



Audit of the Chicago Police
Department's Equitable Sharing
Program Activities,
Chicago, Illinois

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MAY 2021



EXECUTIVE SUMMARY

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Objective

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

Results in Brief

We found that the Chicago PD did not fully comply with the requirements of the DOJ Equitable Sharing Program. For example, the Chicago PD did not ensure proper oversight of its program and had not established policies and procedures to manage its equitable sharing-related activities. Additionally, we found that the Chicago PD did not have an adequate process for recognizing and recording its equitable sharing deposits upon receipt, and we identified receipts not posted to the official equitable sharing accounting records in a timely manner. We also determined that the Equitable Sharing Agreement and Certification report (ESAC) submitted during our review period could not be reconciled to the Chicago PD's accounting records, and we found that the Chicago PD did not have an adequate property management system in place to identify and track equitable sharing-funded equipment. Lastly, while we found that all expenditure transactions we examined were supported, we identified \$49,273 in construction costs that may have required prior approval from DOJ.

Recommendations

Our report includes eight recommendations to the DOJ Criminal Division (Criminal Division), which oversees the Equitable Sharing Program. Responses to our draft report from the Criminal Division and the Chicago PD response can be found in Appendices 3 and 4, respectively. Our analysis of these responses can be found in Appendix 5.

Audit Results

This audit covered the Chicago PD's fiscal year (FY) 2019 and part of FY 2020. During the period we audited (January 1, 2019, through April 30, 2020), the Chicago PD received \$4,319,357 in equitable sharing funds. Equitable sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations. We found that the equitable sharing expenditure transactions we reviewed were adequately supported, and the Chicago PD's ESAC, which was submitted in a timely manner, accurately reflected the receipts contained in the federal eShare system. However, we identified significant internal control deficiencies in need of improvement.

Accounting for and Use of Equitable Sharing Resources

We found that the Chicago PD did not implement required accounting procedures and adequate internal controls over its DOJ equitable sharing funds. Specifically, we found that the Chicago PD did not have written policies and procedures for its Equitable Sharing Program activities, did not have adequate management oversight of its program, did not properly authorize its program expenditures, did not timely reconcile or record its equitable sharing receipts in the official accounting records, and did not have an adequate property management system. In addition, the Chicago PD used \$49,273 in equitable sharing funds for construction-related costs that may have required prior DOJ approval.

Equitable Sharing Agreement and Certification Report

We found that the expenditure figures as well as the beginning and ending balance amounts the Chicago PD reported in its 2019 ESAC could not be reconciled to the Chicago PD's official accounting records. Additionally, the Chicago PD did not, as required, retain supporting documentation for the amounts reported on the ESAC.

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Introduction

The Department of Justice (DOJ) Office of the Inspector General (OIG) completed an audit of the equitable sharing funds received by the Chicago Police Department (Chicago PD) in Chicago, Illinois. The objective of the audit was to assess whether the cash received by the Chicago PD through the Equitable Sharing Program was accounted for properly and used for permissible purposes as defined by applicable regulations and guidelines. The audit covered January 1, 2019, through April 30, 2020.¹ During that period, the Chicago PD received \$4,319,357 in equitable sharing revenues as a participant in the DOJ Equitable Sharing Program.

DOJ Equitable Sharing Program

The Comprehensive Crime Control Act of 1984 authorized the implementation of the DOJ Asset Forfeiture Program (Asset Forfeiture Program). The Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies, issued in July 2018 (Equitable Sharing Guide) describes the Asset Forfeiture Program as 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.² 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 DOJ Criminal Division's (Criminal Division) Money Laundering and Asset Recovery Section (MLARS). The USMS is responsible for transferring 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.

¹ The Chicago PD's fiscal year is based upon the calendar year.

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.

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 permissible law enforcement purposes. The Equitable Sharing Guide outlines categories of permissible and impermissible uses for equitable sharing funds and property.

Chicago Police Department

Established in 1835, the Chicago PD serves a population of over 2.7 million residents and is led by a Superintendent who reports to the Mayor of the city of Chicago. The Chicago PD is comprised of Bureau Chiefs, Deputy Chiefs, Commanders, Division Directors, Captains, Lieutenants, Sergeants, and District Officers. As of September 2020, the Chicago PD had a workforce of 12,718 sworn officers, 659 civilian employees, and 73 exempt employees.³ According to Chicago PD officials, the Chicago PD became a member of the DOJ Equitable Sharing Program in 1986. During the scope of our audit, the Chicago PD Bureau of Organized Crime handled the DOJ Equitable Sharing request process and the submission of annual reports to MLARS.⁴

OIG Audit Approach

We tested the Chicago PD'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 revenues for permissible purposes. Unless otherwise stated, we applied the Equitable Sharing Guide 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 Chicago PD's compliance with the following:

- **Accounting for equitable sharing resources** to determine whether standard accounting procedures were used to track equitable sharing assets.
- **Equitable Sharing Agreement and Certification Reports** to determine if these documents were complete and accurate.
- **Use of equitable sharing resources** to determine if equitable sharing cash and property were used for permissible 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.

³ Exempt Chicago PD positions are high-ranking, appointed positions. Exempt personnel include both sworn and civilian appointments.

⁴ As of January 2021, the Chicago PD Bureau of Organized Crime was replaced by the Chicago PD Bureau of Counter-terrorism. The Bureau of Counter-terrorism now handles the DOJ Equitable Sharing requests and submits the ESACs via the eShare Portal.

Audit Results

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, equitable sharing disbursements are required to be approved by the head of the participating law enforcement entity or a designee, law enforcement agencies must retain all documents and records pertaining to their participation in the Equitable Sharing Program for a period of at least 5 years, and participants are required to use the eShare portal.⁵ Based upon our review of documentation and interviews with the auditee, we identified significant internal control weaknesses in the Chicago PD's accounting for and reporting of financial activity related to equitably shared funds.

Internal Control Environment and Program Management Weaknesses

The Equitable Sharing Guide states that participating law enforcement agencies must implement standard accounting and internal controls to track equitably shared funds and tangible property and maintain and follow written policies for accounting, bookkeeping, inventory control, and procurement that comply with the applicable provisions of the OMB Uniform Administrative Requirements, Costs, Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The applicable section on internal controls in the Uniform Guidance (2 C.F.R. §200.303) states that a non-federal entity is responsible for establishing and maintaining effective internal controls that provide reasonable assurance that the non-federal entity is managing funds in compliance with federal statutes, regulations, and the terms and conditions of the award. Further, these internal controls should be in compliance with guidance outlined in the "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

According to the standards established by the Comptroller General, management is responsible for ensuring that internal controls individually and in combination with other controls are capable of achieving stated objectives and addressing related risks, such as fraud, waste, and abuse.

During our audit, we found that Chicago PD officials were not able to identify an individual or group of individuals with overall responsibility for managing the Chicago PD's equitable sharing program. In fact, when we asked Chicago PD officials who was responsible for managing the program, the answers we received varied. Some officials responded, "that is a good question," or said they believed it was the Chicago PD's Finance Division. When we initiated our audit, we were assigned as our primary audit contact the Chicago PD's Finance Division, but as time went on, we found that the city of Chicago Department of

⁵ 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 to process electronic payments.

Finance knew more about the financial aspects of the Chicago PD's equitable sharing-related financial activity.⁶

During our discussions with officials from the Chicago PD and city of Chicago, we inquired whether there were any policies or procedures for administering its participation in the DOJ Equitable Sharing Program, to include matters such as properly identifying receipts and approving expenditures, as required by equitable sharing guidelines. Chicago PD officials stated that they did not have any formal, written policies or procedures specific to overall management of their DOJ equitable sharing program participation (including properly identifying receipts or approving disbursements), but that the Chicago PD has procedures for completing its annual Equitable Sharing Agreement and Certification form (ESAC). Chicago PD officials also told us that the Chicago PD does have general, department-wide internal control policies that are outdated and need to be updated after the conclusion of an ongoing departmental reorganization; these department-wide policies do not reference the DOJ Equitable Sharing Program or the Chicago PD's participation and related activities.

