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

**OVERSIGHT ★ INTEGRITY ★ GUIDANCE**

# Audit of the Alexandria Police Department's Equitable Sharing Program Activities, Alexandria, Virginia

Audit Division GR-30-19-003

March 2019

# Executive Summary

*Audit of the Alexandria Police Department s Equitable Sharing Program Activities, Alexandria, Virginia*

## Objective

The U.S. Department of Justice (DOJ) Office of the Inspector General (OIG) has completed an audit to assess whether the Alexandria Police Department (APD) accounted for DOJ equitable sharing funds properly and used such assets for allowable purposes as defined by applicable guidelines.

## Results in Brief

The APD generally accounted for DOJ equitable sharing funds properly. However, while the APD stated that its former leadership received verbal approval, the APD was unable to provide evidence that it obtained the authorization necessary before purchasing two controlled items, resulting in $1,033,558 in questioned costs. Additionally, we noted that the APD did not have written procedures to guide some of its DOJ equitable sharing activities, which we believe contributed to late Equitable Sharing Agreement and Certification (ESAC) reports and internal control weaknesses.

## Recommendations

Our report includes four recommendations to assist the DOJ Criminal Division (Criminal Division), which oversees the equitable sharing program. We provided a draft of this report to the Criminal Division and the APD, whose responses can be found in Appendices 3 and 4, respectively. Our analysis of both responses, as well as a summary of actions necessary to close the recommendations, can be found in Appendix 5 of this report.

## Audit Results

Equitable sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations. The APD began the audit period with a balance of $1,523,151 in equitable sharing receipts from its participation in the DOJ Equitable Sharing Program. Between July 2015 and July 2018, the APD received an additional $953,722. During this time, it also spent $1,384,780 in equitable sharing funds, primarily on the purchase of equipment.

The Criminal Division's Money Laundering and Asset Recovery Section (MLARS) establishes the guidelines that govern the proper use and tracking of DOJ equitable sharing funds by program participants. We identified the following areas in which the APD can improve its administration of equitable sharing funds.

**Equitable Sharing Resources** - Although the APD provided evidence that it used purchased items we tested appropriately, we found the APD did not obtain the required approval from MLARS before using $1,033,558 in equitable sharing funds to pay for two controlled items: an armored personnel carrier and a mobile command center. Without MLARS' approval, using equitable sharing funds to pay for the controlled items were, at that time, unauthorized and thus not allowable. While not applicable to these purchases, we note that as of August 2017, after the ADP used equitable sharing funds for these items, the requirement to obtain such pre-approval was no longer required.

**ESAC Reports –** The APD accurately reported equitable sharing receipts and expenditures in its annual ESAC reports. However, the APD submitted its FY 2016 and FY 2017 ESAC reports late.

**Accounting for Equitable Sharing Resources –** We found that the APD needs to strengthen its internal controls over areas related to the process of requesting, reviewing, controlling, and accounting for equitable sharing funds.

**Compliance with Audit Requirements –** We found Alexandria erroneously reported the amount of DOJ equitable sharing receipts instead of expenditures in its FY 2016 and 2017 Single Audit Report.

# AUDIT OF THE ALEXANDRIA POLICE DEPARTMENT'S EQUITABLE SHARING PROGRAM ACTIVITIES, ALEXANDRIA, VIRGINIA

## TABLE OF CONTENTS


INTRODUCTION ..... 1

DOJ Equitable Sharing Program ..... 1

Alexandria (Virginia) Police Department ..... 2

OIG Audit Approach ..... 2

AUDIT RESULTS ..... 4

Equitable Sharing Resources ..... 4

Use of Equitable Sharing Funds ..... 4

Supplanting ..... 7

ESAC Reports ..... 7

Timeliness of ESAC Reports ..... 8

Accuracy of ESAC Reports ..... 8

Accounting for Equitable Sharing Resources ..... 9

Internal Control Environment ..... 9

Handling of Deposits ..... 10

Compliance with Audit Requirements ..... 11

CONCLUSION AND RECOMMENDATIONS ..... 13

APPENDIX 1: OBJECTIVE, SCOPE, AND METHODOLOGY ..... 14

APPENDIX 2: SCHEDULE OF DOLLAR-RELATED FINDINGS ..... 16

APPENDIX 3: THE CRIMINAL DIVISION'S RESPONSE TO THE DRAFT AUDIT REPORT ..... 17

APPENDIX 4: ALEXANDRIA POLICE DEPARTMENT'S RESPONSE TO THE DRAFT AUDIT REPORT ..... 18

APPENDIX 5: OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT ..... 21

# AUDIT OF THE ALEXANDRIA POLICE DEPARTMENT'S EQUITABLE SHARING PROGRAM ACTIVITIES, ALEXANDRIA, VIRGINIA

## INTRODUCTION

The Department of Justice (DOJ) Office of the Inspector General (OIG) completed an audit of the equitable sharing funds received by the Alexandria Police Department (APD) in Alexandria, Virginia. The objective of the audit was to assess whether the cash received by the APD through the Equitable Sharing Program was accounted for properly and used for allowable purposes as defined by applicable regulations and guidelines. The audit covered July 1, 2015 through June 30, 2018. During that period, the APD received $953,722 and spent $1,384,780 in revenues received as a participant in the DOJ Equitable Sharing Program.[1]

### DOJ Equitable Sharing Program

The Comprehensive Crime Control Act of 1984 authorized the implementation of the DOJ Asset Forfeiture Program (Asset Forfeiture Program) as a nationwide law enforcement initiative that seeks to remove the tools of crime from criminal organizations, deprive wrongdoers of the proceeds of their crimes, recover property that may be used to compensate victims, and deter crime. A key element of the Asset Forfeiture Program is the Equitable Sharing Program, which allows a 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.[2]

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 – 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 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 lifecycle. Finally, 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.

