



Office of the Inspector General  
U.S. Department of Justice



**AUDIT OF THE FLOYD COUNTY SHERIFF'S DEPARTMENT  
EQUITABLE SHARING PROGRAM ACTIVITIES  
NEW ALBANY, INDIANA**

Audit Division GR-50-16-006

July 2016

**REDACTED – FOR PUBLIC RELEASE**

# **AUDIT OF THE FLOYD COUNTY SHERIFF'S DEPARTMENT EQUITABLE SHARING PROGRAM ACTIVITIES NEW ALBANY, INDIANA**

## **EXECUTIVE SUMMARY\***

The U.S. Department of Justice (DOJ or Department) Office of the Inspector General (OIG) conducted an audit of the Floyd County Sheriff's Department's (FCSD) accounting for and use of equitable sharing revenues. Equitable sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations. During the period of January 1, 2012, through September 30, 2015, the FCSD received \$577,877 in DOJ equitable sharing revenues to support law enforcement operations.<sup>1</sup> During the same period, the FCSD expended \$890,446 in equitable sharing funds.<sup>2</sup>

The objective of the audit was to assess whether the FCSD properly accounted for equitable sharing funds and used such revenues for allowable purposes defined by applicable guidelines. Our testing revealed that the FCSD failed to comply fully with DOJ guidelines for using equitable sharing funds. Specifically we found:

- The FCSD does not have written procedures for administering equitable sharing funds.
- During the period under review, the FCSD utilized \$124,220 in equitable sharing funds to pay informants. We found that the FCSD could not provide adequate documentation to support \$119,320 of these expenditures.
- Floyd County has not adequately responded to recommendations in its FY 2012 Single Audit Report, causing the Department's primary granting agency to designate Floyd County as high-risk.<sup>3</sup> Moreover, Floyd County submitted its FY 2012 and FY 2013 Single Audit Reports late, and as of May 2016, it has not submitted its 2014 Single Audit Report, which was due in February 2016.

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\* The Office of the Inspector General redacted the names of individuals from Appendix 3 of this report to protect the privacy rights of the identified individuals. See Privacy Act of 1974, 5 U.S.C. §552(a).

<sup>1</sup> The FCSD's fiscal year begins on January 1 and ends on December 31.

<sup>2</sup> The FCSD began the audit period with an equitable sharing balance of \$468,302. At the end of the audit period, the balance was \$133,393.

<sup>3</sup> A high-risk designation means that new awards from DOJ to the grantee will contain special conditions that provide additional oversight, as necessary, and some of these special conditions may restrict the grantee from obligating, expending, or drawing down funds under DOJ awards.

Our report contains eight recommendations to address the weaknesses we identified. Our findings are discussed in detail in the Findings and Recommendation section of the report. The audit objective, scope, and methodology are included in Appendix 1.

**AUDIT OF THE FLOYD COUNTY SHERIFF’S DEPARTMENT  
EQUITABLE SHARING PROGRAM ACTIVITIES  
NEW ALBANY, INDIANA**

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# **AUDIT OF THE FLOYD COUNTY SHERIFF'S DEPARTMENT EQUITABLE SHARING PROGRAM ACTIVITIES NEW ALBANY, INDIANA**

## **INTRODUCTION**

The Department of Justice (DOJ or Department), Office of the Inspector General (OIG) conducted an audit of the Floyd County Sheriff's Department's (FCSD), equitable sharing program activities. The audit covered the FCSD's participation in the DOJ Equitable Sharing Program between January 1, 2012, and September 30, 2015.<sup>4</sup> During this period, the FCSD received \$577,877 from the DOJ Equitable Sharing Program and reported expenditures of \$890,446 in equitable sharing funds.<sup>5</sup>

### **DOJ Equitable Sharing Program**

Because asset forfeiture deprives criminals of the profits and proceeds derived from their illegal activities, it is considered by DOJ to be one of the most powerful tools available to law enforcement agencies. A key element of DOJ's asset forfeiture initiative is the equitable sharing program where the Department and its components share a portion of federally forfeited cash, property, and proceeds with state and local law enforcement agencies.<sup>6</sup>

State and local law enforcement agencies receive equitable sharing funds by participating jointly with DOJ agencies on investigations that lead to the seizure and forfeiture of property or by requesting a DOJ agency adopt the seizure and proceed with federal forfeiture. Once an investigation is completed and the seized assets are forfeited, the assisting state and local law enforcement agencies can request a share of the forfeited assets or a percentage of the proceeds derived from the sale of forfeited assets. Generally, the degree of a state or local agency's direct participation in an investigation determines the amount or percentage of funds shared with the agency.

