



Fairfax County Internal Audit Office

**Police Department Seized and Confidential Funds
Audit Report**

January 2005

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Executive Summary

We found that the Organized Crime and Narcotics (OCN) Division's controls over the expenditures and withdrawals from the asset forfeiture funds were satisfactory and operating effectively. There were also adequate records maintained for all deposits, withdrawals, and other transactions affecting both the asset forfeiture funds and the confidential fund accounts. However, the custody, recordkeeping and bank account reconciliation functions for confidential funds had inadequate controls, as these functions were all being performed by the same individual.

Additional opportunities for strengthening internal controls were noted in the following areas:

- Police officers were not consistently complying with departmental procedures for describing the exact contents of seized fund packages on the property cards.
- OCN was not following up on outstanding unpaid asset forfeitures from Federal agencies or the Virginia Department of Criminal Justice Services (DCJS).
- The Financial Resources Division was entering incorrect vendor invoice dates into CASPS, resulting in early payment to the vendors.

Certain OCN operational and computer security related information has been omitted from general disclosure. This information, if disclosed, would subject the Police Department to potential program and personnel risks.

Scope and Objectives

This audit was performed as part of our Fiscal Year 2004 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Our audit objectives were to determine that:

- Proper internal controls existed and were working as intended to safeguard from loss, theft, or fraud, all seized assets and confidential funds of the Police Department.
- Complete and accurate manual records were maintained for all deposits, withdrawals, and other transactions affecting the asset forfeiture funds (also known as seized funds) and the confidential fund accounts. Also, determine that security provisions for automated records were operating to provide for separation of duties, data integrity and an audit trail.
- Expenditures and withdrawals from the funds were properly authorized, approved, and recorded.

The scope of our audit included a review of transactions involving the seized funds and confidential funds during the period January 1, 2003, through February 29, 2004.

Methodology

Our audit approach included interviewing appropriate employees, observing employees' work functions, detailed testing of seized fund and confidential fund transactions, and evaluating the processes for compliance with sound internal controls, government regulations, and departmental policies and procedures. We used random and judgmental sampling where appropriate, to improve the overall efficiency of the audit. Where we noted opportunities for improvement, we brought them to management's attention.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We report directly and are accountable to the County Executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the County Executive and the Board of Supervisors, and reports are available to the public.

Findings and Recommendations

1. Custody and Recording of Confidential Funds

Custody and recording of the confidential funds in OCN were performed by the same individual.

Sound internal controls require that the individual who has access to cash should not also record the cash transactions. He or she should be separate from the person who controls the books where the cash transactions are recorded. The purpose is to ensure that all additions to and withdrawals from cash are properly recorded and accounted for, thereby preventing or deterring theft or other irregularities.

Without a proper separation of duties, the confidential fund records can be altered at any time to agree with the cash on hand.

Recommendation: The confidential fund records should be maintained by an employee other than the fund custodian. We understand that, at the advice of the Police Department's Financial Resources Division, OCN transferred the recordkeeping function to their administrative assistant early this year. However, the custodian and secondary custodian continued to have update access to the confidential fund records. We recommend that the custodians' access be restricted to "read only" to ensure a proper separation of duties. In addition, the procedures for establishing separation of duties should be documented and made part of OCN's standard operating procedures (SOPs).

Management Response: All OCN accounts are currently on Excel spreadsheets and have been placed on the J drive. These spreadsheets are only accessed by the individuals who enter or balance the accounts. Commanders, both at the division and bureau level have read-only access. Updates to OCN SOPs will be completed by December 15, 2004.

2. Bank Account Reconciliation

The OCN Division maintained two checking accounts. The keeper of the checkbooks for these accounts also reconciled the checkbook balances to the bank account statements monthly, indicating a lack of separation of duties

Responsibilities for the custody, depositing and disbursing of funds, the recording of transaction activity, and the reconciliation of the bank account transactions should be separated to ensure the accuracy and the integrity of the accounting records. The lack of separation of duties compromises the integrity of the checkbook information, permits errors and omissions to go uncorrected, and opens the opportunity for possible fraudulent activity.