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. Once an investigation is completed and the

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[1] The APD's fiscal year begins on July 1 and ends on June 30. The APD began the audit period with a balance of $1,523,151 in DOJ Equitable Sharing funds.

[2] The U.S. Department of the Treasury also administers a federal asset forfeiture program, which includes participants from Department of Homeland Security components. This audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program.

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 a particular investigation determines the equitable share allocated to 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 become members of the program by signing and submitting an annual Equitable Sharing Agreement and Certification (ESAC) 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. The Guide to Equitable Sharing for State and Local Law Enforcement Agencies (Equitable Sharing Guide), issued by MLARS in April 2009, and the Interim Policy Guidance Regarding the Use of Equitable Sharing Funds (Interim Policy Guidance), issued by MLARS in July 2014, outline categories of allowable and unallowable uses for equitable sharing funds and property.[3]

**Alexandria (Virginia) Police Department**

The City of Alexandria (Alexandria) is located in Northern Virginia and the APD serves as its local law enforcement agency.[4] With a population of over 150,000, Alexandria is the sixth largest city in Virginia. Established in 1870, the APD has an authorized strength of 320 sworn officers and 138 civilian employees. The APD became a member of the DOJ Equitable Sharing Program in 1995 and receives equitable sharing funds primarily by participating on various task forces that have DOJ Equitable Sharing Program agreements. The two main sources of equitable sharing funds for the APD are: (1) the High Intensity Drug Trafficking Areas Task Force, and (2) the Northern Virginia Gang Task Force.

**OIG Audit Approach**

The objective of the audit was to assess whether the APD accounted for DOJ equitable sharing funds properly and used such assets for allowable purposes as defined by applicable guidelines. To achieve this objective, we tested the APD's compliance with what we considered the most important conditions of the DOJ Equitable Sharing Program. Unless otherwise stated, we applied the Criminal Division MLARS' April 2009 Equitable Sharing Guide (Equitable Sharing Guide) and its July 2014 Interim Policy Guidance (Interim Policy Guidance) as our primary criteria. The Equitable Sharing Guide provides procedures for submitting sharing requests and discusses the proper use of and accounting for equitable sharing assets. To conduct the audit, we tested the APD's compliance with the following:

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[3] MLARS updated the Equitable Sharing Guide in July 2018, however this new guide was not in effect during the scope of this audit.

[4] Alexandria is an independent city with no county affiliation, and derives its governing authority from a Charter granted by the Virginia General Assembly.

- **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 were used for allowable law enforcement purposes.
- **Compliance with audit requirements** to ensure the accuracy, consistency, and uniformity of audited equitable sharing data.

Appendix 1 details additional information on the objective, scope, and methodology of this audit. The Schedule of Dollar-Related Findings appears in Appendix 2.

# AUDIT RESULTS

## Equitable Sharing Resources

The Equitable Sharing Guide and Interim Policy Guidance require that equitable sharing funds or tangible property received by state and local agencies be used for law enforcement purposes that directly supplement the appropriated resources of the recipient law enforcement agency. Table 1 reflects examples of allowable and unallowable uses under these guidelines.

**Table 1**

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

| Allowable Uses | Unallowable Uses |
|---|---|
| Matching funds | Loans |
| Contracting services | Supplanting |
| Law enforcement equipment | Costs related to lawsuits |
| Law enforcement travel and per diem | Extravagant expenditures |
| Support of community-based programs | Money laundering operations |
| Law enforcement awards and memorials | Purchase of food and beverages |
| Law enforcement training and education | Creation of endowments or scholarships |
| Transfers to other law enforcement agencies | Personal or political use of shared assets |
| Joint law enforcement/public safety operations | Petty cash accounts and stored value cards[a] |
| Law enforcement operations and investigations | Purchase of items for other law enforcement agencies |
| Law enforcement, public safety, and detention facilities | Uses contrary to the laws of the state or local jurisdiction |
| Drug and gang education and other awareness programs | Use of forfeited property by non-law enforcement personnel |
| | Salaries and benefits of law enforcement personnel[b] |

[a] Prepaid credit cards may be purchased for use as a form of payment for buy-back programs.

[b] With some exceptions, including salaries associated with employees hired to replace an officer assigned to a task force.

Sources: Equitable Sharing Guide and Interim Policy Guidance.

### *Use of Equitable Sharing Funds*

According to its accounting records, the Alexandria Police Department (APD) expended a total of $1,384,780 in Department of Justice (DOJ) equitable sharing funds across four transactions from FY 2016 through FY 2018. We selected and tested the four transactions to determine if the expenditures of DOJ equitable sharing funds were allowable and supported by adequate documentation. The APD spent: (1) $781,233 on a mobile command unit, (2) $252,325 on an armored personnel carrier, (3) $188,703 for a 3D forensic laser scanner, and (4) $162,519 for audio/video equipment. Based upon our review of the supporting documentation provided by the APD, we determined that APD supported each expenditure with adequate documentation and used the items purchased for appropriate purposes, at least as outlined in the Equitable Sharing Guide and

Interim Policy Guidance. However, we found that two of the purchases, which totaled $1,033,558, were included in the Equitable Sharing Program's controlled equipment list, which required approval by the Criminal Division's Money Laundering and Asset Recovery Section (MLARS) in advance of the APD obligating or expending equitable sharing funds. Based upon our review of APD supporting documents, while the APD provided evidence that it used and accounted for the controlled items appropriately, we determined that did not receive the required advanced approval from MLARS before purchasing the controlled property.

