



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



Audit of the Anaheim Police Department Equitable Sharing Program Anaheim, California

**AUDIT OF THE
ANAHEIM POLICE DEPARTMENT
EQUITABLE SHARING PROGRAM
ANAHEIM, CALIFORNIA**

EXECUTIVE SUMMARY

The U.S. Department of Justice (DOJ) Office of the Inspector General completed an audit to assess whether the Anaheim, California, Police Department (Anaheim PD) properly accounted for DOJ equitable sharing funds and property and used such revenues for allowable purposes as defined by applicable guidelines. Equitable sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations. The audit covered the Anaheim PD's fiscal years (FY) 2012, 2013 and 2014. During this period, the Anaheim PD reported receipts of \$9,795,672 in equitable sharing funds and expenditures totaling \$10,979,723 primarily related to the purchase of vehicles and payments to confidential informants.

Based on our audit work, we determined that the Anaheim PD failed to comply with four of the five DOJ Equitable Sharing Program requirements we tested. Specifically, we found that the Anaheim PD did not retain all documents and records pertaining to their participation in the DOJ's Equitable Sharing Program such as DAG-71 forms and electronic funds transfer documentation as required. Also, as a result of our audit work, we questioned \$8,000 in unallowable expenditures related to prohibited cash transfers and extravagant expenses. We also determined that the Anaheim PD utilized a Vice, Narcotics and Criminal Intelligence sub-account which was prohibited as of July 20, 2015. Further, we found that the Anaheim PD did not establish a separate fund code for DOJ equitable sharing funds, which resulted in a failure to separately account for DOJ equitable sharing-related expenditures and interest earned.

We further determined that the Anaheim PD complied with DOJ Equitable Sharing Program reporting requirements by submitting reports in a timely manner for FYs 2012 and 2014. However, the Anaheim PD submitted the FY 2013 Equitable Sharing Agreement Certification (ESAC) report 28 days late. After an analysis of the FY 2014 ESAC report, we also noted inaccuracies in the expenditures reported. We found that these inaccuracies stemmed from the use of a sub-account that, as we noted in the previous paragraph, is prohibited.

Lastly, we found that Anaheim PD personnel were not receiving E-Share notification e-mails after there was turnover in the Asset Forfeiture Specialist position. We found that a lack of local policies and procedures specific to individual roles and responsibilities contributed to this situation. We recommend that the Anaheim PD establish its own equitable sharing policies and procedures with position-specific job responsibilities to prevent a future recurrence and to ensure that the Anaheim PD complies with equitable sharing program requirements.

Our report contains seven recommendations to 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 discussed in Appendix 1 and the Schedule of Dollar-related Findings is located in Appendix 2. We discussed the results of our audit with Anaheim PD officials and have included their comments in the report, as applicable. In addition, we requested a response to our draft audit report from the Anaheim PD and DOJ Criminal Division, Asset Forfeiture and Money Laundering Section. We received those responses and they are found in Appendices 3 and 4, respectively. Our analysis of those responses and the status of the recommendations can be found in Appendix 5.

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INTRODUCTION

The Department of Justice (DOJ), Office of the Inspector General (OIG) completed an audit of the equitable sharing funds received by the Anaheim Police Department (Anaheim PD) in Anaheim, California. The objective of the audit was to assess whether the cash and property received by the Anaheim PD through the DOJ Equitable Sharing Program were accounted for properly and used for allowable purposes as defined by applicable regulations and guidelines. The audit covered the Anaheim PD's fiscal years (FY) 2012, 2013 and 2014.¹ During the period of July 1, 2011, through June 30, 2014, the Anaheim PD reported receiving \$9,795,672 and expending \$10,979,723 as a participant in the DOJ Equitable Sharing Program.² The Anaheim PD received most of its equitable sharing funds through its involvement with the U.S. Drug Enforcement Administration.

**Table 1
Anaheim PD Equitable Sharing Activity**

Fiscal Year	Revenue	Funds Spent
2012	\$2,235,648	\$2,836,862
2013	4,642,009	5,113,286
2014	2,918,015	3,029,575
Total	\$9,795,672	\$10,979,723

Source: Anaheim PD Equitable Sharing Agreement and Certification Reports

DOJ Equitable Sharing Program

The Comprehensive Crime Control Act of 1984 authorized the implementation of the DOJ Asset Forfeiture Program (Asset Forfeiture Program). The Asset Forfeiture Program is a nationwide law enforcement initiative that removes the tools of crime from criminal organizations, deprives wrongdoers of the proceeds of their crimes, recovers property that may be used to compensate victims, and

¹ The City of Anaheim's fiscal year begins on July 1 and ends on June 30. Therefore, our review period was July 1, 2011, through June 30, 2014.

² The Anaheim PD began the audit period with an available equitable sharing fund balance of \$1,658,114.

deters crime.³ One of the most important provisions of the Asset Forfeiture Program is the DOJ Equitable Sharing Program.⁴ The DOJ Equitable Sharing Program allows any state or local law enforcement agency that has directly participated in an investigation or prosecution to claim a portion of the federally forfeited cash, property, and proceeds.

Although several DOJ agencies are involved in various aspects of the seizure, forfeiture, and disposition of equitable sharing revenues, three DOJ components work together to administer the DOJ Equitable Sharing Program – the United States Marshals Service (USMS), the Justice Management Division (JMD), and the Criminal Division’s Asset Forfeiture and Money Laundering Section (AFMLS). The USMS is responsible for transferring asset forfeiture funds from the DOJ to the receiving state or local agency. JMD manages the Consolidated Asset Tracking System (CATS), a database used to track federally seized assets throughout the forfeiture life-cycle. Finally, AFMLS tracks membership of state and local participants, updates the DOJ 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, or by seizing property and requesting one of the DOJ agencies to adopt the seizure and proceed with federal forfeiture.⁵ Once an investigation is completed and the seized assets are forfeited, the assisting state or local law enforcement agencies can request a share of the forfeited assets or a percentage of the proceeds derived from the sale of forfeited assets. Generally, the degree of a state or local agency’s direct participation in an investigation determines the amount or percentage of funds shared with that agency.

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

³ The DOJ asset forfeiture program also seeks to enhance cooperation among federal, state, and local law enforcement agencies through equitable sharing of assets recovered through this program and to produce revenues to enhance forfeitures and strengthen law enforcement.

⁴ The U.S. Department of the Treasury also administers a federal asset forfeiture program. This audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program.

⁵ The federal adoption of property seized by state or local law enforcement under state law is only allowable if the property directly relates to public safety concerns, including firearms, ammunition, explosives, and property associated with child pornography. Property that does not fall under these four specific categories may not be adopted without the approval of the Assistant Attorney General for the Criminal Division.

The *Guide to Equitable Sharing for State and Local Law Enforcement Agencies* (Equitable Sharing Guide), issued by the AFMLS in April 2009, and the Interim Policy Guidance Regarding the Use of Equitable Sharing Funds (Interim Policy Guidance) that was issued by AFMLS in July 2014 outline categories of allowable and unallowable uses for equitable sharing funds and property.