Three DOJ components work together to administer the equitable sharing program: (1) the U.S. Marshals Service (USMS), (2) the Justice Management Division, and (3) the Criminal Division's Asset Forfeiture and Money Laundering Section (AFMLS). These three components are responsible for issuing policy statements, implementing governing legislation, and monitoring the use of DOJ equitable sharing funds. The USMS is responsible for transferring asset forfeiture funds from DOJ to the receiving state or local agency. The Justice Management Division manages the Consolidated Asset Tracking System, a database used to

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<sup>4</sup> The FCSD's fiscal year begins on January 1 and ends on December 31.

<sup>5</sup> The FCSD began the audit period with an equitable sharing balance of \$468,302. At the end of the audit period, the balance was \$133,393.

<sup>6</sup> Federal asset forfeiture programs are also administered by the U.S. Department of the Treasury and the U.S. Department of Homeland Security.

track federally seized assets throughout the forfeiture life cycle. Finally, AFMLS tracks membership of state and local participants, updates equitable sharing program rules and policies, and monitors the allocation and use of equitable sharing funds.

Before requesting a share of the seized assets, a state or local law enforcement agency must first become a member of the DOJ equitable sharing program. To participate in the program, agencies sign and submit to DOJ an equitable sharing agreement and certification form. The agreement must be renewed annually, and by signing and submitting the agreement, the officials of participating agencies certify that they will use equitable sharing funds for law enforcement purposes.

## **Floyd County**

Floyd County is located 5 miles north of Louisville, Kentucky, and has a population of more than 75,000 residents living across 148 square miles. The FCSD is responsible for criminal investigations, field operations, animal control, and emergency communications. The FCSD has been a member of the DOJ Equitable Sharing program since 1999 and has participated in investigations with the Drug Enforcement Administration and the USMS.

## **OIG Audit Approach**

The objective of the audit was to assess whether the FCSD properly accounted for equitable sharing funds and used such revenues for allowable purposes defined by applicable guidelines. We tested compliance with what we considered the most important conditions of the DOJ Equitable Sharing Program. We applied the AFMLS Guide to Equitable Sharing for State and Local Law Enforcement Agencies (Equitable Sharing Guide), issued in April 2009, as our primary criterion. The Equitable Sharing Guide provides procedures for submitting sharing requests, defines permissible uses, and establishes appropriate tracking and accounting requirements for equitable sharing assets.

To accomplish the objective of the audit, we tested the FCSD's compliance with the following aspects of the DOJ equitable sharing program:

- **Compliance with Audit Requirements** to ensure the accuracy, consistency, and uniformity of audited equitable sharing data.
- **Use of equitable sharing funds** to determine if equitable sharing funds were used for law enforcement purposes.
- **Accounting for equitably shared resources** to determine whether standard accounting procedures were used to track equitable sharing assets.
- **Equitable Sharing Agreement and Annual Certification Reports** to determine if these documents were complete, accurate, and timely submitted.

- **Monitoring of Applications for Transfer of Federally Forfeited Property** to ensure adequate controls were established.

Appendix 1 contains additional information on our audit objective, scope, and methodology.

## FINDINGS AND RECOMMENDATIONS

We identified several internal control deficiencies that significantly weakened the FCSD's management of its equitable sharing activities. For example, we found that Floyd County and the FCSD lacked formal, written internal control procedures for administering equitable sharing funds. We also found that Floyd County submitted its FY 2012 and FY 2013 Single Audit Reports late and has not yet submitted its FY 2014 Single Audit Report. We also found that the FCSD could not provide adequate documentation to support \$119,320 in equitable sharing funds it used to pay informants.

### Compliance with Audit Requirements

The Equitable Sharing Guide requires participating agencies to comply with audit requirements of the Single Audit Act of 1984, as amended, and Department of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133). OMB Circular A-133 requires non-federal entities with federal expenditures of \$500,000 or more to prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements.<sup>7</sup> Additionally, an entity must submit its Single Audit no later than 9 months after the end of the fiscal year covered by the audit. The Schedule of Expenditures of Federal Awards is included within the entity's Single Audit Report.

During our audit, we identified deficiencies in Floyd County's compliance with Single Audit requirements. According to information provided by Floyd County, it met the Single Audit threshold for FY 2012, FY 2013, and FY 2014. The most recent complete audit period covered by our review was Floyd County's 2014 fiscal year, which ran from January through December 2014. Floyd County's FY 2014 report was due in February 2016, and we determined that as of April 2016, Floyd County had not yet submitted its FY 2014 Single Audit Report.<sup>8</sup> We also reviewed Floyd County's FY 2013 Single Audit Report. Floyd County was required to submit this FY 2013 audit by September 2014. However, we found that Floyd County did not submit a Single Audit Report for FY 2013 until March 2016.

