



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



Audit of the Metro Narcotics Task Force's Equitable Sharing Program Activities Louisville, Kentucky

**AUDIT OF THE METRO NARCOTICS TASK FORCE'S
EQUITABLE SHARING PROGRAM ACTIVITIES
LOUISVILLE, KENTUCKY**

EXECUTIVE SUMMARY

The Department of Justice (DOJ) Office of the Inspector General (OIG) conducted an audit of the Louisville, Kentucky, Metro Narcotics Task Force's accounting for and use of equitable sharing revenues. The Metro Narcotics Task Force is the narcotics division of the Louisville Metro Police Department, which serves the Louisville/Jefferson County Metro Government. Equitable sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations. The Metro Narcotics Task Force began the audit period with an equitable sharing balance of \$34,269. During the period of July 1, 2013, through June 30, 2015, the Metro Narcotics Task Force received \$1,963,743 in DOJ equitable sharing revenues and earned \$985 in interest on equitable sharing funds. During the same period, the Metro Narcotics Task Force expended \$1,985,586 in equitable sharing funds.

The objective of the audit was to assess whether the Metro Narcotics Task Force properly accounted for equitable sharing funds and used such revenues for allowable purposes defined by applicable guidelines. Our testing revealed that the Metro Narcotics Task Force complied with the DOJ guidelines we reviewed, including those for submitting equitable sharing requests and using equitable sharing funds. The audit objective, scope and methodology are included in Appendix 1.

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INTRODUCTION

The Department of Justice (DOJ or Department) Office of the Inspector General (OIG) conducted an audit of the Louisville, Kentucky, Metro Narcotics Task Force's equitable sharing program activities. The audit covered the Metro Narcotics Task Force's participation in the DOJ Equitable Sharing Program between July 1, 2013, and June 30, 2015.¹ During this period, the Metro Narcotics Task Force received \$1,963,743 from the DOJ Equitable Sharing Program and reported expenditures of \$1,985,586 in equitable sharing funds.²

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.³

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.⁴ 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.

¹ The Metro Narcotics Task Force is part of the Louisville Metro Government, which begins its fiscal year on July 1 and ends on June 30.

² The Metro Narcotics Task Force began the audit period with an equitable sharing balance of \$34,269. In addition to the program revenue, the Metro Narcotics Task Force earned \$985 in interest on its equitable sharing funds during the 2 fiscal years in our review period. At the end of the audit period, the equitable sharing fund balance was \$13,411.

³ The U.S. Department of the Treasury and the U.S. Department of Homeland Security also administer federal asset forfeiture programs.

⁴ In January 2015, DOJ issued an order that strictly limited federal adoptions of assets seized by state and local law enforcement under state law.

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 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.

Metro Narcotics Task Force

The Metro Narcotics Task Force is the narcotics division of the Louisville Metro Police Department, which serves the Louisville/Jefferson County Metro Government. As of July 2016, the Metro Narcotics Task Force included 50 sworn officers, 45 from the LMPD, 4 from the Jefferson County Sheriff's Office, and 1 from the Kentucky State Police. The division is further organized into the Complaint Response Unit, Major Case Unit, and Support Unit. Within the Support Unit, the Metro Narcotics Task Force has an Asset Forfeiture team with two sworn officers and two civilian contractors. The team is responsible for oversight and coordination of asset seizures and related equitable sharing program requests.

OIG Audit Approach

The objective of the audit was to assess whether the Metro Narcotics Task Force 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 Metro Narcotics Task Force's compliance with five aspects of the DOJ Equitable Sharing Program:

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

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

FINDINGS

We found that the Metro Narcotics Task Force Annual Equitable Sharing Agreement and Certification forms were complete, accurate, and submitted timely. Additionally, we found that the Metro Narcotics Task Force was able to account for individual receipts and expenditures of equitable sharing funds. We also tested the Metro Narcotics Task Force’s use of these funds and found that the tested expenditures were allowable and adequately supported.

Accounting for Equitably Shared Resources

The 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.

The Asset Forfeiture Support Unit of the Metro Narcotics Task Force applies for sharing assets and maintains records of the Form DAG-71s, “Application for Transfer of Federally Forfeited Property” (DAG-71).⁵ The Louisville Metro Government Office of Management and Budget (Louisville OMB) receives notification from the USMS upon receipt of equitable sharing disbursements. Louisville OMB personnel ensure that monies are posted to the separate Federal Forfeiture Funds account, and they reconcile the amount to their equitable sharing records monthly.