Anaheim Police Department

Anaheim, California, is located in Southern California, approximately 26 miles southeast of the City of Los Angeles. Anaheim is situated in Orange County and according to the 2010 U.S. Census estimates, has a population of approximately 348,000, making it the 10th largest city in California. The Anaheim PD had a budget of approximately \$126 million in FY 2015 with 372 sworn police officers and 283 civilian employees as of August 4, 2015. According to the Anaheim PD, during calendar year 2014 there were a total of 9,290 reported crimes with the most commonly reported crimes being burglary, larceny or theft, and motor vehicle theft. The Anaheim PD has an Asset Forfeiture Specialist who tracks related requests and receipts and maintains related documentation. According to an Anaheim PD official, the Anaheim PD became a member of the DOJ Equitable Sharing Program in 1994.

OIG Audit Approach

The objective of the audit was to assess whether the Anaheim PD accounted for equitable sharing funds and utilized such revenues for allowable purposes as defined by the applicable guidelines. We tested compliance with what we considered the most important conditions of the DOJ Equitable Sharing Program. Unless otherwise stated, we applied the Equitable Sharing Guide as well as the Interim Policy Guidance, as our primary criteria. The Equitable Sharing Guide provides procedures for submitting sharing requests and discusses the proper use and accounting for equitable sharing assets.

To accomplish the objective of the audit, we tested Anaheim PD's compliance with the following aspects of the DOJ Equitable Sharing Program:

- **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 utilized to track equitable sharing assets.
- **Use of equitable sharing resources** to determine if equitable sharing cash and property were utilized for allowable law enforcement purposes.
- **Compliance with audit requirements** to ensure the accuracy, consistency, and uniformity of audited equitable sharing data.

- **Monitoring of applications for transfer of federally forfeited property** to ensure adequate controls were established.

Our findings are discussed in detail in the Findings and Recommendations section of this report. The audit objective, scope, and methodology are discussed in Appendix 1 and the Schedule of Dollar-related Findings is located in Appendix 2. We discussed the results of our audit with Anaheim PD officials and have included their comments in the report, as applicable. In addition, we requested a response to our draft audit report from the Anaheim PD and the Criminal Division. We received those responses and they are found in Appendices 3 and 4, respectively. Our analysis of those responses and the status of the recommendations are found in Appendix 5.

FINDINGS AND RECOMMENDATIONS

The Anaheim PD failed to comply with four of the five DOJ Equitable Sharing Program requirements we tested. Specifically, we identified two expenditures totaling \$8,000 that were unallowable. Also, we determined that the Anaheim PD does not have a unique fund code to separately track DOJ equitable sharing funds as required by the Equitable Sharing Guide which resulted in the commingling of DOJ equitable sharing funds with Treasury equitable sharing funds. Further, the Anaheim PD submitted one Equitable Sharing Agreement and Certification Report 28 days late. We identified minor inaccuracies in the Anaheim PD's equitable sharing expenditures reported in FY 2014 as well as an inaccurate method of reporting its expenditures of DOJ equitable sharing funds. In addition, we determined that the Anaheim PD has not retained all DOJ Equitable Sharing Program documentation as required. Finally, we recommended that the Anaheim PD improve its internal controls over its equitable sharing program by developing Anaheim PD-specific policies and procedures to ensure compliance with equitable sharing program guidelines and requirements. As a result, we questioned \$8,000 and made seven recommendations to improve Anaheim PD's management of equitable sharing funds and its involvement in the DOJ Equitable Sharing Program.

Equitable Sharing Agreements and Certification Reports

Law enforcement agencies who participate in the DOJ Equitable Sharing Program are required to submit the ESAC report on an annual basis and within 60 days after the end of an agency's fiscal year. The submission of this report is a prerequisite to the approval of any equitable sharing requests and noncompliance may result in the denial of an agency's sharing requests. The ESAC report must be submitted on an annual basis regardless of whether equitable sharing funds were received or maintained that year. Additionally, the ESAC must be signed by the head of the law enforcement agency and a designated official of the local governing body. By signing and submitting the ESAC, the signatories agree to be bound by and comply with the statutes and guidelines that regulate the DOJ Equitable Sharing Program.

Completeness and Timeliness of ESAC Reports

We tested the Anaheim PD's compliance with the ESAC reporting requirements to determine if the Anaheim PD completed and submitted in a timely manner the required ESAC reports for FYs 2012, 2013 and 2014. We found that the Anaheim PD's ESAC reports for FYs 2012, 2013 and 2014 were complete and signed by appropriate officials.

We also found that Anaheim PD submitted its ESAC reports for FYs 2012 and 2014 within the required time period. However, Anaheim PD submitted its

FY 2013 ESAC report 28 days late.⁶ An Anaheim PD official explained that the FY 2013 report was late because of delays that were experienced in obtaining the Anaheim City Manager's signature, which was required on the report. According to the Anaheim PD, it informed the AFMLS office of the delay. Even though the FY 2014 Anaheim PD ESAC report was submitted timely, we recommend that the Anaheim PD take steps to ensure that its future ESAC reports continue to be submitted within the required time frame.

Accuracy of ESAC Reports

To verify the accuracy of the ESAC reports, we compared the receipts listed on the Anaheim PD's FYs 2012, 2013, and 2014 ESAC reports to the total amounts listed as disbursed on the CATS report for each period. Our analysis showed that the Anaheim PD reported on its ESAC reports as receiving DOJ equitable sharing funds totaling \$9,795,672 for FYs 2012, 2013, and 2014. The CATS report for this same period included 102 separate disbursements of DOJ equitable sharing funds to the Anaheim PD totaling \$9,795,672. To verify the total amount of equitable sharing funds that the Anaheim PD received during our review period, we compared the receipts listed on the Anaheim PD's ESAC reports to the total amounts listed as disbursed on the CATS reports. As shown in Table 2, we did not identify any discrepancies.

Table 2
Receipts Comparison

Fiscal Year	Receipts Per Certification Report	Disbursements Per CATS Report	Difference
2012	\$ 2,235,648	\$ 2,235,648	\$0
2013	4,642,009	4,642,009	\$0
2014	2,918,015	2,918,015	\$0
Totals	\$9,795,672	\$9,795,672	\$0

Source: Anaheim PD ESAC reports and CATS report

We also compared the FY 2014 ESAC report against the Anaheim PD's Register of Receipts and its accounting records. We found that the amount of equitable sharing funds received reported on the ESAC report matched the amounts listed in the Anaheim PD's Register of Receipts and in its General Ledger. Additionally, we reviewed the Anaheim PD's ESAC reports and the CATS report for non-cash assets. The Anaheim PD did not receive any non-cash assets for the audited period.

⁶ Further, this ESAC report was later amended and re-submitted in September 2014. The reason Anaheim PD amended its FY 2013 ESAC report was to correct information related to how it utilized and then reported equitable sharing funds.

