AUDIT OF THE ARLINGTON HEIGHTS POLICE DEPARTMENT'S EQUITABLE SHARING PROGRAM ACTIVITIES ARLINGTON HEIGHTS, ILLINOIS

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

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ARLINGTON HEIGHTS POLICE DEPARTMENT'S
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ARLINGTON HEIGHTS, ILLINOIS

EXECUTIVE SUMMARY

The U.S. Department of Justice (DOJ), Office of the Inspector General (OIG), Audit Division, has completed an audit of the use of DOJ equitable sharing revenues by the village of Arlington Heights, Illinois, Police Department (Arlington Heights PD). Equitable sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations.[1] During the period of May 1, 2010, through April 30, 2012, the Arlington Heights PD received $1,393,971 in DOJ equitable sharing revenues to support law enforcement operations.[2]

The objective of the audit was to assess whether equitably shared cash and property received by the Arlington Heights PD was accounted for properly and used for allowable purposes as defined by the applicable regulations and guidelines. We found that the Arlington Heights PD complied with equitable sharing guidelines with respect to permissible uses of equitable sharing funds. However, we identified the following deficiencies:

- The Arlington Heights PD did not separately account for its fiscal year (FY) 2012 DOJ equitable sharing revenues in the official accounting records, as specifically required by the equitable sharing guidelines. In addition to the $203,061 in DOJ equitable sharing funds received during FY 2012, the Arlington Heights PD recorded $1,324 of non-DOJ equitable sharing revenues to the account that is supposed to be solely for DOJ equitable sharing revenues.

- The Arlington Heights PD submitted inaccurate Equitable Sharing Agreement and Certification Reports for FY 2011 and FY 2012. Specifically, the Arlington Heights PD did not accurately reflect the equitable sharing fund expenditures by category – ranging from a difference of less than $1 in the informant category to a difference of $1,500 in the equipment category. In addition, the Arlington Heights PD did not accurately report non-cash assets received. For example, on the

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[1] The DOJ asset forfeiture program has three primary goals: (1) to punish and deter criminal activity by depriving criminals of property used or acquired through illegal activities; (2) to enhance cooperation among federal, state, and local law enforcement agencies through equitable sharing of assets recovered through this program; and, as a by-product, (3) to produce revenues to enhance forfeitures and strengthen law enforcement.

[2] The Arlington Heights PD's fiscal year begins on May 1 and ends on April 30.

FY 2011 certification report the Arlington Heights PD included non-cash assets received through a state seizure, while the certification report should only include non-cash assets received through a federal seizure. Moreover, the accounting code used to capture interest income earned on DOJ equitable sharing funds was also used for interest income earned on other non-DOJ federal and state equitable sharing funds received.

- The Arlington Heights PD did not maintain a copy of all equitable sharing requests forwarded to DOJ, and the requests were not consecutively numbered, as required by equitable sharing guidelines.

Our report contains four recommendations that address the weaknesses we identified. Our findings are discussed in detail in the Findings and Recommendations section of the report. The audit objective, scope, and methodology are included in Appendix I.

TABLE OF CONTENTS

INTRODUCTION **1**
Background 1
OIG Audit Approach 2

FINDINGS AND RECOMMENDATIONS **3**
Accounting for Equitably Shared Resources 3
Compliance with Audit Requirements 5
Equitable Sharing Agreement and Annual Certification Report 6
Use of Equitably Shared Resources 9
Monitoring Applications for Transfer of Federally Forfeited Property 10
Views of Responsible Officials 11
Recommendations 11

APPENDIX I: OBJECTIVE, SCOPE, AND METHODOLOGY **12**

APPENDIX II: AUDITEE RESPONSE **14**

APPENDIX III: U.S. DEPARTMENT OF JUSTICE RESPONSE **16**

APPENDIX IV: OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT **18**

INTRODUCTION

The U.S. Department of Justice (DOJ), Office of the Inspector General (OIG), Audit Division, has completed an audit of the use of DOJ equitable sharing revenues by the village of Arlington Heights, Illinois, Police Department (Arlington Heights PD). The audit covered the Arlington Heights PD's fiscal years (FY) 2011 and 2012.[3] During that period, the Arlington Heights PD received $1,393,971 in equitable sharing revenues from DOJ to support law enforcement operations. The objective of the audit was to assess whether equitably shared cash and property received by the Arlington Heights PD was accounted for properly and used for allowable purposes as defined by the applicable regulations and guidelines.

Background

The primary mission of the DOJ Asset Forfeiture Program is to employ asset forfeiture powers in a manner that enhances public safety and security. This is accomplished by removing the proceeds of crime and other assets relied upon by criminals and their associates to perpetuate their criminal activity against our society. Asset forfeiture has the power to disrupt or dismantle criminal organizations that would continue to function if we only convicted and incarcerated specific individuals.

