



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



**Audit of the Tennessee  
Department of Safety and  
Homeland Security Equitable  
Sharing Program Activities  
Nashville, Tennessee**

# **AUDIT OF THE TENNESSEE DEPARTMENT OF SAFETY AND HOMELAND SECURITY EQUITABLE SHARING PROGRAM ACTIVITIES NASHVILLE, TENNESSEE**

## **EXECUTIVE SUMMARY**

The U.S. Department of Justice (DOJ) Office of the Inspector General (OIG) has completed an audit to assess whether the Tennessee Department of Safety and Homeland Security (Department of Safety or Department) accounted for DOJ equitable sharing funds and used such assets for allowable purposes as defined by applicable guidelines. The audit covered the Department of Safety's fiscal years (FY) 2014 to FY 2017. The Department of Safety began the audit period with a balance of \$719,874. During FY 2014 to FY 2017, the Department received \$931,822 in equitable sharing funds and spent \$1,188,541 on law enforcement operations and investigations, training, and other expenses.

Equitable sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations. In determining whether the Department of Safety complied with applicable equitable sharing guidelines in accounting for and using these funds, we identified several areas of improvement, including its methods of accounting and oversight of equitable sharing funds. Specifically, the Department of Safety expended \$112,614 in equitable shared funds for unallowable catering, luncheon, banquet ticket, and retail food expenditures. Consequently, we question the \$112,614. The Department also had no procedures for tracking and reconciling equitable sharing requests to receipts and had no separately designated account for expenditures. Additionally, we found that the Department submitted Equitable Sharing Agreement and Certification Reports for FY 2014 to FY 2016 that were not signed by Department of Safety or State of Tennessee officials, and that the FY 2014 report was submitted 19 days late.

Our report includes five recommendations to the DOJ Criminal Division (Criminal Division), which oversees the equitable sharing program. Our audit objective, scope, and methodology are contained in Appendix 1. We discussed the results of our audit with Department of Safety officials and have included their comments in the report, as applicable. In addition, we requested a response to our draft report from the Department of Safety and the Criminal Division, and their responses are appended to this report as Appendices 3 and 4, respectively. Our analysis of the responses, as well as a summary of actions necessary to close the report, can be found in Appendix 5 of this report.

**AUDIT OF THE TENNESSEE DEPARTMENT OF  
SAFETY AND HOMELAND SECURITY EQUITABLE  
SHARING PROGRAM ACTIVITIES NASHVILLE, TENNESSEE**

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# **AUDIT OF THE TENNESSEE DEPARTMENT OF SAFETY AND HOMELAND SECURITY EQUITABLE SHARING PROGRAM ACTIVITIES NASHVILLE, TENNESSEE**

The Department of Justice (DOJ) Office of the Inspector General (OIG) completed an audit of the equitable sharing funds received by the Tennessee Department of Safety and Homeland Security (Department of Safety or Department) in Nashville, Tennessee. The objective of the audit was to assess whether cash received by the Department of Safety through the Equitable Sharing Program was accounted for properly and used for allowable purposes as defined by applicable regulations and guidelines. The audit covered fiscal years (FY) 2014 to FY 2017.<sup>1</sup> During that period, the Department of Safety received \$931,822 in equitable sharing funds and spent \$1,188,541 as a participant in the DOJ Equitable Sharing Program.<sup>2</sup>

## **DOJ Equitable Sharing Program**

The Comprehensive Crime Control Act of 1984 authorized the implementation of the DOJ Asset Forfeiture Program (Asset Forfeiture Program). The Asset Forfeiture Program is a nationwide law enforcement initiative that removes the tools of crime from criminal organizations, deprives wrongdoers of the proceeds of their crimes, recovers property that may be used to compensate victims, and deters crime. A key element of the Asset Forfeiture Program is the Equitable Sharing Program.<sup>3</sup> The DOJ Equitable Sharing Program allows any state or local law enforcement agency that directly participated in an investigation or prosecution resulting in a federal forfeiture to claim a portion of federally forfeited cash, property, and proceeds.

Although several DOJ agencies are involved in various aspects of the seizure, forfeiture, and disposition of equitable sharing revenues, three DOJ components work together to administer the Equitable Sharing Program. These agencies are the United States Marshals Service (USMS), the Justice Management Division (JMD), and the Criminal Division's Money Laundering and Asset Recovery Section (MLARS). The USMS is responsible for transferring asset forfeiture funds from the DOJ to the receiving state or local agency. JMD manages the Consolidated Asset Tracking System (CATS), a database used to track federally seized assets throughout the forfeiture life-cycle. MLARS tracks membership of state and local participants, updates the Equitable Sharing Program rules and policies, and monitors the allocation and use of equitably shared funds.

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<sup>1</sup> The Department of Safety's fiscal year begins July 1 and ends June 30.

