



Jerry E. Abramson
Mayor

Louisville Metro Council

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Office of Internal Audit

Louisville Metro Police
Department

Federal and State
Forfeitures

Audit Report

Office of Internal Audit

Louisville Metro Police Department

Federal and State Forfeitures

June 2009



Louisville Metro Police
Department

Federal and State
Forfeitures

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OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

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Transmittal Letter

June 19, 2009

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of Louisville Metro Police Department Federal and State Forfeitures

Introduction

An audit of the Louisville Metro Police Department's (LMPD) forfeiture activity was performed. The primary focus of the review was the operational and fiscal administration of the activity, to include both revenue and expenditures. This included how activity is processed, recorded, and monitored, with emphasis on ensuring that expenditures were appropriate and in compliance with applicable laws and regulations. The objective was to obtain assurance that risks are adequately mitigated through the internal control structure.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The procedures for the administration of LMPD Federal and State forfeiture activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of activity, to include both revenue and expenditures. Emphasis was placed on ensuring that expenditures were appropriate and in compliance with applicable laws and regulations. Tests of sample data were performed on expenditure activity from the period July 1, 2007 through June 30, 2008. Activity reviewed included expenditure support documents (e.g., invoices, journal vouchers, and payroll records), Federal and State regulations, and annual reports to Federal and State agencies.

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. This included ensuring that expenditures were appropriate and in compliance with applicable laws and regulations. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The audit would not identify all issues because it was based on selective review of data.

Opinion

It is our opinion that the administration of LMPD forfeiture activity needs improvement. The internal control rating is on page 5 of this report. This rating quantifies our opinion on internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Records Management.** Issues were noted with the records management of LMPD's Federal and State forfeiture activity.
 - A new records management system was implemented by LMPD in June 2008. However, system reports have not been developed and viewing of some data has not been established to assist in the verification, deposit, and reconciliation of seized currency. This has created inefficiencies in the processing and monitoring of currency assets and weakens the effectiveness of the system as an asset management tool.
 - LMPD does not have a consistent mechanism in place to track when forfeitures are sought on seized assets. Forfeiture requests are not tracked in the records management system. Though some LMPD units / divisions use supplementary databases, spreadsheets, and manual files to record such data, this is not a consistent practice used by all divisions. Without a formalized means by which to track forfeiture requests, the follow-up and monitoring of the requests is impaired. This in turn increases the risk that LMPD could be missing opportunities to acquire seized funds.

- **General Administration.** Issues were noted with the general administration of forfeiture activity.
 - LMPD Standard Operating Procedures do not address Federal forfeiture processes, and in some cases do not agree with current practices.
 - The proceeds from forfeited property sold through auction may not be distributed properly according to State statute. Assets submitted for auction are not flagged as Police property; therefore, the proceeds are not coded to a Police revenue account or distributed to the appropriate attorney.

There were no issues noted with the expenditure activity for the Federal and State forfeiture transactions reviewed. Expenditures appeared appropriate and in compliance with applicable laws and regulations.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the administration of LMPD's forfeiture activity.

Corrective Action Plan

Representatives from the Louisville Metro Police Department have reviewed the results and are committed to addressing the issues noted. LMPD's corrective action plans are included in this report. We will continue to work with LMPD to ensure the actions taken are effective to address the issues noted.