We believe that the Chicago PD's lack of leadership, appropriate oversight, and policies and procedures specific to its DOJ equitable sharing program have led directly to the numerous internal control weaknesses and noncompliance with Equitable Sharing program guidance that we identified during our audit and which we discuss in the following sections. We therefore recommend that the Criminal Division require the Chicago PD to institute over its DOJ Equitable Sharing Program an effective management structure and formal, written policies and procedures that clearly lay out roles and responsibilities designed to achieve organizational objectives and establish standard accounting procedures and internal controls to help ensure compliance with the DOJ guidelines set forth to manage equitably shared funds and tangible property. Our recommendations specific to individual elements of internal control can be found in the sections below.

Lack of Compliance with Guidance for Expenditure Approvals

Although required by the Equitable Sharing Guide, our audit revealed that expenditures during our review period were not approved by the Chicago PD's Superintendent or a designee. When we discussed this with Chicago PD and city of Chicago officials, we were told that the Superintendent is not involved in the approval process. Moreover, the officials could not provide us evidence that anyone during our review period was granted the authority to approve expenditures of DOJ equitable sharing funds as the designee of the Chicago PD Superintendent.

In December 2020, the Chicago PD Superintendent signed a letter that designated a Chicago PD official to authorize expenditures of Chicago PD DOJ equitable sharing funds.⁷ We met with this official in February 2021 to discuss this new authority, and there appeared to be some confusion over who was authorized to approve equitable sharing expenditures. Moreover, the official told us that the Chicago PD had not approved any expenditures of DOJ equitable sharing funds since the letter was signed in December 2020.

⁶ In Fall 2020, as part of an on-going reorganization, members of the Chicago PD Finance Division transitioned to the newly formed Office of Public Safety Administration and became city of Chicago employees (rather than employees of the Chicago PD). Throughout this report, we refer to them as Chicago PD Finance Division officials, which they were during the entire scope of our audit.

⁷ In the Use of Equitable Sharing Resources section of this report, we discuss the results of our testing of a sample of expenditures made with DOJ equitable sharing funds.

As a result, we could not confirm that the Chicago PD's revised expenditure approval process was functioning in compliance with program guidelines, and we therefore recommend that the Criminal Division require the Chicago PD to provide evidence that the Chicago PD's expenditures of DOJ equitable sharing program funds are being properly approved.

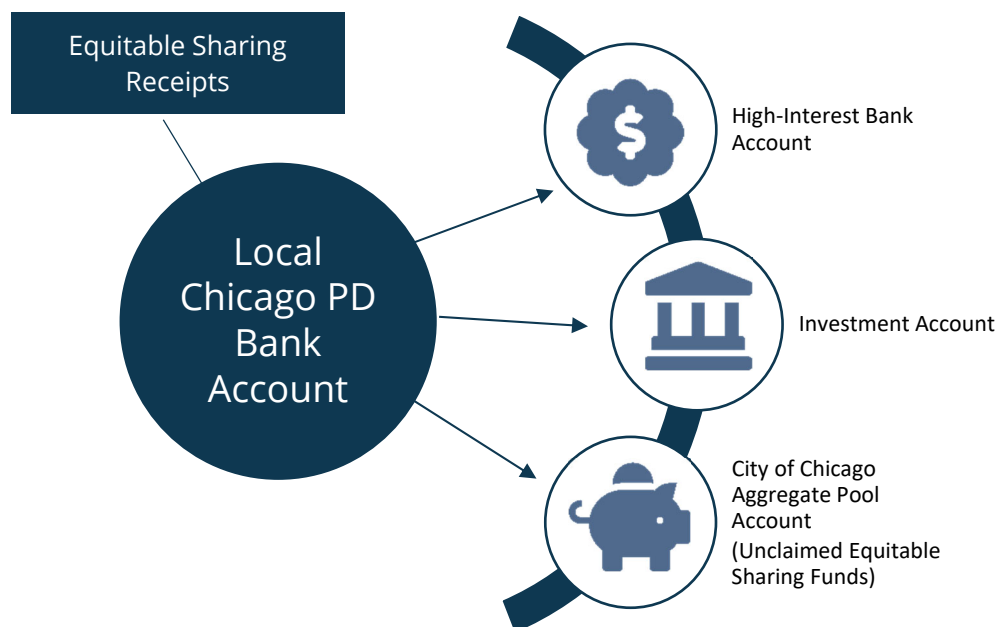
Weaknesses in Accounting for and Handling of Equitable Sharing Receipts

Equitable sharing guidelines require the participating state or local law enforcement agency to establish separate DOJ and U.S. Department of the Treasury accounts or accounting codes to track both revenue and expenditures for each respective program. No other funds may be commingled in these accounts or with these accounting codes.

We found that the Chicago PD and city of Chicago have a rather complex method for the flow of the Chicago PD's equitable sharing receipts from DOJ, as well as for the handling of equitable sharing cash-on-hand. The Chicago PD receives DOJ equitable sharing receipts via electronic funds transfer, and the funds are first deposited into a local bank account. This account is a simple deposit account and funds are to remain there only temporarily before being swept into an investment account, a high-interest earning account, or the city's aggregate account (if not identified and claimed by the Chicago PD within 30 days). The exhibit below depicts how the Chicago PD's equitable sharing funds are received and processed based upon our discussions with Chicago PD and city of Chicago officials.

Exhibit 1

Flow of the Chicago Police Department's Equitable Sharing Deposits



Source: OIG analysis of Chicago Police Department information.

Chicago PD and city of Chicago officials struggled to explain exactly how this process works and who was specifically responsible for recording and reconciling in the city of Chicago's financial system the Chicago PD's equitable sharing funds. In fact, Chicago PD Finance Division personnel told us they were unaware that equitable sharing cash-on-hand was being transferred into investment and high-interest bank accounts. Moreover, these individuals could not inform us where all equitable sharing cash-on-hand was maintained.

We also found that neither the Chicago PD nor city of Chicago have controls or procedures to execute in the event that invested equitable sharing funds, which are exposed to market risk, experience a loss in value. According to the Guide, losses to any equitable sharing funds maintained in investment accounts in accordance with the jurisdiction's policies may not be allocated to or deducted from the equitable sharing account. It follows that the participant should have policies or controls in place to ensure that any such losses are handled appropriately and in compliance with the program guidance. When we asked if the Chicago PD or city of Chicago had policies in place that detail what to do in case an investment account containing equitable sharing funds were to experience a loss, a city of Chicago official told us that there is no specific language in their investment policy that addresses "Equitable Sharing funds." Moreover, the city Treasurer's Office stated that their procedure, in the event that losses are experienced, would be to book the losses in the fund in which the losses are experienced.

With no controls in place to prevent this from occurring, it is possible that the invested Chicago PD equitable sharing funds could experience losses and those losses could be deducted from the equitable sharing account cash-on-hand amount. We therefore recommend that the Criminal Division require the Chicago PD to institute controls to ensure compliance with the program guidance that prohibits any investment-related losses from being allocated to or deducted from the equitable sharing account.

We also found that the Chicago PD Finance Division does not use the USMS's eShare Portal to track anticipated deposits or reconcile receipts.⁸ According to Chicago PD Finance officials, they do not have access to eShare.⁹ Instead of using the eShare Portal, Finance Division officials generally wait until they receive the monthly bank statement for the equitable sharing deposit account to identify the receipts and then notify the City Treasurer's Office of such deposits. Only then are the receipts recorded in the equitable sharing accounting records and the money can be swept from the deposited account into either an investment and/or high interest earning account. If, however, the receipts remain for more than 30 days in the Chicago PD's equitable sharing deposit account, the unclaimed funds are swept into the city's main aggregate account.

According to DOJ eShare reports, between January 1, 2019, and April 30, 2020, the Chicago PD received DOJ equitable sharing revenues totaling \$4,319,357 to support law enforcement operations. We compared the Chicago PD's accounting records to the eShare reports, and we determined that the Chicago PD did, in fact, receive all these payments. To determine the timeliness of the Chicago PD's accounting for these receipts, we reviewed a sample of five of the highest-valued receipts from January 1, 2019, through April 30, 2020;

⁸ Information in the eShare Portal assists with reconciling deposits, as well as tracking and obtaining the status of pending Department of Justice sharing requests.