Floyd County submitted its FY 2012 Single Audit Report in December 2013, making it the only Single Audit Report that was submitted during our audit period

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<sup>7</sup> OMB Circular A-133 has been superseded by 2 C.F.R. 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance). The single audit report activities reported here were conducted under the now obsolete OMB Circular A-133. Additionally, the new guidance increased the expenditure threshold from \$500,000 to \$750,000 for fiscal years beginning on or after December 2014. This increased threshold was in effect for Floyd County's 2015 fiscal year, the single audit report for which will be due in September 2016.

<sup>8</sup> Although OMB Circular A-133 stipulates that Single Audit Reports are to be submitted no later than 9 months after the end of an entity's fiscal year end, a service disruption in the web-based electronic submission process between July 22, 2015, and January 31, 2016, resulted in all due dates during that time being extended until February 1, 2016.

of January 1, 2012, through September 30, 2015. We reviewed that report and found that Floyd County reported DOJ equitable sharing fund expenditures on its Schedule of Expenditures of Federal Awards and reconciled the amount reported to the FCSD's accounting records. However, as noted, we found that Floyd County did not submit its FY 2012 Single Audit, which was due in September 2013, until December 2013.

The FY 2012 Single Audit Report revealed findings related to a lack of internal controls. Specifically: (1) the County did not have a proper system of internal controls in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards; and (2) management of the County had not established an effective internal control system, which would include segregation of duties. Floyd County has not provided the DOJ with a response that adequately addresses the findings in the FY 2012 Single Audit Report. As a result, in November 2015 the Office of Justice Programs (OJP) designated Floyd County as a high-risk grantee.<sup>9</sup>

Like the FY 2012 Single Audit, our audit revealed internal control issues that are detailed in the following sections of our report. According to the FCSD, it does not have any formal, written procedures for the management of equitable sharing funds. In addition, when we spoke with the County Auditor about this issue, he told us that his office had not developed any policies or procedures specific to equitable sharing funds and there were no County-specific, written internal control procedures. The County Auditor explained that all financial activities were handled in accordance with guidance provided by the Indiana State Board of Accounts. We believe that the failure to establish formal, written internal control procedures has resulted in the financial management weaknesses discussed further in the Use of Equitable Sharing Funds and Accounting for Equitable Shared Resources sections of this report. We recommend that the Criminal Division ensure that the FCSD establishes formal, written internal control procedures for the management of equitable sharing funds.

Because of its inability to file its last three Single Audits within the required timeframes, we also are concerned with Floyd County's ability to timely submit future Single Audit Reports. We therefore recommend that the Criminal Division ensure that Floyd County complies with the single audit requirement for FYs 2014 and 2015 (if it meets the Single Audit threshold). We also recommend that the Criminal Division ensure that Floyd County develops procedures to ensure that it submits Single Audit Reports within the required timeframes.

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<sup>9</sup> The Office of Justice Programs is the primary granting agency within the Department of Justice and it is responsible for ensuring single audit report findings are addressed. A high-risk designation means that new awards from DOJ to the grantee will contain special conditions that provide additional oversight, as necessary, and some of these special conditions may restrict the grantee from obligating, expending, or drawing down funds under DOJ awards.

## Use of Equitable Sharing Funds

The Equitable Sharing Guide requires participating agencies to use equitable sharing funds for permissible law enforcement purposes. In order to verify the use of funds, we reviewed a sample of the 10 largest transactions and a judgmental sample of 35 additional transactions executed during our review period to determine whether these expenditures were adequately supported and allowable under the equitable sharing guidelines. These 45 transactions accounted for \$515,618 (or 58 percent) of the \$890,446 in total equitable sharing expenditures during the review period. We reviewed the nature and purpose of these expenditures and found that all of the expenditures appeared to be permissible and consistent with AFMLS requirements. However, we identified concerns with an inappropriate funds transfer and the controls over and support for funds used to pay confidential informants, as described below.

### *Inappropriate Funds Transfer*

During our review of the general ledger, we found that the County Council had transferred \$11,000 in equitable sharing funds out of the equitable sharing account. According to the Sheriff, the County Council moved these funds out of the FCSD equitable sharing fund and into the county general fund due to a budget crisis. The Sheriff also said that he informed the council that the funds had to be returned to the FCSD equitable sharing account. The Sheriff told us that the County Council returned the funds only after he notified the United States Attorney's Office about the issue.<sup>10</sup> Based on this instance, we recommend that the Criminal Division remind Floyd County officials that equitable sharing funds must not be commingled with funds from other sources and can only be used for law enforcement purposes.

