



ARLINGTON
VIRGINIA

Internal Audit Report – Program Compliance Cycle Audit

Arlington County Police Department – Seized Assets:
Catalog of Federal Domestic Assistance #16.922 –
Equitable Sharing Program

Report Date: May 11, 2017

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TRANSMITTAL LETTER

May 11, 2017

Chief M. Jay Farr
Chief of Police, Arlington County Police Department

Ms. Maria Meredith
Deputy Director, Department of Management and Finance

Arlington County, Virginia
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Pursuant to the contract and related statement of work for Arlington County, Virginia (“the County”), we hereby present the Program Compliance Cycle Audit of the Arlington County Police Department (“ACPD”) – Seized Assets: Catalog of Federal Domestic Assistance (“CFDA”) #16.922 – Equitable Sharing Program. Our report is organized in the following sections:

Executive Summary	This section includes a background summary of the function, the objectives and approach, and a detailed description of the observations noted during this cycle audit. Identified with each observation is the recommended action(s), and management’s corrective action plan, including the responsible party and estimated completion date.
Background	This section provides an overview of the function within the process and pertinent operational control points and related compliance requirements.
Objectives and Approach	The cycle audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
Process Maps	This section illustrates process maps, which identifies data flow, key control points and any identified gaps.

As described in our objectives and procedures outlined on pages 8 and 9 of this report, the observations noted are based on our analysis of the processes, documents, records and information provided to us by the County. This cycle audit focused on evaluating the soundness of internal control policies to safeguard assets and on reviewing compliance with County policies. We offer no assurances that schemes or fraudulent activities have not been, or are not currently being perpetrated by any person within the areas reviewed.

We would like to thank the staff and all those involved in assisting RSM US LLP in connection with this Program Compliance Cycle Audit.

Respectfully Submitted,

RSM US LLP

RSM US LLP

EXECUTIVE SUMMARY

Background

The CFDA #16.922 - Equitable Sharing Program (“CFDA #16.922” the “Program”) allows proceeds from the sale of seized assets from federal-local joint operations to be shared with the local agency that assisted in the federal operation. CFDA #16.922 is specific to Department of Justice (“DOJ”) (federal executive department of the U.S. government) shared funds.

The Comprehensive Crime Control Act of 1984 authorized federal officials to implement a national asset forfeiture program. Thousands of state and local law enforcement agencies utilize the Equitable Sharing Program to further their efforts to achieve department goals and objectives. Expenditures paid for utilizing shared funds must meet specific criteria included in the *Guide to Equitable Sharing* published by the Department of Justice in 2009, and amended in May 2015 based on *Executive Order 13688* pertaining to the purchase of controlled equipment. To summarize, expenditures need to be used by law enforcement agencies for law enforcement agencies, be permissible, and not used to supplant the department’s budget.

During Fiscal Year 2016, Arlington County received Shared Funds amounting to \$107,204, adding to a starting balance of \$1,190,597, and spent \$355,027, leaving a remaining balance of \$950,672 (including interest income of \$7,898) to start Fiscal Year 2017. Although it is permitted, and requires explicit reporting, the Arlington County Police Department did not participate in sharing funds received from other agencies, matching grants, transfers to other participating law enforcement agencies, supporting of community-based programs, payment of salaries, or purchase of controlled equipment with Shared Funds from the Department of Justice.

Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or ‘brand’ risk.

Objective and Scope

A program/grant compliance cycle audit includes an in-depth review so that we properly understand and test the process/key controls (from a process and control viewpoint), address efficiency and effectiveness opportunities (where possible and appropriate), and make recommendations (to potentially improve the monitoring process in an effort to prevent, or detect and correct, matters that could become reportable findings).

The scope for this cycle audit encompassed the controls and compliance for Arlington County’s Police Department – Seized Assets: CFDA #16.922 - Equitable Sharing Program. This Program has not been previously identified by the County’s external auditors as a program subject to their testing, nor does it currently meet the threshold, as a Major Program, pursuant to the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“the Uniform Guidance”). The program selected for this cycle audit was made to identify a substantial program, but not one that is, or has been, audited by the County’s independent external auditors. Testing included a sample of the expenditure population for Fiscal Year 2017 from July 1, 2016 to March 1, 2017, as well as, the prior years’ annual reporting to federal agencies.