Another purpose of the DOJ Asset Forfeiture Program is to enhance cooperation among federal, state, and local law enforcement agencies by sharing federal forfeiture proceeds through the DOJ equitable sharing program. State and local law enforcement agencies may receive equitable sharing revenues by participating directly with DOJ agencies in joint investigations leading to the seizure or forfeiture of property. The amount shared with the state and local law enforcement agencies in joint investigations is based on the degree of the agencies' direct participation in the case. The U.S. Department of the Treasury (Treasury) administers a similar equitable sharing program. Our audit was limited to equitable sharing revenues received through the DOJ equitable sharing program.

Although several DOJ agencies are involved in various aspects of the seizure, forfeiture, and disposition of equitable sharing revenues, the DOJ Criminal Division, Asset Forfeiture and Money Laundering Section (AFMLS), is responsible for issuing policy statements, implementing governing legislation, and monitoring the use of DOJ equitable sharing funds. Generally, the use of equitable sharing revenues by state and local recipient agencies is limited to law enforcement purposes. However, under certain circumstances, up to 15 percent of the total equitable sharing revenues received by the agency in the last 2 fiscal years may be used for the costs associated with drug abuse treatment, drug and crime prevention education, housing and job skills programs, or other nonprofit community-based programs or activities. This provision requires that all expenditures be made by the law enforcement agency and does not allow for the transfer of cash.

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[3] The Arlington Heights PD's fiscal year begins on May 1 and ends on April 30.

The Arlington Heights PD is located in the village of Arlington Heights, Illinois, approximately 25 miles northwest of Chicago. With a population of approximately 75,000, it is the 12th largest municipality in Illinois. As of May 2013, the Arlington Heights PD's authorized workforce was 109 sworn officers and 30 civilian personnel.

OIG Audit Approach

We tested compliance with what we considered the most important conditions of the DOJ equitable sharing program. Unless otherwise stated, we applied the Guide to Equitable Sharing for State and Local Law Enforcement Agencies, dated April 2009 (2009 Equitable Sharing Guide) as our primary criteria. The 2009 Equitable Sharing Guide identifies the accounting procedures and requirements for tracking equitably shared monies and tangible property, establishes reporting and audit requirements, and defines the permissible uses of equitably shared resources.

To conduct the audit, we tested the Arlington Heights PD's compliance with the following aspects of the DOJ equitable sharing program:

- **Accounting for equitably shared resources** to determine whether standard accounting procedures were used to track equitable sharing assets.
- **Compliance with audit requirements** to ensure the accuracy, consistency, and uniformity of audited equitable sharing data.
- **Equitable Sharing Agreement and Annual Certification Reports** to determine if these documents were complete, accurate, and timely submitted.
- **Use of equitably shared resources** to determine if equitable sharing funds were spent for permissible uses.
- **Monitoring of Applications for Transfer of Federally Forfeited Property** to ensure adequate controls were established.

See Appendix I for more information on our objective, scope, and methodology.

FINDINGS AND RECOMMENDATIONS

We found that the Arlington Heights PD expended DOJ equitable sharing funds in accordance with the permissible uses articulated in the equitable sharing guidelines. However, we found that DOJ equitably shared receipts were not separately accounted for in the official accounting records. We also identified errors in the FY 2011 and FY 2012 Equitable Sharing Agreement and Certification Reports submitted by the Arlington Heights PD. Specifically, the Arlington Heights PD incorrectly categorized several expenditures and inaccurately reported non-cash assets received. In addition, we found that the Arlington Heights PD did not separately account for interest income earned on DOJ equitable sharing funds. Finally, the Arlington Heights PD did not maintain copies of all equitable sharing requests, and the requests contained within the Arlington Heights PD's log were not consecutively numbered as required by the 2009 Equitable Sharing Guide.

Accounting for Equitably Shared Resources

The 2009 Equitable Sharing Guide requires that all participating state and local law enforcement agencies implement standard accounting procedures to track equitably shared monies and property. Additionally, DOJ equitable sharing funds must be accounted for separately from any other funds.

To determine whether the Arlington Heights PD's accounting procedures adequately tracked equitably shared monies and property and separately accounted for DOJ equitable sharing funds, we compared AFMLS equitable sharing distribution reports to the Arlington Heights PD's accounting records. We also considered the results of our work performed as reported in the Use of Equitably Shared Resources section of this report.

We reviewed the AFMLS report of DOJ equitable sharing distributions, which disclosed that the Arlington Heights PD received equitable sharing funds totaling $1,393,971 during the period of May 1, 2010, through April 30, 2012. To verify the total amount of equitable sharing funds received during our review period, we compared the receipts listed on the Arlington Heights PD's Equitable Sharing Agreement and Annual Certification Reports (certification report) to the total amounts listed as disbursed on the DOJ's Consolidated Asset Tracking System (CATS) reports. As shown in Figure 1, we did not identify any discrepancies.