<sup>2</sup> The Department of Safety began the audit period with a balance of \$719,874.

<sup>3</sup> The U.S. Department of the Treasury and the U.S. Department of Homeland Security also administer federal asset forfeiture programs. This audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program.

State and local law enforcement agencies may receive equitable sharing funds by participating directly with DOJ agencies on investigations that lead to the seizure and forfeiture of property, or by seizing property and requesting one of the DOJ agencies to adopt the seizure and proceed with federal forfeiture.<sup>4</sup> Once an investigation is complete and 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 that agency.

To request a share of seized assets, a state or local law enforcement agency must first become a member of the DOJ Equitable Sharing Program. Agencies can become members of the program by signing and submitting an annual Equitable Sharing Agreement and Certification Report to MLARS. As part of each annual agreement, officials of participating agencies certify that they will use equitable sharing funds for allowable law enforcement purposes.

MLARS has issued guidance that outlines categories of allowable and unallowable uses for equitable sharing funds and property. The first is the Guide to Equitable Sharing for State and Local Law Enforcement Agencies (Equitable Sharing Guide), issued in April 2009. The second is Interim Policy Guidance Regarding the Use of Equitable Sharing Funds (Interim Policy Guidance), issued in July 2014.

## **Tennessee Department of Safety and Homeland Security**

Department of Safety headquarters is located in Nashville, Tennessee. Established in 1939, the Department of Safety serves a statewide population of over 6.6 million residents. As of January 2017, it had a combined workforce of 1,720 sworn officers and civilian employees. The Department of Safety became a member of the DOJ Equitable Sharing Program in 1991.

### **OIG Audit Approach**

We tested the Department of Safety's compliance with what we considered to be the most important conditions of the DOJ Equitable Sharing Program. We performed our testing to assess whether the Department accounted for equitable sharing funds properly and used such revenues for allowable purposes. Unless otherwise stated, we applied the Equitable Sharing Guide, as well as the Interim Policy Guidance as our primary criteria. The Equitable Sharing Guide provides procedures for submitting sharing requests and discusses the proper use and accounting for equitable sharing assets. To conduct the audit, we tested the Department of Safety's compliance with:

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<sup>4</sup> The adoption of property seized by state or local law enforcement under state law is only allowable if the property directly relates to public safety concerns, including firearms, ammunition, explosives, and property associated with child pornography. Property that does not fall under these four specific categories may not be adopted without the approval of the Assistant Attorney General for the Criminal Division.

- **Equitable Sharing Agreement and Certification Reports** to determine if these documents were complete and accurate;
- **accounting for equitable sharing resources** to determine whether standard accounting procedures were used to track equitable sharing assets;
- **use of equitable sharing resources** to determine if equitable sharing cash and property was used for allowable law enforcement purposes;
- **compliance with audit requirements** to ensure the accuracy, consistency, and uniformity of audited equitable sharing data; and
- **monitoring of applications for transfer of federally forfeited property** to ensure adequate controls were established.

As a result of our testing, we determined that the Department of Safety expended \$112,614 in equitable shared funds for unallowable catering, luncheon, banquet ticket, and retail food expenditures. The Department also had no procedures for tracking and reconciling equitable sharing requests to receipts and had no separately designated account for expenditures. Additionally, the Department submitted Equitable Sharing Agreement and Certification Reports for FY 2014 to FY 2016 that were not signed by Department of Safety or State of Tennessee officials, and the FY 2014 report was submitted 19 days late. See Appendix 1 for more information on our objective, scope, and methodology.

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

Law enforcement agencies that participate in the Equitable Sharing Program are required to submit an Equitable Sharing Agreement and Certification Report, on an annual basis, within 60 days after the end of an agency's fiscal year. The report must be submitted regardless of whether equitable sharing funds were received or maintained during that year. Additionally, the report must be signed by the head of the law enforcement agency and a designated official of the local governing body. By signing and submitting the report, the signatories agree to be bound by and comply with the statutes and guidelines that regulate the Equitable Sharing Program.

A Department of Safety Sergeant told us that she prepares and submits the report using financial information provided by the Department's Fiscal Services office. We tested for timeliness, completeness, and accuracy agreement and certification reports submitted from FY 2014 to FY 2016.

#### *Completeness and Timeliness of Agreement and Certification Reports*

To determine the completeness and timeliness of the reports, we compared the submission date to the deadline date, which is 60 days from the end of the fiscal year (June 30). We determined that the FY 2014 and FY 2015 reports were submitted 19 and 2 days late, respectively. Department of Safety officials could not explain to us why the reports were submitted late. We consider the untimeliness of the FY 2015 report immaterial. However, the late submission of the

FY 2014 report may have delayed the Criminal Division's annual review and assessment of the Department of Safety's equitable sharing activities. Therefore, we recommend the Criminal Division ensure the Department of Safety submits its annual agreement and certification reports timely.