Fieldwork was performed March 2017 through April 2017

Number of Observations by Risk Rating

(See Appendix A for definitions)

	High	Moderate	Low
Program Compliance Cycle Audit of Arlington County’s Police Department – Seized Assets: CFDA #16.922 – Equitable Sharing Program	-	2	-

We would like to thank all Arlington County team members who assisted us throughout this review.

EXECUTIVE SUMMARY (CONTINUED)

<u>Risk Rating</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
Moderate	1. Expenditure Authorization: Long-term Expenditures		
	<p>The Arlington County Police Department is subject to various requirements as a participating agency in the Equitable Sharing Program, one of which is authorization from the agency head (Chief of Police) of all expenditures which utilize shared funds. Authorization is to be retained and provide an audit trail for the DOJ or any applicable review agency.</p> <p><i>Per the Guide to Equitable Sharing for State and Local Law Enforcement Agencies which details that “the state or local participating law enforcement agency must establish an internal procedure to recommend expenditures from the revenue account. In many small agencies, the chief of police determines the purposes for which the funds are used. In larger agencies, committees have been formed to make recommendations for expenditures to the agency head. The agency head must authorize all expenditures from the federal sharing revenue account.”</i></p> <p>The Arlington County Police Department has established a process of obtaining authorization via official memorandum which details the need, application, and related costs of expenditures that are independent of a long-term project or contract.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> • Long-term projects/contracts should include a breakdown of anticipated expenditures detailing cost and description of the good or service to be purchased. • In addition to the tracking of all individual expenditures against approved (documented) projects/contracts currently performed by the Seized Asset Program Manager, the remaining approved balance should be updated as expenditures are recorded. • Long-term projects/contracts should receive documented annual review and authorization. • Requests for individual expenditures should be obtained as they are identified, if they were not detailed in the original approval of the associated project/contract. These individual expenditure requests should provide a level of detail to easily tie the expenditure to the associated project/contract. 	<p>Response: Understanding that long-term projects/contracts such as the one for the new Criminal Justice Records Management System (“CJRMS”) are a very infrequent endeavor for the ACPD, we will improve our documentation both on the front end of such a project, as well as at appropriate intervals throughout the project. This documentation will include a breakdown of anticipated expenditure costs and descriptions of the goods and/or services to be purchased. In addition, the Seized Asset Program Manager shall track expenditures and routinely compare them against the approved project/contract. As recommended, an annual review of the project/contract shall take place and authorizations for the expenditures will be part of that review. As requests for expenditures are generated, they should be tied back to the original spending plan or documentation shall be produced to show that they are being added to the scope of work.</p> <p>Responsible Party: Project Manager for the identified project, Procurement Specialist, Asset Forfeiture Program Manager</p> <p>Estimated Completion Date: December, 31, 2017</p>

EXECUTIVE SUMMARY (CONTINUED)