⁹ Within the Chicago PD, the Bureau of Organized Crime has access to the eShare Portal, through which it submits sharing requests. The Bureau of Organized Crime also, at the end of each fiscal year, reconciles Justice and Treasury funds received between the DOJ eShare Portal and the bank statements.

our sample accounted for more than 21 percent of the total DOJ equitable sharing receipts received by the Chicago PD during our audit period. As shown in Table 1 below, we found that the Chicago PD did not account for all of these receipts in a timely manner.

Table 1

eShare Receipts and Chicago PD Accounting Records Comparison

| Transaction Date per eShare and Bank Statements | Amount | Date Receipt Recorded in Chicago PD Equitable Sharing Account Records | Number of Days Between Receipt and Recording of Funds |
|---|------------------|---|---|
| 01/24/2020 | \$357,094 | 03/09/2020 | 45 |
| 10/18/2019 ^a | 256,049 | 11/27/2019 | 40 |
| 06/24/2019 | 114,678 | 09/30/2019 | 98 |
| 06/24/2019 | 104,091 | 09/30/2019 | 98 |
| 06/24/2019 | 90,399 | 09/30/2019 | 98 |
| Total | \$922,311 | | |

^a The original deposit was overstated by \$3,000. This was corrected by the city in January 2020.

Source: Chicago PD ESACs and accounting records.

As shown above, all of the eShare receipts in our sample were recorded in the Chicago PD's equitable sharing accounting records between 40 and 98 days after they were received by the Chicago PD. Because these funds were not recognized in a timely manner, they would have been subjected to city of Chicago revenue procedures, which require funds unclaimed after 30 days to be swept into the city aggregate account (which does not earn interest). We confirmed that upon discovery of the unclaimed funds, the Chicago PD Finance Division took action to claim the tested receipts and have the funds posted to the equitable sharing accounting records.

The Chicago PD's untimely recognition of equitable sharing revenue is indicative of poor financial management, places the funds at risk of loss or misuse, and could impact the entity's ability to comply with program guidance, including requirements for accurate reporting. Moreover, the Chicago PD loses out on the potential interest these receipts could earn had they been swept into the interest-earning accounts rather than being moved to the city of Chicago aggregate account. Had the Chicago PD managed its receipts using the eShare system and performed more timely reconciliations, we believe many of these risks would have been mitigated. We therefore recommend that the Criminal Division require the Chicago PD to enhance its equitable sharing receipt recognition process, to include regularly reconciling its DOJ equitable sharing accounting records to the information in the eShare Portal.

Inadequate Property Management

The Equitable Sharing Guide states that agencies must maintain and follow written policies for inventory control that comply with applicable portions of the OMB Uniform Administrative Requirements, Costs, Principles, and Audit Requirements for Federal Awards (OMB Uniform Guidance). According to the OMB Uniform Guidance, agencies must maintain property records that include a description of the property and the source of funding. Additionally, the agency must conduct a physical inventory of the property at least once every 2 years.

During our discussions with officials from the Chicago PD who are responsible for managing the Chicago PD's Asset Management System, we learned that the Chicago PD does not have the capability to track equipment and property by funding source (such as identifying items purchased with equitable sharing funds), nor does it conduct physical inventories. The officials told us that they were unaware of when the Chicago PD may have last conducted a physical inventory, and they did not know how often inventories should be conducted. To date the Chicago PD has yet to address these issues. Because the Chicago PD does not track its equipment by funding source, Chicago PD officials could not provide a list of equipment purchased with equitable sharing funds during the scope of our audit; therefore we could not verify whether purchased equipment was at its assigned location and being used for permissible purposes. We noted that these issues were also identified in the city of Chicago's 2018 and 2019 single audit reports and its current Consent Decree.¹⁰ Because the DOJ OIG acts as the DOJ's National Single Audit Coordinator and is responsible for monitoring corrective action relative to single audit report findings concerning DOJ funding, including those of the city of Chicago, we do not make a duplicate recommendation in this report.

Equitable Sharing Agreement and Certification Reports

Law enforcement agencies that participate in the DOJ 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. This must be accomplished regardless of whether equitable sharing funds were received or maintained that year. If an ESAC is not approved before the end of the 2-month filing timeframe, the law enforcement agency will be moved into a non-compliance status.¹¹ 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.

According to the Chicago PD's Standard Operating Procedures (SOP) for preparation and submission of its ESAC, in January (following the end of the fiscal year on December 31) the Chicago PD's Finance Division begins and oversees the Chicago PD's ESAC preparation and approval process, which involves contacting several different departments within the Chicago PD and the city of Chicago to gather documents needed to complete the ESAC. The below exhibit details the Chicago PD's process for preparing the ESAC, as explained in the SOP.

¹⁰ Our review of the city of Chicago's single audit reports is discussed later in the Compliance with Audit Requirements section of this report. A consent decree is a court-ordered agreement between a law enforcement agency and DOJ, designed to correct systemic patterns of misconduct within a police department.

¹¹ Any agency that remains non-compliant for more than 1 year will have all approved sharing pending disbursements extinguished.

Exhibit 2

Chicago PD ESAC Preparation Procedures

| MONTH | PROCEDURES |
|----------|--|
| January | City of Chicago Department of Finance asks the Chicago PD Bureau of Organized Crime – Administration to: (1) reconcile Justice and Treasury funds received between the DOJ eShare Portal and bank statements; and to (2) determine funds received from other law enforcement agencies or task forces and whether there was other income, transfer of funds, or receipt of any non-cash assets. |
| January | City of Chicago Department of Finance provides the Chicago PD Finance Office with needed information for the form (interest/investment income, Single Audit information, and Jurisdiction Finance Contact information). |
| January | Chicago PD Office of the General Counsel provides to the Chicago PD Finance Office information regarding civil rights cases and discrimination allegations. |
| January | Chicago PD Finance Office: (1) reconciles expenditures in the city of Chicago's accounting system and lists them, by expenditure category, on the ESAC; (2) researches and lists on the ESAC the current and prior year budget information; and (3) drafts ESAC for pre-approval review. |
| February | Chicago PD Bureau of Organizational Development reviews the ESAC and forwards it to the Office of the Superintendent. |
| February | Office of the Chicago PD Superintendent reviews (and may request the Office of Legal Affairs to review), approves, signs, and forwards the ESAC to the city of Chicago Office of Budget and Management. |
| February | City of Chicago Office of Budget and Management reviews and approves the ESAC and sends it to the Office of the Mayor. |
| February | Mayor's Office Chief of Staff reviews, approves, and signs the ESAC. Office sends it to the Chicago PD and emails a copy to the Chicago PD Department of Finance confirming the ESAC has been approved by the Office of the Mayor. |
| February | Chicago PD Department of Finance directs the Chicago PD Bureau of Organized Crime Administration to submit the ESAC electronically. |
| February | Chicago PD retains the ESAC forms and all supporting documentation for future audits. |

Source: Chicago Police Department

Completeness and Timeliness of ESAC Reports

We tested the Chicago PD's compliance with ESAC reporting requirements to determine if its reports were complete and submitted in a timely manner. We noted that the Chicago PD submitted its initial 2019 ESAC in February 2020, within the 2-month required timeframe. However, MLARS required the Chicago PD to submit an amended ESAC in July 2020 to correct the amounts it reported in four different categories on its initial ESAC.¹² We reviewed the amended ESAC, found that it was complete and signed by appropriate officials, and then used it for all of our subsequent ESAC analyses.

¹² The four categories requiring correction were receipts, non-categorized expenditures, contracts for services expenditures, and law enforcement equipment expenditures.

Accuracy of ESAC Reports

To verify the accuracy of the 2019 ESAC, we compared the receipts listed on the Chicago PD's amended ESAC to the total amounts listed as disbursed on the eShare report for the same time period. The amended 2019 ESAC report indicated receipts of \$3,650,894, which matched the receipts listed on the eShare report. However, as we continued our analysis, we were unable to reconcile other reported data on the ESAC.

As previously noted in Exhibit 2, the Chicago PD's SOP for the Preparation and Submission of the ESAC requires that the Chicago PD retain the ESAC forms and all supporting documents for future auditing purposes. However, we found that the Chicago PD did not comply with this requirement and could not provide us with documentation to demonstrate how the reported expenditure-related amounts, both by category and cumulatively, were aggregated from the Chicago PD's financial records. Because the Chicago PD did not have this historical documentation, we requested information from the Chicago PD's accounting system to perform our own reconciliation of the figures reported on the ESAC. To comply with our request, the Chicago PD relied heavily on a city of Chicago official to pull together the information. Although we received a significant amount of information, we were unable to reconcile the cumulative or category-based summary expenditure information.