FIGURE 1: RECEIPTS COMPARISON

Fiscal Year	Receipts per Certification Report	Disbursements per CATS Report	Difference
2011	$1,190,909	$1,190,909	$0
2012	203,062	203,062	0
Totals	**$1,393,971**	**$1,393,971**	**$0**

Source: Arlington Heights PD's certification reports and CATS report

From May 2010 through April 2012, the CATS report recorded equitable sharing receipts totaling $1,393,971 for the Arlington Heights PD, as shown in Figure 1. We reconciled the CATS report to the E-Share log from the USMS and found that the individual receipts recorded in the two sources were identical.[4] As shown in Figure 2, we then judgmentally selected and reviewed five of the highest receipts from FY 2011 and FY 2012, totaling $1,254,700, to ensure that these monies were properly deposited and timely recorded by the Arlington Heights PD. We found that the Arlington Heights PD appropriately deposited its asset forfeiture receipts and recorded them in its accounting records in a timely manner.

FIGURE 2: SAMPLED RECEIPTS IN FY 2011 AND FY 2012

Sample Count	Date Received per E-Share Report	Amount Received	Date Received per the Arlington Heights PD's Records	Amount Received
1	10/18/2010	$277,060	10/18/2010	$277,060
2	01/27/2011	17,010	01/27/2011	17,010
3	03/02/2011	234,056	03/02/2011	234,056
4	03/14/2011	646,533	03/14/2011	646,533
5	04/26/2012	80,041	04/26/2012	80,041
Totals		$1,254,700		$1,254,700

Source: E-Share log from the USMS and the Arlington Heights PD's accounting records

While examining the equitable sharing receipts, we determined that the Arlington Heights PD received all DOJ asset forfeiture funds via Electronic Fund Transfers (EFT), and that the funds were deposited into a general, interest-bearing bank account. Although we confirmed that the village of Arlington Heights uses a separate accounting code to track DOJ asset forfeiture funds, we found that the village of Arlington Heights also used this accounting code when recording non-DOJ federal asset forfeiture funds received in FY 2012. We discussed this issue with the Assistant Finance Director who acknowledged that other non-DOJ federal equitable sharing funds were recorded to the same account used for tracking DOJ equitable sharing receipts. However, this official explained that it is rare for the

[4] E-Share is the USMS program used to make equitable sharing payments to federal, state, and local law enforcement agencies through Electronic Funds Transfer.

Arlington Heights PD to receive asset forfeiture funds from other federal agencies besides DOJ, and acknowledged that the deposits are not clearly marked to identify to what agency the funds are associated. The Assistant Finance Director further explained that because this error was identified after the fiscal year had been closed out and the dollar amount of these non-DOJ equitable sharing funds was minimal, no corrections were made to the official accounting records. She stated that going forward, any non-DOJ equitable sharing receipts will be placed in another account, not the account designated solely for DOJ equitable sharing receipts. To avoid any similar occurrences in the future, we believe that the village of Arlington Heights should establish procedures to ensure that the accounting code assigned for DOJ equitable sharing receipts is not also used for non-DOJ equitable sharing receipts, and that any such occurrences are identified and corrected in the official accounting records prior to the fiscal year close out.

Because DOJ asset forfeiture funds are deposited into a general, interest-bearing bank account, the village of Arlington Heights must also ensure that it properly accounts for the interest income earned on the DOJ asset forfeiture funds. We found that the village of Arlington Heights did not accurately account for the interest income earned on DOJ asset forfeiture funds. This is further discussed in the Equitable Sharing Agreement and Annual Certification Report section of this report.

We also noted that the Arlington Heights PD's certification reports indicated that the Arlington Heights PD received equitably shared tangible property. According to the FY 2011 certification report, the Arlington Heights PD received a computer, camcorder, and television. The FY 2012 certification report indicated that the Arlington Heights PD received 22 electronic tablet devices. Our testing of these non-cash assets is addressed in the Equitable Sharing Agreement and Annual Certification Report section of this report.

Compliance with Audit Requirements

The 2009 Equitable Sharing Guide requires the Arlington Heights PD to comply with audit requirements of the Single Audit Act Amendments of 1996 and Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133). OMB Circular A-133 requires non-federal entities to prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements, provided that they have expended $500,000 or more in federal funds in a given year. The Schedule of Expenditures of Federal Awards is included within the entity's Single Audit Report.

To determine if the Arlington Heights PD accurately reported DOJ equitable sharing fund expenditures on its Schedule of Expenditures of Federal Awards, we reviewed the Arlington Heights PD's accounting records and the village of Arlington Heights' Single Audit Reports for the fiscal years ended 2011 and 2012. We found that the village of Arlington Heights accurately reported DOJ equitable

sharing fund expenditures on the Schedule of Expenditures of Federal Awards, for both fiscal years, as required by OMB Circular A-133.

