



Audit of the South San Francisco Police
Department's Equitable Sharing Program Activities,
South San Francisco, California



AUDIT DIVISION

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EXECUTIVE SUMMARY

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Objectives

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

Results in Brief

As a result of our audit, we concluded that the SSFPD lacked accounting and management controls over its DOJ equitable sharing deposits and expenditures. We also identified several areas related to the SSFPD's non-compliance with equitable sharing guidelines. Specifically, we found that the SSFPD did not submit accurate Equitable Sharing Annual Certification (ESAC) reports, was late in submitting the reports, and did not retain evidence of its reviews, as required. In addition, the SSFPD commingled funds from DOJ and Department of Treasury (Treasury) Equitable Sharing Programs and did not have procedures in place to ensure that the City of South San Francisco (City of SSF) Finance Department accurately and timely posted equitable sharing funds to the SSFPD's general ledger account. Further, the SSFPD should implement procedures to ensure that: (1) proper documentation of approvals for equitable sharing fund expenditures are retained, (2) vendors are in good standing on the System of Award Management website, and (3) accurate inventory records are maintained for property purchased with equitable sharing funds. Finally, we found that the SSFPD spent \$3,500 on unallowable items.

Recommendations

Our report includes nine recommendations to assist the DOJ Criminal Division, which oversees the DOJ Equitable Sharing Program. We requested a response to our draft audit report from the SSFPD and DOJ Criminal Division, which can be found in Appendices 3 and 4, respectively. Our analysis of those responses is included in Appendix 5.

Audit Results

Equitable sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations. As of July 1, 2017, SSFPD reported having a balance of \$2,285,825 in DOJ equitable sharing funds on hand. Between July 1, 2017, through June 30, 2019, the SSFPD received \$928,139 and spent \$3,600,957 in equitable sharing funds. A significant portion of the reported spending was attributable to an unallowable transfer of \$2,236,224 from SSFPD's equitable sharing funds by the City of SSF causing a \$525,622 account deficit. This was eventually rectified when the City of SSF reversed the transfer and returned the funds to SSFPD's equitable sharing account 7 months later. Our audit identified several areas of SSFPD's Equitable Sharing Program activities that need improvement.

ESAC Reports – The SSFPD submitted its FYs 2018 and 2019 ESAC reports late, did not accurately report monies spent by category, and did not report interest income for FYs 2016 and 2017. Also, we determined that the SSFPD did not retain evidence of its agency head's review of ESAC reports, as required.

Accounting for Equitable Sharing Resources – The SSFPD commingled DOJ and Treasury equitable sharing funds and lacked procedures to ensure proper accountability of disbursements.

Equitable Sharing Resources – The SSFPD expended \$3,500 in unallowable expenses related to food and beverages and did not document pre-approvals for expenditures. In addition, the SSFPD did not maintain accurate inventory records of property purchased with equitable sharing funds. Further, the SSFPD and the City of SSF personnel were not familiar with suspension and debarment verification requirements related to prospective vendors. Finally, the City of SSF failed to report the SSFPD's FYs 2016, 2017, and 2019 DOJ equitable sharing program expenditures within its Single Audit Report's Schedule of Expenditures of Federal Awards, as required.

**AUDIT OF THE SOUTH SAN FRANCISCO POLICE DEPARTMENT'S
EQUITABLE SHARING PROGRAM ACTIVITIES,
SOUTH SAN FRANCISCO, CALIFORNIA**

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AUDIT OF SOUTH SAN FRANCISCO POLICE DEPARTMENT'S EQUITABLE SHARING PROGRAM ACTIVITIES, SOUTH SAN FRANCISCO, CALIFORNIA

INTRODUCTION

The Department of Justice (DOJ) Office of the Inspector General (OIG) completed an audit of the equitable sharing funds received by the South San Francisco Police Department (SSFPD) in South San Francisco, California. The objective of the audit was to assess whether the revenue received by the SSFPD through the Equitable Sharing Program was accounted for properly and used for allowable purposes as defined by applicable regulations and guidelines. The audit covered July 1, 2017, through June 30, 2019.¹ As of July 1, 2017, SSFPD reported a beginning balance of \$2,285,825 in DOJ equitable sharing funds on hand and during the period covered by the audit, the SSFPD reported receiving \$928,139 and spending \$3,600,957 in equitable sharing revenues as a participant in the DOJ Equitable Sharing Program. A significant portion of the reported spending was attributable to an unallowable transfer of \$2,236,224 from SSFPD's equitable sharing funds by the City of South San Francisco (City of SSF) causing a \$525,622 account deficit, that was eventually rectified when the City of SSF reversed the transfer and returned the funds to SSFPD's equitable sharing account 7 months later.

DOJ Equitable Sharing Program

The Comprehensive Crime Control Act of 1984 authorized the implementation of the DOJ Asset Forfeiture Program.² 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 deters crime. A key element of the Asset Forfeiture Program is the Equitable Sharing Program. The DOJ Equitable Sharing Program allows any state or local law enforcement agency that directly participated in an investigation or prosecution resulting in a federal forfeiture to claim a portion of federally forfeited cash, property, and proceeds.

Although several DOJ agencies are involved in various aspects of the seizure, forfeiture, and disposition of equitable sharing revenues, three DOJ components work together to administer the Equitable Sharing Program – the United States Marshals Service (USMS), the Justice Management Division (JMD), and the Criminal Division's Money Laundering and Asset Recovery Section (MLARS). The USMS is responsible for transferring

¹ The SSFPD's fiscal year begins July 1 and ends June 30.

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

asset forfeiture funds from DOJ to the receiving state or local agency. JMD manages the Consolidated Asset Tracking System (CATS), a database used to track federally seized assets throughout the forfeiture life-cycle. Finally, MLARS tracks membership of state and local participants, updates the Equitable Sharing Program rules and policies, and monitors the allocation and use of equitably shared funds.

State and local law enforcement agencies may receive equitable sharing funds by participating directly with DOJ agencies on investigations that lead to the seizure and forfeiture of property, or by seizing property and requesting one of the DOJ agencies to adopt the seizure and proceed with federal forfeiture. Once an investigation is completed and the seized assets are forfeited, the assisting state and local law enforcement agencies can request a share of the forfeited assets or a percentage of the proceeds derived from the sale of forfeited assets. Generally, the degree of a state or local agency's direct participation in an investigation determines the equitable share allocated to that agency.

To request a share of seized assets, a state or local law enforcement agency must first become a member of the DOJ Equitable Sharing Program. Agencies become members of the program by signing and submitting an annual Equitable Sharing Agreement and Certification (ESAC) report to MLARS. As part of each annual agreement, officials of participating agencies certify that they will use equitable sharing funds for allowable law enforcement purposes. The Guide to Equitable Sharing for State and Local Law Enforcement Agencies, issued by MLARS in April 2009, and the Interim Policy Guidance Regarding the Use of Equitable Sharing Funds, issued by MLARS in July 2014, and the Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies, issued in July 2018 (Equitable Sharing Guide), outline categories of allowable and unallowable uses for equitable sharing funds and property.³

South San Francisco

The South San Francisco Police Department is located in South San Francisco, California. Established in 1908, the SSFPD currently serves a population of approximately 68,000 residents. As of July 2020, the SSFPD had a workforce of 80 sworn officers and 36 civilian employees. The SSFPD became a member of the DOJ Equitable Sharing Program in 2008. Members of the SSFPD currently participate in a Drug Enforcement Administration task force assigned to the San Francisco International Airport.

OIG Audit Approach

We tested the SSFPD's compliance with what we considered to be the most important conditions of the DOJ Equitable Sharing Program to assess whether it accounted for equitable sharing funds properly and used such revenue for allowable purposes.

³ Since the scope of our audit was focused on activities that occurred during FYs 2017, 2018, and 2019, we relied upon all three referenced pieces of criteria in performing the audit.

