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Audit Report

**SEIZED CASH
ACCOUNT**

As of June 30, 2018

**Office of the Controller
County of Northampton
Pennsylvania**



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May 21, 2019

Members of the Northampton County Council
Lamont G. McClure, Jr., County Executive
County of Northampton, Pennsylvania

We have completed an audit of the Seized Cash Account as of June 30, 2018.

The Executive Summary on page 1 summarizes the audit results, while the Audit Results section provides a detailed explanation.

We acknowledge the cooperation and assistance we received from the County Detective heading the Drug Task Force for the District Attorney's office. His assistance was essential to the performance of this audit.

Management's response is included in the Audit Results section of the report.

Very truly yours,

Richard J. Szulborski
County Controller

Gary M. Krall, CMA
Lead Auditor

Table of Contents

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
INTRODUCTION	2
PURPOSE AND SCOPE.....	4
METHODOLOGY	4
AUDIT RESULTS	5
 <u>Section A – Internal Controls</u>	
1. Flow of Funds Through the Seized Cash Account	5
2. Segregation of Duties	7
3. Bank Reconciliations	9
4. Lack of System Integration	10

EXECUTIVE SUMMARY

The creation of the seized cash account by the District Attorney's office was a good way to expedite and control the collection of funds seized in drug-related arrests. It allowed police departments to turn over seized funds shortly after they were confiscated rather than the police holding the funds until there was a forfeiture order. With the funds already in the seized cash account, it was easier to transfer the funds into the forfeiture account or return them to the defendant.

The problem with this process is that almost all of the duties involving the seized cash account were assigned to the County Detective in charge of drug forfeitures. The Detective, through no fault of his own, is not an accountant or bookkeeper. There is no segregation of duties between the handling of cash, recording of transactions, and preparation/signing of checks. The system in place does not provide a process or feature to quickly and accurately assess the status of seized funds. Additionally, the seized inventory database to track seizures, the list of court orders, and the financial recordkeeping software are not integrated; they do not share information and data. Finally, bank reconciliations are not prepared on a timely basis. They are being done, on average, in excess of two months after the statement date.

This system for handling seized and forfeited funds needs an individual with experience in bookkeeping/accounting to perform the recordkeeping and reporting. Oversight is then needed to perform reconciliations to verify that the accounts and funds are in balance. This additional employee also needs to review the workflow of the process to coordinate the different sources of data and develop a more robust system to capture data, reconcile this data with the financial records, track funds, and prepare any needed reports.

INTRODUCTION

Local police departments within Northampton County seize cash at the time of a drug-related arrest. A significant amount of cash had been seized over the recent past and was being held by them in their evidence vaults.

The County Detective felt that, rather than keeping the money in the custody of the local police, the County should take custody of these seized funds for the sake of security and to expedite the forfeiture of these seizures. The seized cash bank account was established in January of 2017 at Lafayette Ambassador Bank. This account consists of funds that were seized in acts of illegal drug activity that are waiting to be forfeited through the Office of the District Attorney. The seized funds, by law, are considered evidence at this point. The Detective is the sole authorized signer for the account.

The Detective in the District Attorney's Drug Task Force has set up a system to collect, organize, and document cash seized by the local police departments in drug arrests that could ultimately be forfeited to the County. Authorized users can access this system through a web portal on the District Attorney's public website. Local police departments use this web portal to report pertinent information from seizures made during drug-related arrests which is collected in a database. The output from this system is used as documentation for the collection and receipt of seized funds which are ultimately forfeited to the County upon issuance of a court order following hearings and trials of defendants. Website administration is limited to the Detective and the Assistant District Attorneys working in the drug unit. Local police departments do not have administrative access.

Local police complete a "Seized Inventory Form". A police incident number is recorded by the police officer along with the defendant's name and contact information. After the officer inputs all of the required information, the report is saved in the system and a Seized Inventory Number (SIN) is generated by the system. The form serves as a receipt for the seized funds and as documentation for the transfer of funds to the County. The County Detective arranges a meeting with the police officer that submitted the report at the downtown Easton branch of Lafayette Ambassador Bank. The money is counted by the teller as verification of the amount of funds submitted in the presence of both law enforcement officers. The funds are deposited and a bank deposit receipt is given to the Detective for his financial records.