Equitable Sharing Agreement and Annual Certification Report

AFMLS requires that any state or local law enforcement agency that receives forfeited cash, property, or proceeds because of a federal forfeiture submit an Equitable Sharing Agreement and Annual Certification Report (certification report). The submission of this form is a prerequisite for the approval of any equitable sharing request. Noncompliance may result in the denial of the agency's sharing request. The certification report must be submitted every year within 60 days after the end of the agency's fiscal year regardless of whether funds were received or maintained during the fiscal year. The head of the law enforcement agency and a designated official of the local governing body must sign the agreement. By signing the agreement, the signatories agree to be bound by the statutes and guidelines that regulate the equitable sharing program and certify that the law enforcement agency will comply with these guidelines and statutes.

The village of Arlington Heights' Finance Department (Finance Department) and Arlington Heights PD are involved in completing the certification reports. The Finance Department categorizes the equitable sharing fund expenditures by manually writing the applicable category on the accounting records because the accounting system is not capable of incorporating the same categories as used on the certification reports. The Finance Department forwards this document to the Arlington Heights PD to review the categories assigned to the expenditures and to make any necessary revisions. The Arlington Heights PD is also responsible for informing the Finance Department of any non-cash assets received during the applicable fiscal year. After receiving the necessary information from the Arlington Heights PD, the Finance Department completes the certification report, including its computation of the interest income accrued and total equitable sharing funds received for the fiscal year. The Finance Department then provides the completed report to the Arlington Heights PD for another review. Prior to submitting the certification reports, the Chief of Police and the Village Manager sign the reports.

We tested compliance with the certification report requirements to determine if the required forms for FYs 2011 and 2012 were accurate and complete. We determined that the amount of equitable sharing funds received and total amount of expenditures reflected on the FY 2012 certification report were consistent with the village of Arlington Heights' accounting records as were the amount of equitable sharing funds received on the FY 2011 certification report. However, we identified inaccuracies with the reported dollar amounts expended by category, interest income accrued, and non-cash assets received on the FY 2011 and FY 2012 reports, as well as the total amount of expenditures reflected on the FY 2011 report.

Categorization of Equitable Sharing Expenditures

The certification reports include a section to summarize the shared monies spent by specific categories, such as personnel costs, travel and training, weapons and protective gear, and electronic surveillance. To determine the accuracy of this section of the certification reports, we asked the Finance Department for documentation to support the shared monies spent by category. However, the Finance Department did not retain the documents it used when recording the shared monies spent by category. As a result, the Finance Department provided a listing of FY 2011 and FY 2012 expenditures with individual categories hand-written beside the transactions. Using this documentation, we computed the total expenditures by category for each fiscal year and compared the results to the amounts reflected on the certification reports. We found that the category totals of shared monies spent as reflected on the certification reports did not match the expenditure category totals as provided by the auditee – ranging from a difference of less than $1 in the informant category to a difference of $1,500 in the equipment category. In addition, we found that on the FY 2011 certification report, the auditee reported $1,133 in expenditures within the "Informant, buy money, and rewards" category, and we were unable to trace this amount in the accounting records.

We discussed these issues with the Assistant Finance Director who acknowledged that some of the transactions were incorrectly categorized, thus contributing to the differences identified with some of the category totals. An official from the Arlington Heights PD also explained that $1,133 in the "Informant, buy money, and rewards" category should not have been included on the FY 2011 certification report because the Arlington Heights PD did not use DOJ equitable sharing funds for that expenditure. We believe the auditee should develop a reliable mechanism to assign categories to each expenditure when it occurs and maintain an on-going record of expenditures by category.

Computation and Reporting of Interest Income

In addition to summarizing the shared monies spent by category on the certification reports, entities are to report the amount of interest income earned during the given reporting period. Based upon our review of the supporting documentation provided by the Finance Department, we found that the interest income reported on the FY 2011 and FY 2012 certification reports was inaccurate. According to the 2009 Equitable Sharing Guide, 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. However, the supporting documentation for the interest income earned revealed that the accounting code used to capture interest income earned on DOJ equitable sharing funds was also used for interest income earned on other non-DOJ federal and state equitable sharing funds received. The Assistant Finance Director confirmed that the village of Arlington Heights uses one account for all interest income earned on equitable sharing funds received. This official further stated that the allocation of interest income earned based upon the equitable sharing monies received is an

approximation. For instance, on the FY 2012 certification report, the village of Arlington Heights reported $9,112 in interest income earned on DOJ equitable sharing funds, which was 100 percent of the interest income earned on all equitable sharing funds received, not just DOJ funds. Similarly, the FY 2011 certification report indicated that $7,532 in interest income was earned on DOJ equitable sharing funds. According to the Assistant Finance Director, this amounted to 90 percent of the total interest income earned on all equitable sharing funds received at the time the certification report was prepared. The Assistant Finance Director stated that because the amount of interest income earned on equitable sharing funds is minimal, interest income is not calculated as an exact amount for each source of equitable sharing revenues. We believe that the village of Arlington Heights should separately compute and account for the actual interest income earned on DOJ equitable sharing funds received, as required by the 2009 Equitable Sharing Guide.