Unless otherwise stated, we applied the Equitable Sharing Guide and the Interim Policy Guidance as our primary criteria. The Equitable Sharing Guide provides procedures for submitting sharing requests and discusses the proper use of and accounting for equitable sharing assets. To conduct the audit, we tested the SSFPD's compliance with the following:

- **Equitable Sharing Agreement and Certification Reports** to determine if these documents were complete and accurate.
- **Accounting for equitable sharing resources** to determine whether standard accounting procedures were used to track equitable sharing assets.
- **Use of equitable sharing resources** to determine if equitable sharing cash and property were used for allowable law enforcement purposes.
- **Compliance with audit requirements** to ensure the accuracy, consistency, and uniformity of audited equitable sharing data.

See Appendix 1 for more information on our objective, scope, and methodology.

AUDIT RESULTS

Equitable Sharing Agreement and Certification Reports

Law enforcement agencies who participate in the Equitable Sharing Program are required to submit an ESAC report, on an annual basis, within 2 months after the end of an agency's fiscal year.⁴ This must be accomplished regardless of whether equitable sharing funds were received or maintained that year. If an ESAC is not accepted before the end of the 2-month filing timeframe, the law enforcement agency will be moved into a non-compliance status.⁵ Additionally, the ESAC report 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 report, the signatories agree to be bound by and comply with the statutes and guidelines that regulate the Equitable Sharing Program.

An SSFPD captain was assigned the role of preparing the ESAC report. The Captain worked with an SSFPD Management Analyst and a City of SSF Senior Accountant to prepare the ESAC reports. Upon completion, the ESAC report was reviewed by the SSFPD Chief of Police and the City of SSF's City Manager. The City of SSF's FY 2018 Single Audit Report identified deficiencies related to the SSFPD's unallowed land purchase using equitable sharing funds, inaccurate FY 2018 ESAC reporting, and unsupported overtime salary rates. In response to the Single Audit Report, the City of SSF implemented corrective actions in April 2020 including the establishment of new procedures to ensure equitable sharing funds are properly accounted for and expended for allowable purposes. These issues and other instances of non-compliance are discussed in more detail in the following sections of this report.

Completeness and Timeliness of ESAC Reports

We tested the SSFPD's compliance with ESAC reporting requirements to determine if its ESAC reports were complete and submitted in a timely manner. In reviewing the SSFPD's ESAC reports for FYs 2018 and 2019, we found that the reports were complete and signed by appropriate officials. However, the SSFPD submitted both FYs 2018 and 2019 ESAC reports late. The SSFPD was placed in non-compliance status when its FY 2018 ESAC report was 6 days late, but was soon thereafter brought back into compliance after filing its amended FY 2018 ESAC report. Then, nearly a year later, MLARS placed the SSFPD back into a non-compliance status due to issues identified in the City of SSF's FY 2018 Single

⁴ Two Equitable Sharing program guides were effective during our audit scope. Under the Equitable Sharing Guide released in April 2009, SSFPD's FY 2018 ESAC was required to be submitted within 60 days of the end of its fiscal year. Under the Equitable Sharing Guide released in July 2018, SSFPD's FY 2019 ESAC was required to be submitted within 2 months of the end of its fiscal year.

⁵ Agencies who do not comply with the Equitable Sharing Program requirements will have no equitable sharing funds or property distributed. Agencies may also be subject to sanctions such as: (1) denial or extinguishment of sharing requests; (2) temporary or permanent exclusion from the Equitable Sharing Program; and (3) freeze on receipt and/or expenditure of shared funds.

Audit Report. The SSFPD explained that it worked with MLARS to resolve the issues and was returned to a status of compliance in January 2020 after the SSFPD further amended its 2018 ESAC report and filed its 2019 ESAC report.⁶

According to SSFPD officials, the City of SSF continues to make adjustments to its financial records, including categories such as interest income, until 3 to 4 months after the conclusion of its fiscal year. Thus, the SSFPD officials explained that they had to decide whether to submit the report on time, with numbers that were not based on finalized financial records and modify the reports afterwards, or submit the report late. In response to its FY 2018 Single Audit Report finding related to inaccurate ESAC reporting, the City of SSF amended its Grant Management Policy's Appendix A – Federal Equitable Sharing Program Procedures to require timely submission of ESAC reports to the DOJ no later than 60 days after the close of the fiscal year, after the review of the Police Chief, City Manager, and Finance Director. Based on discussions with both City of SSF and SSFPD officials, the SSFPD plans to submit its ESAC reports late, as it did with its FY 2020 ESAC report, with the understanding that it will not be in compliance until the ESAC report is accepted by MLARS. However, by delaying the ESAC report submission, the SSFPD is not in compliance with the Equitable Sharing Guide or the City of SSF's revised policy. Thus, we recommend that the Criminal Division ensure that the SSFPD abides by the Equitable Sharing Guide and its own policies and submit its ESAC reports in a timely manner.

We also determined that the SSFPD does not maintain evidence of its Chief of Police and City Manager's approval and certification of the ESAC forms. An Equitable Sharing Wire dated February 5, 2015, explained that although actual signatures are no longer required to be separately submitted with the ESAC forms to MLARS, agencies must still obtain approval from the agency and governing body heads. It further provided that agencies should establish their own internal policies and procedures for obtaining such signatures. An MLARS official explained that, prior to submitting the ESAC forms electronically through the eShare portal, agencies are required to obtain the required approvals and maintain the approvals in their files. However, when we requested that the SSFPD and the City of SSF officials provide evidence of the review and approval of the ESAC forms, none was provided to us. Rather, we received conflicting descriptions from the officials of how the ESAC forms were reviewed. As such, the SSFPD was in violation of equitable sharing program requirement to obtain and retain evidence of the ESAC approvals and we could not confirm if the Police Chief or the City Manager had in fact reviewed the ESAC reports. The SSFPD informed us that they have started obtaining wet signatures from the approving officials for their records. However, we note that the SSFPD does not have internal policies and procedures for retaining signatures on the ESACs. Thus, we recommend that the Criminal

⁶ In September 2018, the SSFPD first amended its FY 2018 ESAC to decrease the amount of Equitable Sharing funds received by \$32,039. Then, over a year later, the SSFPD submitted a second amendment to its FY 2018 ESAC and added \$32,233 of Treasury funds received, \$26,341 in other income, and \$43,004 in interest income. The SSFPD also increased shared funds spent on law enforcement equipment by \$690,447 and non-categorized expenditures by \$26,341, and decreased salaries by \$31,822.

Division ensure that the SSFPD establish policies and procedures to retain documentation of its agency and governing body heads' review and approval of ESAC forms.

Accuracy of ESAC Reports

To verify the accuracy of the annual ESAC reports, we compared the receipts listed on the SSFPD's two most recent ESAC reports to the total amounts listed as disbursed on the MLARS sharing distribution report for the same period. Our analysis showed that the SSFPD's most recent ESAC reports indicated receipts of \$422,260 and \$505,879 for FYs 2018 and 2019, respectively, which matched the receipts listed on the MLARS sharing distribution report.

To verify the total expenditures listed on the SSFPD's two most recent ESAC reports, we compared expenditures listed on the ESAC reports to the SSFPD's accounting records for each period. As shown in Table 1 below, the reported expenditures did not match the SSFPD's actual expenditures.

Table 1
ESAC Expenditures and Accounting Records Comparison

Dates According to ESAC	Expenditures According to ESAC	Expenditures According to Accounting Records	Difference
07/01/17 – 06/30/18	\$1,274,163	\$3,306,937	(\$2,032,774)
07/01/18 – 06/30/19	\$2,326,794	\$90,570	\$2,236,224
Total	\$3,600,957	\$3,397,507	\$203,450

Source: SSFPD ESACs and accounting records.

By signing the ESAC reports, the participating agency certifies that the ESAC reports provide an accurate accounting of funds received and spent by the agency. Inaccurate reporting of equitable sharing fund activity on the ESAC report may negatively impact efforts to monitor the DOJ Equitable Sharing Program. We found a lack of accounting oversight procedures and controls over the SSFPD's equitable sharing funds. We determined that although personnel at the SSFPD had access to the City of SSF accounting system, they were not performing reconciliation of equitable sharing deposits and expenditures to ensure accurate ESAC reporting. Specifically, the extent of the reconciliation process consisted of a Management Analyst, who maintained a spreadsheet of the expenditures and a police officer, who checked eShare disbursement reports against emails from the City of SSF Accounting Assistant related to deposits. Without appropriate oversight procedures, the SSFPD is at risk of improper accounting of its equitable sharing funds leading to inaccurate ESAC reports. Later, in the Accounting for Equitable Sharing Resources report section, we discuss how the SSFPD incorrectly claimed \$26,341, which belonged to the fire department; an error that was not remedied until almost a year later.