We also found that the agreement and certification reports lacked handwritten or electronic signatures of authorized officials as required. Guidance available on the Criminal Division's MLARS website discusses the purpose of obtaining signatures of responsible officials and the requirement that signatures be obtained annually.<sup>5</sup> Equitable sharing recipients must obtain approval from their agency and governing body heads.<sup>6</sup> Moreover, recipients should establish internal policies and procedures for obtaining such signatures. Department of Safety officials told us that a Criminal Division official informed them that agency head signatures were not required. We contacted the Criminal Division about this instruction, but could not verify that the instruction was given to the Department of Safety. Without signatures, the Criminal Division has no assurance that a law enforcement agency's participation in the DOJ Equitable Sharing Program has been authorized and that reported equitable sharing program activity has been appropriately reviewed and is accurate. We recommend the Criminal Division ensure that the Department of Safety has its agreement and certification reports signed by authorized Department of Safety and State of Tennessee officials.

#### *Accuracy of Agreement and Certification Reports*

To verify the accuracy of the agreement and certification reports, we compared the Department of Safety's equitable sharing receipts to CATS reports for FYs 2014, 2015, and 2016. The receipts matched the CATS reports. To verify the total expenditures listed on the agreement and certification reports, we compared expenditures listed on the reports to the Department's accounting records for each period. The Department's expenditures for the FY 2014 and FY 2015 agreement and certification reports matched the accounting records. The expenditures reported for FY 2016 did not match the accounting records and we discuss this finding below.

Additionally, entities are required to report the amount of interest income earned during the given reporting period. The Department of Safety reported that it earned a total of \$3,149 in interest from FY 2014 through FY 2016. We requested documentation that interest on equitable sharing funds had been deposited in the Department of Safety's equitable sharing account. The Department's Comptroller provided us documentation showing that equitable sharing funds were deposited into a bank account under an accounting code specific to DOJ equitable sharing funds, which earned interest.

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<sup>5</sup> Department of Justice, *Equitable Sharing Wire*, October 18, 2013.

<sup>6</sup> Department of Justice, *Equitable Sharing Wire*, February 5, 2015.

## Accounting for Equitable Sharing Resources

The Equitable Sharing Guide requires that law enforcement agencies use standard accounting procedures to track receipts of equitable sharing funds. This includes establishing a separate revenue account or accounting code through the agency's finance department for DOJ Equitable Sharing Program proceeds. In addition, agencies must deposit any interest income earned on equitable sharing funds in the revenue account or under the accounting code established solely for the shared funds.

MLARS guidance requires that law enforcement agencies participating in the Equitable Sharing Program use the eShare portal, an online DOJ system that allows agencies to enter, submit, decline, restore, and track equitable sharing requests. The eShare portal enables a participating agency to receive payments by direct deposit and receive an e-mail notification of the deposit. We reviewed the Department of Safety's equitable sharing receipts to determine if the funds were properly accounted for and deposited, and we reconciled the Department's accounting records to DOJ records of equitable sharing funds provided to the Department. We determined the Department of Safety received \$931,822 in equitable sharing revenues during FY 2014 to FY 2017, as shown in Table 1.

**Table 1**  
**Department of Safety Equitable Sharing Receipts**  
**During FY 2014 to FY 2017**

<b>FY</b>	<b>Receipts/Proceeds<sup>a</sup></b>
2014	\$282,132
2015	\$227,105
2016	\$270,819
2017 <sup>b</sup>	\$151,766
<b>TOTAL</b>	<b>\$931,822</b>

<sup>a</sup> Amounts were rounded

<sup>b</sup> Represents receipts from July 2016 to January 2017

Source: Department of Safety records

To ensure these funds were deposited properly and recorded timely, we judgmentally selected for testing 28 equitable sharing receipts totaling \$486,419, or 52 percent, of the total receipts received during the 4-year period we reviewed. All receipts tested were deposited properly and recorded.

We sought to determine how the Department of Safety requested and tracked equitable sharing receipts. The Department of Safety typically obtains equitable sharing funds when it participates with the Drug Enforcement Administration (DEA) in an investigation or when the DEA "adopts" one of the Department's investigations. In those circumstances, a Department of Safety Sergeant submits a sharing request within eShare using seizure information provided by the DEA. For each request, the Sergeant inputs Department of Safety



contact information, the preference for cash, proceeds, or property, and other information. After submitting the request, the Sergeant receives notifications on various sharing request activities.

When we attempted to determine how the Department of Safety tracks its sharing requests to ensure that all requested funds were received, a Department of Safety official told us that she was not aware of this requirement. Periodic tracking of equitable sharing receipts would enable the Department of Safety to better ensure that sharing requests have been received and that shares match the amount or type of distribution requested. Therefore, we recommend that the Criminal Division ensure the Department of Safety develops procedures for tracking and reconciling equitable sharing requests to equitable sharing receipts.

