



# Controls Over Seized Asset Funds Audit

## *Audit Report #25-02*

A Report to the City of Killeen Audit Committee

Committee Chair Ramon Alvarez  
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# Executive Summary



## AUDIT REPORT HIGHLIGHTS

### Why Was This Audit Conducted?

The City Auditor conducted this audit in accordance with the City Auditor's biannual audit plan, and as an ongoing goal to review the city's various revenue streams.

The City Auditor appreciates the cooperation of management and staff in KPD's Special Investigations Division, the Finance Department, and the Purchasing Division in the completion of this audit.

Mayor and Council,

We are pleased to present this audit of Controls Over Seized Asset Funds.

### Audit Objectives

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The objectives of the audit were to (1) determine if internal controls are sufficient to ensure that funds from seized assets are accurately recorded and expenditures are properly authorized; and (2) determine if the KPD complied with federal and state regulations regarding the use and reporting of seized assets distributed to the agency.

### Audit Results

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Our review of the controls over seized asset funds in the KPD and Finance Department indicated that the system of controls was strong enough to ensure the proper accounting for received funds and the appropriate authorization of expended funds. The KPD's Special Investigations Division took steps during the audit to further strengthen the process with written standard operating procedures (SOPs). As of FY 2024, KPD had a total of \$738,608 in seized asset funds on hand, of which \$467,702 was expended to complete the department's Real Time Crime Center (RTCC), which went live on March 17, 2025. While the KPD has strong controls over funding, the department's storage of seized vehicles could be improved. Currently, these vehicles are stored in several uncovered locations while awaiting the District Attorney's resolution of the related criminal cases, which can take years. During this time, exposure to extreme weather can diminish the integrity of the vehicles as evidence and reduce their value as potential assets for the department. Additionally, this decrease in value affects their potential as revenue-generating assets when sold at auction.

The department should consider establishing a plan to address the long-term, secure storage needs of seized vehicles.

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# Introduction

The City Auditor conducted this performance audit of the KPD’s controls over seized assets pursuant to Article III, Chapter 40 of the City Charter, as amended May 11, 2013, and in accordance with the City Auditor’s biannual audit plan, approved by the audit committee, September 5, 2024. We included this audit in the annual audit plan as part of our ongoing goal to review the city’s various revenue streams.

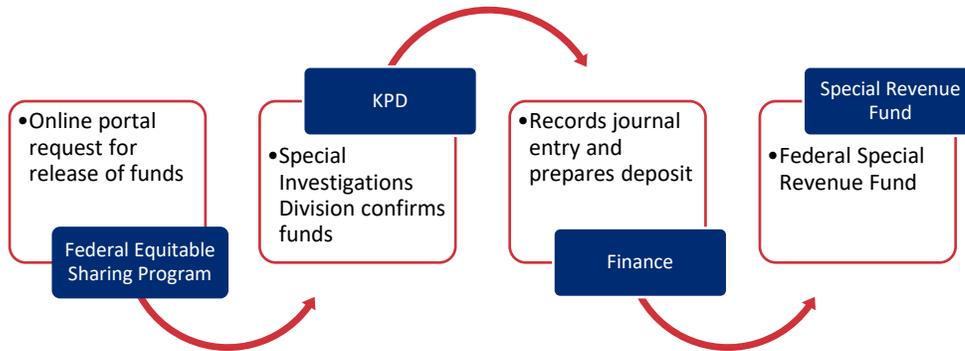
The objectives of the audit were to (1) determine if internal controls are sufficient to ensure that funds from seized assets are accurately recorded and expenditures are properly authorized; and (2) determine if the KPD complied with federal and state regulations regarding the use and reporting of seized assets distributed to the agency.