As previously stated, the City of SSF's 2018 Single Audit Report identified errors in the SSFPD's FY 2018 ESAC report. Specifically, the report found that the City of SSF allocated \$2,236,224 in equitable sharing funds for the purchase of land without prior approval from MLARS.⁷ The City of SSF reversed the transfer, documented the journal transactions within its FY 2019 ESAC report, and implemented procedures to ensure its ESAC reports were accurate.⁸ Also, the City of SSF amended its Grant Management Policy's Appendix A – Federal Equitable Sharing Program Procedures to require that the: (1) Chief of Police and City Manager approve each ESAC report and (2) Finance Director review each ESAC report with all supporting documents. Additionally, the Chief of Police or the designee must determine the purpose for which the funds are used and authorize all expenditures from the DOJ equitable sharing general ledger account.

In addition, we reviewed for accuracy the FYs 2018 and 2019 ESAC reports with respect to monies spent in specific categories, such as training and education, law enforcement equipment, law enforcement travel and per diem, non-categorized expenditures, and salaries. To accomplish our review, the SSFPD provided to us documentation reflecting expenditures by category. As shown in Table 2, in comparing the total expenditures by category for each fiscal year to the amounts reflected on the FYs 2018 and 2019 ESAC reports, we found that the category totals did not match.

⁷ The Equitable Sharing Program Guide states that agencies must contact MLARS prior to using DOJ equitable sharing funds for all law enforcement facilities improvement and expansion projects. According to the SSFPD, the City of SSF transferred \$2,236,224 from the SSFPD equitable sharing fund, without the SSFPD's knowledge, and allocated it for a land purchase late in FY 2018.

⁸ The SSFPD worked with MLARS to remedy the single audit report finding by refunding the \$2,236,224 to its equitable sharing account. The SSFPD recorded the \$2,236,224 expenditure within its FY 2019 ESAC and recorded the funds reversal under Other Income. We reviewed the SSFPD's general ledger and confirmed this reversal.

Table 2
ESAC Report Expenditures by Category

Expense Category	ESAC Report	Accounting Records	Difference
<i>FY 2018</i>			
Training & Education	\$3,600	\$3,600	\$0
Law Enforcement Equipment	744,222	540,772	203,450
Travel/Per Diem	0	0	0
Non-Categorized Expenditures	26,341	2,262,565	(2,236,224)
Salaries	500,000	500,000	0
<i>Total</i>	<i>\$1,274,163</i>	<i>\$3,306,937</i>	<i>(\$2,032,774)</i>
<i>FY 2019</i>			
Training & Education	\$0	\$0	\$0
Law Enforcement Equipment	88,297	88,297	0
Travel/Per Diem	2,273	2,273	0
Non-Categorized Expenditures	2,236,224	0	2,236,224
Salaries	0	0	0
<i>Total</i>	<i>\$2,326,794</i>	<i>\$90,570</i>	<i>\$2,236,224</i>

Source: OIG analysis.

As we previously discussed, the City of SSF had debited \$2,236,224 for land purchase without the SSFPD's knowledge, leading to the expenditure not included in the SSFPD's FY 2018 ESAC. Subsequently, since the SSFPD had not obtained MLARS' prior approval for the expenditure, the City of SSF reversed the transaction. This adjustment resulted in a net zero difference under non-categorized expenditure. However, we also identified a \$203,450 difference under law enforcement equipment. The SSFPD explained that the \$203,450 was for body worn cameras and video storage equipment the department purchased in FY 2017, but it had erroneously posted the transactions to another general ledger account. Once the error was discovered, the SSF finance personnel made a corrective journal entry that was post-dated for the end of FY 2017. Rather than amending its FY 2017 ESAC, the SSFPD included \$203,450 in law enforcement equipment expenditure in its FY 2018 ESAC.

In addition to summarizing the shared monies spent by category on the ESAC reports, the ESAC User's Guide also requires entities to report the amount of interest income earned during the reporting period. Based on our review of the supporting documentation provided, we found that the interest income reported on the FYs 2018 and 2019 ESAC reports were accurate. However, amendments to the FY 2018 ESAC report and journal entries within the equitable sharing general ledger account led us to request information on interest income earned in FYs 2016 and 2017. We found that the SSFPD had earned \$21,092 and \$24,340 in interest income for FYs 2016 and 2017, respectively, but it failed to report this interest income in the corresponding ESAC reports. A City of SSF Senior Accountant explained that prior to 2019, he was not involved in the review of

SSFPD's ESAC reports. Also, as we previously discussed, although SSFPD had access to the accounting system, it lacked proper accounting procedures and thus did not closely monitor the transactions posted by the finance department, nor did it reconcile the general ledger account against approved expenditures and MLARS disbursements. Thus, the SSFPD overlooked interest income posted by the Finance department and failed to report this income on its FYs 2016 and 2017 ESAC reports. We believe that these discrepancies are the result of the SSFPD not adhering to the equitable sharing program guidelines and lack of local policies and procedures in place at that time to ensure accurate reporting of its ESAC reports. Also, in the Accounting for Equitable Sharing Resources section of the report, we discuss the issue of the SSFPD commingling DOJ and Department of Treasury equitable sharing funds, which means the SSFPD did not account for interest income earned by each program separately.

As part of its corrective action in response to the FY 2018 Single Audit Report findings, the City of SSF amended its Grant Management Policy's Appendix A – Federal Equitable Sharing Program Procedures to specify that: (1) interest income earned will be allocated to the general ledger account established for the equitable sharing funds, and (2) draft ESAC reports should be reviewed by the City of SSF Finance Director and approved by the SSFPD Chief of Police and SSF City Manager before being submitted to DOJ. We believe these new procedures should help the SSFPD ensure that its ESAC reports are accurate and supported by accounting records, as required by the Equitable Sharing Guide.

Accounting for Equitable Sharing Resources

The Equitable Sharing Guide requires that law enforcement agencies use standard accounting procedures and internal controls to track DOJ Equitable Sharing Program receipts. This includes establishing a separate revenue account or accounting code for DOJ Equitable Sharing Program proceeds. In addition, agencies must deposit any interest income earned on equitable sharing funds in the same revenue account or under the accounting code established solely for the shared funds. Further, law enforcement agencies participating in the Equitable Sharing Program are required to use the eShare portal.⁹

The SSFPD equitable sharing disbursements are deposited into the City of SSF's general bank account. A City of SSF Accounting Assistant performs a journal entry within the accounting system to allocate equitable sharing disbursements into the SSFPD's unique general ledger account established for equitable sharing revenues and expenditures. According to the City of SSF's April 2020 revised Grant Management Policy, the Finance Director established a separate general ledger account for the DOJ equitable sharing program, which will not be commingled with funds from any other sources, and where any interest income earned on DOJ equitable sharing funds will be allocated. However, during

⁹ The eShare portal enables a participating agency to view the status of its pending equitable sharing requests and run reports on disbursed equitable sharing. This is also the process used for electronic payments.

our audit, we learned that the SSFPD commingled both the DOJ and Treasury equitable sharing program funds within this general ledger account. As a result, the SSFPD cannot allocate expenditures and deposits, such as interest income specifically to one program. For example, the SSFPD did not report any interest income under Treasury on its FY 2018 and FY 2019 ESAC reports despite having a balance of Treasury equitable sharing funds during those periods. The City of SSF Senior Accountant stated that he plans to create a separate general ledger account for the Treasury Equitable Sharing Program in order to separately track revenues and expenditures. We recommend that the Criminal Division work with the SSFPD to ensure that it separately accounts for DOJ equitable sharing funds in compliance with the Equitable Sharing Guide.