We also found that the Department commingled its DOJ equitable sharing funds with Department of the Treasury (Treasury) equitable sharing funds. Law enforcement agencies are required to provide within their agreement and certification reports separate annual equitable sharing activity for the DOJ and Treasury programs. For FY 2016, the Department reported \$329,713 in DOJ expenditures and \$97,551 in Treasury expenditures. The Department's accounting records showed that it expended \$427,263 during the same period, which commingled the annual expenditures from both the DOJ and Treasury programs. A Department of Safety official told us the Department expends Treasury funds from the same account designated for DOJ's Equitable Sharing Program. The same official also told us the Department cannot distinguish DOJ program expenditures from Treasury program expenditures.<sup>7</sup> The Guide states that law enforcement agencies are not to commingle DOJ Equitable Sharing funds with funds from any other source and that corrective actions must be taken if this occurs. Establishing a separate expenditure account for the exclusive use of DOJ expenditures could lower the risk that equitable sharing funds are misused, and help ensure the accurate reporting in certification reports. Therefore, we recommend the Criminal Division ensure the Department of Safety establishes a separate equitable sharing expenditure account in its accounting system for the exclusive use of DOJ equitable sharing funds.

### **Equitable Sharing Resources**

The Equitable Sharing Guide and Interim Policy Guidance require that equitable sharing funds or tangible property be used for law enforcement purposes only. Table 2 summarizes some of the allowable and unallowable uses of equitable sharing funds as outlined in the Equitable Sharing Guide.

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<sup>7</sup> We did not perform work to determine if the Department of Safety expended its Treasury equitable sharing funds for allowable uses under the Treasury Equitable Sharing Program.

**Table 2**

**Summary of Allowable and Unallowable Uses of Equitable Sharing Funds**

Allowable Uses
Matching funds
Contracting services
Law enforcement equipment
Law enforcement travel and per diem
Support of community-based programs
Law enforcement awards and memorials
Law enforcement training and education
Transfers to other law enforcement agencies
Joint law enforcement or public safety operations
Law enforcement operations and investigations
Law enforcement, public safety, and detention facilities
Drug and gang education and other awareness programs
Unallowable Uses
Loans
Bayonets
Supplanting
Camouflage uniforms
Costs related to lawsuits
Extravagant expenditures
Tracked armored vehicles
Money laundering operations
Purchase of food and beverages
Creation of endowments or scholarships
Personal or political use of shared assets
Petty cash accounts and stored value cards <sup>a</sup>
Firearms and ammunition of .50-caliber or higher
Purchase of items for other law enforcement agencies
Weaponized aircraft, vessels and vehicles of any kind
Uses contrary to the laws of the state or local jurisdiction
Use of forfeited property by non-law enforcement personnel
Grenade launchers: Firearm or firearm accessory designed to launch small explosive projectiles
<i>With exceptions, salaries and benefits of sworn or non-sworn law enforcement personnel.</i>

<sup>a</sup> Prepaid credit cards may be purchased for use as a form of payment for buy-back programs

Source: Equitable Sharing Guide

*Use of Equitable Sharing Funds*

According to its accounting records, from October 2013 to December 2016, the Department of Safety spent \$1,188,541 in equitable sharing funds. We judgmentally selected for testing 20 transactions totaling \$451,804, or 38 percent of the funds spent during the testing period, to determine if the expenditures were allowable and supported by adequate documentation. During our testing, we identified several transactions for catering that included food, beverages, and related services, which are unallowable under the DOJ Equitable Sharing Program.

As a result, we expanded our testing by judgmentally selecting for testing 43 additional transactions totaling \$81,042, which represented 7 percent of the equitable sharing funds expended during our period of review. As shown in Table 3, we found the Department of Safety spent a combined \$112,614 for unallowable catering, luncheon, banquet ticket, and retail food expenditures.

**Table 3**  
**Department of Safety Unallowable Expenditures**  
**by Transaction Category**

	<b>Invoice Date</b>	<b>Transaction Category</b>	<b>Transaction Amount<sup>a</sup></b>
1	3/13/2014	Catering	\$12,290
2	4/05/2014	Catering	\$20,000
3	5/31/2014	Catering	\$19,356
4	3/03/2015	Catering	\$16,567
5	4/20/2015	Catering	\$22,485
6	6/17/2015	Catering	\$3,600
7	3/14/2016	Catering	\$16,232
<i>Catering Total</i>			<i>\$110,530</i>
8	6/22/2015	Luncheon	\$1,097
<i>Luncheon Total</i>			<i>\$1,097</i>
9	10/15/2016	Banquet Ticket	\$100
10	10/15/2016	Banquet Ticket	\$100
11	10/15/2016	Banquet Ticket	\$100
12	10/15/2016	Banquet Ticket	\$100
13	10/15/2016	Banquet Ticket	\$100
14	10/15/2016	Banquet Ticket	\$100
15	10/15/2016	Banquet Ticket	\$100
<i>Banquet Tickets Total</i>			<i>\$700</i>
16	6/15/2014	Retail Food	\$192
17	6/30/2014	Retail Food	\$95
<i>Retail Food Total</i>			<i>\$287</i>
<b>Grand Total</b>			<b>\$112,614</b>