Reporting of Non-cash Assets

As with the summary of shared monies spent by category and the interest income earned, the certification reports also include a section to describe any non-cash assets received. During our review of the FY 2011 and FY 2012 certification reports, we attempted to verify the receipt of the non-cash assets listed on the forms. The Arlington Heights PD's FY 2011 certification report identified that it received certain electronics items – a video recorder, a 52-inch television, and a personal computer. However, none of these items were listed on the 2011 CATS report provided by the USMS. An official from the Arlington Heights PD explained that the Arlington Heights PD received these items through a state seizure, not a federal seizure. Therefore, the items should not have been listed on the FY 2011 certification report to DOJ.

On the FY 2012 certification report, the Arlington Heights PD identified that it received 22 electronic tablet devices and did not identify whether these assets were received through the DOJ or Treasury equitable sharing program. Upon further review of supporting documentation and an interview with an Arlington Heights PD official, we found that the Arlington Heights PD actually received 20 tablets and thus the submitted certification report was in error. The Arlington Heights PD official also indicated that the assets received were associated with a non-DOJ federal seizure.

We recommend that the Arlington Heights PD establish procedures to ensure that it submits accurate and complete certification reports. As part of these procedures, the Arlington Heights PD must ensure that expenditures are appropriately categorized when the expenditures are incurred, and that it implements a mechanism that retains the categories applied to the expenditures. Further, the Arlington Heights PD should ensure that interest income earned is calculated properly, and that it properly reports non-cash assets received. The Arlington Heights PD should submit revised certification reports for FY 2011 and FY 2012 that accurately reflect its equitable sharing activities during those time periods.

Use of Equitably Shared Resources

The 2009 Equitable Sharing Guide requires that equitable sharing funds received by state and local agencies be used for law enforcement purposes. However, under certain circumstances, up to 15 percent of the total equitable sharing revenues the agency received in the last 2 fiscal years may be used for the costs associated with nonprofit community-based programs or activities, such as drug abuse treatment, drug and crime prevention education, and housing and job skills programs. Law enforcement agencies can also transfer cash to another law enforcement agency.

Use of Equitably Shared Funds

According to its accounting records, the Arlington Heights PD expended DOJ equitable sharing funds totaling $200,746 in FY 2011 and $105,100 in FY 2012, for a total of $305,846. We judgmentally selected and tested 23 transactions totaling $194,419, or 64 percent of the total funds expended, to determine if the expenditures of DOJ equitable sharing funds were allowable and supported by adequate documentation. We determined that of the sampled transactions, the Arlington Heights PD spent $93,942 for capital improvements to its facilities; $39,894 for other law enforcement expenses, such as costs associated with its canine unit, annual accreditation fees, and equipment; $35,369 for communication and computers; $7,750 for travel and training; $13,350 for electronic surveillance; and $4,114 for weapons. Based upon our review of the supporting documentation provided by the Arlington Heights PD, we determined that its DOJ equitable sharing fund expenditures were supported by adequate documentation and were used for appropriate purposes as outlined in the 2009 Equitable Sharing Guide.

Use of Equitably Shared Property

The 2009 Equitable Sharing Guide requires that any forfeited tangible property transferred to a state or local agency for official use must be used for law enforcement purposes only. Further, vehicles and other tangible property transferred to official law enforcement use must be used accordingly for at least 2 years. However, if the property becomes unsuitable for such stated purposes before the end of the 2-year period, it may be sold with approval from AFMLS and the proceeds are to be deposited in the agency's DOJ equitable sharing revenue account.

During our review of the FY 2011 and FY 2012 certification reports, we identified problems with the accuracy of the non-cash assets reported, as discussed in the Equitable Sharing Agreement and Annual Certification Report section of this report. As noted in that section of our report, the non-cash assets reported by the Arlington Heights PD were not associated with a DOJ investigation resulting in a federal forfeiture. Therefore, it was not necessary to ensure that the Arlington Heights PD used the non-cash assets in accordance with the 2009 Equitable Sharing Guide.

Monitoring Applications for Transfer of Federally Forfeited Property

The 2009 Equitable Sharing Guide states that all participating agencies should maintain a log of all sharing requests that consecutively numbers the requests and includes the seizure type, seizure amount, share amount requested, amount received, and date received for each request. Agencies complete a Form DAG-71 (Application for Transfer of Federally Forfeited Property) when requesting its portion of equitable sharing funds. The 2009 Equitable Sharing Guide requires that the log be updated when an E-Share notification is received.

We confirmed that the Arlington Heights PD maintains a binder of its DAG-71s (or sharing requests) and that the sharing requests contain all of the required information. The binder is comprised of two sections. One section contains the sharing requests that are in pending status (i.e., the Arlington Heights PD has not yet received any equitable sharing funds). The other section contains those requests for which the Arlington Heights PD received equitable sharing funds; the Arlington Heights PD refers to this section as completed requests. The Arlington Heights PD attaches the E-Share notification to these completed requests.

