



Audit of the West Covina Police Department's  
Equitable Sharing Program Activities,  
West Covina, California



23-018

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# 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 West Covina Police Department (WCPD) accounted for DOJ equitable sharing funds and used such revenues for permissible purposes as defined by applicable guidelines.

### Results in Brief

As a result of our audit, we found that the WCPD commingled its DOJ and Department of Treasury (Treasury) equitable sharing fund expenditures. In addition, although the WCPD submitted its Equitable Sharing Agreement and Certification (ESAC) forms timely, the reports were not accurate and were not reviewed by the appropriate officials prior to submission to the Criminal Division's Money Laundering and Asset Recovery Section (MLARS). We also identified \$111,280 in renovation costs for facilities improvements that the WCPD made without informing MLARS. Finally, we determined that the WCPD did not comply with the City of West Covina (City) and the equitable sharing program inventory requirements.

### Recommendations

Our report includes \$111,280 in questioned costs and eight recommendations to assist the DOJ Criminal Division (Criminal Division), which oversees the Equitable Sharing Program. We requested a response to our draft audit report from the Criminal Division and the WCPD, which can be found in Appendices 3 and 4, respectively. Our analysis of those responses is included in Appendix 5.

### Audit Results

This audit covered the WCPD's fiscal years (FY) 2020 and 2021. The WCPD began the audit period with an equitable sharing funds balance of \$3,096,202. During the period of July 1, 2019, through June 30, 2021, the WCPD reported receiving \$5,248,409 in DOJ equitable sharing receipts and reported expending \$2,855,422 in DOJ equitable sharing funds on its ESAC forms.

We found that the WCPD timely submitted its ESAC forms to MLARS and timely posted its equitable sharing receipts to its equitable sharing general ledger account. However, we found that it was not separately accounting for DOJ equitable sharing expenditures from other sources and that it needs to establish better controls over its review of ESAC reporting and assets purchased with equitable sharing funds.

#### Accounting for Equitable Sharing Resources

The WCPD commingled its DOJ and Treasury equitable sharing fund expenditures, which violates program guidance.

#### Equitable Sharing Agreement and Certification Forms

The WCPD's ESAC forms' beginning and ending balances were not supported by its financial system records, the expenditures were not reported under the appropriate ESAC categories, and the reports had not been reviewed by the appropriate officials prior to submission.

#### Equitable Sharing Resources

The WCPD failed to notify MLARS of its firing range renovation project prior to funding the project, resulting in \$111,280 in questioned renovation costs. In addition, the WCPD had not performed an annual inventory since 2018, contrary to its internal policy. Finally, the WCPD does not have written policies and procedures for its equitable sharing activities to prevent any disruption in equitable sharing program activities and to ensure separation of duties.

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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 West Covina Police Department (WCPD) in West Covina, California. The objective of the audit was to assess whether the funds received by the WCPD through the Equitable Sharing Program were accounted for properly and used for permissible purposes as defined by applicable guidelines. The audit covered the period from July 1, 2019, through June 30, 2021.<sup>1</sup> According to the WCPD's accounting records, the WCPD began the audit period with an equitable sharing fund balance of \$3,096,202. For the period of July 1, 2019, through June 30, 2021, on the ESAC, the WCPD reported receiving \$5,248,409 in DOJ equitable sharing receipts and reported expending \$2,855,422 in DOJ equitable sharing funds.<sup>2</sup> However, the WCPD's accounting and reporting procedures were not in compliance with applicable guidelines, which led to errors detailed in this report.

## 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 (Equitable Sharing Guide), issued by DOJ and the U.S. Department of the Treasury (Treasury) in July 2018, 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.<sup>3</sup> 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 request 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 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 led 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 the seized assets are forfeited, the assisting state and local law enforcement agencies can request a share of the

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<sup>1</sup> The WCPD's fiscal year begins July 1 and ends June 30.

<sup>2</sup> Throughout this report, differences in the total amounts are due to rounding. The sum of individual numbers prior to rounding may differ from the sum of the individual numbers rounded.

<sup>3</sup> 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.