<sup>a</sup> Amounts were rounded

Source: Department of Safety records

According to the Interim Policy Guidance, equitable sharing funds cannot be used to pay for food and beverages. Also, law enforcement agencies are urged to use equitable sharing funds prudently and in such a manner as to avoid any appearance of extravagance, waste, or impropriety. As an example of an extravagant expense, the Interim Policy Guidance notes the use of equitable sharing funds to purchase social event tickets.

The use of equitable sharing funds to purchase catering, a luncheon, banquet tickets, and retail food is contrary to the Equitable Sharing Guide and its goal of promoting and maintaining the integrity of the Equitable Sharing Program to merit

public confidence and support. When we presented this finding to the Department of Safety, its Controller told us that he did not know these expenditures were unallowable. Other officials told us that, while they did not dispute these expenditures were unallowable, they considered the catering expenditures to be in support of law enforcement activities. Regardless of that view, catering is not an allowable expense. Consequently, we question the \$112,614 and recommend that the Criminal Division ensure the Department of Safety remedy \$112,614 in unallowable catering, luncheon, banquet ticket, and retail food expenditures.

#### *Use of Equitable Sharing Property*

The Equitable Sharing Guide requires that any forfeited tangible property transferred to a state or local agency for official use must only be used for law enforcement purposes. Further, vehicles and other tangible property transferred for official law enforcement use must be used accordingly for at least 2 years. However, if the property becomes unsuitable before the end of the 2-year period, it may be sold with approval from MLARS, and the proceeds are to be deposited in the agency's DOJ equitable sharing revenue account.

According to CATS, the Department of Safety did not receive tangible property during our audit period of review. Additionally, Department officials told us that they did not retain seized property for use. Therefore, we found no evidence the Department of Safety obtained forfeited property during our audit period of review.

#### *Supplanting*

The Equitable Sharing Guide requires that shared resources be used to increase or supplement the resources of the recipient agency. The Guide also prohibits the use of shared resources to replace or supplant the appropriated resources of the recipient. The recipient agency must benefit directly from the equitable sharing funds. To test whether equitable sharing funds were used to supplement rather than supplant local funding, we interviewed Department of Safety officials and reviewed the Department's budgets for FY 2014 through FY 2016 and sampled expenditures for the same period. We found that the budget for law enforcement activity increased during the period tested, and we did not identify any transactions that indicated supplanting had occurred.

From our review of the Department of Safety's budget documents, we determined that the Department's total budgeted appropriations had increased an average of 3 percent during a 3-year period of review. Further, our sample testing of expenditure transactions did not reveal any evidence of supplanting. Therefore, we found no evidence the State of Tennessee used equitable sharing funds to supplant the Department of Safety's budget.

## Compliance with Audit Requirements

The Equitable Sharing Guide requires that state and local law enforcement agencies that receive equitable sharing cash, proceeds, or tangible property perform an audit consistent with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.<sup>8</sup> Non-federal entities that receive federal financial assistance are required to comply with the Single Audit Act Amendments of 1996. The Single Audit Act provides for recipients of federal funding above a certain threshold to receive an annual audit of their financial statements and federal expenditures. Under 2 C.F.R. 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), such entities that expend \$750,000 or more in federal funds within the entity's fiscal year must have a "Single Audit" performed annually covering all federal funds expended that year. The Single Audit Report is required to include a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements. In addition, an entity must submit its Single Audit Report no later than 9 months after the end of the fiscal year covered by the audit.

For FY 2015 and FY 2016, the State of Tennessee had \$13,982,512,906 and \$14,430,023,930 in federal award expenditures, respectively, which necessitated a Single Audit for those years. We reviewed the state's Single Audit reports for those years and found no non-compliance or significant control weaknesses or deficiencies crosscutting to all federal awards. We also compared the Department's accounting records to the equitable sharing funds reported on the Single Audit Report Schedule of Expenditures of Federal Awards for FY 2015 and 2016. The expenditures on the FY 2015 report were accurately reported. The FY 2016 report consolidated all of the Department's equitable sharing expenditures; therefore, we could not determine the amount of expenditures for the DOJ Equitable Sharing Program. We make no recommendation for the consolidated reporting of equitable sharing expenditures.