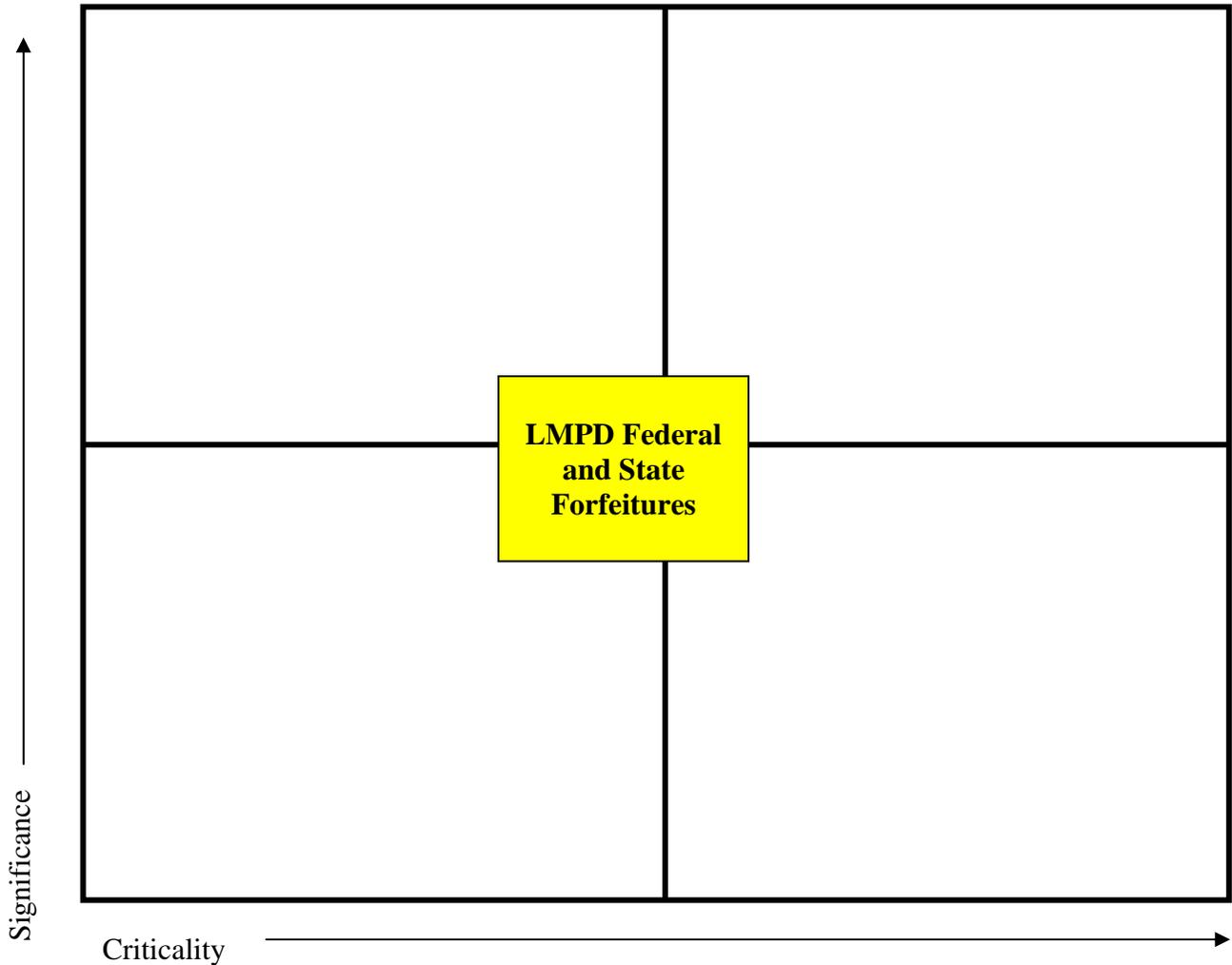
Sincerely,



Michael S. Norman, CIA, CFE, CGAP
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Audit Committee
Louisville Chief of Police
Louisville Metro External Auditors

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	<u>Satisfactory</u> Not likely to impact operations.	<u>Needs Improvement</u> Impact on operations likely contained.	<u>Inadequate</u> Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Background

The Louisville Metro Police Department receives forfeited property and funds in accordance with Federal, State and local regulations. Items seized during investigations and arrests are held in the custody of the LMPD property room until court cases are completed and legal determinations made. Forfeited property can be maintained for official use by LMPD, or if deemed inappropriate for official use, can be sold at auction or properly destroyed. Forfeited funds are deposited and recorded in the applicable forfeiture accounts on Louisville Metro's financial system.

LMPD must expend forfeited funds in accordance with Federal, State and local regulations. For example, a portion of State forfeitures must be paid to the Commonwealth or County Attorney that participated in the forfeiture proceeding. The portion maintained by LMPD must be used for direct law enforcement purposes. Similarly, LMPD receives Federal forfeitures based on an equitable share of the net proceeds as outlined in the Department of Justice's Guide to Equitable Sharing of Federally Forfeited Property. These funds must also be expended for law enforcement purposes.

In Fiscal Year 2008, LMPD expended approximately \$1,200,000 and received approximately \$562,000 in forfeited funds.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit previously audited the LMPD Narcotics / Vice Unit Funds in July 2006 and Metro Narcotics Asset Forfeitures in July 2003. Unless otherwise noted, all prior issues have been satisfactorily addressed.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to LMPD on May 19, 2009. An exit conference was held at the LMPD administrative offices on June 11, 2009. Attending were Lieutenant Colonel Vince Robison and Amy McTyeire representing LMPD; Mike Norman and Gena Redmon representing Internal Audit. Final audit results were discussed.

The views of LMPD officials were received on June 18, 2009 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

*“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or **no longer than** 30 days of receipt of the draft report.”*

LMPD’s response was provided within this required timeframe.

Observations and Recommendations

Scope

The Louisville Metro Police Department's (LMPD) procedures for administering Federal and State forfeiture activity were reviewed through interviews with key personnel. The primary focus of the review was the operational and fiscal administration of the revenue and expenditure activity. This included assessing whether activity was processed, recorded, and monitored accurately and appropriately, with emphasis on ensuring that expenditures were in compliance with applicable laws and regulations.