The SSFPD explained that it relies on the city Accounting Assistant to identify and allocate Equitable Sharing Program receipts to the SSFPD's unique equitable sharing general ledger account. Since the USMS no longer notifies Equitable Sharing Program participants at the time of disbursement, the SSFPD is reliant on the city Accounting Assistant to accurately and timely perform this task. Once Finance made transfers of funds to SSFPD's equitable sharing general ledger account, the Accounting Assistant would send the SSFPD an email to notify them of the deposit. However, we believe this process lacks adequate checks and balances to properly oversee and administer the funds and may lead to errors.

We determined that the SSFPD received DOJ equitable sharing revenues totaling \$928,139 to support law enforcement operations during FYs 2018 and 2019. We reviewed all receipts of equitably shared revenues to determine if the funds were properly accounted for and deposited. We found that the SSFPD accurately accounted for all of its equitably shared revenues received during FYs 2018 and 2019.

For FYs 2018 and 2019, MLARS distribution showed a total of \$928,139 in equitable sharing receipts was shared with the SSFPD. We reconciled the postings of receipts to SSFPD's general ledger with the MLARS' distribution report and found that the receipts matched. As shown in Table 3, we also selected a judgmental sample of the five highest-valued receipts from FYs 2018 and 2019 to ensure that these monies were properly deposited and recorded by the SSFPD in a timely manner. These five receipts account for over 13 percent of the total receipts that the SSFPD received.

Table 3
SSFPD Sampled Receipts

Sample Count	Date Received According to eShare	Amount	Date Received According to SSFPD Records	Amount	Number of Days between receipt and recording of funds
1	07/19/17	\$23,645	07/28/17	\$23,645	9
2	07/12/18	\$18,673	07/12/18	\$18,673	0
3	07/18/18	\$40,026	07/18/18	\$40,026	0
4	12/11/18	\$20,441	12/11/18	\$20,441	0
5	01/16/19	\$20,618	01/16/19	\$20,618	0
Total		\$123,403	Total	\$123,403	

Source: OIG analysis.

Although our audit did not find any unrecorded deposits, we believe that the City of SSF and SSFPD can make improvements in how they record deposits in the equitable sharing fund. Specifically, we learned that in FY 2017, the City of SSF finance department transferred a deposit of \$26,341 to the SSFPD's equitable sharing program general ledger account that was intended for the City of SSF Fire Department. The finance department explained that it asked the SSFPD to confirm and it did in fact confirm that the deposit was intended for the SSFPD. However, this appears to have been done without reconciling expected disbursements from MLARS. The error was discovered almost a year later, in FY 2018, when the Fire Department informed the Finance department that it was missing funds and the City of SSF Accounting Assistant made a corrective journal entry and transferred the funds to the correct account. We believe that this error was the result of the City of SSF and the SSFPD not having any written policies and procedures to ensure proper accountability and timely posting of equitable sharing deposits, to include reconciliation of eShare payment data with the City of SSF accounting system.

Written policies and procedures provide needed internal controls and become even more important when there is turnover of personnel. For example, the timely identification and recording of equitable sharing deposits at the City of SSF level, as well as the SSFPD is an important control to ensure consistent and timely treatment of equitable sharing funds. Further, Equitable Sharing Program participants can request to receive various eNotes from the eShare system that may help facilitate the accounting of incoming equitable sharing deposits. However, only one individual at the SSFPD had subscribed to receive these types of notifications. We recommend that the Criminal Division ensure that the City of SSF and SSFPD develop and implement written policies and procedures for the timely and accurate identification and recording of equitable sharing deposits, including the reconciliation of eShare payment data with its accounting system.

Equitable Sharing Resources

The Equitable Sharing Guide and Interim Policy Guidance require that equitable sharing funds or tangible property received by state and local agencies be used for law

enforcement purposes that directly supplement the appropriated resources of the recipient law enforcement agency. Table 4 reflects examples of allowable and unallowable uses under these guidelines.

Table 4
Summary of Allowable and Unallowable Uses
of 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
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
Supplanting
Costs related to lawsuits
Extravagant expenditures
Money laundering operations
Purchase of food and beverages
Creation of endowments or scholarships
Personal or political use of shared assets
Transfers to other law enforcement agencies
Petty cash accounts and stored value cards ^a
Purchase of items for other law enforcement agencies
Uses contrary to the laws of the state or local jurisdiction
Use of forfeited property by non-law enforcement personnel
<i>With some exceptions, salaries and benefits of sworn or non-sworn law enforcement personnel.</i>

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

Source: Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies.

Use of Equitable Sharing Funds

According to its accounting records, the SSFPD expended DOJ equitable sharing funds totaling \$1,274,163 in FY 2018 and \$2,326,794 in FY 2019, for a total of \$3,600,957. However, as previously discussed in the *Accuracy of ESAC Reports* section of this report, the SSFPD returned \$2,236,224 in equitable sharing funds, which was impermissibly allocated for land purchase without MLARS' pre-approval. We judgmentally selected and tested 15 transactions totaling \$2,400,198, or 67 percent of the total funds expended, to determine if the expenditures of DOJ equitable sharing funds were allowable and

supported by adequate documentation. We determined that, of our judgmentally sampled transactions, the SSFPD generally spent equitable sharing funds on law enforcement related items such as body worn cameras, ammunition, canine dogs, patrol car computer systems, generator, equipment, and overtime salary. However, the SSFPD expended equitable sharing funds on an impermissible category and it lacked procedures to ensure the SSFPD complied with the requirements of the Equitable Sharing Guide. We discuss these issues in the following sections of this report.

Non-Personnel Expenditures

We reviewed supporting documentation including invoices and receipts to determine if the costs were allowable, properly authorized, adequately supported, and in compliance with the terms and conditions of the Equitable Sharing Guide. From our judgmental sample of 10 transactions, we found that 9 transactions were generally allowable, adequately supported, and in compliance with the terms and conditions of the Equitable Sharing Guide. However, we found that these nine transactions lacked documented approvals before purchase. We discuss this in more detail in the Pre-approval of Expenditures section of this report. For the remaining transaction, we found that a large portion of it was unallowable, which reduced the SSFPD's available funds for other allowable expenditures. Specifically, the SSFPD spent \$3,600 on a community relations meeting held at a local conference center. The invoice detailed that the room rental cost was \$100 and the food and beverage cost was \$3,500. According to the Equitable Sharing Guide, funds may not be used to pay for food and beverages (alcoholic and non-alcoholic) except for meals for officers engaged in local emergency operations, such as an earthquake or hurricane. An SSFPD official explained that this was an oversight and the SSFPD should have paid for the food and beverage cost using non-equitable sharing funds. Therefore, we recommend that the Criminal Division remedy \$3,500 in unallowable food and beverage costs.

Personnel Expenditures

As previously mentioned, the City of SSF's FY 2018 Single Audit Report noted that the SSFPD paid overtime salaries using equitable sharing funds and found that the City of SSF could not substantiate the overtime rate that it used. The Single Audit Report recommended that the City of SSF periodically perform an internal audit to verify that the payroll module is accurately calculating the enhanced rate for the calculation of employee's overtime. In response, the City Manager implemented policies and procedures requiring the Grant Manager or Human Resource Manager to review employees' salaries and benefits. In October 2018, the City Manager also instructed that no additional overtime charges be paid out of the SSFPD's equitable sharing funds. We reviewed the SSFPD equitable sharing general ledger and confirmed that no additional equitable sharing funds were utilized for salaries since October 2018. Due to the corrective actions taken in response to the Single Audit Report and the halt on overtime charges, we did not perform any testing on personnel expenditures.

