retained for a reasonable period of time, generally no longer than two years to satisfy a future need.

Recommendation

The Police Bureau should explore allowable ways to spend the money as soon as it is reasonably possible. The DOJ guide suggests forming internal committees to explore and make expenditure recommendations to the department head.

Finding # 7: Shared Revenues not accounted for separately

Proceeds from the DOJ Asset Forfeiture Program are not accounted for solely in a separate revenue account. During our audit, we noted forfeiture monies received are comingled with funds from other sources. According to the DOJ Guide all participating law enforcement agencies are required to establish separate revenue account or accounting code solely for proceeds received from participating in the asset forfeiture program. No other funds are to be included in the account or with the accounting code.

Recommendation

Implement necessary measures to ensure only proceeds from the DOJ Asset Forfeiture Program are accounted for in the CNTPF account.