<u>Risk Rating</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
Moderate	1. Expenditure Authorization: Long-term Expenditures - continued		
	<p>We noted the following:</p> <ul style="list-style-type: none"> A long-term project was identified as a permissible use of shared funds, however, the official memorandum for the project/contract as a whole did not include a breakdown of anticipated expenditures detailing cost and description of the good/service to be purchased. Therefore, expenditures related to long-term projects/contracts cannot be tied directly to the original project approval ('official memorandum'). Items greater than \$5,000 are approved within PRISM by the Chief of Police as part of the purchasing process. The original project approval appears to be functioning similar to a "blanket purchase order", in which the approval is for an amount of unspecified expenditures. Six (6) out of eleven (11) expenditures tested, totaling \$65,841, were associated with a single blanket approval (related to the long-term project noted above) dating back to September 2013. The approval allowed for up to \$1,000,000 of shared funds to be utilized to purchase equipment for three (3) new training rooms. No additional language was included pertaining to the specifics of the anticipated expenditures. While all expenditures greater than \$5,000 are approved in PRISM by the Chief of Police, there is no evidence of review and authorization by the Chief of Police for expenditures less than the \$5,000 threshold. A designated individual(s) is approving expenditures less than \$5,000 within PRISM, but the Department of Justice's Guide does not provide guidance on delegated approvers. Authorization was not retained for one (1) of eleven (11) tested expenditures. The expenditure was a monthly payment in the amount of \$4,960 relating to the use of rental vehicles to support task force operations. Per inquiry, this is an ongoing expense that received authorization 12 years ago, however the approval was not updated or retained. Since this expenditure was less than the \$5,000 threshold, approval was not provided by the Chief of Police. As stated above, a designated individual(s) is approving expenditures less than \$5,000, but the Department of Justice's Guide does not provide guidance on delegated approvers. <p>Expenditure authorization provides transparency and accountability of the use of program related funds. It also serves as audit support during potential external and regulatory audits.</p>		

EXECUTIVE SUMMARY (CONTINUED)

<u>Risk Rating</u>	<u>Observation</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
Moderate	<p>2. Documented Procedures</p>		
	<p>The Arlington County Police Department has developed processes and procedures to meet the requirements of CFDA #16.922 – Equitable Sharing Program. These processes and procedures are unique to the department and the individuals performing them. The individuals involved are responsible for applying for shared funds, obtaining approval for expenditures, updating accounting records in the accounting system of record, monitoring and tracking of expenditures and shared funds, as well as annual reporting.</p> <p>These processes and procedures are not documented to illustrate and instruct staff about the necessary steps to perform associated with CFDA #16.922.</p> <p>Ineffective procedural practices could result in the risk of non-compliance and loss of funding.</p> <p>Centralized, standardized, and documented procedures provide vital information to employees in the event of absence and employee turnover, and assist with succession/back up planning and other personnel occurrences. Documented policies and procedures provide detailed instruction to help ensure accurate and consistent process functioning, monitoring and reporting. This practice also provides management with a benchmark to monitor against to ensure that staff performs processes that are consistent, accurate, on schedule, and that are properly reviewed, where applicable.</p>	<p>The County is in the process of developing policies and procedures related to administration and monitoring of federal and/or state funding.</p> <p>We recommend that those procedures, once established, also include the requirement for the respective department to develop applicable procedural documentation as it relates to the specific federal and/or state funding program, if the procedures differ from the County's guidelines.</p>	<p>Response: ACPD will use the Visio diagrams supplied by RSM US, LLP as a starting point to document all the processes and procedures for the Seized Assets Program. The policy and procedures document will detail all the steps and approvals needed from the monitoring of funds from the respective agency to the deposit of funds into the sequestered Police accounts for Seized Assets. The document will include the monitoring and expending of funds from the initial approval memo, purchase order creation, expensing of funds, paying of invoices, and close of purchase order(s). An appendix to the document will contain a how-to guide for the monthly reports from the Financial Management Unit and a how-to guide for the annual interest income earned during the fiscal year. The analysis for the interest earned for the prior fiscal year is performed in July / August during fiscal year closeout.</p> <p>Responsible Party: Asset Forfeiture Program Manager and Police Planning Specialist</p> <p>Estimated Completion Date: December 31, 2017</p>

EXECUTIVE SUMMARY (CONTINUED)