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

## **West Covina Police Department**

Established in 1936, the WCPD is located in West Covina, California, and serves a population of around 110,000 residents. As of July 2022, the WCPD had a workforce of 100 sworn officers and 60 civilian employees. The WCPD became a member of the DOJ Equitable Sharing Program in 1998. The WCPD's equitable sharing proceeds were due to its Special Enforcement Team officers' participation in DOJ investigations. The WCPD receives support from the City of West Covina (City) Finance Department on several tasks, such as purchase orders and Schedule of Expenditures of Federal Awards (SEFA) filings.

## **OIG Audit Approach**

We tested the WCPD'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 WCPD'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 and Appendix 2 for our Schedule of Dollar-Related Findings.

# 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, law enforcement agencies participating in the DOJ Equitable Sharing Program are required to use the eShare Portal.<sup>4</sup>

The WCPD's equitable sharing funds are deposited into the City's operating bank account. The funds are maintained in an interest-bearing account and are secured beyond the Federal Deposit Insurance Corporation threshold of \$250,000. When DOJ equitable sharing funds are received in the general account, the City Accountant obtains the corresponding DAG-71 sharing request number from the WCPD Administrative Services Manager (WCPD Manager), as well as the information on the specific general ledger account and division code to be used. The WCPD created one general ledger account for both the DOJ and Treasury equitable sharing program, but delineated DOJ deposits from Treasury deposits by assigning unique division codes.

## Accounting for Equitable Sharing Receipts

We reviewed all receipts of equitably shared revenues for the WCPD's fiscal years (FYs) 2020 and 2021 to determine if the funds were properly accounted for and deposited and found that the WCPD accurately recorded the amounts of the DOJ equitably shared revenues received during these FYs. From July 1, 2019, through June 30, 2021, the eShare generated report reflected 22 equitable sharing receipts totaling \$5,248,409. We reconciled the eShare receipts recorded in the WCPD's general ledger with the eShare report and found that the 22 receipts matched.

As shown in Table 1, we also selected a sample of the five highest-valued receipts from FYs 2020 and 2021 to determine that these monies were properly deposited and recorded by the WCPD in a timely manner.<sup>5</sup> These 5 receipts account for almost 84 percent of the total receipts. We found that the WCPD deposited and recorded all five receipts in the WCPD's general ledger account for equitable sharing funds within 30 days, as required by the City's Account Reconciliation policy.

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<sup>4</sup> The eShare Portal enables a participating agency to submit equitable sharing requests, as well as view the status of its requests and distributions made by the DOJ.

<sup>5</sup> The City's Finance and Administrative Services Department Policy dated June 2014 requires bank statements to be reconciled to the general ledger on a monthly basis, after the statements have been received, but no later than 30 days after the close of the month.

**Table 1**

**WCPD Sampled Receipts**

Sample Count	Date Received According to eShare	Amount	Date Received According to Accounting System Records	Amount	Number of Days between Receipt and Recording of Funds
1	08/20/19	\$2,166,177	08/31/19	\$2,166,177	11
2	12/20/19	1,097,436	12/31/19	1,097,436	11
3	03/24/20	627,504	03/31/20	627,504	7
4	08/07/19	258,770	08/31/19	258,770	24
5	06/03/21	243,739	06/04/21	243,739	1
	<b>Total</b>	<b>\$4,393,626</b>	<b>Total</b>	<b>\$4,393,626</b>	

Source: OIG analysis of the WCPD's accounting and eShare Portal records.

**Accounting for Equitable Sharing Expenditures**

The Equitable Sharing Guide requires agencies to establish separate DOJ and Treasury accounts or accounting codes to track both revenues and expenditures for each respective Program. Although the WCPD separately accounted for its DOJ and Treasury equitable sharing revenues, we determined that the WCPD commingled its DOJ and Treasury expenditures. Audits by both MLARS, over 8 years ago, as well as the Treasury Executive Office for Asset Forfeiture (TEOAF) had previously identified the same commingling issue.<sup>6</sup> In light of the repeat findings, we spoke with MLARS to obtain a better understanding of its process for taking action on its audit findings. MLARS noted that it cannot speak to the process that was in place almost a decade ago, but its requirements related to recommendation closures today entail a robust process and documentation requirements. We did not review MLARS's recommendation closeout process as part of this audit and therefore, did not make a recommendation to MLARS on its process. However, as we discussed with MLARS, we believe that the current example and circumstances related to WCPD's repeat findings provide notice of an opportunity for MLARS to ensure that its current process is effective.