### *Funds for Confidential Informants*

The FCSD uses equitable sharing funds to pay informants for information, which is a permissible use of equitable sharing funds. Specifically, two FCSD officers, who work on federal task forces in the Louisville metropolitan area, use equitable sharing funds to pay sources for information needed for their work on the task force. During the scope of our review, the FCSD spent \$124,220 in equitable sharing funds to pay informants; this amount represents 14 percent of FCSD's equitable sharing expenditures between January 2012 and September 2015.

We requested the FCSD to provide all receipts for informant payments during the scope of our review. However, the FCSD could only supply us with a limited number of original receipts. In total, FCSD provided us receipts totaling \$4,900 out of the \$124,220 in informant payments during the review period. In a discussion with the Sheriff, he acknowledged that his department had few formal, written procedures. The FCSD provided us with a 2-page document entitled "Amendment #9 Rules and Regulations." The purpose of this document is to

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<sup>10</sup> We verified that the \$11,000 was returned to the FCSD equitable sharing fund.

establish guidelines for logging, record keeping, and disbursing official funds or asset forfeiture monies. The document states that the policy of the FCSD is to maintain accurate record keeping of official funds and asset forfeiture monies and puts forth a procedure for how funds can be advanced to officers and for what purposes this can be done. The document also states that receipts must be turned over to the County Cashier within 72 hours of the transaction unless otherwise approved by the Sheriff or designated official. According to the title of this document, it is an amendment. However, when we asked for the full body of policies and what policy this document amended, we were told by FCSD officials that they could not locate any standard operating procedures or policies. Thus, it is not clear to whom this document applies or whether, in fact, it is an actual policy for the FCSD.

We spoke with both task force officers, and they told us that when they needed funds to pay informants, they discussed the reasons with the Sheriff and he decided whether to authorize the request. If the request was approved, the County Auditor's office issued a check to the task force officer, who then cashed it at the bank and used the funds to pay the informant. The task force officers explained to us that they utilized a numbered receipt book to keep track of the funds paid out. When the money is paid out, the receipt is signed by the informant, the task force officer, and a witness. The officer then maintains the original receipt book (which contains carbon copy pages).

However, the task force officers were unable to provide us with adequate documentation to support a significant portion of the equitable sharing funds expended on informant payments. Overall, we identified \$119,320 in unsupported expenditures for informant payments, and we recommend that the Criminal Division require that the FCSD remedy these questioned costs. In addition, we recommend that the Criminal Division require that the FCSD develop effective written procedures that govern how to control and track equitable sharing funds used for payments to informants, including the period of retention for the associated documentation.

Moreover, in July 2015, AFMLS developed new guidance related to the use of equitable sharing funds for informant payments and flash or buy money. According to this guidance, agencies that use equitable sharing funds for this purpose must first use appropriated or other funding sources, which are subject to the agency's procurement policies, to make these payments. Agencies may then reimburse the jurisdiction with equitable sharing funds once the agency head has reviewed and approved all the payments. For the period that we reviewed, the FCSD used equitable sharing funds to make only one informant payment, for \$300, that was subject to this new requirement. We recommend the Criminal Division require that the FCSD ensure its written procedures address adherence to this requirement.

### *Supplanting*

According to the Equitable Sharing Guide, equitable sharing funds must be used to increase or supplement the resources of the receiving state or local law

enforcement agency or any other recipient agency. To identify indicators of supplanting, we examined the FCSD’s total budgets for 3 fiscal years (FYs 2012 through 2014). We found that the FCSD’s budget experienced an overall increase of 16 percent during these years. Accordingly, we found no indicators that the FCSD used equitable sharing funds to supplant its local resources.

**Accounting for Equitably Shared Resources**

DOJ’s Equitable Sharing Guide requires that law enforcement agencies use standard accounting procedures and internal controls to track and account for equitable sharing receipts. Such accounting procedures include establishing a separate revenue account or accounting code to track DOJ equitable sharing funds. The Equitable Sharing Guide also requires that recipients avoid commingling DOJ equitable sharing funds with funds from any other sources.

As shown in Table 1, between FY 2012 and September 30, 2015, the FCSD received DOJ equitable sharing revenues totaling \$577,877 to support law enforcement operations.

**Table 1**  
**FCSD Equitable Sharing Receipts**  
**January 1, 2015 through September 30, 2015**

<b>Fiscal Year</b>	<b>Cash Receipts</b>
2012	\$205,554
2013	248,331
2014	73,162
2015	50,830
<b>Total</b>	<b>\$577,877</b>

Source: Consolidated Asset Tracking System and FCSD accounting records.

We confirmed that the FCSD had established a method to account for DOJ equitable sharing funds separately from all other funds. We also reviewed all receipts of equitably shared revenues, and we found that the FCSD accounted for its deposits of all equitably shared revenues received during these fiscal years in its accounting records. However, our review of the general ledger also revealed various adjusting entries made to the equitable sharing account. FCSD officials told us that when personnel in the County Auditor’s Office did not know that incoming funds were for the equitable sharing program, they deposited the funds into other accounts and made subsequent corrections when they found that the money was for the equitable sharing program.