According to the Equitable Sharing Guide, Anaheim PD was required to include on its ESAC reports “. . . actual amounts and uses of the federal asset sharing funds and property . . .” Although the DOJ equitable sharing funds that Anaheim PD received were accurately reported on its ESAC reports, we identified discrepancies in how it reported related expenditures. According to Anaheim PD personnel, the amount of DOJ-related expenditures that Anaheim PD reported on its ESAC reports were not actual expenditures but rather a calculated allocation based on the percentage of equitable sharing receipts that were received from DOJ as opposed to the U.S. Department of the Treasury (Treasury). This was largely due to the fact that Anaheim PD did not separately account for its equitable sharing expenditures. Rather, it recorded all equitable sharing expenditures under one fund code. DOJ-related equitable sharing expenditures were not tracked separately under a unique fund code, as required by AFMLS.⁷ As a result, we could not verify that the DOJ-related equitable sharing expenditures reported on the ESAC reports were accurate. Therefore, we recommend that Anaheim PD report on its ESAC reports actual expenditures as required by the AFMLS.

Categorization of Equitable Sharing Expenditures

In addition, we attempted to review for accuracy the sections of the FY 2014 ESAC report that pertained to equitably shared monies that Anaheim PD spent in specific categories, such as personnel costs, travel and training, weapons and protective gear, and electronic surveillance. As previously stated, we found that while the Anaheim PD utilized separate account numbers for the different equitable sharing revenue that it received, Anaheim PD did not separately track DOJ-related expenditures. Specifically, the Anaheim PD tracked Treasury equitable sharing funds under the same fund code as DOJ equitable sharing funds. Therefore, based on this commingling of funds, we could not determine specifically how DOJ equitable sharing funds were expended nor could we verify that the categorization was accurate. Likewise, for the same reasons, we also could not determine the amount of earned interest income that pertained to Anaheim PD's DOJ equitable sharing funds.

Despite these deficiencies, we reviewed the Anaheim PD's supporting documentation including its General Ledger and General Ledger summaries. Specifically, we computed the total expenditures by category for FY 2014 and compared those totals to what Anaheim PD reported on its FY 2014 ESAC report. We determined that there were minimal differences in the amount of expenditures as reported in the FY 2014 ESAC report. We further determined that these differences stemmed from the use of a sub-account. As we note in the Use of Equitably Shared Resources section, the use of sub-accounts was prohibited as of

⁷ Anaheim PD recorded all equitable sharing receipts and expenditures under one fund code. However, it established a separate account number within the one fund code that was specific to DOJ receipts and that is how we were able to verify that Anaheim PD's equitable sharing receipts matched its accounting records. However, the same could not be done with interest earned and expenditures. According to the Equitable Sharing Guide, Anaheim PD should have established a unique fund code to separately track DOJ equitable sharing funds including receipts, interest earned, and expenditures.

July 20, 2015, and we make a recommendation that the Anaheim PD eliminate the sub-account. Anaheim PD officials acknowledged the change in guidance and stated that Anaheim PD will change its procedures.

According to the Equitable Sharing Guide, agencies must deposit any interest income earned on equitable sharing funds in the same revenue account or under the fund code established solely for the shared funds.⁸ Entities are required to report the amount of interest income earned during the given reporting period. Based upon our review of the supporting documentation provided by the Anaheim PD and the City of Anaheim, we found that the interest income reported on the FY 2014 ESAC report matched what was recorded in the accountings records. However, as previously stated, we found that interest earned on DOJ equitably shared receipts was not separately accounted for in the official accounting records.

Accounting for Equitably Shared Resources

As of March 31, 2015, law enforcement agencies participating in the DOJ Equitable Sharing Program are required to use the E-Share portal.⁹ E-Share enables a participating agency to receive payments by direct deposit and receive e-mail notifications that the funds have been deposited. The Equitable Sharing Guide requires that law enforcement agencies use standard accounting procedures to track DOJ Equitable Sharing Program receipts. Further, DOJ equitable sharing funds must be accounted for separately from other funds. We reviewed the Anaheim PD's equitable sharing receipts to determine if the funds were properly accounted for and deposited, and we reconciled the agency's accounting records to DOJ records of equitable sharing funds provided to the agency.

Anaheim PD personnel verified that the Anaheim PD participates in the required E-Share process where receipts are deposited by Electronic Funds Transfer (EFT) and that equitable sharing fund receipts are deposited directly into an interest-bearing account. Anaheim PD personnel involved in the Equitable Sharing Program activity further verified that non-FDIC insured deposits are collateralized by a secure guarantee with the financial institution.

When we inquired about E-Share notification e-mails in June 2015, Anaheim PD personnel informed us that they were not receiving E-Share notification e-mails. The AFMLS informed us that there was no e-mail address entered in United Financial Management System and the last e-mail address recorded in the system was for the previous Asset Forfeiture Specialist.

⁸ The Equitable Sharing Guide includes the requirement of establishing a unique accounting code to separately track DOJ equitable sharing funds, including revenue and expenditures. Anaheim PD's accounting system utilizes fund codes, which we understand to be equivalent to an accounting code. For consistency, we refer to fund code throughout the report in lieu of accounting code.

⁹ E-share is a mandatory process where the USMS processes electronic payments and notifies recipients of the payments via e-mail.

The previous Asset Forfeiture Specialist left the Anaheim PD in March 2014. After we inquired about the receipt of E-Share notification e-mails, the contact information for the Anaheim PD was corrected in June 2015. We confirmed that as of mid-June 2015, E-Share notification e-mails were sent to an e-mail address to which three different Anaheim PD personnel had access.

As part of our audit, we reviewed the Anaheim PD's equitable sharing policies and procedures. However, the equitable sharing policies and procedures provided did not specify the roles and responsibilities of Anaheim PD personnel in the DOJ Equitable Sharing Program process. Without specific directives assigning Anaheim PD personnel responsibilities for various aspects of Anaheim PD's equitable sharing responsibilities, there is an increased likelihood that equitable sharing program requirements will not be completed, such as the case of employee turnover described in the preceding paragraph. We believe that the lack of specific policies and procedures weakens the Anaheim PD's internal controls over its equitable sharing program. We recommend that the Anaheim PD develop Anaheim PD-specific equitable sharing policies and procedures with position-specific job responsibilities to ensure that the Anaheim PD complies with equitable sharing program requirements.

Additionally, the Anaheim PD's current Asset Forfeiture Specialist stated that he reconciles the Anaheim PD's applicable bank statements with the E-Share system information online. The Asset Forfeiture Specialist confirmed that he also uses E-Share system information, including the e-mail notifications, to track the Anaheim PD's DAG-71 sharing requests.

According to the Equitable Sharing Guide, agencies receiving equitable sharing funds are required to establish a unique fund code to separately track DOJ equitable sharing funds. Further, the Equitable Sharing Guide prohibits the inclusion of other funds within this fund code. Although Anaheim PD utilized a unique account number for DOJ equitable sharing revenues, we found that it failed to establish a unique fund code and instead commingled DOJ and Treasury equitable sharing funds within the same fund code. As we discussed in the Categorization of Equitable Sharing Expenditures section above, this commingling of funds resulted in our inability to determine exactly which expenditures of equitable sharing funds could be attributed to DOJ equitable sharing funds. The FY 2013 Single Audit report likewise identified a commingling finding, except in the case of the single audit, local funding revenues and expenses were commingled with DOJ equitable sharing funds. We recommend that the Anaheim PD establish a unique fund code to separately track DOJ equitable sharing funds, including all revenue and expenditures, separate from other equitable sharing funds as required by the Equitable Sharing Guide.