## Background

KPD receives funds arising from seized assets from the following three sources:

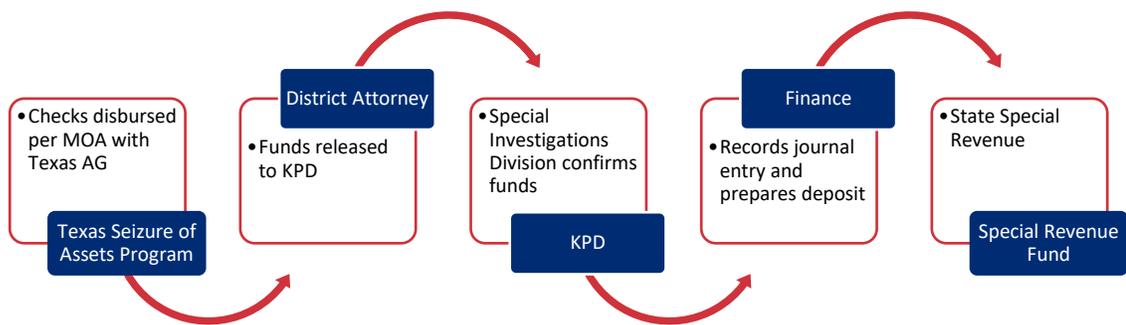
### *Federal Government*

Distribution of funds generated from asset forfeiture in the federal government falls under the U.S. Department of Justice’s Equitable Sharing Program. As a participating law enforcement agency, KPD may request seized asset funds for which it is eligible through the Justice Department’s online portal. If approved, funds are typically transferred electronically via the Automated Clearing House (ACH), after which the finance staff records the deposit via a journal entry to the Police Federal Seizure Fund.



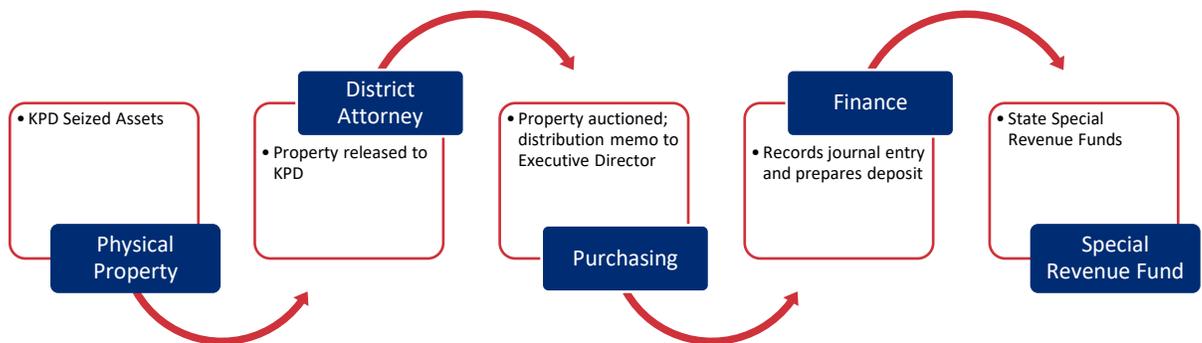
### State Government

The Asset Forfeiture Program in the State of Texas is governed by the Texas Code of Criminal Procedure, Chapter 59. Local law enforcement agencies who have established a memorandum of agreement with the Texas Attorney General may be eligible to share in proceeds from the State Seized Asset Program. Proceeds are distributed first to the District Attorney's Office in Bell County, where the District Attorney determines KPD's portion and obtains authorization via court order to disburse the funds to the KPD Special Investigations Division. KPD staff then log the receipt, and the commander confirms and forwards the check to finance for deposit in the Police State Seizure Fund.