AFMLS sends participating agencies an e-mail notification in advance of any upcoming equitable sharing payments to that agency. This notification includes the amount of the payment, the related case number, and the expected date of deposit. When we spoke with FCSD officials about these notifications, they told us that they did not always receive the messages, and therefore were not always able to ensure the incoming funds were properly deposited in the FCSD equitable

sharing fund by the County Auditor's Office. The FCSD officials also told us that even when the notifications were properly received and the County Auditor's Office was duly apprised of the incoming funds, the funds were often deposited into the wrong account. When we spoke with the County Auditor about this issue, he told us that his office had not developed any written internal control procedures, including procedures that would describe how the County Auditor's Office should process unidentified funds. We recommend that the Criminal Division ensure that the FCSD and the Floyd County Auditor have implemented effective internal control procedures to ensure equitable sharing receipts are deposited into the proper account. We also recommend that the Criminal Division coordinate with the FCSD to ensure proper routing of equitable sharing payment notices.

### **Equitable Sharing Agreement and Annual Certification Reports**

The Equitable Sharing Guide requires participating law enforcement agencies to submit an equitable sharing agreement and certification form within 60 days after the end of the agency's fiscal year. The head of the law enforcement agency and a designated official of the local governing body must sign the form. By signing the form, the signatories agree to follow the statutes and guidelines that regulate the equitable sharing program.

We obtained copies of the FCSD's certification forms for FYs 2012 through 2014 and determined that the forms were complete, signed by the appropriate Floyd County officials, and submitted within the 60-day requirement. We also verified that the total amount of equitable sharing funds the FCSD reported receiving and the amount it spent during FY 2012 and FY 2013 reconciled to the accounting records. However, we found that the FCSD under-reported its FY 2014 equitable sharing expenditures by \$450 in comparison to the amount recorded in its accounting records.

### **Monitoring Applications for Transfer of Federally Forfeited Property**

According to guidance in place during most of the audited period, the agency that submits the Form DAG-71, Application for Transfer of Federally Forfeited Property (DAG-71), should maintain a log and copies of all DAG-71s.<sup>11</sup> A consecutive numbering system should be used for control purposes, and the log should contain the date and the amount received. However, in July 2015 AFMLS advised state and local law enforcement agencies that they no longer needed to maintain a DAG-71 log and could instead use AFMLS's automated E-Share Log to track its DAG-71s. Although the FCSD did not create a separate DAG-71 log, the FCSD maintained copies of its DAG-71 forms and used the AFMLS's automated E-Share Log to track its DAG-71s. We do not take exception to this practice because it is in compliance with the current requirements established by AFMLS.

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<sup>11</sup> The DAG-71 is the DOJ form submitted by a state or local agency to the federal seizing agency to request a share of seized assets.

## **Views of Responsible Officials**

We discussed the results of our review with FCSD and Floyd County officials throughout the audit and at a formal exit conference. Their input on specific issues has been included in the appropriate sections of the report.

## **Recommendations**

We recommend that the Criminal Division:

1. Ensure that the FCSD establishes formal, written internal control procedures for the management of equitable sharing funds.
2. Ensure that Floyd County complies with the single audit requirement for FYs 2014 and 2015.
3. Require Floyd County to develop and implement procedures to ensure that it submits Single Audit Reports within the required timeframes.
4. Remind Floyd County officials that equitable sharing funds must remain in a separate fund and can only be used for law enforcement purposes.
5. Remedy the \$119,320 in unsupported funds related to informant payments.
6. Require the FCSD to establish effective written procedures that govern how to control and track equitable sharing funds used for payments to informants. These procedures should include: (1) the period of retention for the associated documentation; and (2) the requirement to use appropriated or other funding sources, which are subject to the agency's procurement policies, to make these payments prior to using equitable sharing funds to reimburse the local funding source.
7. Require the FCSD and the Floyd County Auditor to develop and implement effective internal control procedures to ensure equitable sharing receipts are deposited into the proper account.
8. Coordinate with the FCSD to ensure proper routing of equitable sharing payment notices.

## OBJECTIVE, SCOPE, AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objective.

### Objective

The objective of the audit was to assess whether the FCSD accounted for equitable sharing funds properly and used such revenues for allowable purposes defined by applicable guidelines. We tested compliance with the conditions of the Department's Equitable Sharing Program. We reviewed laws, regulations, and guidelines governing the accounting for and use of DOJ equitable sharing receipts, including the DOJ's Guide to Equitable Sharing for State and Local Law Enforcement Agencies, dated April 2009. Unless otherwise stated in our report, the criteria used during the audit were contained in these documents.