Recommendation: We recognize that staffing limitations at OCN have not easily accommodated a proper segregation of duties. However, we recommend that the OCN commander reassign staff responsibilities in order to achieve an effective separation between the bank account reconciliation and the recording of the transactions in the checkbook and the Excel spreadsheets that serve as the accounting records. An independent person should compare the accounting records and the checkbook to the bank statements on a regular and consistent basis. The bank reconciliation schedule should be signed by the preparer and reviewed and initialed by a supervisor. This will ensure the accuracy of the records and highlight any unusual transactions or adjustments for further investigation. We also recommend that these procedures be put in writing to serve as a training guide for the staff.

Management Response: Currently, a second lieutenant reconciles the checkbook and the administrative assistant enters the transactions. This meets the requirement to have a separation of duties. The bank reconciliation schedule is signed by both the preparer and the commander, not a supervisor. This procedure will be documented with the updated SOPs by December 15, 2004.

3. Incomplete Description of Currency

We tested 23 seized fund withdrawals listed on 15 property cards that were removed from the Property Room by the Organized Crime and Narcotics Division between January 1, 2003, and February 29, 2004. Eleven of the 23 cash withdrawals (or six property cards) did not have an itemized listing and complete description of the cash on the property cards. The description either stated only "U.S. Currency" or a total dollar amount with no attached count sheet or itemized listing of the denominations. Five of the six property cards were OCN cases and one was a street patrol case. Likewise, in our review of a random sample of 20 property cards listing seized funds transported to the Property Room by OCN or police patrol officers, we found 10 cards that did not have a complete and detailed item description. Four of the 10 property cards were written by police patrol officers and six by OCN officers.

FCPD General Order 610.1 requires that the exact contents of a currency package be listed, including the breakdown of denominations, the total for each

denomination, and the grand total. OCN's standard operating procedures (SOPs) further state, "When denominations of the monies cannot be specifically recorded on the property cards (i.e., a considerable sum of cash), then a count sheet shall be used. When count sheets are used they must be attached to the property card and the detectives will record on the property card, "See Attached Count Sheet" in the space provided to record the cash denominations."

Accountability is lost when vague descriptions, such as "U.S. Currency" or "cash" are used for this vulnerable and high-risk item. Such a practice could tempt someone to remove a few bills without being detected. Writing in only the total dollar amount without a breakdown of the denominations and a total for each denomination is in violation of departmental policy.

Although our audit showed an improvement in the police officers' compliance with policy over our prior audit in May 2002 (i.e., incomplete item descriptions were noted in 46% of the sampled property cards, versus 67% in 2002), police officers have not been consistent in complying with the established procedures.

Recommendation: The department should ensure that police officers adhere consistently to the required procedures for counting, packaging and describing the exact contents of all cash packages. The Property Room should refuse to accept cash packages brought in by officers that do not have a complete and detailed description of the contents on the property cards as required by General Order 610.1 and OCN's standard operating procedures.

Management Response: Roll call training is being conducted for all OCN personnel to ensure compliance of current general orders and SOPs regarding the completion of count sheets.

4. Outstanding Receivables on the Asset Forfeiture Schedule

Our testing of a random sample of 25 cases from OCN's asset forfeiture (AF) schedule showed that OCN was not following up on outstanding unpaid "receivables" from DCJS or federal agencies. For five of the 10 cases under federal jurisdiction in our sample, payments for FCPD's share of the asset forfeitures (approximately \$8,435 or 10% of the total seized assets of \$84,350) had been outstanding between 189 and 1,651 days from the date the claim form DAG-71 was filed. Likewise, for 4 of the 15 cases under state jurisdiction in our sample, no final disposition had been received from the court as of May 20, 2004 (our testing date), despite the fact that the DCJS 998, Asset Seizure Reporting form, was filed with the Commonwealth Attorney between 313 and 475 days prior to May 20, 2004. The total amount of seized funds for these four cases was approximately \$7,887. OCN had not followed up on the outstanding cases with either the federal or state agencies.