<u>Improvement Opportunity</u>	<u>Recommendation</u>
<p>1. Equitable Sharing Program Training</p> <p>There is no formal training, or the tracking of training, in place for pertinent Arlington County Police Department positions related to the Equitable Sharing Program. Based on discussions with the former Seized Asset Program Manager, "There is specific training hosted by DOJ and the State concerning primary end users interaction with the program. Most of the other personnel are educated through a train the trainer program."</p> <p>Without adequate training and training tracking, relevant County employees may not have all necessary knowledge to operate within the Equitable Sharing Program guidance possibly leading to erroneous actions potentially causing political, financial, and reputational County risk events.</p>	<p>After procedures have been documented, as noted above, training should be provided to all applicable individuals. The Seized Asset Program Manager should record all individuals that have received training and the date of training.</p> <p>If training is conducted externally by the DOJ and DCJS, documentation should be retained detailing who has attended the training and what positions are required to. The positions requiring training should be included in the Equitable Sharing Program policy recommended above.</p>
<p>2. Annual Reporting Review and Approval</p> <p>The Department of Justice requires an annual report/affidavit ('Equitable Sharing and Agreement Annual Certification Report') to be submitted which includes summary information on the beginning and ending balance, shared funds spent, shared fund spent categories, as well as the disclosures of specific circumstances. Prior to submission of this annual report/affidavit to the DOJ, the Seized Asset Program Manager submits the annual report to the Chief of Police for review and approval. No evidence of the internal review and approval of the detailed information that is utilized for the summary information on the annual report is retained. The only evidence of approval is the Chief of Police and County Manager's signature on the required annual report. Additionally, no evidence of the annual report's submission is retained.</p> <p>The accuracy of this annual report/affidavit is critical to the department's ability to continue utilizing the program funds.</p> <p>Without an appropriate level of review and approval, potential issues may not be identified and accountable individuals may not have knowledge pertaining to the Equitable Sharing Program that they are held accountable for. Retaining evidence of submission protects Arlington County in the case that the DOJ claims untimely submission.</p>	<p>All review and approvals should be documented either physically or by email prior to submission to the DOJ. Review and approval should be documented for the Seized Asset Program Manager, Management & Budget Specialist, Chief of Police, and any other reviewing personnel. Evidence of submission should be retained each year.</p> <p>Alternatively, recommended policies and procedures included in observation #2 could include a procedure stating that the Chief of Police's signature on the annual report/affidavit satisfies of evidence of detailed review.</p>

BACKGROUND, OBJECTIVES AND APPROACH

Background

Overview

According to the audited financial statements as of June 30, 2016, the County received over \$136M in federal and state operating programs/grants and other contributions. Federal and state funds have stringent compliance requirements to determine proper use of the funds. Additionally, new federal legislation and regulations can have a “cascade” effect on long established programs (e.g. impact of the Affordable Care Act on certain programs administered by local governments).

Seized Assets: CFDA #16.922 – Equitable Sharing Program allows proceeds from the sale of seized assets from federal-local joint operations to be shared with the local agency that assisted in the federal operation. CFDA #16.922 is specific to Department of Justice shared funds. The Comprehensive Crime Control Act of 1984 authorized federal officials to implement a national asset forfeiture program. Thousands of state and local law enforcement agencies utilize the Equitable Sharing Program in an effort to further their efforts to achieve department goals and objectives. Expenditures paid for utilizing shared funds must meet specific criteria included in the *Guide to Equitable Sharing* published by the Department of Justice in 2009, and amended in May 2015 based on *Executive Order 13688* pertaining to the purchase of controlled equipment. To summarize, expenditures need to be used by law enforcement agencies for law enforcement agencies, be permissible, and not used to supplement the department’s budget. Shared funds spent, beginning and ending balance, and other figures are included in an annual report submitted to the Department of Justice at fiscal year-end.

During Fiscal Year 2016, Arlington County received Shared Funds amounting to \$107,204, adding to a starting balance of \$1,190,597, and spent \$355,027, leaving a remaining balance of \$950,672 (including interest income of \$7,898) to start Fiscal Year 2017. Although it is permitted, and requires explicit reporting, the Arlington County Police Department did not participate in any of the following: sharing funds received from other agencies, matching grants, transfers to other participating law enforcement agencies, supporting of community-based programs, payment of salaries, or purchase of controlled equipment with Shared Funds from the Department of Justice. The Department of Justice’s annual reporting includes a ‘Summary of Shared Funds Spent’ where all expenditures are organized by categories. The Arlington County Police Department reported the following summary as part of the FY 2016 annual report:

Summary of Shared Funds Spent	Justice Funds
a. Law enforcement operations and investigations	\$ -
b. Training and education	\$ 2,990.00
c. Law enforcement, public safety operations	\$ -
d. Law enforcement equipment	\$ 347,396.88
e. Joint law enforcement / public safety operations	\$ -
f. Contract for services that support or enhance law enforcement	\$ -
g. Law enforcement travel and per diem	\$ 4,640.24
h. Law enforcement awards and memorials	\$ -
i. Drug and gang education and other awareness programs	\$ -
j. Matching Funds (for state / local law enforcement share of state / federal grant programs)	\$ -
k. Transfers to other law enforcement agencies	\$ -
l. Support of community-based programs	\$ -
m. Non-Categorized expenditures	\$ -
n. Salaries	\$ -

During our FY 2017 testing period (July 1, 2016 and March 1, 2017), the Arlington County Police Department spent \$293,377 of CDFA #16.922 shared funds on thirty-one (31) expenditures.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach

Objectives

The scope for this cycle audit encompassed the controls and compliance for Arlington County's Police Department – Seized Assets: CFDA #16.922 Equitable Sharing Program. This program has not been previously identified by the County's external auditors as a program subject to their testing, nor does it currently meet the threshold, as a Major Program, pursuant to the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The program selected for this cycle audit was made to identify a substantial program, but not one that is or has been audited by the County's independent external auditors. Testing will include a sample of the expenditure population from July 1, 2016 to March 11, 2017, as well as, corresponding reporting to federal agencies.

Approach

Our audit approach consisted of the following phases:

Understanding and Documentation of the Process

During the first phase, we performed the following:

- Conducted an entrance conference with those involved with the application, program execution, and monitoring process for the identified federal program;
- Obtained copies of agreements and other documents deemed necessary;
- Obtained a detailed schedule of the expenditures for CFDA #16.922 for the period July 1, 2016 to March 1, 2017;
- Reviewed the applicable Federal, State and County policies related to this cycle audit;
- Reviewed requirements of the Uniform Guidance applicable to these federal funds;
- Conducted interviews with responsible personnel from the selected departments/divisions to obtain an understanding of the unique aspects of each in order to perform the walkthroughs and our testing; and
- Developed department/division level flowcharts of the process(es), which are included in this report.

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness

The process and control evaluation phase of this engagement consisted of an evaluation of the design and testing of operating effectiveness, based on our understanding of the compliance process. We performed walkthroughs and detailed testing utilizing sampling and other auditing techniques necessary to meet our audit objectives outlined above. Our fieldwork testing was conducted utilizing sampling and other auditing techniques to meet our audit objectives outlined above. The audit period for transactional testing was July 1, 2016 to March 1, 2017. Areas of testing included, as applicable upon review of CFDA #16.922 the following, were identified as relevant compliance requirements of the Uniform Guidance for these federal funds:

- Activities allowed or un-allowed;
- Allowable costs/cost principles;
- Eligibility requirements;
- Equipment and real property management;
- Period of performance;

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

Approach (continued)

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness (continued)