### Scope and Methodology

We judgmentally determined which transactions had the potential of being high-risk and selected a sample that contained the highest dollar transactions during the review period. This non-statistical sample design does not allow for the projection of test results to all transactions. Specifically, our sample consisted of 45 transactions totaling \$515,618; our review of these transactions is detailed in the Use of Equitable Sharing Funds section of our report.

We performed audit work at the FCSD's headquarters, located in New Albany, Indiana. To accomplish the objective of the audit, we interviewed Sheriff's Department and County Auditor's Department officials and examined their records of federal asset forfeiture revenues and expenditures of DOJ equitable sharing funds. In addition, we relied on computer-generated data from DOJ's Consolidated Asset Tracking System to determine the equitable sharing revenues awarded to the FCSD during the audit period. We did not establish the reliability of the data contained in the DOJ Consolidated Asset Tracking System as a whole. However, when the data is viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations included in this report are valid.

Our audit specifically evaluated the FCSD's compliance with five essential equitable sharing guidelines: (1) compliance with audit requirements, (2) use of equitable sharing funds, (3) accounting for equitable sharing receipts, (4) Equitable Sharing Agreement and Certification Forms, and (5) monitoring of applications for transfer of federally forfeited property.

In planning and performing our audit, we considered the internal control environment for the FCSD's DOJ equitable sharing activities. We did not assess the reliability of the FCSD's financial management system, the internal controls of that system, or whether the FCSD, as a whole, complied with laws and regulations.

## SCHEDULE OF DOLLAR-RELATED FINDINGS

Description	Amount	Page
Unsupported Costs:		
Unsupported Informant Payments	\$119,320	7
<b>Total Unsupported Costs</b>	<b>\$119,320</b>	
<b>Total Questioned Costs<sup>12</sup></b>	<b>\$119,320</b>	

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<sup>12</sup> **Questioned Costs** are expenditures that do not comply with legal, regulatory, or contractual requirements, are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation.

**AUDITEE RESPONSE**

**Floyd County Sheriff's Department  
Response to US DOJ Audit of Equitable Sharing Funds  
Action Plan**

The purpose of this action plan is to address the findings and recommendations outlined by the Department of Justice Auditors.

**Compliance with Audit Requirements**

The Floyd County Sheriff's Department submitted FY 2012 responses to the Indiana State Board of Accounts in a timely manner as described for the findings of their audit for FY 2012. They were again filed with the Floyd County Auditor's Office for his reporting of findings. The Floyd County Sheriff's Department will work closely with the Auditor's Office to ensure reports are filed in timely manner to ensure reporting is within established guidelines. The Auditor also advised he had addressed this issue and replied to the DOJ his response to this audit as well.

**Use of Equitable Sharing Funds**

The **inappropriate transfer of Equitable Sharing Funds** was addressed with the Floyd County Council as soon as this transfer was discovered through periodic reviews of receipts/deposits. The County Council was advised by the US Attorney General's Office that this was a direct violation and the funds were returned. The County Council has full understanding that this transfer was inappropriate and would not be repeated.

**Funds for Confidential Informants** The previous Sheriff, [REDACTED] had instructed the TFO's who utilized funding for informants that they did not need to keep receipts past the fiscal year in which they were used. After this was brought to our attention, all receipts are returned to the Administrative Assistant to put with the paperwork for each transaction. As of 7/1/2016 Frank Loop, Floyd County Sheriff, issued a General Order, for use of official funds. See Attached General Order. However, the identified funds cannot be substantiated any further that what has already been provided.

**Accounting for Equitably Shared Resources**

The Floyd County Sheriff's Department agrees with the findings that a lack of internal procedures within the Auditor's Office for the electronic transfer of funds is received. Sheriff Loop has spoken with the Auditor, [REDACTED] and advised the Auditor is addressing this issue. For our part, each month the Administrative Assistant that oversees the Equitable Sharing program checks the reporting from E-Share. Sheriff Loop is still not receiving emails from the Marshal's office to advise of incoming transfers. The Administrative Assistant contacts the receiving officer in the Auditor's Office to ensure that the funds are received correctly. The

FCSD is working with the auditor's office to not randomly receipt funds into this account so ensure the deposits are correct.

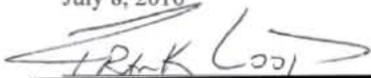
**Equitable Sharing Agreement and Annual Certification Reports**

The Floyd County Sheriff's Department will work diligently to ensure under/over reporting does not occur again. We request guidance to correct the issue as soon as it can be determined by AFMLS.