Specifically, according to the list of expenditures provided to us by Chicago PD Finance Division officials, in FY 2019 the Chicago PD expended DOJ equitable sharing funds totaling \$2,943,023. However, we were unable to reconcile this figure to the \$3,028,681 in total expenditures reported on the amended 2019 ESAC. We also attempted to reconcile the beginning balance (i.e., equitable sharing cash-on-hand as of January 1, 2019) as reported on the Chicago PD's ESAC to the accounting records. When we could not reconcile this amount, we asked city of Chicago and Chicago PD Finance Division officials how they calculated the beginning balance on the 2019 ESAC. This Chicago PD Finance Division official stated that when determining the beginning equitable sharing fund balance to report on the ESAC, they used the ending balance that was reported on the previous ESAC and they do not use the accounting records to confirm the figures. Therefore, the beginning and resulting ending balances on the Chicago PD's ESACs do not represent information gleaned fully from the accounting records and instead include carryover figures from past reporting periods.¹³

Further, although the ESAC requires that the agency report its equitable sharing expenditures by category, we found that the Chicago PD does not track its equitable sharing expenditures by category. Rather, Chicago PD Finance Division personnel told us that when they are completing the ESAC, they review individual expenditures and assign the expenditures to spending categories on the ESAC based on their knowledge of the transactions.

The Chicago PD's method for identifying, categorizing, and reporting equitable sharing expenditures lends itself to errors and inconsistencies and is not reliable. As previously noted, three of the four items on the Chicago PD's initial 2019 ESAC submission that had to be corrected were expenditure categories and we were unable to use the Chicago PD's accounting records to verify the expenditure figures. Moreover, throughout our audit, the Chicago PD and the city of Chicago struggled to provide us with basic financial information on the Chicago PD's equitable sharing program activities. Therefore, we recommend that the Criminal Division require the Chicago PD to perform an in-depth review of its equitable sharing financial

¹³ According to a Chicago PD Finance Division official, this method for determining the beginning and ending ESAC balances has been in use since at least 2002.

activity and either: (1) provide detailed documentation to support its existing FY 2019 and FY 2020 ESAC submissions, or (2) submit amended ESACs along with detailed documentation to support the balance and expenditure figures reported. We also recommend that the Criminal Division require the Chicago PD to revise its expenditure tracking process. This revised process should include controls to help ensure that the Chicago PD: (1) properly tracks all DOJ equitable sharing funds by category, (2) accurately reports on the ESAC the correct figures as reflected in its financial system, and (3) retains supporting documentation for the amounts reported on the ESAC.

Equitable Sharing Resources

The Equitable Sharing Guide requires 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. Exhibit 3 reflects examples of permissible and impermissible uses under these guidelines.

Exhibit 3

Summary of Permissible and Impermissible Uses of Equitable Sharing Funds

| Permissible 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 (with prior approval) |
| Drug and gang education and other awareness programs |
| Impermissible Uses |
| Loans |
| Supplanting |
| Costs related to lawsuits |
| Extravagant expenditures |
| Non-federal undercover money laundering investigations |
| Purchase of food and beverages |
| Creation of endowments or scholarships |
| Personal or political use of shared assets |
| Transfers to other law enforcement agencies (waiver can be obtained in certain limited circumstances) |
| Petty cash accounts and stored value cards |
| 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> |

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

Use of Equitable Sharing Funds

Guidance governing the Equitable Sharing Program requires 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. Also, participating agencies must use the funds prudently to avoid any appearance of extravagance, waste, or impropriety. Further, equitable sharing program guidance specifies permissible and impermissible expenditures to include those related to construction. Specifically, it states that agencies must contact MLARS prior to using DOJ equitable sharing funds for all improvement and expansion projects (for example, the construction of a

new facility or minor renovations including drywall, electrical, HVAC replacements, and internal modifications to an existing facility).

As noted previously, we were unable to reconcile the total expenditures in the Chicago PD's accounting records to what the Chicago PD reported on its 2019 ESAC. However, by working closely with Chicago PD and city of Chicago officials, we were able to sample and test individual expenditure transactions that had been recorded in the Chicago PD's equitable sharing accounting records. According to the accounting records provided to us during the audit, the Chicago PD expended DOJ equitable sharing funds totaling \$2,943,023 in FY 2019 and \$643,799 in FY 2020 through April 30, for a total of \$3,586,822 spent during our review period.¹⁴ We judgmentally selected and tested 76 transactions totaling \$2,230,410 or 62 percent, of the total funds expended as recorded in the accounting records, to determine if the expenditures of DOJ equitable sharing funds were permissible and supported by adequate documentation. The transactions in our sample included expenditures for public safety equipment, training, travel and per diem, and law enforcement operations and investigations. Based upon our review of the supporting documentation provided by the Chicago PD and the city of Chicago, we determined that its DOJ equitable sharing fund expenditures were supported by adequate documentation. However, as previously noted in the Accounting for Equitable Sharing Resources section of this report, neither the Chicago PD Superintendent nor a designee approved expenditures as required by the Equitable Sharing Guide.

Additionally, although the transactions we reviewed indicated that the equitable sharing funds generally were used for permissible purposes as outlined in the Equitable Sharing Guide, we found that, during the scope of our audit, the Chicago PD expended \$49,273 in equitable sharing funds to pay for construction expenses. However, according to MLARS, the Chicago PD did not seek nor receive prior approval for any construction-related expenditures, as required by the Equitable Sharing Guide. Further, the \$49,273 was paid against seven large construction contracts dating from May 2017 and August 2018 and totaling \$985,458. Based upon documentation provided by the Chicago PD and the city of Chicago, it appears that equitable sharing funds were used prior to our audit review period to make additional payments against the seven construction contracts.

When we informed the Chicago PD of this issue, a Finance Division official explained that all of the projects that make up the \$49,273 noted above were initially approved and then begun (and some were completed) before DOJ released its July 2018 Guide, in which all construction costs, including minor renovations, required prior approval from MLARS. The official told us that when these projects were approved and started, interim DOJ guidance from July 2014 was in effect, and this guidance stated that approval from AFMLS (the prior name of MLARS) was required prior to building new facilities or making structural changes to existing facilities. The official also noted that under the July 2014 guidance, approval was not required for cosmetic or non-structural improvements such as cabling, electrical, interior walls, carpeting, or furniture costs, and that all of the \$49,273 was spent for what the Chicago PD considered to be non-structural improvements. Specifically, the official told us that the funds were all spent on technology renovation projects to build out Strategic Decision Support Centers, which are technology rooms in police districts that

¹⁴ As noted throughout the report, because of issues we identified in the Chicago PD's management of its equitable sharing program, we cannot be certain these summary expenditure amounts from the Chicago PD's accounting records are accurate. We previously recommended that the Criminal Division require the Chicago PD to conduct an in-depth review of its equitable sharing financial activity and provide detailed documentation to support its FY 2019 and FY 2020 ESAC submissions.

make it easier and quicker for the districts to access crime cameras and mobile phone technology. Thus, the official concluded, the costs were permissible.

We reviewed the information provided by the Chicago PD. As noted, the \$49,273 was paid in 2019 and was part of seven larger and more extensive contracts from 2017 and 2018 totaling close to \$1 million, and the work took several years to complete. Moreover, our review of Chicago PD's construction contracts revealed elements of work such as demolition, carpentry, masonry, abatement, and plumbing. The scope of work outlined in the contracts indicates the construction projects would likely be considered structural improvements and non-cosmetic, thereby requiring prior approval. We therefore recommend that the Criminal Division review this issue and, if appropriate, require the Chicago PD to remedy the \$49,273 in construction costs that did not receive prior approval by MLARS. We also recommend that the Criminal Division identify and, if appropriate, require the Chicago PD to remedy any additional unapproved construction costs that were incurred prior to or after our audit review period.