Pre-approval of Expenditures

Based upon our review of the supporting documentation provided by the SSFPD, we determined that the SSFPD lacked management oversight and accounting procedures for DOJ equitable sharing funds, as required in the Equitable Sharing Guide. The Equitable Guide requires that the law enforcement agency head, or designee, authorize all expenditures from the equitable sharing fund. It also states that participating law enforcement agencies must maintain records of all revenue and expenditures posted to the account or accounting code, to include bank or ledger statements, invoices, receipts, required jurisdiction approvals, or any other documents used or created during the procurement process. However, as mentioned earlier, we found that the SSFPD did not document the Police Chief's or his designee's pre-approval of equitable sharing fund expenditures. Rather, SSFPD officials informed us that pre-approvals were obtained verbally. We believe that the lack of internal controls was a strong contributing factor to the City of SSF's transfer of \$2,236,224 for an impermissible purchase of land with equitable sharing funds. If the SSFPD had accounting reconciliation procedures in place, as required by the equitable sharing guidance, it would have been better positioned to identify and address the transfer and unallowable expenditure by the City of SSF, thereby discovering a deficit to the equitable sharing fund. Thus, we recommend that the Criminal Division ensure that the SSFPD implement policies and procedures to ensure documentation of authorizations for expenditures from the equitable sharing funds.

Vendor Verification

According to code of federal regulations 2 C.F.R. § 200.213 on suspension and debarment, non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 C.F.R. part 180, which restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities. MLARS issued an Equitable Sharing Wire on January 28, 2020, stating that equitable sharing funds may not be used to purchase goods and services from entities prohibited from receiving federal funds due to a suspension or debarment. Consequently, agencies must establish and implement procedures to ensure compliance with this requirement. Before doing business with any vendor, agencies should review the System for Award Management (SAM) to determine whether a vendor has an exclusion status. This requirement ensures that the federal government and recipients of equitable sharing funds conduct business only with persons who are not prohibited from receiving federal funds.

The SSFPD did not have procedures to ensure it complied with federal regulations regarding doing business with parties that are debarred or suspended. Based on our interviews with SSFPD officials and City of SSF finance personnel, we determined that the individuals who are involved in purchases and approving purchases were not familiar with the vendor status verification requirement or the SAM website. An SSFPD official explained

that they were not aware of this requirement, but received training in November 2019 and will utilize the website going forward. Based on our limited testing, we did not find any specific instances of the SSFPD utilizing debarred or suspended vendors. We recommend that the Criminal Division ensure that the SSFPD and City of SSF implement policies and procedures to verify that vendors are in good standing prior to doing business with them.

Accountable Property

The Equitable Sharing Guide requires that standard internal controls be implemented to track tangible property received or purchased. The Guide states that participating law enforcement agencies maintain and follow written policies for accounting, bookkeeping, inventory control, and procurement that comply with the applicable provisions of the Office of Management and Budget (OMB) Uniform Administrative Requirements, Costs, Principles, and Audit Requirements for Federal Awards or any subsequent updates and jurisdiction policies. Further, the agencies must ensure distribution of relevant policies to all appropriate personnel. For inventory verification, we selected 15 property items purchased with equitable sharing funds during the scope of our audit, to include: a DSLR camera, body cameras, tasers, and vehicles. We did not include consumable inventory such as ammunition, or de minimis items such as firing pins and toolboxes. We performed visual inspection through a telephonic video application, as well as obtained photographic evidence of the properties with serial numbers, and we were able to verify all 15 property items. The SSFPD officials informed us that there were additional property items, which we could not visually inspect, such as vehicle computers that were installed in the patrol vehicles. Since this audit was performed remotely, we also had the Chief of Police complete a Property Acknowledgement Letter, attesting to having possession of a separate judgmental sample of 14 property items purchased with equitable sharing funds which we could not visually inspect through telephonic video, such as the vehicle computers, storage equipment, and canine dogs.

We found that the SSFPD did not have procedures to ensure adequate inventory control of property purchased with equitable sharing funds. Specifically, the SSFPD did not always: (1) identify inventory purchased with equitable sharing funds apart from inventory purchased with general funds; nor (2) update inventory tracking sheets with appropriate serial numbers, in order to facilitate proper disposal. Specifically, we found that the SSFPD maintained a taser inventory list, but the list did not indicate which tasers were purchased with equitable sharing funds. Also, the SSFPD's Information Technology Department did not have an updated or accurate inventory of computers installed in the patrol vehicles that were purchased with equitable sharing funds. In response to our audit inquiries, the SSFPD had to undergo an exercise of removing the computers for its patrol vehicles in order to update its inventory list and record the computer serial numbers and property asset tag numbers. The SSFPD explained that new Information Technology staff did not know how to update the inventory spreadsheet. According to OMB requirements: (1) equipment records shall be maintained, (2) a physical inventory of equipment shall be taken at least once every 2 years and reconciled to the equipment records, (3) an

appropriate control system shall be used to safeguard equipment, and (4) equipment shall be adequately maintained. The SSFPD did not have policies and procedures to ensure that it complied with these requirements to account for property purchased with equitable sharing funds, and thus cannot mitigate the risk of equipment loss or theft. Thus, we recommend that the Criminal Division ensure that the SSFPD implement policies and procedures to ensure accurate inventory of property purchased with equitable sharing funds, as appropriate.

Supplanting

The Equitable Sharing Guide requires that shared resources be used to increase or supplement the resources of the recipient agency and prohibits the use of shared resources to replace or supplant the appropriated resources of the recipient. In other words, the recipient agency must benefit directly from the equitable sharing funds. To test whether equitable sharing funds were used to supplement rather than supplant SSFPD funding, we interviewed local officials and reviewed the total budgets for the City of SSF and the operational budgets for the SSFPD for FYs 2017 through 2020.

We determined that the City of SSF budget had increased by 19 percent during this time. According to the SSFPD's operational budgets for the same period, we determined that it had increased 14 percent. There was not a decrease in the SSFPD's operational budget that coincided with a proportional increase in equitable sharing revenue. In addition, equitable sharing funds made up an average of 12 percent of the SSFPD's operational budget, and the agency expended an average of 50 percent of those funds for the years we reviewed. Therefore, we did not identify indication that the SSFPD used DOJ equitable sharing funds to supplant its budget.

Compliance with Single Audit Requirements

The Equitable Sharing Guide requires that state and local law enforcement agencies that receive equitable sharing cash, proceeds, or tangible property comply with the Single Audit Act Amendments of 1996 and 2 C.F.R. 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The Single Audit Act requires that recipients of federal funding above a certain threshold receive an annual audit of their financial statements and federal expenditures. Under the Uniform Guidance, such entities that expend \$750,000 or more in federal funds within the entity's fiscal year must have a "single audit" performed annually covering all federal funds expended that year. The Single Audit Report is required to include a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. In addition, an entity must submit its Single Audit Report no later than 9 months after the end of the fiscal year covered by the audit.

To determine if the SSFPD accurately reported DOJ equitable sharing fund expenditures on its SEFA, we reviewed the SSFPD's accounting records, ESAC reports,

and the City of SSF's Single Audit Reports for the FYs 2018 and 2019. The City of SSF reported \$3,280,596 in expenditures on its FY 2018 SEFA under the DOJ Equitable Sharing Program's Catalog of Federal Domestic Assistance (CFDA) number 16.922. As we previously discussed, the City of SSF's Single Audit Report for FY 2018 found significant deficiencies related to the: (1) transfer of \$2,236,224 for land purchase without obtaining MLARS' approval, (2) inaccuracies in its ESAC reports, and (3) unsubstantiated overtime salary rates. To close the Single Audit Report recommendations, the City of SSF refunded its equitable sharing fund \$2,236,224 that it transferred for a land purchase. Also, the City of SSF implemented procedures to ensure that future ESAC reports are accurately prepared, based on actual expenditures incurred, supported by applicable accounting records, and reviewed and approved by management prior to submission. The City of SSF also implemented procedures to ensure that salaries and benefits charged to federal awards are adequately supported, properly allocated, and allowable. Finally, the City of SSF implemented procedures to ensure that, in coordination with its Finance department, the Chief of Police or designee determines the purposes for which the funds are used and must authorize all expenditures from the equitable sharing fund.