Executive Order 13688 (Executive Order), issued on January 16, 2015, and which became effective October 1, 2015, required law enforcement agencies to obtain approval from a funding federal agency before using federal funding to purchase wheeled armored vehicles and command and control vehicles.[5] MLARS subsequently issued an Equitable Sharing Wire dated October 1, 2015, to program participants that stated:

> *If a Law Enforcement Agency intends to use Department of Justice or Department of the Treasury equitable sharing funds to purchase any Controlled Equipment, the agency must submit a request to the funding federal agency for approval. ... [Law Enforcement Agencies] shall not obligate or spend any federal equitable sharing funds for a Controlled Equipment purchase until approval has been granted by the funding federal agency.*

Under MLARS' October 2015 guidance, the APD needed to obtain pre-approval to use equitable sharing funds to purchase controlled equipment that included armored personnel carriers and mobile command units.

In July 2015, the APD issued a purchase order for an armored personnel carrier. The City of Alexandria (Alexandria) then paid for the armored personnel carrier in August 2016. At the time of payment, the Alexandria Finance Department charged the expenditure to its Internal Services account, citing the city's standing policy to purchase vehicles from that fund to account for asset depreciation. In June 2017, however, Alexandria debited the payment from its DOJ equitable sharing funds account, effectively applying DOJ equitable sharing funds 21 months after the Executive Order took effect.

Alexandria and the APD employed a similar process to purchase a mobile command unit. In July 2015, the APD originally issued a purchase order for a mobile command unit. In July 2016, the APD issued a new purchase order to include additional mobile command unit specifications. Alexandria paid for the mobile command unit in October 2016. Similar to the purchase of the armored personnel carrier, the Alexandria Finance Department initially charged the payment for the mobile command unit to its Internal Services account. In June 2017, Alexandria transferred the payment to the DOJ equitable sharing fund account.

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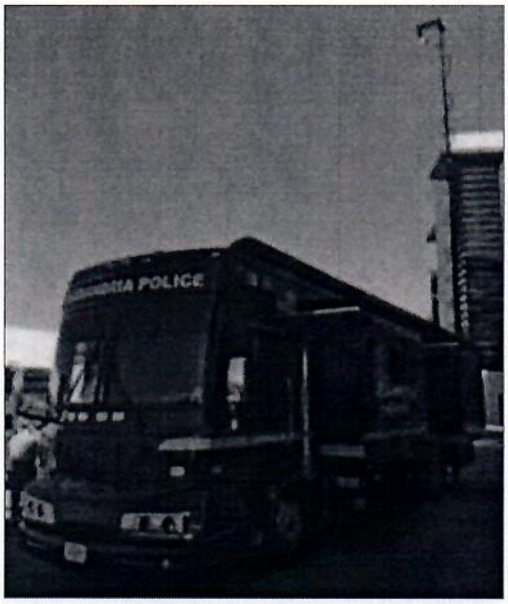
[5] Executive Order 13688, *Federal Support for Local Law Enforcement Equipment Acquisition*. This Executive Order was revoked on August 28, 2017.



The APD used $781,233 in Equitable Sharing funds to purchase the above mobile command center.

[*Source: OIG*]

The APD used $252,325 in equitable sharing funds for an armored personnel carrier.

[*Source: OIG*]

While the APD provided evidence that it appropriately used and accounted for its mobile command center and the armored personnel carrier, we determined that the APD should have complied with the Executive Order's requirement to submit a request for approval from MLARS before obligating or using DOJ equitable sharing funds to acquire these vehicles.

We spoke to APD officials about this issue. An APD financial manager told us that the former APD Chief of Police and APD Deputy Chief, both of whom have since retired, stated that they received verbal approval to buy the vehicles from an MLARS official. However, when we spoke to this MLARS official, the official did not recall providing such an approval, and told us that MLARS could not approve purchases of controlled items verbally. This MLARS official explained that MLARS required multiple levels of approval for making such purchases, and the requesting agency would have needed to submit a standard set of documents before such a purchase could proceed. The APD was unable to provide evidence that it solicited or received MLARS approval for these purchases in writing. It also did not report these purchases on the corresponding Equitable Sharing Agreement and Certification (ESAC) report.[6]

On August 28, 2017, the White House revoked the Executive Order requiring that participating agencies submit to MLARS for approval for purchasing controlled items. However, at the time the APD used equitable sharing funds to pay for the mobile command center and armored personnel carrier, the Executive Order was effective and thus these vehicles required MLARS approval. We therefore recommend that the Criminal Division remedy $1,033,558 in unauthorized controlled equipment purchases as questioned costs.

[6] As discussed in the *Accuracy of ESAC Reports* section of this report, our ESAC report review found that the APD did not indicate on its FY 2017 ESAC report that it used DOJ equitable sharing funds to purchase these two vehicles, both of which were on the controlled list of items requiring MLARS approval under the Executive Order. For MLARS to maintain effective oversight of its program, a participating agency must indicate on the ESAC report whether it used equitable sharing funds to purchase controlled equipment.

*Supplanting*

The Equitable Sharing Guide requires that shared resources be used to increase or supplement the resources of the recipient agency and prohibits the use of shared resources to replace or supplant the appropriated resources of the recipient. In other words, the recipient agency must benefit directly from the equitable sharing funds.

To test whether the APD used equitable sharing funds to supplement rather than supplant local funding, we interviewed APD and other Alexandria officials and reviewed the budgets of both Alexandria and the APD for FYs 2016 through 2019. We did not identify a significant decrease in Alexandria's budget that was off-set by the APD's operational budget or a significant decrease in the APD's operational budget that coincided with a proportional increase in equitable sharing revenue. Therefore, we determined that there was a low risk that the APD was supplanting its budget with equitable sharing funds during our period of review.