Tests of sample data were performed on transactions from the period July 1, 2007 through June 30, 2008. A sample of 10 expenditures was judgmentally selected for review from the population of forfeiture expenditures. The sample included Federal and State expenditures. Activity reviewed included expenditure support documents (e.g., invoices, journal vouchers, and payroll records), Federal and State regulations, and annual reports to Federal and State agencies. The review would not reveal all issues because it was based on selective review of data.

Observations

Issues were noted with the administration of LMPD's Federal and State forfeiture activity. As a result, the effectiveness of the internal control structure is impaired and needs improvement. Opportunities noted to strengthen the controls are as follows.

- #1 Records Management
- #2 General Administration

Details of these begin on the following page.

#1 – Records Management

Issues were noted with the records management of LMPD's Federal and State forfeiture activity.

- **Records Management System.** A new records management system was implemented by LMPD in June 2008. However, system reports have not been developed and viewing of some data has not been established to assist in the verification, deposit, and reconciliation of seized currency. This has created inefficiencies in the processing and monitoring of currency assets and weakens the effectiveness of the system as an asset management tool.
 - LMPD personnel key pertinent data on all currency related cases into a database that is separate from the primary records management system. The separate database is maintained so that summary reports of currency activity can be generated in order to help facilitate the reconciliation of deposits and postings of funds to Louisville Metro's financial system. Processing data in this manner is inefficient and creates a duplication of efforts with regards to data entry. It also increases the risk of data reporting errors since the secondary reports are relied upon for reconciliations as opposed to actual system data.
 - LMPD Business Office personnel receive the court orders that designate currency to be forfeited to the Police department. However, the accuracy of the information noted on the court orders is verified by referencing the *old* records management system. It was stated by staff the new system should have pertinent information noted within it for all seized property. However, system capabilities have not been established so employees can retrieve and view all necessary data for validation purposes. Verifying forfeiture data through the old system does not provide sufficient evidence that the new system is properly reflecting activity.

- **Tracking of Forfeiture Requests.** LMPD does not have a consistent mechanism in place to track when forfeitures are sought on seized assets. Forfeiture requests are not tracked in the records management system. Though some LMPD units / divisions use supplementary databases, spreadsheets, and manual files to record such data, this is not a consistent practice used by all divisions. Without a formalized means by which to track forfeiture requests, the follow-up and monitoring of the requests is impaired. This in turn increases the risk that LMPD could be missing opportunities to acquire seized funds.

Recommendations

Appropriate LMPD personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ LMPD Property Room personnel should consult with applicable technology support staff (e.g., LMPD technology staff, Metro Information Technology staff) regarding records management system needs. Ideally, a system report could be created that would allow Property Room staff to retrieve forfeiture data on currency assets for use in deposit and reconciliation activities. This would eliminate the need for a second database and thereby improve processing efficiencies. The creation of currency summary reports would also allow for a reconciliation of actual system data, as opposed to verification to a secondary database.

- ✓ Property Room personnel should consult with technology support staff regarding records management system views. It is essential that all validations of forfeiture data be conducted through the current system. It is the primary system for all property data records and should be relied upon for any inquiries or verifications. This will ensure that the current system is properly reflecting all case / property information and help in the detection of any data transfer errors.
- ✓ Appropriate LMPD personnel should evaluate the need for tracking forfeiture requests on seized assets. If it is determined that this information is to be maintained, then a consistent means by which to track such data should be established and used throughout all of LMPD. Ideally, the records management system could be used to flag property that is being requested for forfeiture. Reports could be created that would allow employees / supervisors to monitor the status of the requests. Procedures should be established to provide guidance on forfeiture follow-up activities.

#2 – General Administration

Issues were noted with the general administration of LMPD's Federal and State forfeiture activity.