The City of SSF submitted its FY 2019 Single Audit Report in September 2020, within the 6-month extension granted by the OMB.¹⁰ The report did not identify any significant deficiencies or have any recommendations. However, the City of SSF's SEFA did not report any expenditures under DOJ's CFDA number 16.922, rather it reported \$153,201 in expenditures under the Department of Treasury's Equitable Sharing CFDA number 21.016. We informed the City of SSF Senior Accountant that this was inaccurate since the SSFPD's FY 2019 ESAC reported \$90,570 in net DOJ equitable sharing program expenditures and \$0 under the Department of Treasury equitable sharing program. The City of SSF's Grant Management Policy states that the Finance Department is responsible for preparing the SEFA, including identifying the federal agency names and CFDA numbers. We decided to review the City of SSF's FYs 2016 and 2017 Single Audit Reports and found that those reports also did not include \$761,609 and \$561,702 in expenditures in the SEFA, respectively. The information on the SEFA serves as the primary basis to determine major programs by the Single Audit's independent auditor. Both the correct expenditure amount and the separate presentation by agency play a significant role in the Single Audit reporting requirement. As a result of our finding, the City of SSF corrected its DOJ equitable sharing program expenditures on its FY 2019 Single Audit Report SEFA. Thus, we recommend that the Criminal Division ensure that the SSFPD and City of SSF are provided guidance on how to complete the SEFA and implement a mechanism to review such prior to filing its Single Audit Reports.

¹⁰ OMB issued memorandums M-20-11, M-20-17, M-20-20, and M-20-26 providing an extension for filing single audit reports, up to 6 months, to recipients and applicants of federal financial assistance directly impacted by the novel coronavirus. The City of SSF's FY 2019 single audit report was due by March 31, 2020, however it was granted a 6-month extension.

CONCLUSION AND RECOMMENDATIONS

We tested the SSFPD's compliance with what we considered to be the most important conditions of the DOJ Equitable Sharing Program to assess whether the SSFPD accounted for equitable sharing funds properly and used such revenues for allowable purposes. Overall, we found that the SSFPD lacked sufficient accounting procedures and internal controls, as well as adequate management and oversight of its equitable sharing funds. These weaknesses resulted in the commingling of DOJ and Treasury equitable sharing funds and several deficiencies in the accounting and reporting of equitable sharing funds. The absence of written policies and procedures by the City of SSF and SSFPD likely contributed to an erroneous deposit as well as a substantially sizeable and unallowable expenditure from its equitable sharing account. In addition, we determined that the SSFPD was not in compliance with MLARS' evidence retention requirement pertaining to ESAC report approvals, expended \$3,500 in unallowable food and beverage expenses, and lacked inventory procedures to ensure accurate accountability of property purchased with equitable sharing funds. We further found that both SSFPD as well as the City of SSF personnel were unfamiliar with the suspension and debarment requirements and the City of SSF's FY 2019 SEFA did not accurately report its DOJ equitable sharing program expenditures.

We recommend that the Criminal Division:

1. Ensure that the SSFPD abides by the Equitable Sharing Guide and its own policies and submit its ESAC reports in a timely manner.
2. Ensure that the SSFPD establish policies and procedures to retain documentation of its agency and governing body heads' review and approval of ESAC forms.
3. Work with the SSFPD to ensure that it separately accounts for DOJ equitable sharing funds in compliance with the Equitable Sharing Guide.
4. Ensure that the City of SSF and SSFPD develop and implement written policies and procedures for the timely and accurate identification and recording of equitable sharing deposits, including the reconciliation of eShare payment data with its accounting system.
5. Remedy \$3,500 in unallowable food and beverage costs.
6. Ensure that the SSFPD implement policies and procedures to ensure documentation of authorizations for expenditures from the equitable sharing funds.
7. Ensure that the SSFPD and City of SSF implement policies and procedures to verify that vendors are in good standing prior to doing business with them.
8. Ensure that the SSFPD implement policies and procedures to ensure accurate inventory of property purchased with equitable sharing funds, as appropriate.

9. Ensure that the SSFPD and City of SSF are provided guidance on how to complete the SEFA and implement a mechanism to review such prior to filing its Single Audit Reports.

APPENDIX 1

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of the audit was to assess whether the South San Francisco Police Department (SSFPD) accounted for equitable sharing funds properly and used such revenues for allowable purposes as defined by applicable guidelines.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit concentrated on, but was not limited to, equitable sharing receipts received by the SSFPD between July 1, 2017, and June 30, 2019. Our audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program. We tested compliance with what we considered to be the most important conditions of the DOJ Equitable Sharing Program. We reviewed laws, regulations, and guidelines governing the accounting for and use of DOJ equitable sharing receipts, including the *Guide to Equitable Sharing for State and Local Law Enforcement Agencies*, dated April 2009, as well as the Interim Policy Guidance Regarding the Use of Equitable Sharing Funds, issued July 2014, and The Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies, issued in July 2018. Unless, otherwise stated in our report, the criteria we audited against are contained in these documents.

As a result of the COVID-19 pandemic response, we performed our audit fieldwork exclusively in a remote manner. This audit did not include any onsite visit to the SSFPD headquarters or City of SSF located in South San Francisco, California. We interviewed SSFPD and City of SSF personnel and performed verification of property. In addition, we examined records related to revenue and expenditures of DOJ equitable sharing funds. We relied on computer-generated data contained in eShare to identify equitably shared revenues and property awarded to the SSFPD during the audit period. We did not establish the reliability of the data contained in eShare as a whole. However, when viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations included in this report are valid.

Our audit specifically evaluated SSFPD's compliance with three essential equitable sharing guidelines: (1) Equitable Sharing Agreement and Certification reports,

(2) accounting for equitable sharing receipts, and (3) the use of equitable sharing funds. In planning and performing our audit, we considered internal controls over DOJ equitable sharing receipts established and used by the SSFPD. However, we did not assess the reliability of the City of SSF's financial management system, or the extent to which the financial management system complied with internal controls, laws, and regulations overall.

In the scope of this audit, the SSFPD had 288 cash/proceeds receipts totaling \$422,260 and \$505,879 for FYs 2018 and 2019, respectively. In the same period, the SSFPD had 44 expenditures totaling \$3,306,937 and \$90,570 in FYs 2018 and 2019, respectively.¹¹ We judgmentally selected and tested a sample of 5 receipts totaling \$123,404 and a sample of 15 expenditures totaling \$2,400,207. A judgmental sampling design was applied to capture numerous aspects of the disbursements reviewed, such as dollar amounts. This non-statistical sample design does not allow projection of the test results to all disbursements.

Our audit included an evaluation of the City of SSF's two most recent Single Audit reports for the year ended June 30, 2018, and June 30, 2019. The Single Audit Reports were prepared under the provisions of the Uniform Guidance. We reviewed the independent auditor's assessment for the FY 2018 Single Audit Report, which disclosed control weaknesses or significant noncompliance issues. The independent auditor found that the City of SSF transferred \$2,236,224 for land purchase without obtaining MLARS' approval, submitted an inaccurate FY 2018 ESAC report, and used equitable sharing funds to pay for overtime salaries with unsubstantiated overtime rates. We discuss these issues in our report as it relates to the SSFPD's Equitable Sharing Program. There were no findings within the City of SSF's FY 2019 Single Audit Report.

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

Internal Controls

In this audit, we performed testing of internal controls significant within the context of our audit objectives. We did not evaluate the internal controls of the SSFPD to provide assurance on its internal control structure as a whole. The SSFPD management is responsible for the establishment and maintenance of internal controls in accordance with the Equitable Sharing Guide and 2 C.F.R. § 200.303. Because we do not express an opinion

¹¹ These expenditure totals are based on the SSFPD's accounting records and differed from the SSFPD's reported ESAC expenditures. As depicted in Table 2, the SSFPD's FY 2018 and 2019 reported ESAC expenditures were not supported by its accounting records.

on the SSFPD's internal control structure as a whole, we offer this statement solely for the information and use of the SSFPD and the DOJ Criminal Division.¹²

In planning and performing our audit, we identified the following internal control components and underlying internal control principles as significant to the audit objective(s):

Internal Control Components & Principles Significant to the Audit Objectives
Control Environment Principles
Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
Control Activity Principles
Management should design control activities to achieve objectives and respond to risks.
Management should implement control activities through policies.
Information & Communication Principles
Management should use quality information to achieve the entity's objectives.
Management should externally communicate the necessary quality information to achieve the entity's objectives.