## Conclusion

Over the course of our audit we identified several areas related to the Department of Safety's non-compliance with equitable sharing guidelines. Specifically, we found that the Department of Safety expended \$112,614 in equitable shared funds for unallowable catering, luncheon, banquet ticket, and retail food expenditures. The Department also lacked procedures for tracking and reconciling equitable sharing requests to receipts and did not have a separately designated account for expenditures. Additionally, the Department submitted incomplete agreement and certification reports for FY 2014 to FY 2016, and the

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<sup>8</sup> On December 26, 2014, OMB Circular A-133, was superseded by 2 C.F.R. 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The new guidance, which affects all audits of fiscal years beginning on or after December 26, 2014, raised the audit threshold from \$500,000 to \$750,000. Both OMB Circular A-133 and the Uniform Guidance apply.

FY 2014 report was submitted 19 days late. We offer five recommendations to assist the Criminal Division in its oversight and management of the Department of Safety's equitable sharing program participation.

## **Recommendations**

We recommend the Criminal Division:

1. Ensure the Department of Safety and Homeland Security submits its annual Equitable Sharing Agreement and Certification Reports timely.
2. Ensure the Department of Safety and Homeland Security has its annual Equitable Sharing Agreement and Certification Reports signed by authorized Department of Safety and Homeland Security and State of Tennessee officials.
3. Ensure the Department of Safety and Homeland Security develops procedures for tracking and reconciling equitable sharing requests to equitable sharing receipts.
4. Ensure the Department of Safety and Homeland Security establishes a separate equitable sharing expenditure account for the exclusive use of DOJ equitable sharing funds.
5. Remedy \$112,614 in unallowable catering, luncheon, banquet ticket, and retail food expenditures.

## 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 and 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 Department of Safety accounted for equitable sharing funds properly and used such revenues for allowable purposes defined by applicable guidelines. We tested compliance with what we considered to be the most important conditions of the Department of Justice (DOJ) Equitable Sharing Program. We reviewed laws, regulations, and guidelines governing the accounting for and use of DOJ equitable sharing receipts, including the *Guide to Equitable Sharing for State and Local Law Enforcement Agencies*, dated April 2009, as well as the *Interim Policy Guidance Regarding the Use of Equitable Sharing Funds*, dated July 2014. Unless, otherwise stated in our report, the criteria we audited against are contained in these documents.

### Scope and Methodology

Our audit concentrated on, but was not limited to, the Department of Safety's equitable sharing activity from July 1, 2013, to January 31, 2017. The U.S. Department of the Treasury administers a similar Equitable Sharing Program. Our audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program.

We performed audit work at Department of Safety headquarters located in Nashville, Tennessee. We interviewed Department of Safety officials and examined records, related revenues, and expenditures of DOJ equitable sharing funds. In addition, we relied on computer-generated data contained in the DOJ Consolidated Asset Tracking System (CATS) to identify equitably shared revenues and property awarded to the Department of Safety during the audit period. We did not establish the reliability of the data contained in CATS as a whole. However, when 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 Department of Safety's compliance with three essential equitable sharing guidelines: (1) Equitable Sharing Agreement and Certification Reports, (2) accounting for equitable sharing receipts, and (3) the use of equitable sharing funds. In planning and performing our audit, we considered internal controls over DOJ equitable sharing receipts established and used by the

Department of Safety. However, we did not assess the reliability of the Department of Safety's financial management system, or the extent to which the financial management system complied with internal controls, laws, and regulations overall.

In the scope of this audit, the Department of Safety had 240 cash or proceeds receipts totaling \$931,822 and no property receipts. In the same period, the Department had 222 expenditures totaling \$1,188,541. We judgmentally selected and tested a sample of 28 receipts totaling \$486,419 and a sample of 63 expenditures totaling \$532,846. A judgmental sampling design was applied to capture numerous aspects of the disbursements reviewed, such as dollar amounts. This non-statistical sample design does not allow projection of the test results to all disbursements.

Our audit included an evaluation of the Department of Safety's most recent annual audit. The results of that audit were reported in the Single Audit Report that accompanied the Department of Safety's basic financial statements for the year ended June 30, 2016. The Single Audit Report was prepared under the provisions of Office of Management and Budget Circular A-133 and 2 C.F.R. 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. We reviewed the independent auditor's assessment, which disclosed no control weaknesses or significant non-compliance issues for the DOJ and the DOJ Equitable Sharing Program.