To determine whether the Anaheim PD properly accounted for and deposited DOJ equitable sharing funds, we reconciled the CATS report to the General Ledger and the Register of Receipts used by the Anaheim PD to track equitable sharing funds that it has received. We found that the CATS report and the Anaheim PD documentation, including the Register of Receipts, the

General Ledger, and EFT documentation, generally matched. As shown in Table 3, we then reviewed the 5 highest receipts totaling \$2,876,332. Given the overall total number of receipts, we judgmentally selected an additional 16 receipts covering an additional \$1,027,491 of equitable sharing funds received by the Anaheim PD. Therefore, we tested a total of \$3,903,823 (40 percent) in DOJ equitable sharing funding received by the Anaheim PD for the 3 fiscal years we reviewed. We found that the Anaheim PD accurately accounted for these deposits of equitably shared revenues.

Table 3
Top 5 Sampled Receipts for FYs 2012, 2013 and 2014

Sample Count	Date Received Per CATS Report	Amount Received	Date Received Per Anaheim PD	Amount Received
1	03/15/13	\$ 1,143,023	03/15/13	\$ 1,143,023
2	01/28/13	482,862	01/28/13	482,862
3	03/07/12	459,227	03/07/12	459,227
4	01/03/14	434,859	01/03/14	434,859
5	08/16/13	356,361	08/16/13	356,361
Totals		\$2,876,332		\$2,876,332

Note: Amounts have been rounded to the nearest dollar.

Source: CATS report and Anaheim PD bank statements.

Further, we reviewed how the Anaheim PD requested and tracked DOJ equitable sharing receipts. The Asset Forfeiture Specialist stated that hard copies of all DAG-71 forms are retained to assist in tracking the requests for equitable sharing funds. Additionally, the Asset Forfeiture Specialist maintains a sharing request log in an electronic database that includes information from the DAG-71 forms such as the date the request was filed, the file number, amount requested, amount received, and the date the funds were received. We compared the amount of receipts reported in the Anaheim PD's ESAC reports to the CATS report and to the Anaheim PD's Register of Receipts and its General Ledger. We found no discrepancies and therefore determined that the Anaheim PD adequately tracks its DOJ equitable sharing requests and initial receipts.

Use of Equitably Shared 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. Table 4 summarizes the Equitable Sharing Guide's allowable and unallowable uses for equitable sharing funds.

Table 4
Summary of Allowable and Unallowable Uses
for Equitable Sharing Funds

Allowable Uses
Matching funds
Contracting services
Law enforcement equipment
Law enforcement travel and per diem
Support of community-based programs
Law enforcement awards and memorials
Law enforcement training and education
Transfers to other law enforcement agencies
Joint law enforcement/public safety operations
Law enforcement operations and investigations
Law enforcement, public safety, and detention facilities
Drug and gang education and other awareness programs
Unallowable Uses
Loans
Bayonets
Supplanting
Camouflage Uniforms
Costs related to lawsuits
Extravagant expenditures
Tracked Armored Vehicles
Money laundering operations
Purchase of food and beverages
Creation of endowments or scholarships
Personal or political use of shared assets
Petty cash accounts and stored value cards ¹⁰
Firearms and Ammunition of .50-Caliber or Higher
Purchase of items for other law enforcement agencies
Weaponized Aircraft, Vessels and Vehicles of Any Kind
Uses contrary to the laws of the state or local jurisdiction
Use of forfeited property by non-law enforcement personnel
Grenade Launchers: Firearm or firearm accessory designed to launch small explosive projectiles
<i>With some exceptions, salaries and benefits of sworn or non-sworn law enforcement personnel.</i>

Source: Equitable Sharing Guide.

¹⁰ Prepaid credit cards may be purchased for use as a form of payment for buy-back programs.

Use of Equitable Sharing Funds

The Anaheim PD reported in its ESAC reports as expending DOJ equitable sharing funds totaling \$10,979,723 during the 3 fiscal years we reviewed. However, as previously mentioned in this report, the Anaheim PD did not have a separate fund code for its DOJ equitable sharing funds resulting in commingling. Because the Anaheim PD combined DOJ equitable sharing funds with Treasury equitable sharing funds in its accounting records, we were unable to determine which fund each of the expenditures were derived from. Therefore, we were unable to verify how much of DOJ equitable sharing funds the Anaheim PD had expended.¹¹ However, Anaheim PD officials informed us that for FYs 2012, 2013 and 2014, allocated amounts for DOJ equitable sharing funds accounted for 87 percent, 97 percent, and 87 percent of the expenditures, respectively. We judgmentally selected and tested 30 transactions from the City of Anaheim's Equitable Sharing general ledger totaling \$6,163,402 (56 percent) to determine if the expenditures were allowable, adequately supported, and properly authorized.

Table 5
Equitable Sharing Expenditure Testing

Fiscal Year	2012	2013	2014	Total
Amount of Expenditures Reviewed	\$1,102,870	\$3,283,529	\$1,777,004	\$6,163,402
Number of Expenditures Sampled	10	10	10	30

Note The difference in the table is due to rounding.

Source: OIG analysis of Anaheim PD accounting records.

The 30 expenditures we tested were the top 10 expenditures for each FY (2012, 2013, and 2014) in our review and included 12 expenditures for equipment purchases such as an airplane, motor vehicles, specialized aircraft equipment, and other equipment and services. Additionally, there were 18 electronic transfers from the equitable sharing account to the Vice Narcotics Criminal Intelligence (VNCI) account. The VNCI transfers were made to cover various expenditures including confidential informant payments and equipment purchases such as vehicles, surveillance cameras, covert recording devices, tactical weapons upgrades, and software subscriptions. For each of the 30 transactions selected, we reviewed supporting documentation to determine if the transactions were adequately supported, allowable, and approved. Additionally, for the 18 VNCI transfers, we reviewed documentation supporting the transfer of funds, as well as the expenditure of the transferred equitable sharing funds.

¹¹ During our review of the percentage allocation process, we determined that a majority of the asset forfeiture funding that the Anaheim PD received during our audit period was from the DOJ.

We determined that all 30 tested transactions were adequately supported and properly approved. However, we identified two expenditures that did not appear to be allowable based on our understanding of equitable sharing criteria. Specifically, the two expenditures in question were, in the amounts of \$1,000 and \$7,000 and they pertained to two separate VNCI transfers. The \$1,000 expenditure was a sponsorship for a social event. The Equitable Sharing Guide states that agencies should use federal sharing monies prudently and in such a manner as to avoid any appearance of extravagance, waste or impropriety. The Guide further states that tickets to social events are an example of an extravagant expense and are impermissible. Further, the \$7,000 expense was a donation to a community-based program. The Equitable Sharing Guide prohibits state and local law enforcement agencies from making cash transfers or donations to support community-based programs. Therefore, we believe the \$1,000 sponsorship of a social event and the \$7,000 donation were not allowable according to the Equitable Sharing Guide and, as a result, we questioned these expenditures. We recommend that the Anaheim PD remedy the \$8,000 in questioned costs and adhere to the Equitable Sharing Guide regarding extravagant expenditures and donations to community-based programs.