Table 1

Metro Narcotics Task Force Total Revenues

Fiscal Year	Cash Receipts	Non-cash Receipts	Total
2014	\$1,280,562	\$18,131	\$ 1,298,693
2015	683,181	0	683,181
Total	\$1,963,743	\$18,131	\$1,981,874

Sources: Metro Narcotics Task Force Equitable Sharing Agreement and Annual Certification Reports and Consolidated Asset Tracking System Report

We reviewed the five highest-value cash receipts of fiscal year (FY) 2014, totaling \$637,118, and the five highest-value cash receipts of FY 2015, totaling \$417,363, and we found that the Metro Narcotics Task Force accurately accounted for its deposits of equitably shared revenues during these fiscal years.

⁵ 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. More information about the DAG-71 is found in the Monitoring Applications for Transfer of Federally Forfeited Property section of the report.

Additionally, the Metro Narcotics Task Force received two tangible assets (non-cash receipts) through equitable sharing in FY 2014: a vehicle and a television. We confirmed that the Metro Narcotics Task Force inventories and tracks its assets and equipment, and we verified that both items were being used in accordance with the Equitable Sharing Guide.

Compliance with Audit Requirements

The Equitable Sharing Guide requires the Metro Narcotics Task Force to comply with audit requirements of the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133).⁶ OMB Circular A-133 requires non-federal entities with federal expenditures meeting the audit threshold to prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements. Because the LMPD is part of the Louisville/Jefferson County Metro Government, the LMPD's federal award activity is included within that entity's Single Audit Report.

To determine if the Metro Narcotics Task Force appropriately reported DOJ equitable sharing fund expenditures on its Schedule of Expenditures of Federal Awards, we reviewed the Metro Narcotics Task Force accounting records and the Louisville/Jefferson County Metro Government Single Audit Reports for FYs 2014 and 2015. We found that the Metro Narcotics Task Force did report its DOJ equitable sharing fund expenditures on its Schedule of Expenditures of Federal Awards for FYs 2014 and 2015.

Equitable Sharing Agreement and Annual Certification Reports

The Equitable Sharing Guide requires participating law enforcement agencies to submit an Equitable Sharing Agreement and Certification (ESAC) 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 Metro Narcotics Task Force's ESAC forms for FYs 2014 and 2015 and determined that the forms were submitted timely and signed appropriately. We verified that the total amounts of equitable sharing funds that the Metro Narcotics Task Force reported having received and expended during FYs 2014 and 2015 were accurate.

⁶ 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.

Monitoring Applications for Transfer of Federally Forfeited Property

According to guidance in place during most of the audited period, the agency that submits the DAG-71 should maintain a log and copies of all DAG-71s.⁷ A consecutive numbering system should be used for control purposes, and the log should track the requests along with the date and the amount received.

During our fieldwork, we noted that the Asset Forfeiture Support Unit maintained the DAG-71s and log. We tested the retention of the copies of the DAG-71s submitted for the five highest-value receipts from both FYs 2014 and 2015, and we found that the records were adequately maintained. We also found that the Metro Narcotics Task Force maintained a consecutively numbered log of its DAG-71s, which contained all required elements.

Use of Equitable Sharing Funds

The Equitable Sharing Guide requires participating agencies to use equitable sharing funds for permissible law enforcement purposes. The Equitable Sharing Guide also allows cash transfers from one state or local agency to another provided that the receiving agency is in compliance with the Agreement, Certification, and Audit provisions of the equitable sharing guide.

To determine whether the Metro Narcotics Task Force's equitable sharing expenditures were supported and allowable under the equitable sharing guidelines, we reviewed a sample of the largest and other high-risk transactions in both FY 2014 and 2015. We noted that during our review period, the Metro Narcotics Task Force transferred a percentage of its equitable sharing revenues to the LMPD. Therefore, we also reviewed a sample of LMPD equitable sharing expenditures.