**Monitoring Applications for Transfer of Federally Forfeited Property**

The Floyd County Sheriff's Department does utilize the E-Share applications to record and track all DAG-71's for this agency. Beginning July 1, 2016 the FCSD will print all DAG 71's submitted and keep a paper copy within its Fund paperwork. So it can be easily reviewed and tracked. The FCSD also tracks all open records in E-Share no less than 1 time a month to ensure our records match with that of the Federal Agencies.

July 8, 2016



Frank Loop, Sheriff  
Floyd County Sheriff's Department



U.S. DEPARTMENT OF JUSTICE RESPONSE



U.S. Department of Justice

Criminal Division

Asset Forfeiture and Money Laundering Section

Washington, D.C. 20530

JUN 13 2016

**MEMORANDUM**

**TO:** Carol S. Taraszka, Regional Audit Manager  
Chicago Regional Audit Office  
Office of the Inspector General

**FROM:** Jennifer Bickford, Deputy Chief  
Program Management and Training Unit  
Asset Forfeiture and Money  
Laundering Section

*For JEB*

**SUBJECT:** DRAFT AUDIT REPORT for the Floyd County Sheriff's Department Equitable Sharing Program Activities

In a memorandum, dated May 27, 2016, your office provided a draft audit report for the Floyd County Sheriff's Department (FCSD), which included actions necessary for closure of the audit report findings. The Asset Forfeiture and Money Laundering Section (AFMLS) concurs with all recommendations in the draft audit report. Upon issuance of the final audit report, AFMLS will work with FCSD to implement corrective actions, ensure that the agency establishes policies and procedures for the administration of Program funds and remedy \$119,320.00 in questioned costs.

cc: Denise Turcotte, Audit Liaison  
U.S. Department of Justice  
Criminal Division

Richard P. Theis, Assistant Director  
U.S. Department of Justice  
Internal Revenue and Evaluation Office  
Justice Management Division

**OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND SUMMARY  
OF ACTIONS NECESSARY TO CLOSE THE REPORT**

The OIG provided a draft of this audit report to the Criminal Division and the Floyd County Sheriff's Department (FCSD). The FCSD response letter is incorporated in Appendix 3 of this final report, and the Criminal Division's response is incorporated in Appendix 4 of this final report.

The FCSD included in its response an attachment that was not included in this report due to its technical nature. Additionally, the FCSD did not provide responses directly to each of our recommendations. Rather, the FCSD provided responses to sections in our draft report. We have attempted to include with the recommendations below the portions of the FCSD's response to which they relate.

The following provides the OIG analysis of the responses and a summary of actions necessary to close the report.

**Recommendation Number:**

**1. Ensure that the FCSD establishes formal, written internal control procedures for the management of equitable sharing funds.**

Resolved. In its response, the Criminal Division's Asset Forfeiture and Money Laundering Section (AFMLS) stated that it concurs with our recommendation to ensure that the FCSD establishes formal, written internal control procedures for the management of equitable sharing funds. AFMLS also stated that upon issuance of the final report, it will work with the FCSD to implement corrective actions and ensure that the agency establishes policies and procedures for the administration of Program funds. In its response to the draft report, the FCSD did not provide comments specific to this recommendation.

This recommendation can be closed when we receive evidence that formal, written internal control procedures for the management of equitable sharing funds have been established.

**2. Ensure that Floyd County complies with the single audit requirement for FYs 2014 and 2015.**

Resolved. In its response, AFMLS stated that it concurs with our recommendation to ensure that Floyd County complies with the single audit requirement for FYs 2014 and 2015. AFMLS also stated that upon issuance of the final report, it will work with the FCSD to implement corrective actions.

In its response to the draft report, the FCSD stated that it will work closely with the Auditor's Office to ensure reports are filed in a timely manner to ensure reporting is within established guidelines.

This recommendation can be closed when we receive evidence that Floyd County has complied with single audit requirement for FYs 2014 and 2015.

**3. Require Floyd County to develop and implement procedures to ensure that it submits Single Audit Reports within the required timeframes.**

Resolved. In its response, AFMLS stated that it concurs with our recommendation to require Floyd County to develop and implement procedures to ensure that it submits Single Audit Reports within the required timeframes. AFMLS also stated that upon issuance of the final report, it will work with the FCSD to implement corrective actions.

In its response to the draft report, the FCSD stated that it will work closely with the Auditor's Office to ensure reports are filed in a timely manner to ensure reporting is within established guidelines.

This recommendation can be closed when we receive evidence that Floyd County has developed and implemented procedures to ensure that it submits Single Audit Reports within the required timeframes.