### Local Government

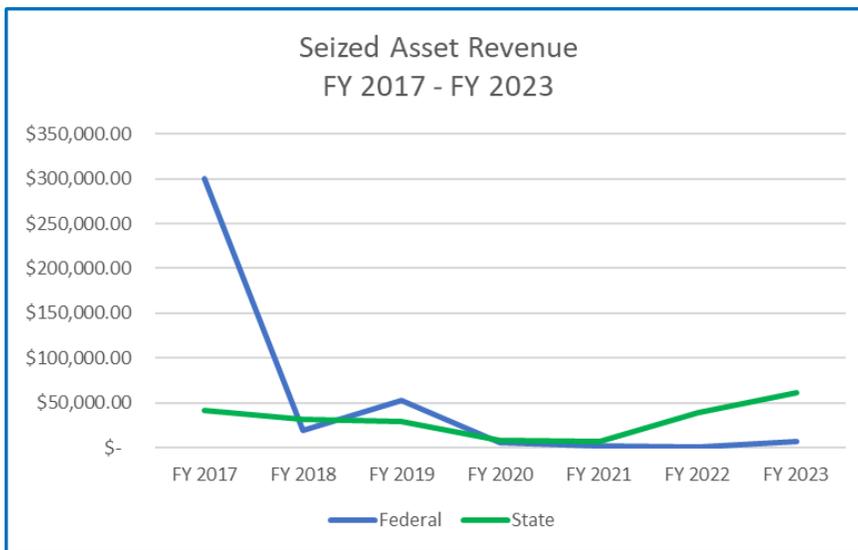
Assets seized pursuant to a KPD criminal investigation are governed by the department's SOPs, as well as the Finance Department's Financial Management Policy. Assets seized under Chapter 59 of the Texas Code of Criminal Procedure are held in evidence pending the District Attorney's disposition of the related case, after which the District Court may authorize the release of assets to KPD for use or auction.



### Cash Flows from Seized Assets

The cash flows from seized assets can vary dramatically from year to year, depending on the nature and timing of law enforcement cases involving seized assets. In FY 2017, for example, the KPD received \$300,000 through the federal Equitable Sharing Program.

However, cash flows from the federal program dwindled dramatically in the years that followed, with only \$1,329 in revenue in FY 2021 and no revenue in FY 2022. Cash flows from the state program are comparatively more consistent but can still vary significantly from year to year, ranging from a low of \$7,134 in FY 2021 to a high of \$61,754 in FY 2023.



Source: Financial Management System

On average, the KPD received approximately \$86,000 annually from federal, state, and local asset forfeiture programs combined for the five-year period which ended September 30, 2023. The amount does not include interest earned on fund balances.

### Allowable Expenditures

Both the Federal Equitable Sharing Program and the Texas Code of Criminal Procedure grant law enforcement agencies considerable discretion in the use of seized asset funds. In general, funds may be used to support most law enforcement activities, including supplies, equipment, training, and training-related travel, with the caveat that funds must be used to supplement, not supplant the agency's budgeted resources.

### *Reporting Requirements*

Both the Federal Equitable Sharing Program and the Texas Code of Criminal Procedure requires program participants to submit statements of revenue and expenditures for the fiscal year.

Agencies participating in the Equitable Sharing Program must submit their Equitable Sharing Agreement and Certification (ESAC) to the U.S. Department of Justice within 60 days of the end of the fiscal year. Since the city's fiscal year ends September 30<sup>th</sup>, reports must be submitted no later than November 30<sup>th</sup>. Similarly, participants in the Texas State Asset Forfeiture Program must submit their Chapter 59 Asset Forfeiture Report to the Office of the Attorney General within 60 days of the end of the fiscal year.

### **Prior Audit Findings**

The previous City Auditor conducted several audits of both Federal and State Seized Asset activities, focusing primarily on recordkeeping aspects of the operation. The identified findings were generally of an administrative nature, involving incomplete files, inaccurate log entries, or a failure to establish proper internal control procedures. In most cases, the errors were addressed and corrected during the audit process.

### **Statement of Compliance with Audit Standards**

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. Those standards also require that we, as internal auditors, meet the criteria for independence. We believe that we met those independence standards and that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Findings and Recommendations

**The KPD and Finance Department have implemented robust internal controls to manage revenues and expenditures from seized assets. However, improvements in the long-term evidentiary storage of seized vehicles are needed.**

Our review of the KPD and Finance Department's internal controls over seized asset funds found the system of controls in place was strong enough to ensure proper accounting for funds received and the proper authorization of funds expended. While the procedures were good, they were not fully documented, which could impact the consistency and continuity of operations during times of staff rotation or turnover.