Good accounting practice dictates that receivables be monitored and followed up when no final disposition is received or if they remain unpaid beyond a reasonable period of time. If collection processes are not sufficient, the Police Department may not get their appropriate share of the proceeds from asset forfeitures that they are entitled to. This would adversely affect the department's cash flow.

We further noted three cases in our sample where payments had been received from the DCJS and the federal government on April 10, 2002, May 3, 2002, and July 16, 2002, respectively, but the AF schedule was not updated to reflect them. Not updating the AF schedule to reflect all payments received results in making the receivables seem outstanding and unpaid even though that may not be the case. This defeats the purpose of the two additional columns in the AF schedule for payment receipt dates, which is to highlight unpaid receivables so that the necessary follow-ups can be made.

Recommendations: We recommend that steps be taken and documented to ensure that asset forfeiture payments are received and accounted for, as follows:

- 1) OCN should monitor outstanding asset forfeiture sharing payments due them from both the Virginia DCJS and the federal government, and perform the necessary follow-up when payments remain outstanding beyond a reasonable time.
- 2) OCN should ensure that all payments received are accurately reflected on the asset forfeiture schedule.

Management Response: Since the start of the audit, additional detectives have been assigned to the Money Laundering Unit. In addition, a sergeant has been assigned to the Money Laundering Unit and has been tasked to monitor the system. The new policy has been changed to require a weekly check of the system to identify any delinquent payments. The sergeant will then follow-up to ensure that all efforts to collect payments are done. The sergeant will also ensure that all payments received are accurately reflected on the asset forfeiture schedule. There are circumstances that are beyond the control of the department, such as other jurisdictions that make claim to the forfeitures, continuing federal investigations, or court actions that delay the payments. Anticipated completion date of all planned actions is December 15, 2004.

5. Tracking of Restitution Payments

Restitution payments, ordered by the courts to be made by criminals as a condition of their sentencing, were being tracked by OCN using their Drug Trak software. However, there was no follow-up action on the restitutions that were delinquent or past due. The Restitution Tracking Report listed 15 cases as of April 13, 2004, where the restitution payments were delinquent, ranging from four months to 18 months past their payment due dates. We further noted that 63 of the 97 active restitution cases listed on the tracking report did not have sentencing orders from the courts. This makes it impossible to effectively track their status since OCN does not know the amount ordered as restitution and the date it should be paid in full.

Since a court-ordered restitution is a condition for a criminal's lighter sentence, the non-payment of restitution amounts past their due dates should be reported to the courts as early as possible for appropriate action. Copies of sentencing orders should also be obtained for all restitution cases so that they can be properly and effectively tracked.

Without notification of past due amounts, the courts would not be aware of potential errors or violations, such as:

- Instances where the courts may have received the restitution payments but have inadvertently failed to send them to OCN.
- Instances where criminals need to be brought back to court for noncompliance with the judge's sentencing orders.

Recommendations: We recommend that OCN follow up on unpaid restitution amounts by:

- 1) Reporting them to the courts as soon as they are 60 days past due.
- 2) Elevating the task of obtaining copies of the old restitution and sentencing orders to a higher priority, and setting up a reasonable timeframe for achieving it.

We further recommend that these follow-up procedures be documented.

Management Response: Currently, all payments are monitored and tracked by OCN. In addition, before any legal action is taken the court is contacted to verify payment was not made.

All restitution orders have been located and are entered into the Drug Trak system. This has always been a high priority with OCN, however, the courts' recent staffing levels have hampered requests for paperwork and payment verifications.

6. Restitution Payments

Restitution payments received in the mail were not date-stamped on the accompanying check stubs or advices with the "Received Date." In addition, the payments were being deposited only once a month, at an average of about \$8,264.00 per month. Lastly, the payments were at risk of getting lost or stolen during the time period between the receipt of the mail and the recording of the payments in the restitution logbook. Only one person performed the tasks of receiving and opening the mail containing payments, removing the payment checks from the envelopes, and recording them in the logbook. During this time period when one individual had control over the assets and no accountability had yet been established, the payments were vulnerable to theft.