However, we noticed that two vehicles were initially purchased using funds credited to APD's Internal Services account code, and later – at the end of the APD's fiscal year – equitable sharing funds were then allocated to the Internal Services account code to replenish the cost of these purchases.[7] We discussed this activity with APD and Alexandria Finance Department personnel, and received evidence – including approval from the Alexandria City Council and APD funding requests – that showed Alexandria's contemporaneous intention to use equitable sharing funds prior to making these purchases. Alexandria officials informed us that they purchase all vehicles with their Internal Services account to facilitate compliance with Generally Accepted Accounting Principles (GAAP) governing capital asset depreciation.[8] Because Alexandria effectively demonstrated that it intended to use equitable sharing funds to support these purchases, we do not identify the initial use of local Alexandria funds to pay for the vehicles as indicative of supplanting.

**ESAC Reports**

A law enforcement agency participating in the DOJ Equitable Sharing Program must submit an ESAC report within 60 days after the end of its fiscal year regardless of whether it received or spent equitable sharing funds that year. If an ESAC report is not submitted before the end of the 60-day filing timeframe, MLARS will move the law enforcement agency into a non-compliance status. Each ESAC report must be signed by the head of the submitting law enforcement agency and a designated official of the local governing body. By signing and

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[7] The APD's equitable sharing fund balance was sufficient to purchase the two items at the time of purchase. Therefore, we determined that the APD did not use appropriated funds for permissible expenditures in advance of receipt of sharing revenue, which is not permitted by the Equitable Sharing Guide.

[8] The Governmental Accounting Standards Board is the organization that establishes accounting and financial reporting standards for U.S. state and local governments that follow GAAP.

submitting the ESAC report, the signatories agree to be bound by and comply with the statutes and guidelines that regulate the Equitable Sharing Program.

To prepare an ESAC report, the APD Fiscal Division Chief obtained data regarding the APD's equitable sharing receipts, expenditures, and interest income from Alexandria's internal electronic fiscal tracking system, completed the form and submitted it to MLARS on behalf of the Agency Head and Governing Body Head.

*Timeliness of ESAC Reports*

We tested the APD's compliance with ESAC report requirements to determine whether it submitted reports in a timely manner. We found that the APD submitted its: (1) FY 2016 ESAC report 60 days late, (2) FY 2017 ESAC report 90 days late, and (3) FY 2018 ESAC report on time. Because of the untimely submissions for FYs 2016 and 2017, MLARS placed the APD in a non-compliant status for the periods when it was delinquent, and later placed the APD into compliant status when it did submit the report. According to APD officials, the ESAC reports were filed late due to an internal oversight.

Untimely ESAC reports negatively affect MLARS' ability to perform effective oversight of equitable sharing funds. Because two of the last three reports were not filed within the required timeframe, we recommend that the Criminal Division work with the APD to implement a process to prepare and submit its ESAC reports no later than 60 days from the end of its fiscal year.

*Accuracy of ESAC Reports*

To verify the accuracy of the APD's ESAC reports, we compared the receipts listed on the APD's two most recent ESAC reports to the total amounts listed as disbursed on the eShare report for the corresponding period.[9] Our analysis showed that the APD's 2017 and 2018 ESAC reports indicated receipts of $577,449 and $296,835 respectively. These totals matched receipts listed on the eShare reports.

To verify the total expenditures listed on the APD's 2017 and 2018 ESAC reports, we compared the expenditures listed to the accounting records for each fiscal year. We found the total expenditures reported in the APD's FYs 2017 and 2018 ESAC reports were $1,033,558 and $351,222 respectively, both of which matched expenditures listed in APD's accounting records.

We reviewed for accuracy the section of the ESAC report that summarizes the shared monies spent by specific category, such as for law enforcement operations and investigations, travel and training, and equipment. Using APD-provided expenditure category support, we computed the total expenditures by category for each fiscal year and compared the results to the amounts reflected on

[9] eShare is the USMS program used to make equitable sharing payments to federal, state and local law enforcement agencies through electronic funds transfer.

each ESAC report. We found that the category totals reflected on the ESAC reports matched the expenditure category totals as provided by the auditee.

In addition, entities are required to include on their ESAC reports the amount of interest income earned during the given reporting period. We found the APD supported the interest income earned on DOJ equitable sharing funds reported on its FY 2017 and FY 2018 ESAC reports.[10]

Although we found the financial data in the ESAC reports to be accurate, we found the APD did not indicate on its FY 2017 ESAC report that it used equitable sharing funds to purchase two items on the Equitable Sharing Program's controlled equipment list, which required the law enforcement agency to obtain pre-approval from the funding federal agency prior to purchase. An agency must indicate on the ESAC report via checking a box whether it purchased any controlled equipment with equitable sharing funds during the FY. The APD's FY 2017 ESAC report has this box checked "No" when it should have been checked "Yes."[11]

**Accounting for Equitable Sharing Resources**

The Equitable Sharing Guide requires that law enforcement agencies use standard accounting procedures and internal controls to track DOJ Equitable Sharing Program receipts.

*Internal Control Environment*

Adequate segregation of duties between various roles and responsibilities, such as the receipt of funds, review of reports and accounts, approval to spend or use funds, and oversight of the program, helps an internal control process reduce the risk of fraud, loss, or undetected error. While reviewing how the APD accounted for and reported DOJ equitable sharing receipts, we identified discrete internal control areas that we believed could be strengthened:

- The same APD official that completed the ESAC report, with delegated authority to handle fiscal management functions, also signed and submitted the form to MLARS on behalf of both the APD's Agency Head and Alexandria's Governing Body Head. The Equitable Sharing Guide requires that ESAC reports must be signed by the head of the law enforcement agency and a designated official of the governing body.[12] Having the same official prepare, review, and sign ESAC reports did not (1) support a meaningful review process, (2) include input from Alexandria's Finance Department, which could verify the submitted

[10] We noted inaccuracies in the reporting of interest income derived from U.S. Department of the Treasury (Treasury) equitable sharing funds received by the APD. We reported these discrepancies to the APD, the Alexandria Finance Department, and the Treasury.