Additionally, during this review, we determined that the Anaheim PD utilized a sub-account to pay confidential informants and make other purchases with equitably shared funds. Pursuant to the July 20, 2015 Equitable Sharing Wire, the use of sub-accounts to have access to cash on-hand or to pay informants in advance is now prohibited. Anaheim PD officials acknowledged the change in guidance and will be making the necessary changes to its procedures. While we note that the transactions we selected for this review all preceded this guidance, we recommend that the Anaheim PD eliminate the Vice, Narcotics and Criminal Intelligence sub-account as sub-accounts are prohibited by the Equitable Sharing Guide.

Lastly, we obtained and reviewed the Anaheim PD's inventory documentation and records for the 20 equipment purchases in our expenditure sample, and found that all equipment was properly accounted for in its records. Further, we physically verified equipment purchases while onsite at the Anaheim PD and found no exceptions.¹²

Compliance with Audit Requirements

The Equitable Sharing Guide requires that state and local law enforcement agencies that receive federally shared cash, proceeds, or tangible property perform an audit consistent with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. OMB Circular A-133 requires non-federal entities to prepare a

¹² One of the purchases was a surveillance camera system. We physically verified some surveillance system components (a camera and a router) that were accessible at an Anaheim PD location. For the remaining items, we relied on Anaheim PD officials' written certification that all components of the surveillance system had been received and installed.

Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements, provided that it expended \$500,000 or more in federal funds in a given year. The Schedule of Expenditures of Federal Awards is supposed to be included within the entity's Single Audit Report.

To determine if the Anaheim PD accurately reported DOJ equitable sharing fund expenditures on its Schedule of Expenditures of Federal Awards, we reviewed the Anaheim PD's accounting records and the City of Anaheim's Single Audit Reports for FYs 2012, 2013, and 2014. We found that the equitable sharing fund expenditures that the City of Anaheim reported in its Single Audit Reports for all three FYs matched the expenditures recorded in the Anaheim PD's ESAC reports.¹³ However, as noted earlier in this report, the Anaheim PD did not have a separate fund code for its DOJ equitable sharing funds, but rather combined its DOJ equitable sharing funds with other equitable sharing funds within one fund code. Thus, we were unable to identify DOJ equitable sharing fund expenditures from all other equitable sharing fund expenditures. Therefore, the expenditures that the City of Anaheim reported in its Single Audit Report were not specifically separated to indicate expenditures pertaining only to the DOJ equitable sharing funds as required by OMB Circular A-133.

Single Audit Findings

We reviewed the Single Audit Report for the City of Anaheim for FYs 2012, 2013, and 2014. The City of Anaheim's Single Audit Reports for FYs 2013 and 2014 contained seven findings related to the Anaheim PD's participation in the DOJ Equitable Sharing Program.

As of August 2015, the Anaheim PD had completed corrective action plans for five of the six FY 2013 Single Audit findings. Specifically, the outstanding finding was due to the lack of appropriate policies and procedures to provide for open and free competition or the failure to document why competition was limited for all of its federal expenditures. Anaheim PD officials stated that, moving forward, they would ensure that procurement personnel are well-versed in City, federal, and asset forfeiture guidelines related to procurement. In November 2015 the report was closed because the Anaheim PD revised its local procurement policy to mirror federal procurement policy.

Additionally, the FY 2014 Single Audit Report stated that adequate controls were not in place to ensure that equipment items were inventoried every 2 years. At the time of our fieldwork, Anaheim PD was conducting its first department-wide

¹³ The DOJ equitable sharing fund expenditures that the City of Anaheim reported in its Single Audit Report for FY 2013 matched the DOJ equitable sharing expenditures that the Anaheim PD reported on its original ESAC report for the same fiscal year. Approximately 1 year later, in September 2014, the Anaheim PD amended its FY 2013 ESAC report to remove impermissible expenditures, which were identified by the AFMLS. During our audit, we verified through the AFMLS that the City of Anaheim took corrective action to return the amount of the unallowable expenditures to the equitable sharing fund.

inventory of equipment purchased with equitable sharing funds. An Anaheim PD official stated that this effort was completed prior to June 30, 2015.

Monitoring Applications for Transfer of Federally Forfeited Property

The Equitable Sharing Guide states that all participating agencies must complete a Form DAG-71 when requesting its portion of equitable sharing funds. It also states that all participating agencies should maintain a DAG-71 log of all sharing requests consecutively numbered along with the type of seizure, amount seized, amount requested, amount received, and the date the requested equitable funds were received. In addition, the Equitable Sharing Guide requires that DOJ Equitable Sharing Program participants update the DAG-71 log when an E-Share notification is received. Furthermore, the Equitable Sharing Guide states that agencies shall retain for a period of at least 5 years all documents and records pertaining to their participation in the DOJ Equitable Sharing Program, including their receipt and expenditures of Equitable Sharing Program proceeds.

During our fieldwork, we confirmed that the Anaheim PD maintained a log of its DAG-71 sharing requests, as required by the Equitable Sharing Guide. The Anaheim PD's Asset Forfeiture Specialist provided to us a demonstration of the E-Share system, including the status of each request. The log included a "Closed" column that the Asset Forfeiture Specialist stated was checked once equitable sharing funds were received. The Asset Forfeiture Specialist further stated that he reconciles this log with the Anaheim PD's equitable sharing receipts. We reviewed a copy of the Anaheim PD's log and determined that it met the requirements of the Equitable Sharing Guide.

We requested from the Anaheim PD the DAG-71 forms to support all 102 equitable sharing receipts for FYs 2012, 2013, and 2014. The Anaheim PD was unable to provide 11 of the requested DAG-71 forms. The Asset Forfeiture Specialist stated that he was unable to locate the forms in the case files. He added that 2 of these 11 missing DAG-71 forms were from 2001 and were probably purged.¹⁴

We also requested the EFT documentation for these 102 transactions. The Anaheim PD was unable to locate the EFT documentation for two of these transactions. The Asset Forfeiture Specialist stated that he was unable to locate these forms in all of the case files. Because these 2 transactions for which EFT documentation was not available were also 2 of the 11 instances for which the Anaheim PD could not locate a DAG-71 form, we requested and obtained the DAG-71 forms from the Drug Enforcement Administration to verify that these funds were requested by the Anaheim PD.

¹⁴ These two DAG-71 forms were submitted in 2001 and the DOJ equitable sharing funds were received by the Anaheim PD during our audit period. The remaining nine forms were submitted between 2009 and 2012.