During our review, we found that the requests were not consecutively numbered and that six DAG-71s were missing. We brought these issues to the attention of the Arlington Heights PD official who is responsible for maintaining the log. He explained that the six missing DAG-71s were requests that were submitted in his absence, and copies of the forms were not provided to him. As a result of these missing forms, the Arlington Heights PD issued a memorandum to the Task Force Officer who prepares the DAG-71s that articulated that copies of all DAG-71s must be retained in the binder. Because the Task Force Officer is the only individual responsible for preparing the DAG-71s, the Arlington Heights PD only issued the memorandum to him. Although the Arlington Heights PD issued a memorandum to the individual responsible for completing the DAG-71s, we believe that the Arlington Heights PD should incorporate in its formal, written procedures the requirement to maintain copies of all DAG-71s so that all personnel are aware of the requirement in case someone else takes on this responsibility. The Arlington Heights PD official who is responsible for the log also stated that he will establish a numbering system so that all DAG-71s are consecutively numbered and tracked as required by the 2009 Equitable Sharing Guide. We believe that the Arlington Heights PD should establish a formal, written procedure to ensure all DAG-71s are consecutively numbered.

Supplanting

The 2009 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. To test whether equitable sharing funds were used to supplement rather than supplant local funding, we reviewed the Arlington Heights PD's budgets for FYs 2010 through 2014 and sampled FY 2011 and FY 2012 expenditures.

Through our review of the Arlington Heights PD's budget documents, we found that the Arlington Heights PD's total budgeted appropriations have steadily increased between 3 and 4 percent from one fiscal year to the next. Further, our testing of the sampled expenditure transactions did not reveal any evidence of supplanting. Therefore, we did not identify any indications that the village of Arlington Heights used DOJ equitable sharing funds to supplant the Arlington Heights PD's budget.

Views of Responsible Officials

We discussed the results of our review with officials from the Arlington Heights PD and the village of Arlington Heights' Finance Department throughout the audit and at a formal exit conference. Their input on specific issues has been included in the appropriate sections of the report.

Recommendations

We recommend that the Criminal Division:

1. Ensure that the Arlington Heights PD establishes procedures to confirm that only DOJ equitable sharing receipts are contained within the ledger account created for such receipts, and to make proper adjustments in the official accounting records for any non-DOJ equitable sharing receipts assigned to this account.

2. Ensure that the Arlington Heights PD establishes procedures for submitting accurate and complete Equitable Sharing Agreement and Certification Reports. These procedures should include a process to appropriately categorize equitable sharing expenditures on an ongoing basis, separately account for and accurately compute interest income earned on DOJ equitable sharing funds, and correctly report non-cash assets received.

3. Ensure that the Arlington Heights PD submits revised FY 2011 and FY 2012 Equitable Sharing Agreement and Annual Certification Reports that accurately and completely reflect its equitable sharing activities during these time periods.

4. Ensure that the Arlington Heights PD establishes procedures to maintain all equitable sharing requests submitted to DOJ and consecutively number its equitable sharing request log as required.

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, 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.

The objective of the audit was to assess whether equitably shared cash and property received by the requesting agency was accounted for properly and used for allowable purposes as defined by the applicable regulations and guidelines. We tested compliance with what we considered 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. Unless otherwise stated in our report, the criteria we audit against are contained in these documents.

Scope and Methodology

Our audit concentrated on, but was not limited to, equitable sharing funds received by the Arlington Heights PD from May 1, 2010, through April 30, 2012. During this period, the Arlington Heights PD received $1,393,971 and expended $305,846 in DOJ equitable sharing funds. We judgmentally selected 5 DOJ equitable sharing receipts (totaling $1,254,700) and 23 expenditure transactions (totaling $194,419) for testing. We applied a judgmental sampling design to obtain broad exposure to numerous facets of the transactions reviewed, such as dollar amounts and cost categories. This non-statistical sample design does not allow projection of the test results to all transactions.

We performed audit work at the Arlington Heights PD located in Arlington Heights, Illinois. To accomplish the objective of the audit, we interviewed Arlington Heights PD and Finance Department officials and examined records associated with equitable sharing revenues and expenditures. In addition, we relied on computer-generated data contained in CATS for determining equitably shared revenues and property awarded to the Arlington Heights PD during the audit period. We did not establish the reliability of the data contained in CATS as a whole. However, when the data we used is viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations included in this report are valid.

In planning and performing our audit, we considered internal controls established and used by the Arlington Heights PD and the village of Arlington Heights over DOJ equitable sharing receipts to accomplish our audit objective. We did not assess the reliability of the Arlington Heights PD's financial management system or internal controls of that system or otherwise assess internal controls and compliance with laws and regulations for the village of Arlington Heights as a whole.

Our audit included an evaluation of the village of Arlington Heights FY 2011 and FY 2012 Single Audit Reports. The Single Audit Reports were prepared under the provisions of OMB Circular A-133. We reviewed the independent auditor's reports, which disclosed no control weaknesses or significant noncompliance issues related specifically to the Arlington Heights PD.