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 local funding, we interviewed local officials and reviewed the budgets for the city of Chicago and the Chicago PD for FYs 2016 through 2020. We found that the city of Chicago budget increased by 26 percent during this timeframe, while the Chicago PD's budget for the same period increased by 18 percent.

There was no decrease in the city of Chicago budget that was offset by the Chicago PD's budget, and there also was no decrease in the Chicago PD's budget that coincided with a proportional increase in equitable sharing revenue. Therefore, we determined that there was no indication that the city of Chicago was supplanting its budget with equitable sharing funds during our period of review.

Compliance with 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 the audit requirements within 2 C.F.R. §200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The Single Audit Act provides for recipients of federal funding above a certain threshold to 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 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.

We reviewed the city of Chicago's Single Audit Report for FY 2019 and determined that it included DOJ equitable sharing expenditures on its Schedule of Expenditures of Federal Awards. We compared the amount the city of Chicago reported to the amount the Chicago PD reported on its ESAC for FY 2019, and we

found that the amounts matched. However, as noted previously, we were unable to determine if the expenditures the Chicago PD reported on its 2019 ESAC were accurate.

The city of Chicago's Single Audit Report for FY 2019 noted two prior year findings related to the Equitable Sharing Program. The first was that the Chicago PD was not able to adequately demonstrate that proper equipment records were being maintained and all equipment purchases with equitable sharing funds were being properly tracked. According to the city of Chicago's response to the FY 2018 Single Audit Report, the Chicago PD would remedy this finding by either modifying its existing property system or purchasing a new system. However, as noted in the Accounting for Equitable Sharing Resources section on this report, this corrective action had not yet occurred by the time of our audit.

The second finding was that the Chicago PD did not submit its 2018 ESAC by the 2-month deadline after the city's fiscal year-end. According to the city of Chicago's response to correspondence related to the FY 2018 Single Audit Report, the Chicago PD has remedied this finding by implementing Standard Operating Procedures for the preparation and submission of the ESAC. Because the FY 2019 ESAC was submitted within the required timeframe, we believe this corrective action is adequate.

Conclusion and Recommendations

We tested the Chicago PD's compliance with what we considered to be the most important conditions of the DOJ Equitable Sharing Program to assess whether the Chicago PD accounted for equitable sharing funds properly and used such revenues for permissible purposes. Overall, we found that the Chicago PD did not fully comply with program requirements and did not have proper management oversight of its equitable sharing program. Specifically, the Chicago PD lacked formal, written policies and procedures governing its DOJ equitable sharing activities; did not properly approve its DOJ equitable sharing expenditures; did not properly account for or handle its equitable sharing receipts; and did not have the required property management program in place over items purchased with DOJ equitable sharing funds. Also, although we verified the reported receipts, we were unable to confirm as accurate the expenditure and beginning and ending balance amounts reported on the Chicago PD's FY 2019 ESAC because the Chicago PD could not provide adequate accounting records or other documentation to support the reported figures. We were, however, able to determine that the sample of DOJ equitable sharing fund expenditures we reviewed were adequately supported, but we identified construction expenditures totaling \$49,273 that may have required prior DOJ approval.

We recommend that the Criminal Division:

1. Require the Chicago PD to institute over its DOJ Equitable Sharing Program an effective management structure and formal, written policies and procedures that clearly lay out roles and responsibilities designed to achieve organizational objectives and establish standard accounting procedures and internal controls to help ensure compliance with the DOJ guidelines set forth to manage equitably shared funds and tangible property.
2. Require the Chicago PD to provide evidence that the Chicago PD's expenditures of DOJ equitable sharing program funds are being properly approved.
3. Require the Chicago PD to institute controls to ensure compliance with the program guidance that prohibits any investment-related losses from being allocated to or deducted from the equitable sharing account.
4. Require the Chicago PD to enhance its equitable sharing receipt recognition process, to include regularly reconciling its DOJ equitable sharing accounting records to the information in the eShare Portal.
5. Require the Chicago PD to perform an in-depth review of its equitable sharing financial activity and either: (1) provide detailed documentation to support its existing FY 2019 and FY 2020 ESAC submissions, or (2) submit amended ESACs along with detailed documentation to support the balance and expenditure figures reported.
6. Require the Chicago PD to revise its expenditure tracking process. This revised process should include controls to ensure that the Chicago PD: (1) properly tracks all DOJ equitable sharing

expenditures by category, (2) accurately reports on the ESAC the correct figures as reflected in its financial system, and (3) retains supporting documentation for the amounts reported on the ESAC.

7. Review the \$49,273 in construction costs paid in 2019 and, if appropriate, require the Chicago PD to remedy this amount that did not receive prior approval by MLARS.
8. Identify and, if appropriate, require the Chicago PD to remedy any additional unapproved construction costs that were incurred prior to or after our audit review period.

APPENDIX 1: Objective, Scope, and Methodology

Objective

The objective of the audit was to assess whether the Chicago PD accounted for equitable sharing funds and used such revenues for permissible purposes 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, the equitable sharing activities of the Chicago PD between January 1, 2019, and April 30, 2020. During this period, the Chicago PD received \$4,319,357 in DOJ equitable sharing funds. In its 2019 ESAC, the Chicago PD reported a beginning balance of DOJ equitable sharing funds totaling \$7,479,451 on January 1, 2019. As noted in the report, we verified the amount received; however, we were unable to verify the Chicago PD's January 1, 2019, beginning balance.

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, 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. We interviewed Chicago PD and city of Chicago officials and examined records, related revenues, and expenditures of DOJ equitable sharing funds. In addition, we relied on computer-generated data contained in the federal eShare system to identify equitably shared revenues and property awarded to the Chicago PD 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 the Chicago PD's compliance with three essential equitable sharing guidelines: (1) accounting for equitable sharing receipts, (2) Equitable Sharing Agreement and Certification reports, and (3) the use of equitable sharing funds. In planning and performing our audit, we considered internal controls established and used by the Chicago PD over DOJ equitable sharing receipts. However, we did not assess the reliability of the Chicago PD's financial management system, or the extent to which the financial management system complied with internal controls, laws, and regulations overall.

During the course of our audit, we judgmentally selected and tested a sample of 5 receipts totaling \$922,311 and a sample of expenditures totaling \$2,230,410. 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 Chicago PD's most recent annual audit. The results of this audit were reported in the Single Audit Report that accompanied the city of Chicago's basic financial statements for the year ended December 31, 2019. We reviewed the independent auditor's assessment, which disclosed two prior internal control issues. We have addressed these weaknesses in our report as they relate to the Chicago PD's equitable sharing program.

We discussed the results of our review with officials from the Chicago PD and the city of Chicago 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 objective. We did not evaluate the internal controls of the Chicago PD to provide assurance on its internal control structure as a whole. Chicago PD 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 on the Chicago PD's internal control structure as a whole, we offer this statement solely for the information and use of the Chicago PD and the Criminal Division.

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

| Internal Control Components & Principles Significant to the Audit Objective | |
|---|--|
| 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. |
| Monitoring Principles | |
| | Management should remediate identified internal control deficiencies on a timely basis. |

We assessed the design, implementation, and operating effectiveness of these internal controls and identified deficiencies that we believe could affect the Chicago PD's ability to effectively and efficiently operate, to correctly state financial information, and to ensure compliance with laws and regulations. The internal control deficiencies we found 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.

APPENDIX 2: Schedule of Dollar-Related Findings

| Description | Amount | Page |
|--------------------------------------|------------------------|------|
| Questioned Costs: | | |
| Unapproved Construction Costs | \$49,273 | 14 |
| Questioned Costs | \$49,273 | |
| TOTAL DOLLAR-RELATED FINDINGS | <u>\$49,273</u> | |

APPENDIX 3: The 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

April 5, 2021

MEMORANDUM

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

FROM: Alice W. Dery, Chief Alice W. Dery Digitally signed by Alice W. Dery
Date: 2021.04.05 10:27:15 -0400
Program Management and Training Unit
Money Laundering and Asset
Recovery Section

SUBJECT: DRAFT AUDIT REPORT for the Chicago Police Department's Equitable Sharing Program Activities.