We assessed the design, implementation, and operational effectiveness of these internal controls and identified deficiencies that we believe could affect the SSFPD's ability to: (1) effectively and efficiently operate, (2) correctly state financial information, and (3) ensure compliance with laws and regulations. The internal control deficiencies we identified are discussed in the Audit Results section of this report. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

¹² This restriction is not intended to limit the distribution of this report, which is a matter of public record.

APPENDIX 2

SCHEDULE OF DOLLAR-RELATED FINDINGS

<u>Description</u>	<u>Amount</u>	<u>Page</u>
Questioned Costs: ¹³		
Unallowable Food and Beverages Costs	<u>\$3,500</u>	13
TOTAL QUESTIONED COSTS	<u>\$3,500</u>	

¹³ **Questioned Costs** are expenditures that do not comply with legal, regulatory, or contractual requirements; are not supported by adequate documentation at the time of the audit; or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, the provision of supporting documentation, or contract ratification, where appropriate.

APPENDIX 3

THE SOUTH SAN FRANCISCO POLICE DEPARTMENT'S RESPONSE TO THE DRAFT AUDIT REPORT



CITY OF SOUTH SAN FRANCISCO POLICE DEPARTMENT



December 10, 2020

David J. Gaschke
Regional Audit Manager
San Francisco Regional Audit Office
Office of the Inspector General
U.S. Department Of Justice
90 7th Street
San Francisco, CA 94103

Dear Mr. David Gaschke:

During the calendar year 2020, the U.S. Department of Justice (DOJ) Office of the Inspector General competed an audit to assess whether the South San Francisco Police Department (SSFPD) accounted for DOJ equitable sharing funds properly and used such assets for allowable purposes, as defined by applicable guidelines. As a result of the audit, nine recommendations were made to assist the DOJ Criminal Division, which oversees the DOJ Equitable Sharing Program. The South San Francisco Police Department's response to the nine recommendations are as follows:

1. Ensure that the SSFPD abides by the Equitable Sharing Guide and its own policies and submit its ESAC reports in a timely manner.

Agree. There were extenuating circumstances related to the late filings for the 2018-2019-2020 ESAC reports, to include specific direction by the DOJ MLARS staff to file late rather than file amendments. However, going forward, the SSFPD will file its annual ESAC report prior to the deadline and submit amendments once the Finance Department's books close at the end of September.

2. Ensure that the SSFPD establishes policies and procedures to retain documentation of its agency and governing body heads' review and approval of ESAC forms.

Agree. The ESAC form currently requires an "electronic" signature of the agency and governing body heads' review and approval when it is submitted. The SSFPD will add a section into the City's Grant Management Policy Appendix related to Federal Equitable Sharing Program Procedures requiring that a copy of the ESAC approval with a "wet" signature from the agency and governing body heads be kept on file upon submission.

ADDRESS ALL COMMUNICATIONS TO THE CHIEF OF POLICE
22 ARROYO DRIVE SUITE C, SOUTH SAN FRANCISCO, CALIFORNIA 94080

3. Work with the SSFPD to ensure that it separately accounts for DOJ equitable sharing funds in compliance with the Equitable Sharing Guide.

Agree. The City of South San Francisco has created a written "Grant Management Policy" and added the Federal and Equitable Sharing Program procedure in the "Appendix" to ensure funds are properly used in accordance with the program. The Governing Body Head, Police and Finance Department personnel working with the DOJ Equitable Sharing Program funds have received training in this newly established policy to ensure compliance with the Equitable Sharing Program requirements.

4. Ensure that the City of SSF and the SSFPD develop and implement written policies and procedures for the timely and accurate identification and recording of equitable sharing deposits, including the reconciliation of eShare payment data with its accounting system.

Agree. The City's Grant Management Policy Appendix addressing the Federal and Equitable Sharing Program will be amended to develop a specific procedure to ensure the Finance Department and SSFPD Agent assigned to the DOJ Asset Seizure Program conduct verification checks utilizing the DOJ eShares program to verify all equitable sharing deposits.

5. Remedy \$3,500 in unallowable food and beverage costs.

Agree. The \$3,500 that was authorized to pay for a Federal DOJ Tactical Operations Briefing at the South San Francisco Conference Center was erroneously invoiced for food / beverage for the attending personnel rather than the meeting space and audio / video equipment rental. \$3,500 will be moved from the SSFPD operations budget to the Asset Seizure Account and documented in the 2020 ESAC report.

6. Ensure that the SSFPD implement policies and procedures to ensure documentation of authorizations for expenditures from the equitable sharing funds.

Agree. The City of South San Francisco's Grant Management Policy Appendix related to the Federal and Equitable Sharing Program will be amended to add a requirement that a written request for utilizing equitable sharing funds must be generated and submitted to the Chief of Police for final approval / signature once the purchase has been vetted as an allowable expenditure of Equitable Sharing Program funds via the DOJ Guide To Equitable Sharing For State, Local, And Tribal Law Enforcement Agencies.

7. Ensure that the SSFPD and the City of SSF implement policies and procedures to verify that vendors are in good standing prior to doing business with them.

Agree. The City of South San Francisco's Grant Management Policy Appendix related to the Federal and Equitable Sharing Program will be amended to add a requirement

that the SSFPD will review the System for Awards Management (SAM) to determine whether a vendor has an exclusion status in accordance with 2 C.F.R. 180.200-225 prior to initiating any purchase utilizing Equitable Sharing Program funds.

8. Ensure that the SSFPD implement policies and procedures to ensure accurate inventory of property purchased with equitable sharing funds, as appropriate.

Agree. The City of South San Francisco's Grant Management Policy Appendix related to the Federal and Equitable Sharing Program will be amended to add a requirement that the SSFPD maintain a database / record specifically related to equipment purchased with Equitable Sharing Program funds separate of those already established that include equipment purchased with both ESP funds and general budget funds.

9. Ensure that the SSFPD and City of SSF are provided guidance on how to complete the SEFA and implement a mechanism to review such prior to filing its Single Audit Reports.

Agree. The City of South San Francisco Finance Department and Police Department will accept any guidance from the DOJ Criminal Division on how to complete the SEFA and implement a mechanism to review such prior to filing its Single Audit Reports.

All policies and procedures will be established and corrective actions will be achieved prior to the end of FY 2020-2021.

Respectfully Submitted,



Jeffrey Azzopardi
Chief of Police



Michael Remedios
Police Captain

APPENDIX 4

DOJ CRIMINAL DIVISION'S RESPONSE TO THE DRAFT AUDIT REPORT



U.S. Department of Justice

Criminal Division

Money Laundering and Asset Recovery Section

Washington, D.C. 20530

January 6, 2021

MEMORANDUM

TO: David J. Gaschke, Regional Audit Manager
San Francisco Regional Audit Office
Office of the Inspector General

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

SUBJECT: DRAFT AUDIT REPORT for South San Francisco Police Department
Equitable Sharing Program Activities.

JENNIFER
BICKFORD

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JENNIFER
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Date: 2021.01.06
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In a memorandum dated December 4, 2020, your office provided a draft audit report for South San Francisco Police Department (SSFPD), which included actions necessary for closure of the audit report findings. The Money Laundering and Asset Recovery Section (MLARS) concurs with all findings and recommendations in the draft audit report.

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

cc: Jessica Schmaus, Audit Liaison
U.S. Department of Justice
Criminal Division

Louise Duhamel
Acting Assistant Director, Audit Liaison Group
Internal Revenue and Evaluation Office
Justice Management Division

Ashley Hines, Audit Liaison
Audit Liaison Group
Internal Revenue and Evaluation Office
Justice Management Division

APPENDIX 5

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

The OIG provided a draft of this audit report to the U.S. Department of Justice Criminal Division and the South San Francisco Police Department (SSFPD). The SSFPD's response is incorporated as Appendix 3 and the Criminal Division's response is incorporated as Appendix 4 of this final report. In response to our draft audit report, the Criminal Division concurred with all of our recommendations. As a result, the audit report is resolved. The following provides the OIG analysis of the responses and summary of actions necessary to close the report.