We further reviewed the Register of Receipts provided by the Asset Forfeiture Specialist and found support for all but 5 of the 102 receipt transactions that occurred in the FYs reviewed. Through follow up with Anaheim PD personnel, we were able to obtain documentation supporting these five transactions. Additionally, because we were able to verify that the General Ledger included all 102 receipts of equitable sharing funds, we do not question any of the amounts.

Based on the foregoing paragraphs, we found that there were instances where the Anaheim PD did not always maintain required documentation related to its participation in the DOJ Equitable Sharing Program. Therefore, we recommend that the Anaheim PD retain all documents and records pertaining to its receipt and expenditure of DOJ Equitable Sharing Program proceeds for a period of at least 5 years, as required by the Equitable Sharing Guide.

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. The recipient agency must benefit directly from the equitable sharing funds. For example, if a police department receives \$100,000 in equitable sharing funds only to have its budget cut \$100,000 by the city council, the police department has received no direct benefit whatsoever. To test whether equitable sharing funds were used to supplement rather than supplant local funding, we interviewed local officials and reviewed the Anaheim PD's budgets for FYs 2012 through 2015.

Based on our review of the Anaheim PD's budget documents, we found that the Anaheim PD's budget increased each year from FY 2012 to FY 2015. Specifically, for our review period, the Anaheim PD's local budget increased by approximately 5 percent. Therefore, we did not identify any indications that the City of Anaheim used DOJ equitable sharing funds to supplant the Anaheim PD's local budget.

Views of Responsible Officials

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

Conclusion

We found that the Anaheim PD failed to comply with four of the five Equitable Sharing Program requirements we tested. Specifically, we determined that the Anaheim PD submitted the FY 2013 ESAC report 28 days late and, after an analysis of the FY 2014 ESAC report, we also noted inaccuracies in the expenditures

reported as well as the methodology the Anaheim PD utilized to determine its reported amounts. We found that ESAC reporting inaccuracies stemmed, in part, from the use of a sub-account, which we determined is prohibited by the Equitable Sharing Guide as of July 2015.

Additionally, we determined that the Anaheim PD did not establish a separate fund code specifically for DOJ equitable sharing funds. This commingling of DOJ equitable sharing funds with other equitable sharing funds received prevented us from identifying the specific ways the Anaheim PD expended these funds. Likewise, the Anaheim PD failed to record interest earned on DOJ equitable sharing funds separately from other interest earned. A review of the expenditure of the Anaheim PD's equitable sharing funds, including DOJ equitable sharing funds, resulted in our questioning two expenditures for a total of \$8,000. We determined the two questioned expenditures were unallowable based on the Equitable Sharing Guide's prohibitions against cash transfers to community-based programs and extravagant expenses.

Further, the Anaheim PD did not retain all documents and records pertaining to their participation in the DOJ Equitable Sharing Program as required by the Equitable Sharing Guide. We also identified an internal control weakness in the Anaheim PD's equitable sharing program by the lack of Anaheim PD-specific policies and procedures to ensure that equitable sharing guidelines are followed. Besides the \$8,000 in questioned costs mentioned above, we make seven recommendations to improve the Anaheim PD's participation in the DOJ Equitable Sharing Program.

Recommendations

We recommend that the Criminal Division:

1. Ensure that the Anaheim PD takes steps to ensure that its future ESAC reports continue to be submitted within the required time frame.
2. Ensure that the Anaheim PD reports on its ESAC reports actual expenditures as required by the AFMLS.
3. Ensure that the Anaheim PD develops Anaheim PD-specific equitable sharing policies and procedures with position-specific job responsibilities in order to comply with equitable sharing program requirements.
4. Ensure that the Anaheim PD establishes a unique fund code to separately track DOJ equitable sharing funds, including all revenue and expenditures, from other equitable sharing funds as required by the Equitable Sharing Guide.
5. Remedy the \$8,000 in questioned costs and ensure that the Anaheim PD adheres to the Equitable Sharing Guide regarding extravagant expenditures and donations to community-based programs.

6. Ensure that the Anaheim PD eliminates the Vice, Narcotics, and Criminal Intelligence sub-account as sub-accounts are prohibited by the Equitable Sharing guidelines.
7. Ensure that the Anaheim PD retains all documents and records pertaining to its receipts and expenditures of the DOJ Equitable Sharing Program proceeds for a period of at least 5 years, as required by the Equitable Sharing Guide.

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.

Objective

The objective of the audit was to assess whether the Anaheim PD accounted for equitable sharing funds properly and used such revenues for allowable purposes defined by applicable guidelines. We tested compliance with what we considered to be the most important conditions of the 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 that was issued in July 2014. Unless otherwise stated in our report, the criteria we audited against are contained in these documents.

Scope and Methodology

Our audit focused on, but was not limited to, equitable sharing receipts received by the Anaheim PD between July 1, 2011, and June 30, 2014. The U.S. Department of the Treasury administers its own Equitable Sharing Program. Our audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program.

We performed audit work at the Anaheim PD's headquarters located in Anaheim, California. We interviewed Anaheim PD officials and examined records, including revenue and expenditures related to the administration of DOJ equitable sharing funds. In addition, we relied on computer-generated data contained in the DOJ Consolidated Asset Tracking System (CATS) to identify equitably shared revenue and property awarded to the Anaheim PD during the audit period. We did not establish the reliability of the data contained in the CATS as a whole. However, when viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations included in this report are valid.

Our audit specifically evaluated the Anaheim PD's compliance with essential equitable sharing guidelines in three areas: (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 whether the Anaheim PD established internal controls over DOJ equitable sharing receipts and expenditures. However, we did not assess the reliability of the

Anaheim PD or the City of Anaheim's financial management system, or the extent to which the financial management system complied with internal controls, laws, and regulations overall.

Within the scope of this audit, the Anaheim PD reported receiving a total of \$9,795,672 in cash receipts. For the same period, the Anaheim PD reported expending a total of \$10,979,723. We judgmentally selected and tested 10 transactions each from FYs 2012, 2013, and 2014 for a total of 30 transactions totaling \$6,163,402 in equitable sharing fund expenditures. These 30 sampled transactions were the highest-dollar transactions for FYs 2012, 2013, and 2014. This non-statistical sample design does not allow projection of the test results to all disbursements.

We also physically verified 20 equipment purchases, including police vehicle equipment and security systems, which the Anaheim PD purchased with DOJ equitable sharing funds. We confirmed the existence of the items related to 19 of the 20 purchases. One purchase consisted of numerous cameras and routers that were installed in various locations. The equipment in this purchase was confirmed to exist through written certification provided by Anaheim PD officials.

In planning and performing our audit, we considered the internal controls over DOJ equitable sharing receipts that were established and utilized by the Anaheim PD and the City of Anaheim Budget and Finance Department. We did not assess the reliability of the Anaheim PD's financial management system or the internal controls related to that system or otherwise assess internal controls and compliance with laws and regulations for the City of Anaheim as a whole.