In a memorandum dated March 26, 2021, your office provided a draft audit report for the Chicago Police Department that includes 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 the Chicago Police Department 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 4: The Chicago Police Department's Response to the Draft Audit Report



Lori E. Lightfoot
Mayor

Department of Police • City of Chicago
3510 S. Michigan Avenue • Chicago, Illinois 60653

David O. Brown
Superintendent of Police

April 14, 2021

Carol S. Taraszka
Regional Audit Manager
Chicago Regional Audit Office
Office of the Inspector General
U.S. Department of Justice
500 West Madison St. Suite 1121
Chicago, Illinois 60661

Dear Ms. Taraszka:

This letter is in response to your March 26, 2021 letter addressed to Superintendent David O. Brown concerning the Audit of the Chicago Police Department's Equitable Sharing Program Activities for the period of January 1, 2019 through April 30, 2020. This matter was referred to the Office of Public Safety Administration (OPSA), Finance and Accounting Section for response.

On behalf of the Chicago Police Department, the OPSA Finance and Accounting Section has taken positive actions to address each of the points you raised as communicated in your March 26, 2021 letter. Following are our responses to each of the eight recommendations, in the order in which they were presented in your letter.

Recommendation #1

You recommended that the Chicago PD be required to institute over its DOJ Equitable Sharing Program an effective management structure and formal, written policies and procedures that clearly lay out roles and responsibilities designated to achieve organizational objectives and establish standard accounting procedures and internal controls to help ensure compliance with the DOJ guidelines set forth to manage equitably shared funds and tangible property.

We agree with this recommendation.

On behalf of the Chicago PD, the Office of Public Safety Administration (OPSA) Finance is responsible for the financial administration of Chicago PD's DOJ equitable sharing funds. We will define an effective management structure and formal, written policies and procedures that clearly lay out roles and responsibilities designated to achieve Chicago PD's organizational objectives and establish standard accounting procedures and internal controls to ensure compliance with the DOJ guidelines to manage equitably shared funds and tangible property. As we work on addressing and correcting the other recommendations outlined in the audit report, we will document and ensure compliance of all of the recommendations stated above. Our goal is to complete the review and develop written policies and procedures by July 2021.

Emergency: 9-1-1 • **Non-Emergency:** (Within City limits) 3-1-1 • **Non-Emergency and TTY:** (Outside City limits) 312-746-6000
• **E-mail:** police@cityofchicago.org • **Website:** www.cityofchicago.org/police

Recommendation #2

You recommended that the Chicago PD be required to provide evidence that the Chicago PD's expenditures of DOJ equitable sharing program funds are being properly approved.

We agree with this recommendation.

Effective March 25, 2021, all Chicago PD's DOJ equitable sharing program expenditures are being reviewed and approved by Chicago PD's Chief of Bureau of Counter Terrorism.

Recommendation #3

You recommended that the Chicago PD be required to institute controls to ensure compliance with the program guidance that prohibits any investment-related losses from being allocated to or deducted from the equitable sharing account.

We agree with this recommendation.

On April 7, 2021, OPSA Finance, the City of Chicago Department of Finance (COC DOF) and the City of Chicago Treasurer's Office (COC CTO) met to discuss the controls that need to be in place to ensure compliance with the program guidelines that prohibits any investment-related losses from being allocated to or deducted from the equitable sharing account. The COC Treasurer's Office is the department that invests all funds for the City of Chicago. They reconcile cash on a daily basis. Until, at such time, as they are able to officially amend the City of Chicago's Investment policy, they will prepare an interim policy immediately to ensure losses from being allocated to or deducted from the equitable sharing account.

To ensure compliance with this recommendation, the OPSA Finance will include this in its written policies and procedures during the reconciliation of Chicago PD DOJ equitable sharing funds in the City of Chicago's ledgers to ensure the COC Treasurer's Office is complying with recommendation.

Recommendation #4

You recommended that the Chicago PD be required to enhance its equitable sharing receipt recognition process, to include regularly reconciling its DOJ equitable sharing accounting records to the information in the eShare Portal.

We agree with this recommendation.

Effectively immediately, the OPSA Finance will query CPD's DOJ Equitable Sharing bank statements on a weekly basis. OPSA Finance will reconcile the DOJ equitable sharing receipts and accounting records to the information in the eShare Portal.

The City of Chicago Treasurer's Office receipts CPD's DOJ Equitable Sharing interest and investment income. They will provide OPSA Finance with copies of the bank statements so that OPSA Finance can reconcile those transactions in the accounting records.

This process will be included in the written policies and procedures.

Recommendation #5

You recommended that the Chicago PD be required to perform an in-depth review of its equitable sharing financial activity and either: (1) provide detailed documentation to support its existing FY 2019 and FY 2020 ESAC submissions, or (2) submit amended ESACs along with detailed documentation to support the balance and expenditures figures reported.

We agree with this recommendation.

Effective immediately, the OPSA Finance will begin a review of the City of Chicago's Department of Finance ledgers for CPD's DOJ Equitable Sharing Funds and conduct an in-depth review of the financial activity for the FY 2019 and FY 2020 submissions. We are currently working with the City of Chicago Department of Finance to ensure we have access to all reports needed to conduct the reconciliation, which will be shared with the DOJ Criminal Division for their review. After the review, and if needed, the FY 2019 and FY 2020 ESACs will be amended. Our goal is to complete our in-depth review of FY 2019 and FY 2020 by the end of May 2021 to submit to DOJ Criminal Division for their review, comparison to the ESACs and receive their recommendation(s) on how to make corrections, if needed.

As OPSA Finance conducts the in-depth review of the City of Chicago's ledgers, we will document and develop appropriate written policies and procedures on how to conduct monthly reconciliations.

Recommendation #6

You recommended that the Chicago PD be required to revise its expenditure tracking process. This revised process should include controls that ensure that the Chicago PD: (1) properly tracks all DOJ equitable sharing expenditures by category, (2) accurately reports on the ESAC the correct figures as reflected in its financial system, and (3) retains supporting documentation for the amounts reported on the ESAC.

We agree with this recommendation.

In February 2021, OPSA Finance implemented an application called WorkFront. WorkFront is a project management software that is currently being used for receiving, approving, processing and tracking expenditures for all funding sources, including CPD's DOJ Equitable Sharing Funds. WorkFront allows for supporting documentation (Chicago PD DOJ Equitable Sharing approved expenditures by the Superintendent or his designee, invoices, requisitions and funding sources) to be uploaded and the expenditures to be tracked from the beginning until paid. WorkFront is an internal tracking software that is used by OPSA Finance. All invoices are reviewed by an OPSA official for completeness before the invoices are entered in the City of Chicago's Financial Management and Purchasing System for payment. The City of Chicago's Financial Management and Purchasing System (FMPS) is the City's official system for processing payments to all vendors through the City of Chicago's Procurement process, and for posting expenditures to the City's ledgers. Only the invoices are uploaded in the City of Chicago FMPS system and the funding strip is entered in order to process payment. All supporting documents for Chicago PD's DOJ equitable sharing funds will remain on-site with OPSA Finance saved in WorkFront.

To ensure compliance that all DOJ equitable sharing expenditures are tracked by category, OPSA Finance will include a comment in WorkFront specifying the correct expenditure category per the DOJ equitable sharing guidelines that can be used as a reference with reporting the expenditures in the ESAC. And to ensure compliance that OPSA Finance accurately reports on the ESAC the correct figures as reflected in its financial system (which is FMPS), OPSA Finance is also going to attempt to see if the DOJ equitable sharing" category" can be included as part of the funding strip when entered in FMPS. As of the date of this response, OPSA Finance has not had an opportunity to test the funding strip. If the category can be included as part of the funding strip, then this be included in the written policies and procedures.

Recommendation #7

You recommended that the DOJ Criminal Division should review the \$49,273 in construction costs paid in 2019 and, if appropriate, require the Chicago PD to remedy that did not receive prior approval by MLARS.

We respectfully disagree with this recommendation.

OPSA Finance welcomes the DOJ Criminal Division to review the \$49,273 in constructions costs that were paid in FY 2019, as they were the final expenses to an earlier construction project [Strategic Decision Support Center (SDSC) Technology renovation project] that had started in FY 2017 and FY 2018 before the new DOJ Guidelines went into effect. Although the SDSC Technology renovation project was not prior approved by MLARS, earlier costs associated with the SDSC Technology renovation project were included as part of MLARS' review of the Chicago PD's FY 2018 ESAC. During that review, MLARS inquired about the \$1,089,874.87 of construction costs that was reported in Chicago PD's FY 2018 ESAC. Chicago PD described the construction costs as contractual renovation costs and MLARS stated they were fine.