However, the KPD's Special Investigations Division took steps to establish written SOPs during the audit. We verified that the Finance Department coordinated with the KPD to submit annual financial reports to the Texas Attorney General and the U.S. Department of Justice in a timely manner, in accordance with state and federal reporting requirements. KPD had a total of \$738,608 in federal, state, and local seized asset funds on hand in FY 2024, which included a beginning balance of \$582,414. The KPD expended \$467,702 of those funds during the period, with most of the amount going towards the completion of the department's Real Time Crime Center, which went live on March 17, 2025. While the KPD's controls over funds were strong, the department's maintenance of seized vehicles could be improved.

Currently, vehicles are maintained in one of several uncovered locations, pending the District Attorney's disposition of the related criminal cases. This can amount to years in some cases, during which time vehicles are subject to the extreme weather conditions common to the area. This is not a new problem, nor is it unique to the KPD. Both the Government Accountability Office, the U.S. Department of Justice, and the Office of the Inspector General have cited federal law enforcement agencies in prior reviews for their failure to adequately secure and maintain seized vehicles.

The department should consider establishing a goal to address the need for long-term evidentiary storage of seized vehicles.

### **Seized Asset Special Revenue Funds**

The KPD had a combined total of \$738,608 in its Federal and State Seizure Funds available for use in FY 2024. This included beginning balances of \$261,696 and \$320,718, respectively, in its Police Federal and State Seizure Funds, totaling \$582,414.

The KPD received \$125,029 in State seizure revenue in FY 2024 and generated \$10,700 in seizure revenue from local auction proceeds. In addition, the Federal and State Seizure Funds earned \$5,434 and \$15,031, respectively, in interest on running balances, for total combined seizure revenue of \$156,194 in FY 2024. The KPD did not receive any funds from the Federal Equitable Sharing Program in FY 2024.

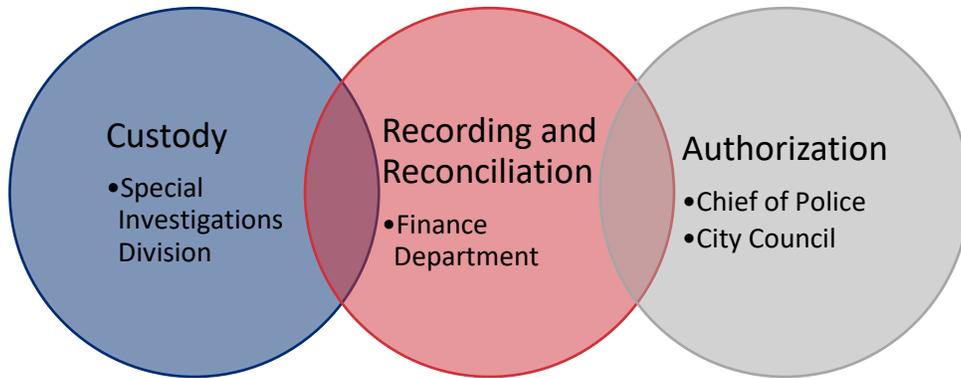
Expenditures for FY 2024 totaled \$467,702, the bulk of which was allocated towards the information technology infrastructure necessary to establish the department's Real Time Crime Center.

### **Internal Controls Over Seized Asset Funds**

We found that the KPD and the Finance Department had established a robust system of internal controls over seized asset funds based on the separation of duties.

Separation of duties is an accounting principle that calls for the delegation of key functions to separate individuals. Those functions are *custody*, *recording*, *authorization*, and *reconciliation*, where *custody* refers to the physical custody over the asset (e.g., check, p-card, inventory, etc.), *recording* refers to entering transactions regarding the asset into the accounting system, *authorization* refers to the authority granted to use the asset, and *reconciliation* refers to a periodic review of transactions to identify errors or irregularities.

Most fraud schemes, including high-profile fraud schemes reported in the media, nearly always share a typical breakdown in this accounting principle, where one individual, either through circumstance or subterfuge gains control over these key functions. This then allows them to authorize their transactions and adjust accounting records to avoid detection.



## Separation of Duties for State and Local Seized Assets

### *Custody*

The KPD's Special Investigations Division assumes initial custody of state and local seized asset funds from the District Attorney once they are authorized for release via a District Court order. According to the Memorandum of Agreement between the Texas Attorney General, the District Attorney, and the KPD, the funds are divided after court costs, with 60 percent going to the KPD and 40 percent to the District Attorney.

