Leslie Wilks Garcia, M.Jur., CPA, CFE
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Chief Assistant County Auditor – Harris Health

MICHAEL POST, CPA, CIA
HARRIS COUNTY AUDITOR

March 19, 2025

Dear Sheriff Ed Gonzalez:

The Harris County Auditor's Office Internal Audit Division has completed an audit of Harris County Sheriff's Office Federal Seized and Forfeited Assets for Fiscal Year 2024. The results of our audit are included in the attached report.

We appreciate the time and attention provided by your team. Please expect an email request to complete our Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Glenn Holloway, Chief Assistant County Auditor, 713-274-5673.

Sincerely,

Michael Post
County Auditor

Attachment

Report Copies:
- District Judges
- County Judge Lina Hidalgo
- Commissioners:
  - Lesley Briones
  - Rodney Ellis
  - Adrian Garcia
  - Tom Ramsey
- Christian Menefee

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INTERNAL AUDIT REPORT

FEDERAL SEIZED AND FORFEITED ASSETS

MARCH 19, 2025

Executive Summary

OVERALL CONCLUSION

Overall, controls related to the Harris County Sheriff's Office Federal Seized and Forfeited Assets were generally effective. However, compliance issues were identified regarding the use and reporting of funds. Specifically, shared funds were used to replenish a petty cash fund, which is not permissible by program guidelines. Also, some expenditures were reported in the incorrect fiscal year. These observations were discussed with Sheriff's Office management, and management action plans have been developed that will address the observations identified.

SCOPE AND OBJECTIVE

The Harris County Auditor's Office Internal Audit Division performed an audit to examine the Harris County Sheriff's Office (Sheriff's Office) Federal Seized and Forfeited Assets for the 12 months ending September 30, 2024. Assurance and Advisory Services examined bank accounts for federal seized and forfeited assets (shared funds), and related revenues and disbursements for the period. The audit was performed in accordance with Texas Local Government Code §115.0035 and the *Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies* (the Guide) revised in March 2024 by the U.S. Department of Justice (DOJ) and the U.S. Department of the Treasury (Treasury).

The objectives of this audit were to selectively test whether:

- Forfeited assets bank account statements reconciled to their respective balances recorded in the County's Financial Records.
- All forfeited assets provided by the DOJ and Treasury were accurately and timely recorded in the County's Financial Records.
- A sample of disbursements and asset disposals from forfeited funds were properly authorized, appropriately supported, and accurately recorded in the County's Financial Records.
- A sample of disbursements from forfeited bank accounts complied with the permissible use requirements of Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies and OMB Uniform Administrative Requirements, Costs, Principles, and Audit Requirements.
- Equitable Sharing Agreement and Certification (ESAC) was submitted no later than 60 days after fiscal year end.

SUMMARY OF AUDIT OBSERVATIONS

- Shared funds totaling $28,514 were used to replenish a petty cash fund, which is not permissible by program guidelines.
- Expenses from fiscal year 2023 totaling $8,376 were incorrectly recorded in fiscal year 2024.

This report includes the audit observations, management's action plan to address the observations, and some background information. Each audit observation is ranked based on the likelihood and impact of the risk to Harris County.

AUDIT OBSERVATIONS

OBSERVATION #1: Impermissible Use of Federal Seized and Forfeited Funds [HIGH]

What is the Observation: Shared funds totaling $28,514 were used to replenish a petty cash fund, which is not permissible by program guidelines. The replenishment consisted of $17,742 from the Sheriff Office's U.S. Department of Justice (DOJ) account and $10,772 from the Sheriff Office's U.S. Department of the Treasury (Treasury) account.

Why it Happened: An incorrect account number was used on the replenishment requests, and this was not identified during the internal review and approval process.

Why it Matters: Non-compliance with program guidelines could jeopardize future participation in the Equitable Sharing Program.

What is Expected: Per Section V.B.2. (g) of the *Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencie*s, law enforcement agencies "are prohibited from having access to funds or maintaining cash on hand. Agencies may not maintain shared funds in multiple accounts, including separate investment or petty cash accounts…"

What Action(s) are Suggested: Collaborate with the Harris County Auditor's Office – Accounting Division to restore the $28,514 to the appropriate accounts. Report the correct amounts to the Equitable Sharing Program as a reconciling item in the FY2024 ESAC filing. Provide additional training to the personnel responsible for disbursing shared funds.

MANAGEMENT'S ACTION PLAN

Responsible Party: Michael Lanham, Director of Finance - Harris County Sheriff's Office

HCSO agrees with this finding and will work with the Harris County Auditor's Office – Accounting Division to transfer the $28,514 to the proper accounts. We will also ensure the correct amounts are reported as reconciling items in the FY2024 ESAC filing and will reinforce training of personnel responsible for disbursing seized funds so that similar errors can be avoided in the future.