If after DOJ Criminal Division review of the construction costs and they determine that Chicago PD should have sought prior approval from MLARS, then OPSA Finance would like to respectfully request a waiver on behalf of Chicago PD.

Recommendation #8

You recommended that the DOJ Criminal Division should identify and, if appropriate, require the Chicago PD to remedy any additional unapproved construction costs that were incurred prior to or after our audit review period.

We respectfully disagree with this recommendation.

During the review of Chicago PD's FY 2018 ESAC, MLARS sent an email on April 18, 2019 inquiring about Line C: law enforcement, public safety & detention facilities. MLARS noted that Chicago PD spent \$1,089,874.87 on Line C and they wanted to know if the expenditures were contractual or cosmetics expenditures. The former Chicago PD Finance Division responded on April 19, 2019 stating that the expenditures were contractual expenditures for renovation. On that same day, MLARS responded to the email stating they were fine.

The breakdown of Line C of the \$1,089,874.87 that was reported in the FY 2018 ESAC is as follows:

| Project | Expenditures | Description |
|---|------------------------|--|
| Central Detention Build out - 1st District | \$ 9,815.12 | Build two rooms (one for male and the other one for female) within Chicago PD's 1st District Central Detention prisoner(s) property room. This required building a wall the length of an existing room with openings and another partition wall to separate the two rooms. |
| 16th District - Security Upgrade | \$ 175,502.43 | A security system was installed that is used for prisoner processing and prisoner holding. |
| Strategic Decision Support Center (SDSC) Technology Rooms | \$ 874,126.97 | Build out SDSC Technology Rooms for the following districts: 2, 3, 4, 5, 8, 10, 12 and 25 |
| *SDSC Room Furnishings | \$ 30,430.35 | Furniture for the SDSC Rooms |
| | \$ 1,089,874.87 | Total |

*According to the FY 2014 equitable sharing guidelines, furnishings were listed in category C: law enforcement, public safety and detention facilities. However, if required, after DOJ Criminal Division review, these expenses can be re-categorized to category D for equipment.

The breakdown of Line C of the \$145,456.25 that was reported in the FY 2017 ESAC is as follows:

| Project | Expenditures | Description |
|---|---------------------|--|
| Strategic Decision Support Center (SDSC) Technology Rooms | \$ 145,456.25 | Build out SDSC Technology Rooms for the following districts: 6, 9, 10 and 15 |

OPSA Finance welcomes the DOJ Criminal Division to review all of the constructions costs associated with all of the projects above that incurred in FY 2017 and FY 2018. If after DOJ Criminal Division's review and if they believe that Chicago PD should have requested prior approval from MLARS, then OPSA Finance would respectfully like to request a waiver.

Should you have questions concerning any of the responses provided, please feel free to contact Michele James, Assistant Director of OPSA Finance at 312-745-5688.

Signature Page:

Sincerely,



David O. Brown
Superintendent of Police
Chicago Police Department



Anastasia M. Walker
Executive Director
Office of Public Safety Administration

CC: Anne Insley
MLARS Program Analyst
Money Laundering & Asset Recovery Section
Criminal Division

Alice Dery
Chief of Program Management and Training Unit
Criminal Division

Jose M. Tirado
Chief of Bureau of Counter Terrorism
Chicago Police Department

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 Criminal Division and the Chicago PD. The Criminal Division's response is incorporated in Appendix 3 and the Chicago PD's response is incorporated in Appendix 4 of this final report. In response to our draft audit report, the Criminal Division concurred with our recommendations, and as a result, the status of the audit report is resolved. The Chicago PD agreed with six recommendations and disagreed with two recommendations. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

Recommendation for the Criminal Division:

- 1. Require the Chicago PD to institute over its DOJ Equitable Sharing Program an effective management structure and formal, written policies and procedures that clearly lay out roles and responsibilities designed to achieve organizational objectives and establish standard accounting procedures and internal controls to help ensure compliance with the DOJ guidelines set forth to manage equitably shared funds and tangible property.**

Resolved. The Criminal Division agreed with our recommendation. The Criminal Division stated in its response that upon receipt of the final audit report, it will work with the Chicago PD to correct all identified findings. As a result, this recommendation is resolved.

The Chicago PD agreed with our recommendation and stated in its response that its Office of Public Safety Administration Finance (OPSA Finance) will define an effective management structure and formal written policies and procedures that clearly lay out roles and responsibilities designed to achieve the Chicago PD's organizational objectives and establish standard accounting procedures and internal controls to ensure compliance with the DOJ guidelines to manage equitably shared funds and tangible property.

This recommendation can be closed when we receive evidence that the Chicago PD has instituted over its DOJ Equitable Sharing Program an effective management structure and formal, written policies and procedures that clearly lay out roles and responsibilities designed to achieve organizational objectives and establish standard accounting procedures and internal controls to help ensure compliance with the DOJ guidelines set forth to manage equitably shared funds and tangible property.

- 2. Require the Chicago PD to provide evidence that the Chicago PD's expenditures of DOJ equitable sharing program funds are being properly approved.**

Resolved. The Criminal Division agreed with our recommendation. The Criminal Division stated in its response that upon receipt of the final audit report, it will work with the Chicago PD to correct all identified findings. As a result, this recommendation is resolved.

The Chicago PD agreed with our recommendation and stated in its response that effective March 25, 2021, all the Chicago PD's DOJ equitable sharing program expenditures are being reviewed and approved by the Chicago PD's Chief of Bureau of Counter Terrorism.

This recommendation can be closed when we receive evidence that the Chicago PD's expenditures of DOJ equitable sharing program funds are being properly approved in accordance with DOJ guidance.

- 3. Require the Chicago PD to institute controls to ensure compliance with the program guidance that prohibits any investment-related losses from being allocated to or deducted from the equitable sharing account.**

Resolved. The Criminal Division agreed with our recommendation. The Criminal Division stated in its response that upon receipt of the final audit report, it will work with the Chicago PD to correct all identified findings. As a result, this recommendation is resolved.

The Chicago PD agreed with our recommendation and stated in its response that OPSA Finance, the city of Chicago Department of Finance, and the city of Chicago Treasurer's Office collaborated to discuss the controls needed to ensure compliance with the program guidelines that prohibit any investment-related losses from being allocated to or deducted from the equitable sharing account. Further, the Chicago PD indicated its intent to officially amend its investment policy to account for these controls and stated that, while this official policy is in being developed, the city of Chicago Treasurer's Office will immediately prepare an interim investment policy to prevent losses from being allocated to or deducted from the equitable sharing account.

This recommendation can be closed when we receive evidence that the Chicago PD has instituted controls to ensure compliance with the program guidance that prohibits any investment-related losses from being allocated to or deducted from the equitable sharing account.

- 4. Require the Chicago PD to enhance its equitable sharing receipt recognition process, to include regularly reconciling its DOJ equitable sharing accounting records to the information in the eShare Portal.**

Resolved. The Criminal Division agreed with our recommendation. The Criminal Division stated in its response that upon receipt of the final audit report, it will work with the Chicago PD to correct all identified findings. As a result, this recommendation is resolved.

The Chicago PD agreed with our recommendation and stated that effective immediately OPSA Finance will query Chicago PD DOJ Equitable Sharing bank statements on a weekly basis and will reconcile the DOJ equitable sharing receipts and accounting records to the information in the eShare portal. The Chicago PD also stated that the city of Chicago Treasurer's Office will provide OPSA Finance with bank statements so that it can reconcile interest and investment income transactions in the accounting records. Further, the

Chicago PD said that it would include this process in its written policies and procedures.

This recommendation can be closed when we receive evidence that the Chicago PD has enhanced its equitable sharing receipt recognition process, to include regularly reconciling its DOJ equitable sharing accounting records to the information in the eShare Portal.