Seized asset funds are delivered to KPD's Special Investigations Division in the form of a check. The division clerk logs the check in a spreadsheet, and the division commander confirms receipt of the check and forwards it to the Executive Director of Finance.

### *Recording & Reconciliation*

In the Finance Department, the check is routed to the accounting technician, who enters the check into the accounting system via journal entry and prepares the deposit. Then, on a monthly basis, a financial manager reconciles the special revenue funds.

### *Authorization*

The Chief of Police authorizes expenditures of less than \$50,000. Expenditures of \$50,000 or more must be approved by the City Council, as per the Financial Management Policy.

### *Federal Equitable Sharing Program Funds*

The KPD did not receive any federal funds through the Equitable Sharing Program in FY 2024, so there were no transactions to review.

### *Written Standard Operating Procedures*

At the time of the audit, the KPD had no written SOPs in place for documenting and accounting for seized asset funds. The practices we observed were effective, but they had not yet been memorialized in SOPs. The lack of written procedural guidance increases the risk of a breakdown in the process during periods of staff rotation or turnover.

However, the KPD's Special Investigations Division addressed the deficiency during the audit and developed written SOPs for federal, state, and local seized asset funds.

### **Real Time Crime Center**

On July 16, 2024, the City Council approved the KPD's proposal to finalize its Real Time Crime Center (RTCC) and authorized the expenditure of \$621,413 for the necessary infrastructure to establish the operation. The bulk of those expenditures, \$467,702, came from the Police Federal and State Seizure Funds, with the remainder coming from the Police Donation Fund.



*Source: City of Killeen archives*

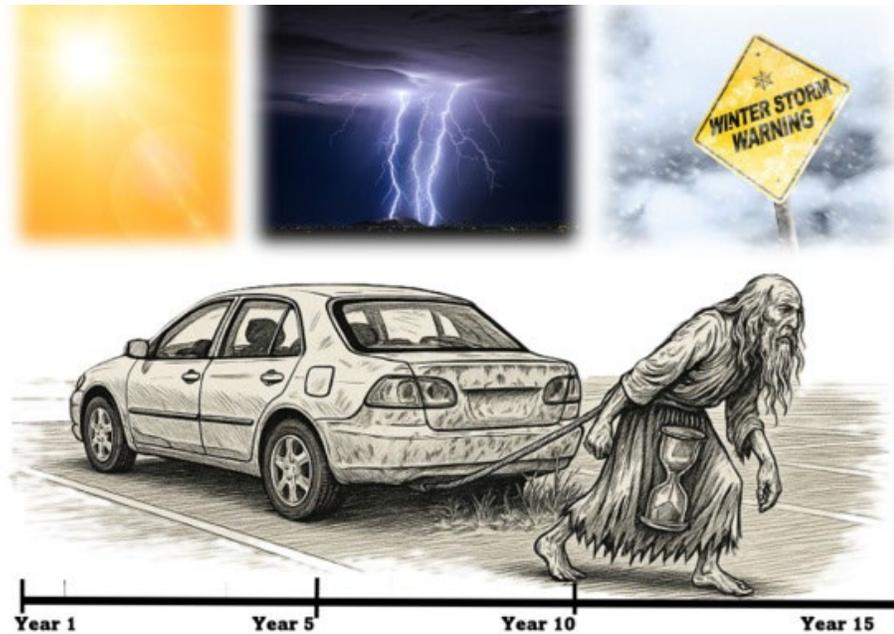
On March 17, 2025, KPD's RTCC officially went live. In the three months since, the RTCC's real time intelligence gathering capabilities have initiated numerous KPD responses, resulting in over 50 arrests, both misdemeanors and felonies. Many of them were in the North Killeen Revitalization Area, including arrests related to burglaries in the Historic Downtown District.

## Evidentiary Storage of Seized Vehicles

The KPD stores vehicles seized pursuant to criminal investigations on city property in one of three locations. While the locations are secured, they are not covered.