Elements of an effective internal control system over the receipt of payments include providing a complete transaction trail and ensuring that assets are adequately safeguarded from loss or theft. The receipt of a payment marks the beginning of a payment transaction; therefore, the receipt date should be recorded by either date-stamping the payments or recording them in the logbook. Controls to minimize

exposure to loss or theft include depositing payment collections as soon as possible, dual control over the assets, and separation of duties.

Without a recorded receipt date, it is not possible to determine the time lag between the receipt of the payment and the date of deposit. Non-timely deposit of the payment checks increases the risk of their getting lost or stolen. Likewise, without adequate controls, the payments received through the mail could get lost or stolen and not be detected timely.

Recommendations: We recommend that the following actions be taken and documented to ensure that restitution payments received are properly safeguarded, deposited, and accounted for:

- 1) Restitution payments received should be date-stamped with the "Received Date," and deposited on a frequent basis, either weekly or bi-weekly.
- 2) Mail should be under the control of two employees from the time it is received from the mail carrier up to the time that payments are recorded in the logbook. Both employees should initial the logbook after recording. The OCN Commander or his designee should also initial the logbook indicating his receipt of the checks when the payments are turned over to him.

Management Response: Restitution payments are currently logged the day they are received and stamped "for deposit only." The date is then logged by the administrative assistant and initialed by the commander or assistant commander. A received date stamp has been ordered and it will be used to date the invoice that is attached to the check.

The mail is picked up by the commander or assistant commander then released to the administrative assistant. Any restitution checks are immediately logged in while both parties are present. Restitution payments received will be deposited on a frequent basis, either weekly or bi-weekly. Updates to the SOPs will be completed by December 15, 2004.

7. Vendor Payments for Seized Fund Expenditures

Vendor payments for the expenditures from seized funds were not being made by the Financial Resources Division (FRD) in accordance with the County's General Conditions & Instructions to Bidders. Our review of purchase order (PO) and small purchase order (SO) transactions revealed that payments were being made early and not net 30 in accordance with policy. Eleven of the 13 invoices reviewed were posted incorrectly to the system using the invoice date rather than the receipt date, resulting in early payment to the vendor. We were unable to determine the average early payment time as the receipt date was not indicated on the invoice.

Per the General Conditions & Instructions to Bidders, payment due dates are to be calculated based upon the date of receipt of goods or the receipt of a correct invoice by the specific department, whichever is later. In addition, unless a prompt payment

discount is offered, terms are construed to mean net 30 days. If vendor payments are made early, rather than in accordance with the net 30 days contract terms, the County would not be maximizing funds on hand that are available for investment.

FRD staff was keying in the invoice date because they were following the CASPS Training Manual (Invoice Processing) which states on page 6, step 5, "Tab to the Inv date field and **type** the invoice date." The manual does not define the "invoice date" as the "invoice receipt date" except when the purchase document has discount terms, in which case, "a current date or the date the invoice was received will be substituted for the invoice date."

Recommendations: We recommend that the following actions be taken to ensure that invoice payments are properly made:

- 1) Invoices should be date stamped upon receipt by the specific department to ensure that the appropriate date is available for employees to input to CASPS when processing payments. Staff who input purchase documents or make payments through CASPS should enter the date in which the invoice is actually received as indicated by the stamped date. This will ensure that vendors are paid in accordance with contract terms.
- 2) Separately, the Department of Information Technology (DIT) should revise the CASPS Training Manual to state explicitly in the Invoice Processing section that the "invoice date" to be entered in CASPS is the later of the "date of receipt of the invoice or the receipt of goods". This will remove the current disparity between County policy and the manual and avoid any confusion and misunderstanding over the interpretation of the CASPS Training Manual requirements. (Internal Audit is sending a separate memorandum to DIT addressing this issue.)

Management Response: Invoices are currently stamped when they are received by FRD personnel. The invoice is then entered into the CASPS system with the date received. Once the invoice is received, there is a verification process to ensure goods or services are received. When the goods or services are received, the invoice is paid within the thirty days to meet the contract terms.