Once a drug forfeiture court order has been obtained by the Detective, he transfers funds from the seized bank account to the forfeiture bank account usually by electronic transfer on the bank's BOSS electronic banking application. Because this money is considered evidence of a crime, the Detective is the only person assigned to be a custodial officer for the seized cash bank account. There is no other name attached to this account. If a court order awards any portion or all the money to be returned to the defendant named in the court order,

a check is written from the seized cash bank account, so that these so-called “return monies” will not get placed into the drug forfeiture account. The Detective uses QuickBooks accounting software (which is installed only on his computer) to record financial transactions for deposits of funds collected from local police, transfers of funds to the drug forfeiture account, and any other financial transactions. The software is capable of preparing bank account reconciliations that are done monthly by a different County Detective. These reconciliations are supposed to be reviewed and approved by the District Attorney.

PURPOSE AND SCOPE

This audit supplements the annual audit and report for the Drug Forfeiture Fund due to its close interrelationship with that fund. The focus of the audit is on the receipt function, and on evaluating internal controls of seized cash.

The purpose of the audit was to:

- Determine the existence and adequacy of internal controls.
- Ensure that the police departments are turning over seized funds to the County in a timely and accurate fashion.
- Ensure that funds are properly accounted for and are transferred to the Drug Forfeiture account when court orders are issued.
- Determine the efficiency and effectiveness of the seized cash account.

The scope of the audit included the twelve-month period of July 2017 through June 2018, concurrent with the Drug Forfeiture Fund audit timeframe.

METHODOLOGY

Our methodology included:

- Interviewing the County Detective to document processes and procedures, obtain documentation, and discuss any issues pertinent to the audit.
- Testing of 100 % of all receipts, transfers, and disbursements.
- Reviewing and reconciling seizures from the police departments with court-ordered forfeitures and the financial records.
- Reviewing the bank reconciliation process.
- Performing a proof of cash.
- Determining if the activity posted to the account financial statement (balance sheet) is accurate.
- Evaluating the effectiveness and efficiency of the seized cash account.

Our review included an assessment of internal controls in the audited areas. Any significant findings related to internal controls are included in the Audit Results section of the report.

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 our audit objectives.

AUDIT RESULTS

Section A – Internal Controls

1. Flow of Funds Through the Seized Cash Account

OBSERVATION

The system currently in place does not provide a process or feature to assess the status of seized funds. There is no report available that the Detective can utilize to estimate the amount of funds seized which have not been delivered to and deposited with the County. This information can only be gathered through a manual, time-consuming reconciliation process using data collected in the seizure reporting system, the financial records, and the District Attorney's list of court orders. The primary function of the seizure reporting system is to track police reporting activity for seizures. It can only provide rudimentary tables and lists that need to be manually compared to the financial records. There is no method to cross-reference the SIN numbers to the court orders other than manually comparing them.

A significant increase in the number of court orders issued in the fiscal year ended June 30, 2018 (FYE 6/30/18) created a large backlog of uncollected funds from the police departments and a corresponding delay in the transfer of forfeited funds from the seized cash bank account to the drug forfeiture bank account. The auditor determined that an estimated \$22,708 seized in FYE 6/30/18, was not collected from the local police departments by June 30, 2018. Additionally, approximately \$82,377 of funds seized and deposited in the seized cash account prior to June 30, 2018, were forfeited during the FYE 6/30/18 but were not transferred to the drug forfeiture bank account by June 30, 2018.

RECOMMENDATION

We recommend that some sort of prompting feature be incorporated into the seizure reporting system to continually remind police departments to deliver seized funds to the Detective, especially when they have already been forfeited. Currently, the police departments only receive one email reminder to deliver seized funds to the County. The local police departments also need to take more responsibility for promptly delivering seized funds to the County. Also, a process should be developed to ensure that funds are transferred to the forfeiture account on a timely basis when they are matched or identified with a court order.

MANAGEMENT RESPONSE

John M. Morganelli, District Attorney

The recommendation will be considered by the Office of District Attorney.

AUDITOR COMMENT

If management decides not to implement this recommendation, they are assuming the risk that errors and improprieties could occur and not be detected.