- **Policies and Procedures.** Issues were noted with the policies and procedures for LMPD forfeiture processing. Examples include the following.
 - LMPD has Standard Operating Procedures (SOP) to guide in the administration of State forfeiture activity. The procedures do not address the handling of Federal forfeited funds / property, which are processed differently. This increases the risk of non-compliance with intended policies and procedures and can create inconsistencies and inefficiencies with activity processing.
 - The SOP addressing forfeiture documentation workflow does not agree with current practices. The SOP indicates the LMPD Business Office receives all forfeiture court orders and Request for Forfeiture forms. However, the Business Office only receives and processes documentation pertaining to currency forfeitures. Forfeiture documentation involving property is forwarded to and processed by LMPD property room personnel.
 - Though LMPD Business Office personnel have desktop procedures to guide in the processing of forfeitures, the procedures are not comprehensive to address all applicable areas. Areas not addressed include Federal forfeiture processing, reconciliation of forfeiture court orders to the records management system, processes to follow if court order documents differ from the records management system, and quarterly / annual forfeiture reporting requirements.
- **Auction Proceeds.** The proceeds from forfeited property sold through auction may not be distributed properly according to State statute. Kentucky Revised Statute 218A.42 states that 85% of proceeds shall be paid / retained by the law enforcement agency which seized the property, to be used for direct law enforcement; and 15% shall be paid to the Commonwealth or County Attorney that participated in the forfeiture proceeding. However, Metro Finance processes and records the proceeds from all auctioned forfeiture property to the Purchasing division's miscellaneous revenue account. Assets submitted for auction are not flagged as Police property; therefore, the proceeds are not coded to a Police revenue account or distributed to the appropriate attorney.
- **Louisville Metro Ordinance.** The Louisville Metro Ordinance for forfeited property section 130.02 (C) (4) requires that certain forfeited moneys be deposited into a narcotics investigative account. The ordinance references Kentucky Revised Statute (KRS) 218A.435 that appears to have been repealed June 2007. *A similar issue was noted in a prior review, although the reference was a different KRS.*
- **Expenditure Compliance.** There were no issues noted with the expenditure activity for the Federal and State forfeiture transactions reviewed. Expenditures appeared appropriate and in compliance with applicable laws and regulations.

Recommendations

Appropriate LMPD personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ LMPD personnel should review their Standard Operating Procedures and make updates to ensure they are comprehensive in addressing all aspects related to forfeiture processing. The procedures should address State and Federal forfeitures, and should reflect current practices with regards to who is responsible for processing. The updated procedures should be distributed to all applicable personnel. This will help ensure adherence to applicable guidelines, and promote consistency in the processing of forfeiture related activity.
- ✓ Desktop procedures should also be reviewed and updated periodically to ensure they are comprehensive and accurately address current processes. The desktop procedures should be detailed enough that another individual could process activity in the absence of key personnel. The procedures should describe routine activities, as well as provide guidance when non-routine issues or exceptions are encountered (e.g., processes to follow when court order forfeitures do not agree with system records).
- ✓ LMPD should consult with appropriate legal counsel and Metro Finance personnel regarding the distribution of proceeds from forfeited property that is sold during auction. Policies and procedures should be established that will help ensure proceeds are distributed appropriately according to applicable regulations. The procedures should address how property will be identified as an LMPD forfeiture while in the process of being auctioned (i.e., Finance's possession), as well as, how the proceeds will be deposited and posted to Metro's financials.
- ✓ LMPD should consult with appropriate legal counsel to ensure Metro ordinances are properly referencing statutes.

LMPD's Corrective Action Plan

1. LMPD staff is working with applicable technology support staff regarding iLeads, our new records management system. A draft report has been developed that details currency entered into iLeads so that it can be reconciled with the bank records, eliminating the need for an additional Excel spreadsheet for this purpose. This report still has to be programmed into a production mode, so that it can be run by the Business Specialist responsible for reconciling these records. We're optimistic that will be complete in the next couple of weeks.
2. LMPD staff will consult with technology support staff to determine if the iLeads system can be utilized to validate all forfeiture data, including the old data that was transferred into the new system. While it has been our intention that the new system would be the primary system for all property data records and would be relied upon for any inquiries and verifications, corruptions of old data may not make this possible.
3. The current system for tracking unresolved money in the Property Room is preferable to tracking forfeiture requests on seized assets, because it reviews both seized cash with, or without, an outstanding Forfeiture Request. LMPD is evaluating the feasibility, and advantages of flagging property with a completed seizure request form in iLeads. Desk top policy and procedure will include guidance on forfeiture follow-up activities.
4. LMPD personnel have reviewed Standard Operating Procedures to assure they are comprehensive.
5. Desktop procedures are reviewed and updated periodically to ensure they are comprehensive and accurately addresses current processes. Processes to follow when forfeiture orders do not agree with system records will be included in the desktop procedures.
6. A meeting was held on June 2 which included staff from LMPD, Purchasing and the County Attorney's Office in order to establish policy and procedures which will assure that proceeds from sold forfeited property are distributed appropriately according to applicable regulations. Fleet Services has also been contacted to address the sale of forfeited vehicles.
7. The County Attorney's office has been contacted and is working to correct LMCO 130.02 which provides that money forfeited to Metro because of a drug bust has to be kept in a Metro "Narcotics Investigation Fund". 130.02 (C) (4) refers to money seized under KRS 218A.435, which the Legislature repealed in 2007.



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Name of Report LMPD – Federal and State Forfeitures

How do you rate this report?			
	Beneficial	Somewhat Helpful	Needs Improvement
Background Information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Details	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Length of Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity of Writing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Potential Impact	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Suggestions, comments, ideas, thoughts: _____

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