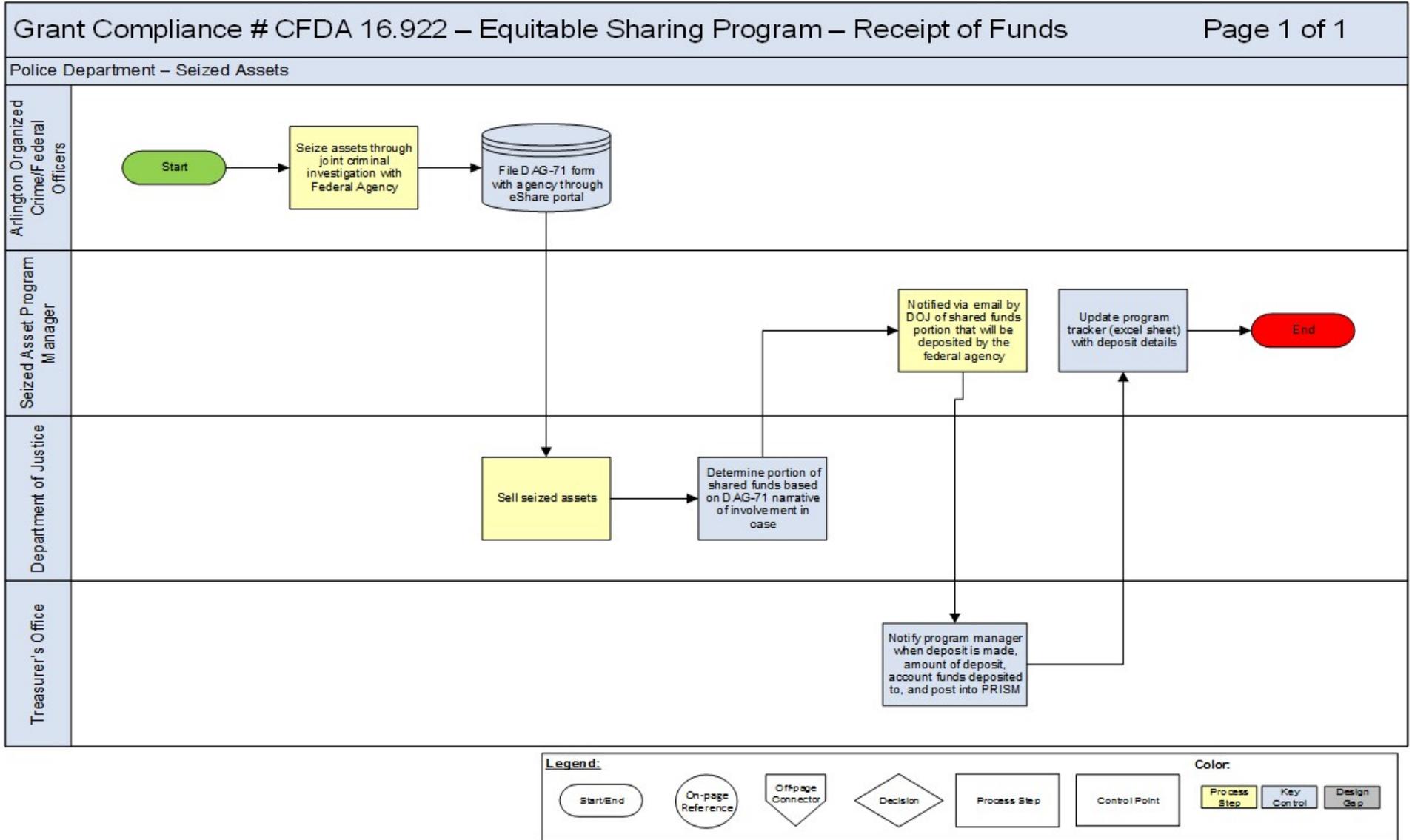
- Monitoring of the Department's compliance with program requirements;
- Reporting; and
- Sub recipient monitoring.