AUDITEE RESPONSE

Village of Arlington Heights

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April 2, 2014

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Re: Village of Arlington Heights Police Department Equitable Sharing Program Activities Audit

Dear Ms. Taraszka:

The Village of Arlington Heights Police Department has reviewed the draft audit report on Equitable Sharing Program Activities for the period of May 1, 2010, through April 30, 2012. The audit found that the Village of Arlington Heights Police Department complied with equitable sharing guidelines with respect to permissible uses of the $1,393,971 in equitable sharing funds received by the department. There were, however, four recommendations from the Department of Justice. Following is the Village of Arlington Heights official response to the draft audit report recommendations.

Recommendation 1 - Ensure that the Arlington Heights PD establishes procedures to confirm that only DOJ equitable sharing receipts are contained within the ledger account created for such receipts, and to make proper adjustments in the official accounting records for any non-DOJ equitable sharing receipts assigned to this account.

Response 1 - We agree with the recommendation and since FY 2013 the Finance Department has had access to the Department of Justice Distribution Report, which enables the Finance Department to reconcile the Justice Funds. This allows the Finance Department to report only DOJ equitable sharing receipts within the ledger account created for such receipts and adjust the official accounting records for any non-DOJ receipt.

Recommendation 2 - Ensure that the Arlington Heights PD establishes procedures for submitting accurate and complete Equitable Sharing Agreement and Certification Reports. These procedures should include a process to appropriately categorize equitable sharing expenditures on an ongoing basis, separately account for and accurately compute interest income earned on DOJ equitable sharing funds, and correctly report non-cash assets received.

Response 2 – We agree with the recommendation and since FY 2013 have implemented procedures to submit appropriately categorized equitable sharing expenditures. Each transaction will be reviewed for the correct category by the Police Department, with follow up review by the Finance Department. The Village of Arlington Heights' policy for allocating interest was based on the average cash balance of all seized funds and accounted for in the seizure fund's interest account. Beginning in FY 2013, the interest income earned has been computed and accounted for separately in the same revenue account that accounts for the DOJ equitable sharing receipts. . The department has been correctly reporting non-cash assets received since FY 2013 and only has reported items from federal seizures on the certification reports after review by the Commander of Criminal Investigation Bureau.

Recommendation 3 - Ensure that the Arlington Heights PD submits revised FY 2011 and FY 2012 Equitable Sharing Agreement and Annual Certification Reports that accurately and completely reflect its equitable sharing activities during these time periods.

Response 3 – We are in agreement to submit revised certification reports as follow up to this audit and accurately report equitable sharing activities during these time periods.

Recommendation 4 - Ensure that the Arlington Heights PD establishes procedures to maintain all equitable sharing requests submitted to DOJ and consecutively number its equitable sharing request log as required.

Response 4 - We agree with the recommendation and in response the Arlington Heights Police Department has established procedures to maintain all equitable sharing requests submitted to the DOJ. These requests (DAGs) will be consecutively numbered and kept in a log in the office of the Commander of Criminal Investigation Bureau. The procedures will be incorporated in Arlington Heights Police Department General Order; Police Department Control Funds 17-3.

Our goal is to fully comply with all requirements of the equitable sharing program and we appreciate the guidance from the Department of Justice Office of the Inspector General throughout the audit.

Gerald Mourning
Chief of Police

U.S. DEPARTMENT OF JUSTICE RESPONSE

U.S. Department of Justice

Washington, D.C. 20530

MAR 21 2014

MEMORANDUM

TO: Carol S. Taraszka
Chicago Regional Audit Office
Office of Inspector General

FROM: Jennifer Bickford
Acting Assistant Deputy Chief
Asset Forfeiture and Money
Laundering Section

SUBJECT: DRAFT OIG AUDIT REPORT- Audit of the Arlington Heights Police Department's Equitable Sharing Program Activities, Arlington Heights, IL

In a memorandum to Mythili Raman dated March 19, 2014, your office provided a draft of the above referenced report, and requested comments and a response from the Criminal Division. The Asset Forfeiture and Money Laundering Section (AFMLS) concurs with the following recommendations:

1. **Ensure that the Arlington Heights PD establishes procedures to confirm that only DOJ equitable sharing receipts are contained within the ledger account created for such receipts, and to make proper adjustments in the official accounting records for any non-DOJ equitable sharing receipts assigned to this account.**
2. **Ensure that the Arlington Heights PD establishes procedures for submitting accurate and complete Equitable Sharing Agreement and Certification Reports. These procedures should include a process to appropriately categorize equitable sharing expenditures on an ongoing basis, separately account for, and accurately compute interest income earned on DOJ equitable sharing funds, and correctly report non-cash assets received.**
3. **Ensure that the Arlington Heights PD submits revised FY 2011 and FY 2012 Equitable Sharing Agreement and Annual Certification Reports that accurately and completely reflect its equitable sharing activities during these time periods.**
4. **Ensure that the Arlington Heights PD establishes procedures to maintain all equitable sharing requests submitted to DOJ and consecutively numbers its equitable sharing request log as required.**