5. **Require the Chicago PD to perform an in-depth review of its equitable sharing financial activity and either: (1) provide detailed documentation to support its existing FY 2019 and FY 2020 ESAC submissions, or (2) submit amended ESACs along with detailed documentation to support the balance and expenditure figures reported.**

Resolved. The Criminal Division agreed with our recommendation. The Criminal Division stated in its response that upon receipt of the final audit report, it will work with the Chicago PD to correct all identified findings. As a result, this recommendation is resolved.

The Chicago PD agreed with our recommendation and stated in its response that OPSA Finance will immediately begin a review of the Chicago PD's DOJ Equitable Sharing Funds and conduct an in-depth review of the financial activity for the FY 2019 and FY 2020 ESAC submissions. In addition, the Chicago PD said that it is working with the city of Chicago Department of Finance to ensure it has access to all reports needed to conduct the reconciliation. The Chicago PD also stated that it would provide its reconciliation results to the Criminal Division for review and, if necessary, make corrections to the ESACs. Further, the Chicago PD said that the Office of Public Safety Administration Finance will document and develop written policies and procedures on how to conduct monthly reconciliations.

This recommendation can be closed when we receive evidence the Chicago PD performed an in-depth review of its equitable sharing financial activity and either: (1) provided detailed documentation to support its existing FY 2019 and FY 2020 ESAC submissions, or (2) submitted amended ESACs along with detailed documentation to support the balance and expenditure figures reported.

6. **Require the Chicago PD to revise its expenditure tracking process. This revised process should include controls to ensure that the Chicago PD: (1) properly tracks all DOJ equitable sharing expenditures by category, (2) accurately reports on the ESAC the correct figures as reflected in its financial system, and (3) retains supporting documentation for the amounts reported on the ESAC.**

Resolved. The Criminal Division agreed with our recommendation. The Criminal Division stated in its response that upon receipt of the final audit report, it will work with the Chicago PD to correct all identified findings. As a result, this recommendation is resolved.

The Chicago PD agreed with our recommendation and stated in its response that in February 2021, OPSA Finance implemented project management software that is currently being used for receiving, approving, processing, and tracking expenditures for all funding sources, including the Chicago PD's equitable sharing funds. The Chicago PD also said that

this software allows for the inclusion of supporting documents and expenditures can include a comment to specify the associated DOJ equitable sharing expenditure category. In addition, the Chicago PD stated that OPSA Finance will attempt to add the spending categories to the city of Chicago's Financial Management and Purchasing System.

This recommendation can be closed when we receive evidence that the Chicago PD has revised its expenditure tracking process. This revised process should include controls to ensure that the Chicago PD: (1) properly tracks all DOJ equitable sharing expenditures by category, (2) accurately reports on the ESAC the correct figures as reflected in its financial system, and (3) retains supporting documentation for the amounts reported on the ESAC.

7. Review the \$49,273 in construction costs paid in 2019 and, if appropriate, require the Chicago PD to remedy this amount that did not receive prior approval by MLARS.

Resolved. The Criminal Division agreed with our recommendation. The Criminal Division stated in its response that upon receipt of the final audit report, it will work with the Chicago PD to correct all identified findings. As a result, this recommendation is resolved.

The Chicago PD disagreed with our recommendation and stated in its response that OPSA Finance welcomes the Criminal Division to review the \$49,273 in construction costs that were paid in FY 2019. According to the Chicago PD, these costs were the final expenses to an earlier construction project that started in FY 2017 and FY 2018 before the implementation of new DOJ Guidelines more explicitly requiring construction projects to be pre-approved by the Criminal Division. The Chicago PD also stated that although the project did not receive prior approval from MLARS, earlier costs associated with the project were included as part of MLARS's review of the Chicago PD's FY 2018 ESAC. In addition, the Chicago PD stated that during that review, MLARS inquired about the \$1,089,874.87 in construction costs that were reported in the Chicago PD's FY 2018 ESAC, and that the Chicago PD described the construction costs as contractual renovation costs, and "MLARS stated that the costs were fine."

The Chicago PD also stated that if after the Criminal Division reviews the construction costs and determines that the Chicago PD should have sought prior approval from MLARS, OPSA Finance would request a waiver on behalf of the Chicago PD.

As noted in our report, current program guidance (issued in July 2018) states that agencies must contact MLARS prior to using DOJ equitable sharing funds for all improvement and expansion projects (for example, the construction of a new facility or minor renovations including drywall, electrical, and internal modifications to an existing facility). Also as noted in our report, when we informed the Chicago PD of the potential of questioned costs associated with construction-related costs paid for with equitable sharing funds in 2019, a Finance Division official explained that all of the projects that make up the costs in question were begun during a period covered by DOJ guidance issued in July 2014, which required prior DOJ approval when building new facilities or making structural changes to existing facilities but did not require approval when only cosmetic or non-structural changes were made.

We reviewed the contracts related to this construction and found that the work described included demolition, carpentry, masonry, abatement, and plumbing to be done on existing Chicago PD facilities. Based on these descriptions, we concluded that this work could be considered non-cosmetic, structural improvements, and would thus require prior DOJ approval under the July 2014 guidelines. However, neither the July 2014 nor July 2018 guidance contains a definition of what constitutes a “structural improvement.”

While we believe the construction work in question paid for with equitable sharing funds could be structural in nature and could have required prior approval in accordance with both current and prior guidance, the Chicago PD’s response indicates that officials believe the work performed was permissible under the guidance in place at the time the projects were initiated. In addition, the Chicago PD’s response also referred to correspondence with MLARS about construction-related cost information in its ESAC submissions for FY 2018. According to the Chicago PD, these interactions would have served to make MLARS aware of the work being performed. However, it is not clear from the information provided that the exchanges related only to the categorization of costs on the ESAC and if they would have allowed appropriate MLARS decision makers to have a sufficient understanding of the Chicago PD’s construction-related projects.

Given the changes in program guidance, the lack of clarity in the term “structural improvement,” and the information from the Chicago PD regarding previous interactions with MLARS about its ESAC submissions, we continue to believe that MLARS should review the Chicago PD’s construction-related activity and determine if the \$49,273 in equitable sharing funds expended during our review period required prior approval. Therefore, this recommendation can be closed when we receive evidence that the Criminal Division has reviewed the \$49,273 in construction costs paid in 2019 and, if appropriate, required the Chicago PD to remedy this amount that did not receive prior approval by MLARS.

8. Identify and, if appropriate, require the Chicago PD to remedy any additional unapproved construction costs that were incurred prior to or after our audit review period.

Resolved. The Criminal Division agreed with our recommendation. The Criminal Division stated in its response that upon receipt of the final audit report, it will work with the Chicago PD to correct all identified findings. As a result, this recommendation is resolved.

The Chicago PD disagreed with our recommendation and stated in its response that during the review of the Chicago PD’s FY 2018 ESAC, MLARS sent an email on April 18, 2019, inquiring about expenditures categorized as law enforcement, public safety, and detention facilities. The Chicago PD stated that in its email, MLARS noted that Chicago PD reported \$1,089,874.87 in this category, and MLARS wanted to know if the expenditures were contractual or cosmetic expenditures. The Chicago PD also stated that the former Chicago PD Finance Division responded on April 19, 2019, stating that the expenditures were contractual expenditures for renovation, and on that same day, MLARS “responded to the email stating they were fine.” In addition, the Chicago PD response included two tables that list its ESAC expenditure breakdown by project and description for FYs 2017 and 2018.

Further, the Chicago PD stated in its response that OPSA Finance welcomes the Criminal Division to review all the construction costs associated with all the projects incurred in FYs 2017 and 2018. The response states that if the Criminal Division's determines that the Chicago PD should have requested prior approval from MLARS, OPSA Finance would request a waiver.

As noted in recommendation #7, we believe the work described could be considered non-cosmetic, structural improvements. Given the changes in program guidance, the lack of clarity in the term "structural improvements," and the information from the Chicago PD regarding previous interactions with MLARS about its ESAC submissions, we continue to believe that MLARS should review the Chicago PD's construction-related activity and determine if the construction-related expenses required prior approval. Therefore, this recommendation can be closed when we receive evidence that the Criminal Division has Identified and, if appropriate, required the Chicago PD to remedy any additional construction costs that were incurred prior to or after our audit review period that should have been pre-approved according to applicable Equitable Sharing guidelines.