**APPENDIX 2**

**SCHEDULE OF DOLLAR-RELATED FINDINGS**

<u>Description</u>	<u>Amount</u>	<u>Page</u>
<b>Questioned Costs:<sup>9</sup></b>		
Unallowable Catering Costs	\$110,530	8
Unallowable Luncheon Costs	1,097	8
Unallowable Banquet Ticket Costs	700	8
Unallowable Retail Food Costs	<u>287</u>	8
Unallowable Costs	\$112,614	
<b>Net Questioned Costs</b>	<b>\$112,614</b>	
<b>TOTAL DOLLAR-RELATED FINDINGS</b>	<b><u>\$112,614</u></b>	

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<sup>9</sup> **Questioned Costs** are expenditures that do not comply with legal, regulatory, or contractual requirements, or 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.

## TENNESSEE DEPARTMENT OF SAFETY AND HOMELAND SECURITY RESPONSE TO THE DRAFT AUDIT REPORT



David W. Purkey  
Commissioner

Bill Haslam  
Governor

August 28, 2017

Ferris B. Polk, Regional Audit Manager  
Atlanta Regional Audit Office  
Office of the Inspector General  
U.S. Department of Justice  
75 Ted Turner Drive Southwest, Suite 1130  
Atlanta, Georgia 30303

Re: Audit of the Tennessee Department of Safety & Homeland Security Equitable Sharing Program Activities.

Dear Mr. Polk:

The Department of Justice Office of the Inspector General (DOJ-OIG) Equitable Sharing Program Activities draft audit report issued August 15, 2017 included five (5) areas for improvement. The following are the Department of Safety & Homeland Security's actions/responses regarding the report recommendations:

1. **DOJ-OIG Recommendation:** Ensure the Department of Safety & Homeland Security submits its annual Equitable Sharing Agreement and Certification Reports timely.

**Management's Response:** The Tennessee Department of Safety & Homeland Security concurs with the recommendation and has updated policies and procedures to ensure annual Equitable Sharing Agreement and Certification Reports are submitted timely.

2. **DOJ-OIG Recommendation:** Ensure the Department of Safety & Homeland Security has its annual Equitable Sharing Agreement and Certification Reports signed by authorized Department of Safety & Homeland Security and State of Tennessee officials.

**Management's Response:** The Tennessee Department of Safety & Homeland Security concurs with the recommendation and has updated policies and procedures to ensure annual Equitable Sharing Agreement and Certification Reports are signed by the Department Commissioner and a designated official of the State of Tennessee.

3. **DOJ-OIG Recommendation:** Ensure the Department of Safety & Homeland Security develops procedures for tracking and reconciling equitable sharing requests to equitable sharing receipts.

**Management's Response:** The Tennessee Department of Safety & Homeland Security concurs with the recommendation and has developed a process to track and reconcile equitable sharing

requests to equitable sharing receipts. Additionally, the Department has updated its policies to reflect the new process.

4. **DOJ-OIG Recommendation:** Ensure the Department of Safety & Homeland Security establishes a separate equitable sharing expenditure account for the exclusive use of DOJ equitable sharing funds.

**Management's Response:** The Tennessee Department of Safety & Homeland Security concurs with the recommendation. In order to track the equitable sharing funds received from the DOJ separately from those received from the Treasury, the Tennessee Department of Safety & Homeland Security is creating a program code within the official accounting system to be used with all revenue and expenditures of Treasury equitable sharing funds. This will enable the Department to track, record, and report DOJ equitable sharing funds separately from Treasury equitable sharing funds.

5. **DOJ-OIG Recommendation:** Remedy \$112,614 in unallowable catering, luncheon, banquet ticket, and retail food expenditures.

**Management's Response:** The Tennessee Department of Safety & Homeland Security concurs with the recommendation and will reimburse the Department of Justice for the unallowable expenditures. It is important to note that the expenditures were for food and ticket expenses associated with allowable law enforcement banquets and award ceremonies. However, the Department's understanding of allowable versus unallowable costs associated with such events was incorrect. The Department has corrected its understanding and will ensure only allowable costs are submitted for reimbursement moving forward.

Thank you for the opportunity to respond to the audit. Please feel free to contact Russell Shoup, Internal Audit Director, at 615-251-8584, if you have any questions or comments.

Sincerely,  
  
David W. Purkey  
Commissioner & Homeland Security Advisor

DWP/rs

CC: David McGriff, Deputy Commissioner & Chief of Staff  
Colonel Tracy Trott, Deputy Commissioner  
Major Michael McAlister, THP  
Captain Doug Taylor, THP  
Terry Burr, Controller  
Tim Hancock, Assistant Director

*Thanks!*  
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**CRIMINAL DIVISION RESPONSE  
TO THE DRAFT AUDIT REPORT**



U.S. Department of Justice

Criminal Division

*Money Laundering and Asset Recovery Section*

*Washington, D.C. 20530*

AUG 23 2017

**MEMORANDUM**

**TO:** Ferris B. Polk, Regional Audit Manager  
Atlanta Regional Audit Office  
Office of the Inspector General

**FROM:** Jennifer Bickford, Deputy Chief  
Program Management and Training Unit  
Money Laundering and Asset  
Recovery 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 Tennessee Department of Safety and Homeland Security's Equitable Sharing Program Activities

In a memorandum dated August 15, 2017, your office provided a draft audit report for the Tennessee Department of Safety and Homeland Security (TDOS), which included actions necessary for closure of the audit report findings. The Money Laundering and Asset Recovery Section (MLARS) concurs with all findings and recommendations stated in the draft audit report.