Reporting

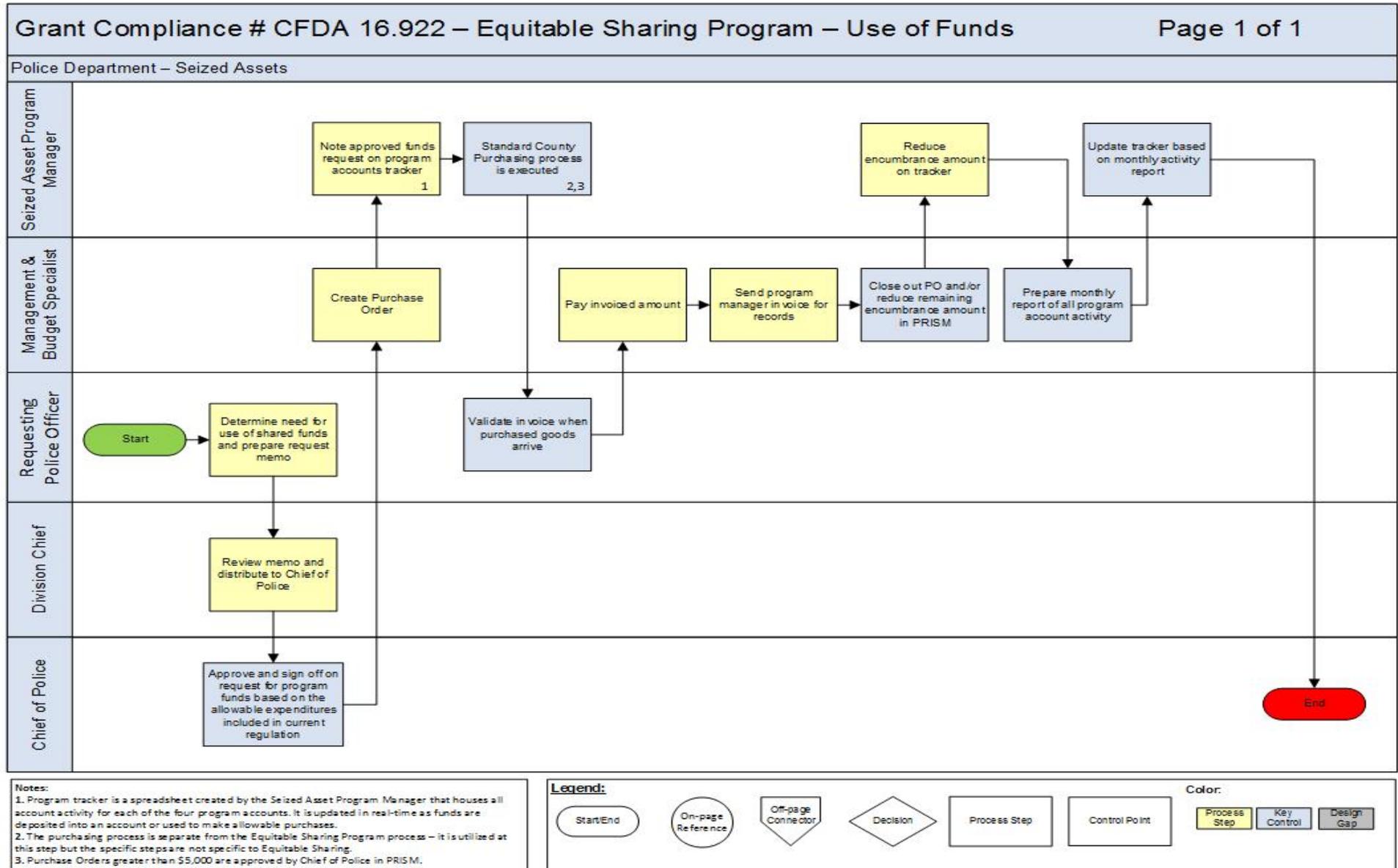
At the conclusion of this audit, we vetted the facts and exceptions noted with ACPD. The draft report was submitted to ACPD and DMF for review. An exit meeting was held with ACPD and DMF to formally review and discuss the draft report and modify accordingly.

Management's corrective action plan with estimated completion dates has been provided and included in the report. Follow-up procedures will be performed after the completion date noted by Management. Follow-up typically occurs after ample time has passed with the new control / procedure in place (generally six months) to verify and report the implementation status of the recommendations and Management's action with regard to the previously reported observations. Objectives of the overall follow-up procedures are to determine if open observations from this audit report has been properly remediated. Follow-up is meant to validate, on a sample basis, the effectiveness of the remediated controls of the previously reported open observations.