[11] We further explained the use of equitable sharing funds to purchase controlled equipment in the *Equitable Sharing Resources* section of this report.

[12] The Equitable Sharing Guide defines a governing body as an institution or organization that has budgetary oversight over the law enforcement agency.

information against the official accounting records, and thus meet Equitable Sharing Program reporting requirements.

- The APD lacked policies, procedures, and guidelines that designated equitable sharing program roles, responsibilities, and training requirements. While the APD serves on various task forces from which it receives equitable sharing funds, only one APD detective on each of the task force is responsible for initiating equitable sharing requests. Further, only one sergeant in the APD reviews and submits these equitable share requests to MLARS and the APD has no designated personnel trained to serve as a backup or otherwise log or record equitable sharing requests. The APD had not ensured that key personnel involved with the request, receipt, and reporting of equitable share funds received training on program policies and procedures.

The APD stated that, shortly before the audit began, it assigned an additional staff member to assist in the preparation of ESAC reports. Also, in response to our inquiries, the APD agreed to work with the Alexandria Finance Department to provide another level of review of the prepared ESAC reports. We believe that this will help improve the ESAC reporting process and strengthen the APD's overall internal control environment of Equitable Sharing Program funds.

The APD needs to demonstrate that it has implemented these internal control enhancements. Therefore, we recommend that the Criminal Division work with the APD to formalize a policy and procedure to review ESAC reports prior to submission to MLARS and train staff to support key functions related to submitting ESAC reports and requesting, controlling, and accounting of equitable sharing funds.

*Handling of Deposits*

The Equitable Sharing Guide requires that participating agencies establish a separate revenue account or accounting code to track DOJ equitable sharing program proceeds. Agencies must deposit any interest income earned on equitable sharing funds in the same revenue account or under the accounting code established solely for the shared funds and use the eShare portal to track pending requests and receive equitable sharing requests.

We found that the APD used a separate accounting code for DOJ equitable sharing funds and recognized interest income earned on these funds to the same account code. The APD also requested equitable sharing funds through DOJ's eShare online portal by electronically submitting a DAG-71 form for each request. An APD official has the responsibility for reviewing each of the forms for completeness and accuracy before submitting the request to DOJ through the portal.

All wired equitable sharing funds are deposited to Alexandria's primary bank account managed by the Alexandria Finance Department, which then – using the codes within the wire accounting strip – credits a separate account designated for

DOJ equitable sharing funds.[13] The Alexandria Finance Department contacts the APD's Division Chief of Finance when it needs clarification whether an incoming wire should be credited to its DOJ equitable sharing account code. We believe this contact helps the APD account for equitable sharing receipts in a timely manner.

We reviewed equitable sharing receipts for the APD's three most recently completed fiscal years. From July 2015 through June 2018, eShare reported 51 equitable sharing receipts, totaling $953,722. The eShare receipts reconciled to APD's eShare report. As shown in Table 2, we also selected a sample of five of the highest-valued receipts from FYs 2016 through 2018 to ensure that the APD properly deposited and recorded these deposits in a timely manner. These 5 receipts accounted for 90 percent of APD's total receipts during this 3-year period. Our testing determined that the APD accurately recorded asset forfeiture receipts in its accounting records.

**Table 2**

**APD Sampled Receipts**

| Sample Item | eShare Date Distributed | Amounts ($) | APD Record of Date Received | Amounts ($) | Number of Days between receipt and recording of funds |
|---|---|---|---|---|---|
| 1 | 08/19/2016 | 513,762 | 08/19/2016 | 513,762 | 0 |
| 2 | 05/08/2018 | 262,587 | 05/08/2018 | 262,587 | 0 |
| 3 | 09/09/2016 | 50,774 | 09/09/2016 | 50,774 | 0 |
| 4 | 04/28/2016 | 13,806 | 04/28/2016 | 13,806 | 0 |
| 5 | 07/01/2015 | 13,163 | 08/12/2015 | 13,163 | 42[a] |
| | **Total** | **$854,092** | **Total** | **$854,092** | |

[a] Delay was due to distribution coming in the form of a paper check, instead of an electronic wire. We therefore note no exception.

Source: APD Accounting Records and eShare Distribution Reports for FYs 2016 through 2018.

## 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 comply with the Single Audit Act Amendments of 1996 and 2 C.F.R. 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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 the 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

[13] The bank account holds Alexandria's working cash and covers expenses used to meet normal obligations. This account is a FDIC-insured account that is also supported by laws passed by the Commonwealth of Virginia. In the event that the bank defaults on an amount greater than $250,000, the FDIC threshold, the State would require various actions and ensure collateral to make the account whole.

Federal Awards (SEFA) 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.

To determine if the APD accurately and timely reported DOJ equitable sharing fund expenditures on its SEFAs, we reviewed the APD's accounting records and Alexandria's Single Audit Reports for FY 2016 and 2017. We found that Alexandria submitted its Single Audit Reports timely, as required. However, we found that both of its Single Audits did not report DOJ equitable sharing fund expenditures. Instead, both the FY 2016 and FY 2017 SEFAs erroneously reported equitable sharing receipts as expenditures. Further, Alexandria did not track these DOJ equitable sharing transactions separately from Treasury equitable sharing activities.

The information on the SEFA serves as the primary basis to determine major programs by the Single Audit's independent auditor. Both the correct expenditure amount and the separate presentation by agency play a significant role in the Single Audit reporting requirement. Therefore, we recommend that the Criminal Division require that the APD work with Alexandria's Finance Department to implement procedures to properly report equitable sharing funds in the Single Audit's SEFA.