Our audit included an evaluation of the City of Anaheim's Single Audit Reports for FYs 2011, 2012, 2013, and 2014, its most recent Single Audit Report. The Single Audit Reports were prepared under the provisions of Office of Management and Budget Circular A-133. We found that the independent auditor's assessments for FYs 2013 and 2014 disclosed significant deficiencies and material weaknesses related to the Anaheim PD's involvement in the DOJ Equitable Sharing Program. Specifically, there were six findings in FY 2013 and one finding in FY 2014. These findings related to the oversight and approval of asset forfeiture expenditures, management of items purchased with asset forfeiture funds, procurement policies and procedures, the reporting of asset forfeiture expenditures, and the tracking of asset forfeiture fund requests. We discuss these findings in our report where appropriate.

As of August 2015, the Anaheim PD had completed corrective action plans for five of the six FY 2013 findings. The remaining FY 2013 finding pertained to the lack of appropriate policies and procedures to provide for open and free competition or to document why competition was limited for all of its federal expenditures. Anaheim PD officials stated that, moving forward, they would ensure that procurement personnel are well-versed in city, federal, and asset forfeiture guidelines related to procurement. An AFMLS official stated that, as of

November 2015, this finding was closed because the Anaheim PD revised its local procurement policies to mirror federal procurement policies.

The FY 2014 Single Audit finding noted that the City of Anaheim did not appear to have adequate controls in place to ensure that all equipment items were inventoried every 2 years. Anaheim PD officials responded that a police department-wide inventory of equipment purchased with asset forfeiture funds would be completed and that Anaheim PD personnel would maintain the inventory list. In August 2015, an Anaheim PD official verified that the Anaheim PD completed a police department-wide inventory of equipment purchased with asset forfeiture funds prior to June 30, 2015.

SCHEDULE OF DOLLAR-RELATED FINDINGS

<u>Description</u>	<u>Amount</u>	<u>Page</u>
Unallowable Costs:		
Cash transfers to community-based programs and extravagant expenditures	\$8,000	13
Total Unallowable Costs	\$8,000	
Total Questioned Costs¹⁵	\$8,000	

¹⁵ Questioned Costs are expenditures that do not comply with legal, regulatory, or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation.

THE ANAHEIM POLICE DEPARTMENT
 ANAHEIM, CALIFORNIA
 RESPONSE TO THE DRAFT REPORT



City of Anaheim
POLICE DEPARTMENT

Raul Quezada, Chief of Police

To: Chief Raul Quezada
From: Captain Jarret Young
 Lieutenant Tracy Hittesdorf
Date: November 25, 2015
RE: United States Department of Justice Office of Inspector General
 Equitable Sharing Funds Audit Response

The U.S. Department of Justice (DOJ) Office of the Inspector General recently completed an audit of the Equitable Sharing Program for Fiscal Years 2012, 2013 and 2014 within the Special Enforcement Division. The primary objective of the audit was to review, evaluate and test procedures used by the Anaheim Police Department in the handling of forfeiture funds seized under the Comprehensive Crime Control Act of 1984.

Below are the recommendations which resulted from the audit conducted by U.S. DOJ Office of the Inspector General and Anaheim Police Department's responses:

1. *Take steps to ensure that its future ESAC reports continue to be submitted within the required time frame.*

Response: The police department implemented policy which specifies the Equitable Sharing and Certification (ESAC) report must be submitted within sixty (60) days after the close of the fiscal year. In addition, the policy includes the requirement of the signatures of the head of the Agency and Governing Body Head. The Chief of Police will sign as the head of the Agency and the City Manager will sign as the Governing Body Head.

2. *Report on its ESAC reports actual expenditures as required by AFMLS.*

Response: The police department is working with the City's finance department to create separate fund numbers to delineate between Department of Justice (DOJ) and Department of Treasury (DOT) expenditures.

3. *Develop Anaheim PD-specific equitable sharing policies and procedures with position-specific job responsibilities to ensure that the Anaheim PD complies with equitable sharing program requirements.*

Response: The police department is in the process of updating policies and procedures to include the roles and responsibilities of the individuals involved in the DOJ equitable sharing program.

Anaheim Police Dept.
 425 S. Harbor Blvd.
 Anaheim, CA 92805
 TEL: 714.765.1986
 FAX: 714.765.1690

4. *Establish a unique fund code to separately track DOJ equitable sharing funds, including all revenue and expenditures, from other equitable sharing funds as required by the Equitable Sharing Guide.*

Response: Although the City currently uses a specific revenue source number for DOJ revenues, the police department is working with the City's Finance Department on establishing a unique fund code to separately track DOJ equitable sharing funds revenue and expenditures, from other equitable sharing funds as required by the Equitable Sharing Guide.

5. *Remedy the \$8,000 in questioned costs and adhere to the Equitable Sharing Guide regarding extravagant expenditures and donations to community-based programs.*

Response: The total amount of impermissible FY2012 expenditures of \$8,000 will be reimbursed to the Equitable Sharing account and reported as "other income" on the police department's FY2016 ESAC.

6. *Eliminate the Vice, Narcotics and Criminal Intelligence (VNCI) sub-account as sub-accounts are prohibited by the Equitable Sharing guidelines.*

Response: The VNCI sub-account has been eliminated. However, Anaheim Police Department respectfully disagrees with this recommendation due to the fact the audit period was identified as July 1, 2011 through June 30, 2014 and this requirement was not implemented until July 2015. Anaheim Police Department was in compliance during the designated audit period.

7. *Retain all documents and records pertaining to its receipts and expenditures of the DOJ Equitable Sharing Program proceeds for a period of at least 5 years, as required by the Equitable Sharing Guide.*

Response: The department procedure has been updated to ensure the retention period of all documents and records pertaining to its receipts and expenditures of the DOJ Equitable Sharing Program proceeds for a period of five (5) years, as required by the Equitable Sharing Guide.

In conclusion, the U.S. DOJ Office of Inspector General audit revealed the police department was non-compliant with four of the five DOJ Equitable Sharing Program requirements tested. Upon verbal advisement of the audit findings, steps were immediately taken towards correcting the deficiencies. Of the seven recommendations, three have been corrected and the remaining modifications are in progress.

**THE CRIMINAL DIVISION
ASSET FORFEITURE AND MONEY LAUNDERING SECTION
RESPONSE TO THE DRAFT REPORT**



U.S. Department of Justice

Criminal Division

Asset Forfeiture and Money Laundering Section

Washington, D.C. 20530

DEC - 9 2015

MEMORANDUM

TO: David Gaschke
Regional Audit Manager
San Francisco Regional Audit Office
Office of the Inspector General (OIG)

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

SUBJECT: DRAFT AUDIT REPORT for the Anaheim Police Department Equitable Sharing Program

In a memorandum to Assistant Attorney General, Leslie R. Caldwell, dated November 13, 2015, your office provided a draft audit report for the Anaheim Police Department (APD), which included actions necessary for closure of the audit report findings. The following is a list of the recommendations pertaining to the draft audit report of APD's Equitable Sharing Program (Program) activity and the Asset Forfeiture and Money Laundering Section (AFMLS) assessment:

Recommendations:

1. Take steps to ensure that its future Equitable Sharing Agreement and Certification (ESAC) reports continue to be submitted within the required timeframe.
2. Report on its ESAC reports actual expenditures as required by AFMLS.
3. Develop APD-specific equitable sharing policies and procedures with position-specific job responsibilities to ensure that the APD complies with equitable sharing program requirements.