Upon submission of the final report for the above referenced audit, AFMLS will work with the Arlington Heights Police Department to take the necessary actions to close out the audit report recommendations. Please feel free to contact me at (202) 514-1470 with any further questions.

cc: Denise Turcotte
Audit Liaison
Criminal Division

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

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 Arlington Heights Police Department (Arlington Heights PD) and the U.S. Department of Justice Asset Forfeiture and Money Laundering Section (AFMLS). The Arlington Heights PD's response letter is incorporated in Appendix II of this final report, and AFMLS's response is incorporated as Appendix III. The following provides the OIG analysis of the responses and summary of actions necessary to close the report.

Recommendation:

1. **Ensure that the Arlington Heights PD establishes procedures to confirm that only DOJ equitable sharing receipts are contained within the ledger account created for such receipts, and to make proper adjustments in the official accounting records for any non-DOJ equitable sharing receipts assigned to this account.**

   Resolved. Both the Arlington Heights PD and AFMLS concurred with our recommendation. AFMLS stated that it will work with the Arlington Heights PD to ensure the necessary actions are taken to address the recommendation. In its response, the Arlington Heights PD stated that the village of Arlington Heights Finance Department now has access to the Distribution Report generated by DOJ. The Arlington Heights PD further explained that access to this report will allow the Finance Department to ensure only DOJ equitable sharing receipts are reflected in the ledger account created for such receipts and make any necessary corrections for non-DOJ equitable sharing receipts recorded to this particular ledger account.

   This recommendation can be closed when we receive evidence that the Arlington Heights PD has implemented formal, written procedures to confirm that only DOJ equitable sharing receipts are contained within the ledger account created for such receipts. In addition, these procedures should include steps to make proper adjustments in the official accounting records for any non-DOJ equitable sharing receipts assigned to this account.

2. **Ensure that the Arlington Heights PD establishes procedures for submitting accurate and complete Equitable Sharing Agreement and Certification Reports. These procedures should include a process to appropriately categorize equitable sharing expenditures on an ongoing basis, separately account for and accurately compute interest income earned on DOJ equitable sharing funds, and correctly report non-cash assets received.**

   Resolved. Both the Arlington Heights PD and AFMLS concurred with our recommendation. AFMLS stated that it will work with the Arlington Heights PD to ensure the necessary actions are taken to address the recommendation. In

its response, the Arlington Heights PD stated that it has implemented procedures to ensure it appropriately categorizes equitable sharing expenditures. Specifically, the Arlington Heights PD stated that the Arlington Heights PD will review the category applied to each transaction, and that the village of Arlington Heights Finance Department will conduct a follow-up review of the categories. The Arlington Heights PD also stated that the village of Arlington Heights' policy for allocating interest was based on the average cash balance of all seized funds and accounted for in the seizure fund's interest account. However, the Arlington Heights PD stated that beginning in FY 2013, the village of Arlington Heights Finance Department is computing and accounting for interest income earned on DOJ equitable sharing receipts separately in the same revenue account used for capturing DOJ equitable sharing receipts. The Arlington Heights PD further stated that it is now correctly reporting non-cash assets received.

This recommendation can be closed when we receive evidence that the Arlington Heights PD has implemented formal, written procedures for submitting accurate and complete certification reports to include the appropriate categorization of equitable sharing expenditures on an ongoing basis, separately accounting for and accurately computing interest income, and correctly reporting non-cash assets received.

3. **Ensure that the Arlington Heights PD submits revised FY 2011 and FY 2012 Equitable Sharing Agreement and Certification Reports that accurately and completely reflect its equitable sharing activities during these time periods.**

   Resolved. Both the Arlington Heights PD and AFMLS concurred with our recommendation. AFMLS stated that it will work with the Arlington Heights PD to ensure the necessary actions are taken to address the recommendation. In its response, the Arlington Heights PD stated that it would submit the revised certification reports that accurately and completely reflect its equitable sharing activities.

   This recommendation can be closed when we receive evidence that the Arlington Heights PD submitted revised FY 2011 and FY 2012 certification reports that accurately and completely reflect its equitable sharing activities during these time periods.

4. **Ensure that the Arlington Heights PD establishes procedures to maintain all equitable sharing requests submitted to DOJ and consecutively number its equitable sharing request log as required.**

   Resolved. Both the Arlington Heights PD and AFMLS concurred with our recommendation. AFMLS stated that it will work with the Arlington Heights PD to ensure the necessary actions are taken to address the recommendation. In its response, the Arlington Heights PD stated that it has established procedures to address our recommendation, and that the procedures will be incorporated into an existing Arlington Heights PD order.

This recommendation can be closed when we receive evidence that the Arlington Heights PD has implemented formal, written procedures to ensure that all equitable sharing requests submitted to DOJ are maintained and that the requests are consecutively numbered in its equitable sharing request log.