## CONCLUSION AND RECOMMENDATIONS

The APD properly supported and accounted for the purchases it made using equitable sharing funds. However, at the time the APD used equitable sharing funds to purchase controlled equipment, such as a mobile command unit and an armored personnel vehicle, it was required to request and obtain MLARS approval. While the APD stated that its former leadership obtained such approval verbally, the APD could not support that it submitted a request to MLARS or otherwise received approval to purchase these vehicles. We therefore recommend that the Criminal Division remedy $1,033,558 in unauthorized controlled equipment purchases.

Additionally, we determined that the APD needs to improve internal controls to enhance compliance with Equitable Sharing Program guidelines. Specifically, the APD needs to submit required Equitable Sharing Agreement and Certification (ESAC) reports on time. Additionally, the APD needs to develop formal policies and procedures that achieve adequate segregation of duties between preparing and reviewing ESAC reports prior to submission, and to train staff to support key functions related to requesting, controlling, and accounting of equitable sharing funds. Finally, Alexandria's Single Audit for FY 2016 and FY 2017 erroneously reported APD's equitable sharing receipts instead of expenditures, as required, and reported combined DOJ equitable sharing funds with those supported by the Treasury equitable sharing program.

We recommend that the Criminal Division:

1. Remedy $1,033,558 in unauthorized controlled equipment purchases as questioned costs.

2. Work with the Alexandria Police Department to implement a process to prepare and submit its Equitable Sharing Agreement and Certification reports no later than 60 days after its fiscal year, as required by equitable sharing guidelines.

3. Work with the APD to formalize a policy and procedure to review Equitable Sharing Agreement and Certification reports prior to submission to Criminal Division's Money Laundering and Asset Recovery Section and train staff to support key functions related to requesting, controlling, and accounting of equitable sharing funds.

4. Require that the Alexandria Police Department work with Alexandria's Finance Department to implement procedures to report spent equitable sharing funds properly in the Single Audit's Schedule of Expenditures of Federal Awards.

## APPENDIX 1

# OBJECTIVE, SCOPE, AND METHODOLOGY

### Objective

The objective of the audit was to assess whether the Alexandria Police Department (APD) accounted for Department of Justice (DOJ) equitable sharing funds properly and used such assets for allowable purposes as defined by applicable guidelines. We tested compliance with what we considered to be the most important conditions of the DOJ Equitable Sharing Program. We reviewed laws, regulations, and guidelines governing the accounting for and use of DOJ equitable sharing receipts, including the *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, issued July 2014.[14] Unless, otherwise stated in our report, the criteria we audited against are contained in these documents.

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

Our audit concentrated on, but was not limited to, equitable sharing receipts received by the APD between July 2015 and June 2018. Our audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program.

We performed audit work at the APD's headquarters located in Alexandria, VA. We interviewed APD and Alexandria Finance Department officials and examined records, related revenues, and expenditures of DOJ equitable sharing funds. In addition, we relied on computer-generated data contained in eShare to identify equitably shared revenues and property awarded to the APD during the audit period. We did not establish the reliability of the data contained in eShare 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 APD'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 APD.

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[14] MLARS updated the Equitable Sharing Guide in July 2018, however this new guide was not in effect during the scope of this audit.

However, we did not assess the reliability of Alexandria'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 APD had 51 cash/proceeds receipts totaling $953,722. In the same period, the APD had four expenditures totaling $1,384,780. We judgmentally selected and tested a sample of five receipts totaling $854,092 and a sample of expenditures totaling $1,384,780. 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 APD's most recent annual audit. The results of this audit were reported in the Single Audit Report that accompanied Alexandria's basic financial statements for FY 2017. The Single Audit Report was prepared under the provisions of 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 noncompliance issues related to the DOJ Equitable Sharing Program. However, we did identify an issue with the accuracy of the reported of expenditures on the Schedule of Expenditures of Federal Awards. We have addressed this weakness in our report.

We discussed the results of our review with officials from the APD and Alexandria Finance Department throughout the audit and at a formal exit conference. As appropriate, their input has been included in the relevant sections of the report.

## APPENDIX 2

## SCHEDULE OF DOLLAR-RELATED FINDINGS

| Description | Amount | Page |
|---|---|---|
| **Questioned Costs:** [15] | | |
| Unauthorized Controlled Equipment Purchases | $1,033,558 | 6 |
| **TOTAL QUESTIONED COSTS** | **$1,033,558** | |

[15] **Questioned Costs** are expenditures that do not comply with legal, regulatory, or contractual requirements; 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, the provision of supporting documentation, or contract ratification, where appropriate.

**APPENDIX 3**

# THE CRIMINAL DIVISION'S RESPONSE TO THE DRAFT AUDIT REPORT

**U.S. Department of Justice**

Criminal Division

*Money Laundering and Asset Recovery Section* — *Washington, D.C. 20530*

MAR 0 5 2019

**MEMORANDUM**

**TO:** John Manning, Regional Audit Manager
Washington Regional Audit Office
Office of the Inspector General

**FROM:** Jennifer Bickford, Deputy Chief
Program Management and Training Unit
Money Laundering and Asset
Recovery Section

**SUBJECT:** DRAFT AUDIT REPORT for the Alexandria Police Department's Equitable Sharing Program Activities

In a memorandum dated February 22, 2019, your office provided a draft audit report for the Alexandria Police Department (APD), 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 in the draft audit report.