Targeted Completion Date: June 30, 2025

OBSERVATION #2: Expenditures Reported in Incorrect Fiscal Year [Moderate]

What is the Observation: Of 60 expense reimbursement reports sampled, 21 (35%) from fiscal year 2023, were incorrectly recorded in fiscal year 2024, totaling $8,376.

Why it Happened: Expense reports were not input into STARS on a timely basis. Of the sampled 60 expense reports, 30 (50%) were not input into STARS within 60 days. The average time elapsed from the expense to the input into STARS was 138 days, with late claims ranging from 61 to 326 days.

Why it Matters: Failure to input expense reports into STARS on a timely basis could result in inaccurate financial reporting in Harris County reporting and on the Equitable Sharing Agreement and Certification (ESAC). The ESAC is reported by fiscal year. The Harris County Sheriff and Harris County Judge certify that the information submitted on the ESAC form is an accurate accounting of funds received and spent.

What is Expected: Follow the *County Auditor's County-Wide Accounting Procedure T.1, Travel, Training, and Business Meetings*, which requires expense claims to be submitted in STARS within 60 days of the end of travel and/or training.

What Action(s) are Suggested: Train personnel on the timely entry of expense reimbursement reports into STARS. Implement a periodic monitoring control, especially in the 4th quarter of the fiscal year, to remind employees to promptly process expense reimbursement reports before the end of the fiscal year.

MANAGEMENT'S ACTION PLAN

Responsible Party: Michael Lanham, Director of Finance – Harris County Sheriff's Office

HCSO agrees with this finding and the importance of expense being reported in the correct period. We will communicate this importance to all personnel will send out reminders during the final months of each fiscal year.

Targeted Completion Date: July 31, 2025

BACKGROUND

Asset Forfeiture Programs

Asset forfeiture is the seizure of property by federal law enforcement agencies without compensation because of the property's connection to criminal activity. The Department of Justice (DOJ) and the Department of the Treasury (Treasury) are federal law enforcement agencies with established asset forfeiture programs. These programs allow the agencies to recover property that is suspected to be involved in or gained from illegal activities.

The primary purpose is to disrupt criminal enterprises by depriving criminals of their illicit gains. The Money Laundering and Asset Recovery Section (MLARS) of the DOJ establishes asset forfeiture legal policies and procedures for the DOJ's asset forfeiture program. The Treasury Executive Office for Asset Forfeiture (TEOAF) sets policy for Treasury's asset forfeiture program.

Equitable Sharing Program

One of the ancillary benefits of asset forfeiture program is the potential to share federal forfeiture proceeds with cooperating state and local law enforcement agencies through equitable sharing. The DOJ and the Treasury have established Equitable Sharing Programs (the Program) for the participating law enforcement agencies. The DOJ and Treasury jointly manage the equitable sharing program. The two agencies publish a joint guide to the equitable sharing program called the *Guide to Equitable Sharing for State, Local and Tribal Law Enforcement Agencies* (the Guide). The *Guide* provides guidance on participation eligibility, instructions on how to request and receive equitable sharing, permissible and impermissible uses of the equitably shared funds, and the accounting and reporting requirements associated with shared proceeds.

Most of the law enforcement agencies (LEAs) at Harris County participate in the Program. The Sheriff's Office, District Attorney's Office, County Attorney's Office, and all Constables except for Precinct 7 participate in the Equitable Sharing Program. Total expenditures across all participating departments for the 12-month period ending September 30, 2024, was approximately $1.7 million.

The Program is designed to enhance cooperation amongst federal, state, local, and tribal law enforcement by providing valuable additional resources from the forfeitures to state and local law enforcement agencies assisting with investigations into violations of federal laws. The Program is designed to supplement and enhance – not supplant – appropriated agency resources.

Guidelines and Restrictions

The County LEAs abide by the provisions of the *Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies* (the Guide).

The *Guide* notes that DOJ and Treasury equitable sharing funds must be segregated in separate bank accounts and not commingled with other operating funds to provide a clear and distinct audit trail. The *Guide* emphasizes the importance of maintaining proper accounting records to ensure transparency and compliance with applicable laws and regulations.

Finally, the *Guide* provides clear rules and strict restrictions regarding what types of expenses can be covered by the forfeited funds, as well as limits on how the proceeds can be spent. The *Guide* outlines that funds received through equitable sharing must be used for specific law enforcement purposes; these are called permissible uses. Likewise, the *Guide* outlines expenses that cannot be paid with funds obtained through the equitable sharing program; these are called impermissible uses.

ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (the Standards). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.

As the engagement's scope did not include a detailed examination of all transactions, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.