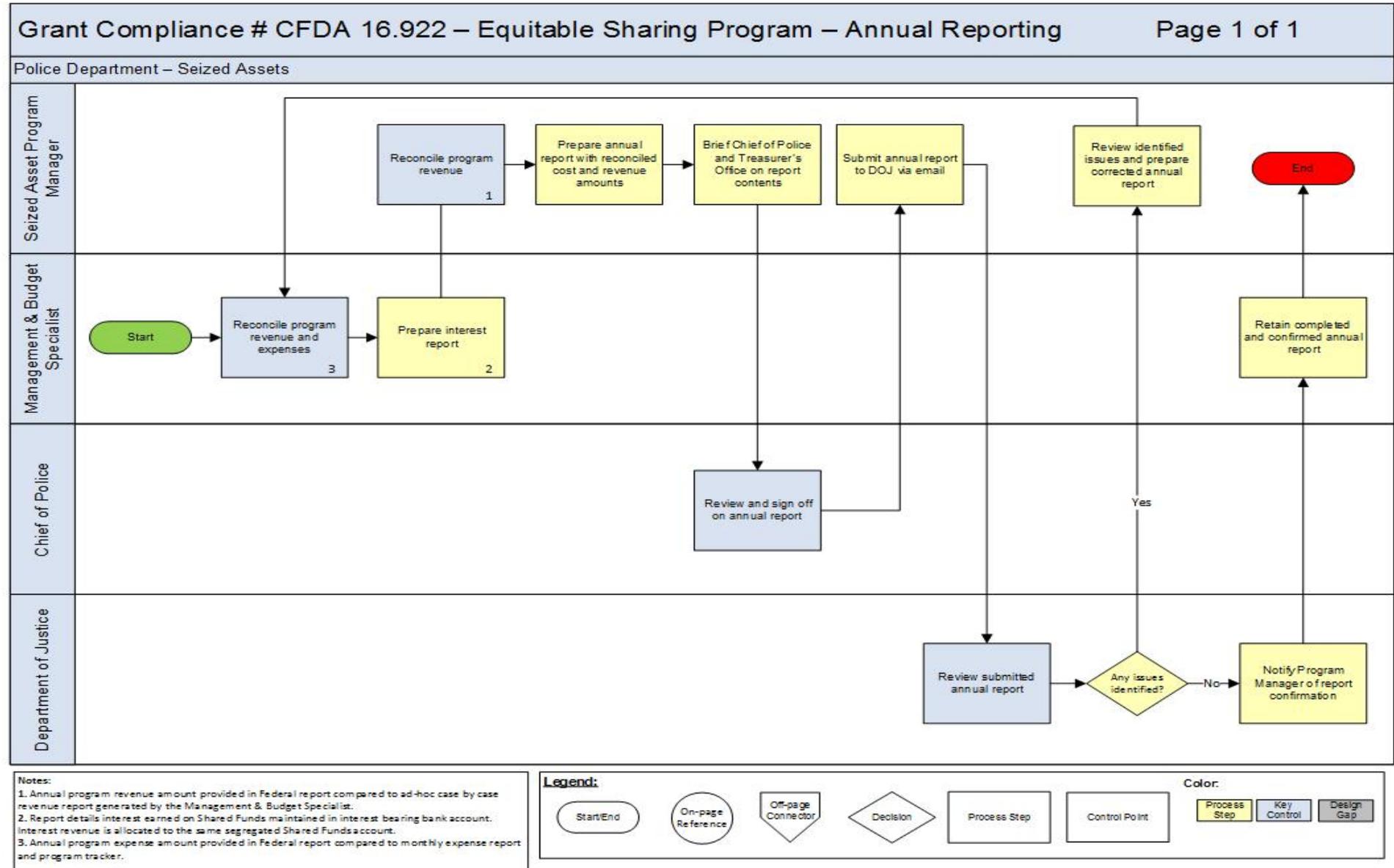
PROCESS MAPS



PROCESS MAPS (CONTINUED)



PROCESS MAPS (CONTINUED)



APPENDIX – RATING DEFINITIONS

Observation Risk Rating Definitions	
Rating	Explanation
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals and internal control structure.
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals and improve its internal control structure. Action should be in the near term.
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals and improve its internal control structure. Action should be taken immediately.



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