Upon receipt of the final audit report, MLARS will work with APD to correct all identified findings.

cc: Denise Turcotte
Audit Liaison
Criminal Division

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

**APPENDIX 4**

# ALEXANDRIA POLICE DEPARTMENT'S RESPONSE TO THE DRAFT AUDIT REPORT


*City of Alexandria, Virginia*
*Department of Police*
*3600 Wheeler Avenue*
*Alexandria, Virginia 22304*
*www.alexandriava.gov*

*Michael L. Brown*
*Chief of Police*

*Telephone 703.746.4700*
*Fax 703.746.1945*


March 11, 2019

Mr. John Manning
Regional Audit Manager
Washington Regional Audit Office
Office of the Inspector General
U.S. Department of Justice
Jefferson Plaza
Washington, DC 20530

Dear Mr. Manning:

This letter is in response to your correspondence dated February 22, 2019 transmitting the draft audit report for the City of Alexandria's Equitable Sharing Activities. Below are the recommendations which resulted from the audit conducted by United States Department of Justice Office of the Inspector General and the Alexandria City Police Department (APD).

APD is committed to addressing and bringing to resolution the recommendations identified by your office:

1. **Equitable Sharing Resources – Although the APD used purchased items appropriately, we found the APD did not obtain the required approval from MLARS before using $1,033,558 in equitable sharing funds to pay for two controlled items: an armored personnel carrier and a mobile command center. Without MLARS' approval, using equitable sharing funds to pay for the controlled items were, at that time, unauthorized and thus not allowable.**

Response: The Alexandria Police Department disagrees with this finding. Although the Alexandria Police Department acknowledges that the LENCO Bearcat Armored Vehicle and Mobile Command Unit appear on the Controlled Equipment List established under Executive Order 13688, these purchases were part of a procurement process that spanned several years which began prior to the effective date of the executive order, October 1, 2015. It is important to note that the Chief, Deputy Chief and other Police staff members involved in the procurement process have retired or resigned.

At the time of this federal audit the efficacy of these communications between these individuals and the MLARS division cannot be fully determined and is not reflected in this audit.

In addition to the communications matter between senior officials and MLARS, it must be noted that the City of Alexandria utilized and continues to utilize, a lengthy multi-step approval process for expenditure of funds from the Federal Government. This process involved approval from the Department, Office of Management and Budget, City Manager and City Council. The acquisition of the two (2) specified vehicles began December of 2014 with the formation of a working group of officers who developed a feasibility study which addressed the requirements and potential tactical use of these vehicles and special systems to be incorporated and provided by the manufacturers. After finalization of this study, the Police Department requested funding via budget memo that was approved by the City Manager and City Council in April 2015 which was six months before executive order 13688 went into effect, October 1, 2015.

The acquisition process began prior to the implementation of the executive order 13688 with an open dialogue from our DOJ liaison and within the current guidelines. Therefore, the acquisition of this equipment was viable and should not be viewed as questionable costs. The Alexandria Police Department has always complied with a multitude of Federal and State reporting requirements and is fully cognizant of the benefits accrued through the equitable sharing program.

Since the on-set of this audit, APD has submitted an Equitable Sharing Spending Plan to the Department of Treasury and is formulating a spending plan for the Department of Justice to ensure compliance with all federal guidelines. In addition, APD has requested and has been added to the DOJ's database for all wire transmissions to be informed of any future changes in policies or guidelines related to equitable sharing funds.

**2. ESAC Reports – The APD accurately reported equitable sharing receipts and expenditures in its annual ESAC reports. However, the APD submitted its FY 2016 and FY 2017 ESAC reports late.**

Response: The Alexandria Police Department agrees with this finding: APD submitted the FY 2018 ESAC report on time as required. APD will submit the ESAC reports within the time period permitted. APD fiscal staff will review all equitable sharing fund transactions for the reporting period to ensure they are properly reported on time. A draft of the ESAC report will be reviewed by the Police Fiscal Manager for accuracy prior to submission to the Chief of Police and the City's Finance Director for signatures and final submission. APD will ensure that all ESAC reports are completed and allow for administrative review on all levels to ensure submission within the 60-day time period.

3. **Accounting for Equitable Sharing Resources – We found that the APD needs to strengthen its internal controls over areas related to the process of requesting, reviewing, controlling, and accounting for equitable sharing funds.**

Response: The Alexandria Police Department agrees with this recommendation. APD has reviewed its internal control procedures and is currently developing new written procedures for its equitable sharing program. APD is in the process of instituting new procedures to ensure that equitable sharing funds are reconciled and validated with supporting documentation on a monthly basis. APD will work in conjunction with the City's Accounting Department to ensure all accounting practices are followed.
APD has implemented a plan that clearly defines a segregation of duties and responsibilities with the Police Department's Fiscal Management Department and associated departments that involve the various task forces where various equitable sharing funds are initiated.

**4. Require that the Alexandria Police Department work with Alexandria's Finance Department to implement procedures to report spent equitable sharing funds properly in the Single Audit's Schedule of expenditures of Federal Awards.**

Response: The following is the response from the City of Alexandria's Finance Department in which they agree with this finding: The Schedule of Expenditures for Federal Awards (SEFA) was prepared using the detail from our system of record, MUNIS. Ordinarily, the expenditures reflect the earned revenues for all grants, which are reconciled at fiscal year-end. Although the Equitable Sharing Program is not a grant program, we will apply the same reconciliation process for applicable revenues and expenditures. This process will ensure that only expenditures from this account are listed on the SEFA. We will ensure that expenditures from the Department of Justice and Department of Treasury Equitable Sharing Programs are separated by Catalog of Federal Domestic Assistance (CFDA) number.

We appreciate the opportunity to review and comment on the draft report. Our goal is to fully comply with all requirements of the equitable sharing program and continue to work professionally with our partners at the Department of Justice.
I appreciate the professional manner in which your staff conducted the audit. If you have any questions or require additional information, please contact Brenda D'Sylva at 703-746-6761.