Upon receipt of the final audit report, MLARS will work with TDOS to implement the corrective actions to resolve all findings.

cc: Denise Turcotte, Audit Liaison  
Criminal Division

Richard P. Theis, Assistant Director  
Audit Liaison Group  
Internal Revenue and Evaluation Office  
Justice Management Division

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

The U.S. Department of Justice (DOJ) Office of the Inspector General (OIG) provided a draft of this audit report to the Criminal Division and the Tennessee Department of Safety and Homeland Security (Department of Safety or Department). The Department of Safety's response is incorporated in Appendix 3, and the Criminal Division's response is incorporated in Appendix 4 of this final report. In response to our draft audit report, the Criminal Division concurred with our recommendations, and as a result, the status of the audit is resolved. The following provides the OIG analysis of the responses and summary of actions necessary to close the report.

**Recommendations for the Criminal Division:**

- 1. Ensure the Department of Safety and Homeland Security submits its annual Equitable Sharing Agreement and Certification Reports timely.**

Resolved. The Criminal Division concurred with our recommendation and stated that upon receipt of the final audit report the Money Laundering and Asset Recovery Section (MLARS) will work with the Department of Safety to implement the corrective action. The Department of Safety also concurred with the recommendation and stated that it has updated its policies and procedures to ensure annual Equitable Sharing Agreement and Certification Reports are submitted timely.

This recommendation can be closed when we receive documentation of the Department's updated policies and procedures.

- 2. Ensure the Department of Safety and Homeland Security has its annual Equitable Sharing Agreement and Certification Reports signed by authorized Department of Safety and Homeland Security and State of Tennessee officials.**

Resolved. The Criminal Division concurred with our recommendation and stated that upon receipt of the final audit report MLARS will work with the Department of Safety to implement the corrective action. The Department of Safety also concurred with the recommendation and stated that it has updated its policies and procedures to ensure annual Equitable Sharing Agreement and Certification Reports are signed by the Department Commissioner and a designated official of the State of Tennessee.

This recommendation can be closed when we receive documentation of the Department's updated policies and procedures.

**3. Ensure the Department of Safety and Homeland Security develops procedures for tracking and reconciling equitable sharing requests to equitable sharing receipts.**

Resolved. The Criminal Division concurred with our recommendation and stated that upon receipt of the final audit report MLARS will work with the Department of Safety to implement the corrective action. The Department of Safety also concurred with the recommendation and stated that it has developed a process to track and reconcile equitable sharing requests to equitable sharing receipts. The Department of Safety also stated that it has updated its policies to reflect the new process.

This recommendation can be closed when we receive documentation of the Department's new tracking and reconciliation process and updated policy.

**4. Ensure the Department of Safety and Homeland Security establishes a separate equitable sharing expenditure account for the exclusive use of DOJ equitable sharing funds.**

Resolved. The Criminal Division concurred with our recommendation and stated that upon receipt of the final audit report MLARS will work with the Department of Safety to implement the corrective action. The Department of Safety also concurred with the recommendation and stated that it is creating a program code within its official accounting system to be used with all revenue and expenditures of U.S. Department of the Treasury (Treasury) equitable sharing funds. The Department also stated the code will enable it to track, record, and report DOJ equitable sharing funds separately from Treasury equitable sharing funds.

This recommendation can be closed when we receive documentation of the Department's program code.

**5. Remedy \$112,614 in unallowable catering, luncheon, banquet ticket, and retail food expenditures.**

Resolved. The Criminal Division concurred with our recommendation and stated that upon receipt of the final audit report MLARS will work with the Department of Safety to implement the corrective action. The Department of Safety also concurred with the recommendation and stated that it will reimburse the DOJ for the unallowable expenditures. The Department also stated that it will ensure only allowable costs are submitted for reimbursement.

This recommendation can be closed when we receive documentation showing the \$112,614 in unallowable expenditures are remedied.

*The Department of Justice Office of the Inspector General (DOJ OIG) is a statutorily created independent entity whose mission is to detect and deter waste, fraud, abuse, and misconduct in the Department of Justice, and to promote economy and efficiency in the Department's operations. Information may be reported to the DOJ OIG's hotline at [www.justice.gov/oig/hotline](http://www.justice.gov/oig/hotline) or (800) 869-4499.*



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