**4. Remind Floyd County officials that equitable sharing funds must remain in a separate fund and can only be used for law enforcement purposes.**

Resolved. In its response, AFMLS stated that it concurs with our recommendation to remind Floyd County officials that equitable sharing funds must remain in a separate fund and can only be used for law enforcement purposes. AFMLS also stated that upon issuance of the final report, it will work with the FCSD to implement corrective actions and ensure that the agency establishes policies and procedures for the administration of Program funds.

In its response to the draft report, the FCSD stated that the inappropriate transfer of Equitable Sharing funds was addressed as soon as the transfer was discovered. In addition, the FCSD stated that the County Council has full understanding that this transfer was inappropriate, and it will not be repeated.

This recommendation can be closed when we receive evidence that AFMLS has reminded Floyd County officials that equitable sharing funds must remain in a separate fund and can only be used for law enforcement purposes.

**5. Remedy the \$119,320 in unsupported funds related to informant payments.**

Resolved. In its response, AFMLS stated that it concurs with our recommendation to ensure that Floyd County remedies the \$119,320 in unsupported funds related to informant payments. AFMLS also stated that upon issuance of the final report, it will work with the FCSD to implement corrective actions, ensure that the agency establishes policies and procedures for the administration of Program funds, and remedy \$119,320 in questioned costs.

In its response to the draft report, the FCSD stated that the previous Sheriff had instructed the task force officers who utilized funding for informants that they did not need to keep receipts past the fiscal year in which they were used and that the identified funds cannot be substantiated any further than what has already been provided. Additionally, the FCSD stated that the FCSD has instituted new procedures for maintaining receipts. The FCSD also stated that as of July 1, 2016, the current Sheriff issued a General Order for use of official funds, and the FCSD provided a copy of this order.

This recommendation can be closed when we receive evidence that the \$119,320 in unsupported funds related to informant payments is remedied.

**6. Require the FCSD to establish effective written procedures that govern how to control and track equitable sharing funds used for payments to informants. These procedures should include: (1) the period of retention for the associated documentation; and (2) the requirement to use appropriated or other funding sources, which are subject to the agency's procurement policies, to make these payments prior to using equitable sharing funds to reimburse the local funding source.**

Resolved. In its response, AFMLS stated that it concurs with our recommendation to require the FCSD to establish effective written procedures that govern how to control and track equitable sharing funds used for payments to informants. These procedures should include: (1) the period of retention for the associated documentation and (2) the requirement to use appropriated or other funding sources, which are subject to the agency's procurement policies, to make these payments prior to using equitable sharing funds to reimburse the local funding source. AFMLS also stated that upon issuance of the final report, it will work with the FCSD to implement corrective actions and ensure that the agency establishes policies and procedures for the administration of Program funds.

In its response to the draft report, the FCSD acknowledged that the FCSD's previous Sheriff did not require officers to keep receipts for informant payments past the fiscal year in which they were used. Additionally, the FCSD stated that it has instituted a new procedure for maintaining receipts.

The FCSD also provided a copy of a policy document that addresses this subject area.

This recommendation can be closed when we receive evidence that the FCSD has established effective written procedures that govern how to control and track equitable sharing funds used for payments to informants. These procedures should include: (1) the period of retention for the associated documentation; and (2) the requirement to use appropriated or other funding sources, which are subject to the agency's procurement policies, to make these payments prior to using equitable sharing funds to reimburse the local funding source.

**7. Require the FCSD and the Floyd County Auditor to develop and implement effective internal control procedures to ensure equitable sharing receipts are deposited into the proper account.**

Resolved. In its response, AFMLS stated that it concurs with our recommendation to require the FCSD and the Floyd County Auditor to develop and implement effective internal control procedures to ensure equitable sharing receipts are deposited into the proper account. AFMLS also stated that upon issuance of the final report, it will work with the FCSD to implement corrective actions and ensure that the agency establishes policies and procedures for the administration of Program funds.

In its response to the draft report, the FCSD stated that it agrees that there is a lack of internal procedures within the Auditor's Office for the electronic transfer of funds. The FCSD also described actions that it will take to help ensure equitable sharing receipts are deposited into the proper account.

This recommendation can be closed when we are provided evidence that Floyd County has developed and implemented effective internal control procedures to ensure equitable sharing receipts are deposited into the proper account.

**8. Coordinate with the FCSD to ensure proper routing of equitable sharing payment notices.**

Resolved. In its response, AFMLS stated that it concurs with our recommendation to coordinate with the FCSD to ensure proper routing of equitable sharing payment notices. AFMLS also stated that upon issuance of the final report, it will work with the FCSD to implement corrective actions.

In its response to the draft report, the FCSD stated that the Sheriff is still not receiving e-mails to advise of incoming transfers of equitable sharing funds. This recommendation can be closed when we receive evidence that AFMLS has coordinated with appropriate officials to ensure the proper routing of equitable sharing payment notices.

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