Sincerely,

Michael L. Brown
Chief of Police

## APPENDIX 5

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

The OIG provided a draft of this audit report to the Criminal Division and the Alexandria Police Department (APD). The Criminal Division's response is incorporated in Appendix 3 and the APD's response is incorporated in Appendix 4 of this final report. In its response, the Criminal Division concurred with our recommendations, and as a result, the status of this audit report is resolved. The APD concurred with three recommendations, and did not concur with one recommendation. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

**Recommendations for the Criminal Division:**

**1. Remedy $1,033,558 in unauthorized controlled equipment purchases as questioned costs.**

Resolved. The Criminal Division concurred with our recommendation and stated that upon receipt of the final audit report it will work with the APD to correct all identified findings.

In its response, the APD disagreed with the finding, stating that the procurement process for these purchases spanned several years and began prior to the effective date of Executive Order 13688, which required pre-approval by MLARS for these purchases. The APD further stated that communications between former APD officials and MLARS regarding these purchases could not be fully determined and was not reflected in the audit. The APD also referenced in its response its multi-step approval process for the expenditures and the various dates associated with its acquisition process. The APD response further asserted that, based on these facts and timing, its acquisition of the controlled equipment was viable and should not have been identified as a questioned cost. Lastly, the APD stated that it has submitted an Equitable Sharing spending plan to the U.S. Department of Treasury, and that APD is formulating a spending plan for the Department of Justice to ensure compliance with federal guidelines.

Our report details the timing and events related to APD's procurement of the controlled equipment as well as the statement to us by the current APD financial manager that the former Police Chief and former Deputy Police Chief both claimed that they had received verbal approval from an MLARS official to make the purchases. However, as described in the report, the MLARS official did not recall providing such an oral approval, and told us that MLARS could not approve purchases of controlled items verbally. The APD was unable to provide evidence that it solicited or received MLARS approval for these purchases in writing. Additionally, as noted in the report, the APD

failed to report these purchases on the corresponding Equitable Sharing Agreement and Certification report.

Although the APD acquisition process began prior to the effective date of Executive Order 13688, the City of Alexandria did not access equitable sharing funds to pay for the items until June 2017, long after the Executive Order went into effect. MLARS' guidance stated that a law enforcement agency, "shall not obligate or spend any federal equitable sharing funds for a Controlled Equipment purchase until approval has been granted." Accordingly, APD failed to comply with the Executive Order in effect at the time and MLARS' guidance.

This recommendation can be closed when we receive documentation that MLARS has remedied $1,033,588 in unauthorized controlled equipment purchases.

2. **Work with the Alexandria Police Department to implement a process to prepare and submit its Equitable Sharing Agreement and Certification reports no later than 60 days after its fiscal year, as required by equitable sharing guidelines.**

Resolved. The Criminal Division concurred with our recommendation and stated that upon receipt of the final audit report it will work with the APD to correct all identified findings. The APD agreed with our recommendation and stated in its response that it will ensure that all Equitable Sharing Agreement and Certification reports are completed and allow for administrative review on all levels to ensure submission within the 60-day time period.

This recommendation can be closed when we receive documentation demonstrating that the APD implemented a process to prepare and submit its Equitable Sharing Agreement and Certification reports no later than 60 days after its fiscal year, as required by equitable sharing guidelines.

3. **Work with the APD to formalize a policy and procedure to review Equitable Sharing Agreement and Certification reports prior to submission to Criminal Division's Money Laundering and Asset Recovery Section and train staff to support key functions related to requesting, controlling, and accounting of equitable sharing funds.**

Resolved. The Criminal Division concurred with our recommendation and stated that upon receipt of the final audit report it will work with the APD to correct all identified findings. The APD agreed with our recommendation and stated in its response that it has reviewed its internal control procedures and is currently developing new written procedures for its equitable sharing program. The APD also stated that it is in the process of instituting new procedures to ensure that equitable sharing funds are reconciled and validated with supporting documentation on a monthly basis, and working with the City of Alexandria's Accounting Department to ensure all accounting practices are followed. Further, the APD stated that it has implemented a

plan that clearly defines a segregation of duties and responsibilities with the Fiscal Management Division and associated departments.

This recommendation can be closed when we receive documentation demonstrating that the APD formalized a policy and procedure to review Equitable Sharing Agreement and Certification reports prior to submission to the Criminal Division and train staff to support key functions related to requesting, controlling, and accounting of equitable sharing funds.

4. **Require that the Alexandria Police Department work with Alexandria's Finance Department to implement procedures to report spent equitable sharing funds properly in the Single Audit's Schedule of Expenditures of Federal Awards.**

Resolved. The Criminal Division concurred with our recommendation and stated that upon receipt of the final audit report it will work with the APD to correct all identified findings. The APD provided a response from the City of Alexandria's Finance Department, who agreed with our recommendation and stated in its response that it will apply the same reconciliation process that it uses for grant programs to the Equitable Sharing Program funds, to ensure that only equitable sharing expenditures are listed on the Single Audit's Schedule of Expenditures of Federal Awards. Additionally, it stated that it will ensure that expenditures from the Department of Justice and Department of Treasury Equitable Sharing Programs are separated in its reporting.

This recommendation can be closed when we receive documentation demonstrating that the APD has worked with the City of Alexandria's Finance Department to implement procedures to report spent equitable sharing funds properly in the City of Alexandria's Single Audit's Schedule of Expenditures of Federal Awards.

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**U.S. DEPARTMENT OF JUSTICE OFFICE OF THE INSPECTOR GENERAL**
950 Pennsylvania Avenue, Northwest
Suite 4760
Washington, DC 20530 0001

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