2. Segregation of Duties

OBSERVATION

The staffing assigned to drug seizures/forfeitures is not sufficient to provide a good control environment over cash handling and recordkeeping. An Assistant District Attorney handles the legal aspects of seized funds and forfeitures, a County Detective reconciles the bank account, the District Attorney reviews and approves the bank reconciliation, but the same County Detective responsible for the handling of seized funds also does the recordkeeping for them and is an authorized signer for the account. This is a material deficiency in internal controls over the handling and reporting of seized funds. The duties should be segregated to make sure that no one individual has sole responsibility for the receipt, custody, and disbursement of cash, while also being responsible for the recordkeeping of them, and the authorization of disbursements. Without proper segregation of duties, the internal control system is more prone to errors or irregularities, either intentional or unintentional, and the possibility that they will be undetected. The auditor noted the following discrepancies during the audit.

- Eleven seizures totaling \$12,436 were transferred from the seized cash account to the drug forfeiture account before being received from the Easton Police Department and deposited in the seizure account. The 11 seizures were collected and deposited in the seized cash account in December 2018 after this error was detected.
- There were two instances where a deposit was made for an amount greater than the amount on the original court order(s) without checking to see if a corresponding amended court order was issued. Follow up with the District Attorney's office determined that these orders were amended without the Detective's knowledge.
- Three transfers from the seized cash account to the drug forfeiture account were duplicated (transferred twice).

RECOMMENDATION

An individual with an accounting/bookkeeping background should be assigned the recordkeeping duties of the seized cash account. Recordkeeping is currently performed in QuickBooks, which does not provide an adequate audit trail, and allows data to be changed or deleted without any record of the change. The individual assigned to do the recordkeeping should perform an assessment of the current process to evaluate if using QuickBooks is the best method for the accounting of the seized cash account. The work of this individual would also improve the timeliness and accuracy of seizure reporting and transfer of seized funds when forfeited. This person could also provide some rudimentary financial and progress reporting about the scale and status of seizures deposited and forfeitures to be transferred to the forfeiture bank account.

MANAGEMENT RESPONSE

John M. Morganelli, District Attorney

The recommendation will be considered by the Office of District Attorney. However, at this time, the District Attorney does not have a position of “account/bookkeeper” to assign to these duties.

AUDITOR COMMENT

If management decides not to implement this recommendation, they are assuming the risk that errors and improprieties could occur and not be detected.

3. Bank Reconciliations

OBSERVATION

Bank reconciliations are not completed and reviewed on a timely basis. On average bank reconciliations were completed 73 days after the end of the month.

RECOMMENDATION

Bank reconciliations should be completed shortly after bank statements are received, and then reviewed and approved in a timely manner. Timely bank reconciliations help detect errors, discrepancies, and irregularities that might be made by the depositor or by the bank. The reconciling list of deposits can also be used to match deposits to court orders so that seized funds can be transferred to the drug forfeiture account promptly.

MANAGEMENT RESPONSE

John M. Morganelli, District Attorney

The recommendation will be considered by the Office of District Attorney.

AUDITOR COMMENT

If management decides not to implement this recommendation, they are assuming the risk that errors and improprieties could occur and not be detected.

4. Lack of System Integration

OBSERVATION

The tracking system database to input seizures, the list of court orders, and the financial recordkeeping software (QuickBooks) are not integrated; they do not share information and data. This lack of integration inhibits users of this information from accurately and promptly determining the amount and status of funds seized, collected, or forfeited. The capability of the current process to reconcile the database dollar amounts with the bank and financial records is weak and ineffective. It cannot be readily determined how much seized money was not turned over to the District Attorney's office, or how much forfeited money was not deposited into the forfeiture bank account. The seized cash account is an escrow fund; and at any point in time, data should be available that details who that money belongs to. Without a reconciliation of the funds to the known liabilities, there is no way of knowing whether the cash balance is complete and accurate.

RECOMMENDATION

A structured workflow process should be developed to identify what the current system can and cannot do to monitor the status of seized funds as they pass through the stages of becoming forfeited funds. A new system should allow the tracking of funds from seizure to forfeiture. Improvements should be identified and implemented to help reduce manual intervention and time-consuming reconciliations that need to be done to improve accuracy and accelerate the movement of seized funds through to eventual forfeiture. Financial information would more closely reflect seizure and forfeiture amounts, and the account balance information provided to Fiscal Affairs would be more accurate and timely. A monthly reconciliation of the cash balance to known liabilities should also be done monthly to supplement the monthly bank reconciliation.

MANAGEMENT RESPONSE

John M. Morganelli, District Attorney

The recommendation will be considered by the Office of District Attorney.

AUDITOR COMMENT

If management decides not to implement this recommendation, they are assuming the risk that errors and improprieties could occur and not be detected.