Task Force Program Income Allocation

In FY 2014 and 2015, the Metro Narcotics Task Force was funded, in part, with DOJ grant funds that the LMPD receives from the DOJ's Office of Justice Programs' (OJP) Edward Byrne Memorial Justice Assistance Grant (JAG) Program.⁸ According to OJP guidelines, all income generated as a direct result the JAG award is deemed program income and all program income must be expended in direct support of the grant-funded program. To comply with this requirement and because the Metro Narcotics Task Force participates in investigations that result in seized assets and equitable sharing revenue, the Metro Narcotics Task Force designates a portion of the equitable sharing revenues secured by the Metro Narcotics Task Force as program income. The JAG grant accounted for

⁷ According to guidance issued on March 31, 2015, all agencies were required to submit DAG-71s electronically through the AFMLS eShare Portal. According to AFMLS, due to the implementation of this new technology, agencies are no longer required to maintain a manual log of DAG-71s.

⁸ The JAG program, administered by OJP's Bureau of Justice Assistance, is a formula grant program designed to further DOJ's mission by assisting state, local, and tribal efforts to prevent or reduce crime and violence.

approximately 1 percent of the total Metro Narcotics Task Force budget in FYs 2014 and 2015. According to Metro Narcotics Task Force officials, it applies a conservative methodology and allocates 15 percent of all equitable sharing revenues as JAG program income. These funds are held in an account managed directly by the Metro Narcotics Task Force.

Transfers to LMPD

The Metro Narcotics Task Force allocates 15 percent of its receipts as JAG program income, and transfers the remaining 85 percent of its equitable sharing receipts to the LMPD. The LMPD is a separate receiving agency under the equitable sharing program and files a separate ESAC from the Metro Narcotics Task Force. The Metro Narcotics Task Force transferred a total of \$1,673,068 to the LMPD for FY 2014 and FY 2015. The transfers made by the Metro Narcotics Task Force to the LMPD were properly reported on the Metro Narcotics Task Force ESACs as "Transfers to other participating law enforcement agencies." The amounts also reconciled to the "Equitable Sharing Funds Received from Other Law Enforcement Agencies and Task Force," reported on the LMPD ESACs for FY 2014 and 2015.

Transaction Testing

As stated previously, the Metro Narcotics Task Force's total expenditures for FY 2014 and FY 2015 were \$1,985,586. This amount was comprised of Metro Narcotics Task Force direct expenditures and transfers to the LMPD. To review the Metro Narcotics Task Force's expenditure activities for FYs 2014 and 2015, we tested 22 transactions totaling \$306,620; this represents 96 percent of total equitable sharing dollars expended *directly* by the Metro Narcotics Task Force. Additionally, we tested 35 transactions totaling \$1,445,543, transferred to the LMPD by the Metro Narcotics Task Force in FYs 2014 and 2015; this sample represents 86 percent of total equitable sharing dollars transferred.

Metro Narcotics Task Force Direct Expenditures – We reviewed a sample of the 10 largest transactions in both FY 2014 and 2015. Additionally, we noted two potentially higher-risk transactions within our review period and included these in our test sample. In total, we tested 22 transactions consisting primarily of surveillance equipment and overtime. All of the expenditures we reviewed were allowable, supported, and consistent with equitable sharing program guidelines.

LMPD Expenditures - Because of the materiality of the transfers from the Metro Narcotics Task Force to the LMPD, we selected a sample of LMPD expenditures to determine whether they were supported and allowable under the equitable sharing guidelines. We reviewed a sample of the 10 largest transactions in both FY 2014 and 2015. Additionally, we noted 5 potentially higher-risk transactions in FY 2014 and 10 transactions in FY 2015, and we included these in our test sample. In total, we tested 35 transactions consisting primarily of surveillance equipment, technology, weapons, and vehicle-related expenditures. All of the expenditures we reviewed were allowable, supported, and consistent with equitable sharing program guidelines.

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. The Equitable Sharing Guide prohibits the use of shared resources to replace or supplant the appropriated resources of the recipient.

To identify indicators of supplanting, we examined Metro Narcotics Task Force operational budgets for 4 fiscal years (FYs 2013 through 2016) and LMPD operational budgets for 2 fiscal years (FYs 2014 through 2015). We noted that while the LMPD and the Metro Narcotics Task Force budgeted amounts fluctuated from FY 2013 through 2016, the LMPD accounted for equitable sharing revenues and expenditures in a wholly separate and distinct capital budget. Whereas the operational budget represents standard yearly expenses, the capital budget represents additional project funding that enhances police activities. We reviewed the LMPD's capital budgets for FYs 2014 and 2015 and observed that the LMPD did not use equitable sharing resources to replace operational funds. We found that LMPD exceeded its planned operational appropriations in both FY 2014 and FY 2015, while maintaining a positive ending balance in both the LMPD and Metro Narcotics Task Force Equitable Sharing accounts. Accordingly, we found no evidence that the LMPD used equitable sharing funds to supplant its local resources.