4. **Establish a unique fund code to separately track DOJ equitable sharing funds, including all revenue and expenditures, from other equitable sharing funds as required by the Equitable Sharing Guide.**
5. **Remedy the \$8,000 in questioned costs and adhere to the Equitable Sharing Guide regarding extravagant expenditures and donations to community-based programs.**
6. **Eliminate the Vice, Narcotics, and Criminal Intelligence sub-account as sub-accounts are prohibited by the Equitable Sharing Guidelines.**
7. **Retain all documents and records pertaining to its receipts and expenditures of the DOJ Equitable Sharing Program proceeds for a period of at least 5 years, as required by the Equitable Sharing Guide.**

AFMLS concurs with all recommendations in the draft audit report. Upon issuance of the final audit report, AFMLS will work with the APD to implement corrective actions, ensure that the agency establishes policies and procedures for the administration of the Program and remedy \$8,000.00 in questioned costs.

cc: Denise Turcotte, Audit Liaison
U.S. Department of Justice
Criminal Division

Richard P. Theis, Assistant Director
U.S. Department of Justice
Internal Revenue and Evaluation Office
Justice Management Division

M. Kendall Day, Chief
U.S. Department of Justice
Asset Forfeiture and Money Laundering Section
Criminal Division

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

The Office of the Inspector General (OIG) provided a draft of this audit report to the Anaheim PD and AFMLS. Their responses are incorporated as Appendices 3 and 4, respectively, of this final report. The following provides the OIG's analysis of their responses and summary of actions necessary to close the report.

Recommendation

- 1. Ensure that the Anaheim PD takes steps to ensure that its future ESAC reports continue to be submitted within the required time frame.**

Resolved. AFMLS agreed with our recommendation. AFMLS stated that it will work with the Anaheim PD to implement corrective actions and ensure that the agency establishes policies and procedures for the administration of the Program. The Anaheim PD stated that it has implemented a policy specifying that the ESAC report must be submitted within 60 days after the close of the fiscal year and whose signatures are required to be included in the report.

This recommendation can be closed when we obtain documentation supporting the Anaheim PD's implementation of its new policy.

- 2. Ensure that the Anaheim PD reports on its ESAC reports actual expenditures as required by the AFMLS.**

Resolved. AFMLS agreed with our recommendation and stated that it will work with the Anaheim PD to implement corrective actions and ensure that the agency establishes policies and procedures for the administration of the Program. The Anaheim PD stated that it was working with the City's finance department to create a unique fund number for DOJ expenditures.

This recommendation can be closed when we receive documentation confirming that the Anaheim PD reports actual expenditures on its ESAC reports.

- 3. Ensure that the Anaheim PD develops Anaheim PD-specific equitable sharing policies and procedures with position-specific job responsibilities in order to comply with equitable sharing program requirements.**

Resolved. AFMLS agreed with our recommendation. AFMLS stated that it will work with the Anaheim PD to implement corrective actions and ensure that the agency establishes policies and procedures for the administration of the Program. The Anaheim PD stated that it is in the process of updating policies and procedures to include the roles and responsibilities of the individuals involved in the DOJ equitable sharing program.

This recommendation can be closed when we receive the updated policies and procedures that include specific position-specific job responsibilities related to the Anaheim PD's equitable sharing program.

- 4. Ensure that the Anaheim PD establishes a unique fund code to separately track DOJ equitable sharing funds, including all revenue and expenditures, from other equitable sharing funds as required by the Equitable Sharing Guide.**

Resolved. AFMLS agreed with our recommendation and stated that it will work with the Anaheim PD to implement corrective actions and ensure that the agency establishes policies and procedures for the administration of the Program. The Anaheim PD stated that it is working with the City's finance department to create a unique fund code to separately track DOJ equitable sharing funds revenue and expenditures from other equitable sharing funds.

This recommendation can be closed when we receive documentation confirming the creation of a unique fund code for DOJ equitable sharing fund revenues and expenditures.

- 5. Remedy the \$8,000 in questioned costs and ensure that the Anaheim PD adheres to the Equitable Sharing Guide regarding extravagant expenditures and donations to community-based programs.**

Resolved. AFMLS agreed with our recommendation. AFMLS stated that it will work with the Anaheim PD to implement corrective actions, ensure that the agency establishes policies and procedures for the administration of the Program, and remedy \$8,000 in questioned costs. The Anaheim PD stated that the \$8,000 in questioned costs will be reimbursed to the Equitable Sharing account and reported as "other income" on the police department's FY 2016 ESAC report.

This recommendation can be closed when we receive documentation supporting that the \$8,000 in questioned costs has been reimbursed to the Equitable Sharing account.

6. Ensure that the Anaheim PD eliminates the Vice, Narcotics, and Criminal Intelligence sub-account as sub-accounts are prohibited by the Equitable Sharing guidelines.

Closed. In its response, the AFMLS agreed with this recommendation and stated that it will work with the Anaheim PD to implement corrective actions and ensure that the agency establishes policies and procedures for the administration of the Program. However, the Anaheim PD disagreed with our recommendation because it was based on a requirement established outside of the identified audit period. The Anaheim PD further states that it was in compliance during the designated audit period. The Anaheim PD also states that the VNCI sub-account has been eliminated.

While we agree that the criterion upon which recommendation 6 is based was established outside of the initial audit period identified at the onset of the audit, the existence of the VNCI sub-account came to our attention as a direct result of our transaction testing. As noted in our report, we do not question the use of the VNCI sub-account prior to the July 20, 2015, Equitable Sharing Wire, which prohibited the use of sub-accounts for access to cash on-hand or to pay informants in advance. However, we do take exception to its use post July 20, 2015, and have an obligation to report our finding, as it is a violation of AFMLS's Equitable Sharing Program policy. As we explained at the entrance and exit conferences held with the Anaheim PD and included in the Objective, Scope, and Methodology section of this report, our audit focused on, but was not limited to, equitable sharing receipts received by the Anaheim PD between July 1, 2011, and June 30, 2014. This recommendation has been closed based on the documentation we have received from the Anaheim PD illustrating that the VNCI sub-account has been closed as recommended in our report.

7. Ensure that the Anaheim PD retains all documents and records pertaining to its receipts and expenditures of the DOJ Equitable Sharing Program proceeds for a period of at least 5 years, as required by the Equitable Sharing Guide.

Resolved. AFMLS agreed with this recommendation and stated that it will work with the Anaheim PD to implement corrective actions and ensure that the agency establishes policies and procedures for the administration of the Program. The Anaheim PD stated that its procedures have been updated to ensure that the retention period for all documents and records pertaining to its DOJ Equitable Sharing Program receipts and expenditures covers a period of 5 years, which is in compliance with the Equitable Sharing Guide.

This recommendation can be closed when we receive the updated procedures requiring the retention of all documents and records pertaining to its DOJ Equitable Sharing Program receipts and expenditures for 5 years.

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



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