Recommendation for the Criminal Division:

1. **Ensure that the SSFPD abides by the Equitable Sharing Guide and its own policies and submit its ESAC reports in a timely manner.**

Resolved. The Criminal Division concurred with our finding and recommendation and stated that upon receipt of the final audit report it will work with the SSFPD to correct all identified findings. The SSFPD agreed with our recommendation and stated in its response that there were extenuating circumstances related to the late filings for the 2018, 2019, and 2020 ESAC reports, to include specific direction by the DOJ Criminal Division MLARS staff to file late rather than file amendments. The SSFPD stated that, going forward, it will file its annual ESAC report prior to the deadline and submit amendments once the Finance Department's books close at the end of September. This recommendation can be closed when we receive evidence that the SSFPD has filed its ESAC in a timely manner and any corresponding amendments thereto.

2. **Ensure that the SSFPD establish policies and procedures to retain documentation of its agency and governing body heads' review and approval of ESAC forms.**

Resolved. The Criminal Division concurred with our finding and recommendation and stated that upon receipt of the final audit report it will work with the SSFPD to correct all identified findings. The SSFPD agreed with our recommendation and stated in its response that the ESAC form currently requires an "electronic" signature of the agency and the governing body heads' review and approval when it is submitted. The SSFPD stated that it will add a section into the City's Grant Management Policy Appendix related to Federal Equitable Sharing Program Procedures requiring that a copy of the ESAC approval with a "wet" signature from the agency and governing body heads be kept on file upon submission.

The Equitable Sharing Guide requires that State and local law enforcement agencies retain all documents and records pertaining to their participation in the Program, to include ESACs, for a period of at least 5 years. Therefore, this recommendation can be closed when we receive documentation demonstrating that the SSFPD has established policies and procedures in accordance with the Equitable Sharing Guide and, in fact, retains such documentation.

3. Work with the SSFPD to ensure that it separately accounts for DOJ equitable sharing funds in compliance with the Equitable Sharing Guide.

Resolved. The Criminal Division concurred with our finding and recommendation and stated that upon receipt of the final audit report it will work with the SSFPD to correct all identified findings. The SSFPD agreed with our recommendation and stated in its response that the City of South San Francisco (City of SSF) has created a written Grant Management Policy and added the Federal and Equitable Sharing Program procedure in the "Appendix" to ensure funds are properly used in accordance with the program. The SSFPD further stated that the Governing Body Head, Police and Finance Department personnel working with the DOJ Equitable Sharing Program funds have received training in this newly established policy to ensure compliance with the Equitable Sharing Program requirements.

This recommendation can be closed when we receive documentation demonstrating that the SSFPD separately accounts for DOJ equitable sharing funds in compliance with the Equitable Sharing Guide.

4. Ensure that the City of SSF and SSFPD develop and implement written policies and procedures for the timely and accurate identification and recording of equitable sharing deposits, including the reconciliation of eShare payment data with its accounting system.

Resolved. The Criminal Division concurred with our finding and recommendation and stated that upon receipt of the final audit report it will work with the SSFPD to correct all identified findings. The SSFPD agreed with our recommendation and stated in its response that the City's Grant Management Policy Appendix addressing the Federal and Equitable Sharing Program will be amended to develop a specific procedure to ensure the Finance Department and SSFPD Agent assigned to the DOJ Asset Seizure Program conduct verification checks utilizing the DOJ eShare program to verify all equitable sharing deposits.

This recommendation can be closed when we receive documentation demonstrating that the City of SSF and SSFPD developed and implemented written policies and procedures for the timely and accurate identification and recording of equitable sharing deposits, including the reconciliation of eShare payment data with its accounting system.

5. Remedy \$3,500 in unallowable food and beverage costs.

Resolved. The Criminal Division concurred with our finding and recommendation and stated that upon receipt of the final audit report it will work with the SSFPD to correct all identified findings. The SSFPD agreed with our recommendation and stated in its response that the \$3,500 that was authorized to pay for a Federal DOJ Tactical Operations Briefing at the South San Francisco Conference Center was erroneously invoiced for food/beverage for the attending personnel rather than the meeting space and audio/visual equipment rental. The SSFPD stated that the \$3,500 will be moved from the SSFPD operations budget to the Asset Seizure Account and documented in the 2020 ESAC report.

This recommendation can be closed when we receive documentation demonstrating that the \$3,500 in unallowable food and beverage costs have been remedied.

6. Ensure that the SSFPD implement policies and procedures to ensure documentation of authorizations for expenditures from the equitable sharing funds.

Resolved. The Criminal Division concurred with our finding and recommendation and stated that upon receipt of the final audit report it will work with the SSFPD to correct all identified findings. The SSFPD agreed with our recommendation and stated in its response that the City of SSF's Grant Management Policy Appendix related to the Federal and Equitable Sharing Program will be amended to add a requirement that a written request for utilizing equitable sharing funds must be generated and submitted to the Chief of Police for final approval/signature once the purchase has been vetted as an allowable expenditure for Equitable Sharing Program funds via the DOJ Guide To Equitable Sharing For State, Local, And Tribal Law Enforcement Agencies.

This recommendation can be closed when we receive documentation demonstrating that the SSFPD has implemented policies and procedures to ensure the vetting and documentation of authorizations for expenditures using equitable sharing funds.

7. Ensure that the SSFPD and City of SSF implement policies and procedures to verify that vendors are in good standing prior to doing business with them.

Resolved. The Criminal Division concurred with our finding and recommendation and stated that upon receipt of the final audit report it will work with the SSFPD to correct all identified findings. The SSFPD agreed with our recommendation and stated in its response that the City of SSF's Grant Management Policy Appendix related to the Federal and Equitable Sharing Program will be amended to add a requirement that the SSFPD will review the System for Awards Management to determine whether a vendor has an exclusion status in accordance with

2 C.F.R. §180.200-225 prior to initiating any purchase utilizing Equitable Sharing Program funds.

This recommendation can be closed when we receive documentation demonstrating that the SSFPD and City of SSF have implemented policies and procedures in compliance with 2 C.F.R. § 200.213 and verify that vendors are in good standing prior to doing business with them and notified necessary personnel of such updates.

8. Ensure that the SSFPD implement policies and procedures to ensure accurate inventory of property purchased with equitable sharing funds, as appropriate.

Resolved. The Criminal Division concurred with our finding and recommendation and stated that upon receipt of the final audit report it will work with the SSFPD to correct all identified findings. The SSFPD agreed with our recommendation and stated in its response that the City of SSF's Grant Management Policy Appendix related to the Federal and Equitable Sharing Program will be amended to add a requirement that the SSFPD maintain a database record specifically related to the equipment purchased with Equitable Sharing Program funds. The SSFPD stated that this database record will be separate from other databases already established that include property purchased with both equitable sharing funds and the City of SSF's general budget funds.

To ensure compliance with the Equitable Sharing Guide the SSFPD should perform routine physical inventory of equipment purchased with Equitable Sharing funds, to include the reconciliation of property maintained in each of its databases to its accounting records. This recommendation can be closed when we receive documentation demonstrating that the SSFPD has implemented policies and procedures to ensure accurate inventory of property purchased with equitable sharing funds and evidence of its inventory reconciliation.

9. Ensure that the SSFPD and City of SSF are provided guidance on how to complete the SEFA and implement a mechanism to review such prior to filing its Single Audit Reports.

Resolved. The Criminal Division concurred with our finding and recommendation and stated that upon receipt of the final audit report it will work with the SSFPD to correct all identified findings. The SSFPD agreed with our recommendation and stated in its response that the City of SSF Finance Department and the Police Department will accept any guidance from the DOJ Criminal Division on how to complete the Schedule of Expenditures of Federal Awards (SEFA) and implement a mechanism to review the SEFA prior to filing its Single Audit Report.

This recommendation can be closed when we receive documentation demonstrating that the SSFPD and City of SSF have been provided guidance on how

to complete the SEFA and implement a mechanism to review the SEFA prior to filing its Single Audit Reports.