Views of Responsible Officials

We discussed the results of our review with LMPD and Louisville Metro Government 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.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Objective

The objective of the audit was to assess whether the Metro Narcotics Task Force accounted for equitable sharing funds properly and used such revenues for allowable purposes as defined by applicable guidelines. We tested compliance with the conditions of the DOJ Equitable Sharing Program. We reviewed laws, regulations, and guidelines governing the accounting for and use of DOJ equitable sharing receipts, including the Equitable Sharing Guide. Unless otherwise stated in our report, the criteria used during the audit were contained in this document.

Scope and Methodology

Our audit concentrated on, but was not limited to, the Metro Narcotics Task Force's equitable sharing receipts from July 1, 2013, through June 30, 2015. During this period, the Metro Narcotics Task Force received \$1,963,743 in equitable sharing revenue and reported expenditures of \$1,985,586 in equitable sharing funds.

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 22 Metro Narcotics Task Force transactions totaling \$306,620. Additionally, we selected a sample of 35 LMPD transactions totaling \$1,445,543. Our review of these transactions is detailed in the Use of Equitable Sharing Funds section of our report.

We performed audit work at the LMPD headquarters, located in Louisville, Kentucky. To accomplish the objective of the audit, we interviewed LMPD and Louisville Metro Government 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 (CATS) to determine the equitable sharing revenues awarded to the Metro Narcotics Task Force during the audit period. We did not establish the reliability of the data contained in the DOJ CATS as a whole. However, when the data is viewed in context with other available evidence, we believe the opinions, conclusions, and recommendation included in this report are valid.

Our audit specifically evaluated the Metro Narcotic Task Force's compliance with five essential equitable sharing guidelines: (1) accounting for equitably shared resources, (2) compliance with audit requirements, (3) Equitable Sharing Agreement and Annual Certification Reports, (4) monitoring of applications for transfer of federally forfeited property, and (5) use of equitably shared funds. In planning and performing our audit, we considered the internal controls established and used by the Metro Narcotics Task Force over DOJ equitable sharing receipts. We did not assess the reliability of the Louisville Metro Government's financial management system, the internal controls of that system, or whether the office, as a whole, complied with laws and regulations.

Our audit included a review of the Louisville Metro/Jefferson County's Comprehensive Annual Financial Reports, which contain Single Audit Reports for FYs 2014 and 2015. The Single Audit Reports were prepared under the provisions of OMB Circular A-133. We found that the independent auditor's assessments did not disclose control weaknesses or significant noncompliance issues related specifically to either the LMPD or the Metro Narcotics Task Force.

We discussed our audit results with Louisville Metro Narcotics Task Force officials throughout the audit and at a formal exit conference. We also provided the Louisville Metro Narcotics Task Force a draft of our report and allowed an opportunity to respond, but the Louisville Metro Narcotics Task Force opted not to provide a written response. AFMLS provided a written response, which can be found in Appendix 2.

APPENDIX 2

THE CRIMINAL DIVISION ASSET FORFEITURE AND MONEY LAUNDERING SECTION RESPONSE TO THE DRAFT REPORT



U.S. Department of Justice

Criminal Division

Asset Forfeiture and Money Laundering Section

Washington, D.C. 20530

SEP 12 2016

MEMORANDUM

TO: Carol S. Taraszka, 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

A handwritten signature in black ink, appearing to read "Jennifer Bickford", written over the printed name in the "FROM" field.

SUBJECT: DRAFT AUDIT REPORT of the Metro Narcotics Task Force's Equitable Sharing Program Activities

In a memorandum dated August 30, 2016, your office provided a draft audit report for the Metro Narcotics Task Force (MNTF). The Asset Forfeiture Money Laundering Section concurs with the draft audit report findings, and will follow-up with any close out correspondence as necessary.

cc: Denise Turcotte
Audit Liaison
Criminal Division

Richard P. Theis
Assistant Director
Internal Revenue and Evaluation Office
Justice Management Division

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