The number of vehicles held in evidentiary storage can range anywhere from several to 60, according to KPD staff. Vehicles, like other types of property, are held in evidence pending the District Attorney Office's disposition of the related criminal cases, which can be years in some cases and more than a decade in at least one case.

In the interim, the vehicles are exposed to the extreme weather conditions common to the area, including heat waves, hailstorms, and sub-freezing temperatures.



Source: iStock Photo

The KPD SOPs governing the intake, processing, storage, and disposal of evidence frequently reference the need to maintain the integrity of evidence. Furthermore, for the vehicles ultimately sent to auction, the effects of open storage are likely to have an impact on the potential auction proceeds of these vehicles. It should be noted that this is not a new problem, nor is it unique to the KPD.

The General Accountability Office (GAO) and the U.S. Department of Justice, Office of the Inspector General have cited systemic deficiencies in the long-term storage of seized assets in prior

reviews of federal law enforcement agencies' management of seized assets. The GAO's analysis of seized vehicles auctioned found that auction proceeds averaged about 58 percent of market value.

We found a similar ratio in our analysis of seized vehicles auctioned by the city from FY 2022 through FY 2024. The 14 vehicles auctioned ranged in age from a 1995 Cadillac Coup De Ville to a 2012 Ford Fusion, and like the GAO report our analysis showed that auction proceeds averaged about 58 percent of market value, based on our Vehicle Identification Number (VIN) research analysis.

#### *Evidentiary Storage in Other Police Departments*

We were able to find only two other police departments in our limited search that had covered storage for seized vehicles – Fayetteville, North Carolina, and Brownsville, Texas.

However, we found that many police departments throughout the country use third-party evidentiary vehicle storage facilities instead of city-owned ones. One of the evidentiary storage providers, headquartered in Illinois, was dedicated almost exclusively to law enforcement agencies, with clientele in the eastern and central United States. Whether through capital improvements or a third-party vendor, the need for evidentiary vehicle storage warrants consideration in the department's future needs assessments.

#### **Conclusion**

The KPD and Finance Department had strong controls in place to ensure that Police Federal, and State Seizure Fund revenues and expenditures were accurately accounted for and properly authorized. While the procedures were good, they were not well-documented.

However, the KPD's Special Investigations Division addressed the issue by developing written SOPs during the audit.

Finally, the department should consider options to address the need for long-term evidentiary storage of seized vehicles, either through capital improvement projects or third-party entities.

# Recommendation

The City Auditor recommends that the Chief of Police:

1. Consider alternative solutions for the long-term evidentiary storage of seized vehicles, including the possible acquisition or conversion of existing facilities, the design and construction of new facilities, or the use of third-party entities.

# Views of Responsible Officials

Copies of the draft report were provided to the KPD's Special Investigations Division, the Chief of Police, Assistant Police Chiefs, and the Executive Director of Finance for review and comment. They agreed with the report's findings and recommendation.

# Objectives, Scope, and Methodology

## Objectives

The objectives of the audit were to (1) determine if internal controls are sufficient to ensure that funds from seized assets are accurately recorded and expenditures are properly authorized; and (2) determine if the KPD complied with federal and state regulations regarding the use and reporting of seized assets distributed to the agency.

## Scope and Methodology

The audit scope focused on but was not limited to seized asset revenues and expenditures for FY 2024. To address the audit objectives, the City Auditor:

- > Reviewed prior audit findings and corrective actions taken.
- > Reviewed and analyzed budget data and revenue and expenditure activity in the financial management system.
- > Discussed seized asset policies and procedures with the KPD's Special Investigations Division Commander and staff, Financial Management Analyst over seized assets in Finance, and the Purchasing Director.
- > Reviewed federal and state regulations regarding the use and reporting of seized asset funds, as well as relevant local resolutions and ordinances.
- > Conducted research on best practices for evidentiary vehicle storage.
- > Obtained information on the sale of seized vehicles through city auctions.
- > Researched and analyzed auction proceeds versus market value for seized vehicles sold for FY 2022 through FY 2024.

# Statement of Compliance with Audit Standards

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