In response to MLARS's 2014 compliance review findings, the WCPD stated that it had separate expenditure departments and division codes for DOJ and Treasury equitable sharing funds, and that it would report DOJ and Treasury sharing revenues and expenditures separately on ESAC forms in the future. Similarly, the TEOAF compliance review reported that the WCPD had established unique general ledger expenditure codes for Treasury and DOJ. However, we did not find separate expenditure codes within the City's chart of accounts, and the WCPD did not separately track expenditures for DOJ and Treasury programs. The WCPD Manager stated that after the equitable sharing funds are received by the WCPD, these funds become the WCPD's asset forfeiture funds and that it is difficult to separate DOJ and Treasury expenditures. In commingling its DOJ and Treasury expenditures, the WCPD cannot determine which funds were used for

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<sup>6</sup> In a May 2014 MLARS compliance review report, MLARS noted that the WCPD had commingled DOJ equitable sharing funds with Treasury and state equitably shared funds in a single general ledger account and required the WCPD to establish separate accounting codes to track the funds. The report also required that all forfeiture funds accounting for revenue and expense items be based on actual amounts specific to each transaction and must not be allocated across DOJ, Treasury, and state. Finally, the MLARS compliance review stated that revenue and expenditures pertaining to DOJ and Treasury forfeiture funds must be reflected separately in the annual ESAC.

each expenditure and is not in compliance with the Equitable Sharing Guide. The WCPD's practice of commingling also led to other issues discussed in the *Equitable Sharing Agreement and Certification Reports* and the *Use of Equitable Sharing Resources* sections of the report. Therefore, we recommend that the Criminal Division work with the WCPD to ensure that it complies with Equitable Sharing Program guidelines and separately accounts for and reports DOJ equitable sharing fund expenditures from other funds.

### **Accounting for Interest Income**

The Equitable Sharing Guide states that the participating state or local law enforcement agency must deposit all interest earned on DOJ equitable sharing funds into the respective account or accounting code, and that this interest is subject to the same use restrictions as equitable sharing funds. We reviewed the accounting records and quarterly interest income allocation worksheets for the WCPD and determined that the interest was earned on the quarterly balance of commingled DOJ and Treasury funds. Because of the commingled nature of the funds, we could not distinguish interest earned on DOJ funds from interest earned on Treasury equitable sharing funds. However, the WCPD reported interest income only under the DOJ program (and not Treasury) on the ESAC form, which we will further discuss in the *ESAC Form Summary of Equitable Sharing Activity* section of the report. We recommend that the Criminal Division require the WCPD to separately account for interest earned on DOJ equitable sharing funds from other funds.

### **Equitable Sharing Agreement and Certification Forms**

Law enforcement agencies who participate in the Equitable Sharing Program are required to submit an ESAC form, 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 accepted before the end of the 2-month filing timeframe, MLARS will consider the law enforcement agency to be in a non-compliance status. Additionally, the ESAC form 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 form, the signatories agree to be bound by and comply with the statutes and guidelines that regulate the Equitable Sharing Program.

The WCPD Manager is the main administrator of the equitable sharing program at the WCPD. The WCPD Manager provided a supervising Sergeant, of the WCPD Special Enforcement Team, access to eShare and the Sergeant prepares sharing requests on behalf of the WCPD. When MLARS disburses equitable sharing funds to the WCPD, the City Finance Department emails the WCPD Manager for verification of the general ledger account to which the funds should be deposited. The WCPD Manager goes into eShare to verify and match the funds received against the MLARS-approved disbursement amount and provides the information to the City finance personnel, who then process the journal transactions, thereby recording the incoming funds in the appropriate general ledger account. The WCPD maintains both its DOJ as well as its Department of Treasury (Treasury) equitably shared funds within the same general ledger account. However, the City Finance Department delineates the incoming funds with unique division codes in order to enable identification of incoming funds as either from DOJ or Treasury. The WCPD Manager also prepares the ESAC form in the eShare Portal.

## Completeness and Timeliness of ESAC Forms

We tested the WCPD's compliance with ESAC reporting requirements for FYs 2020 and 2021 and determined that its forms were completed and submitted within 2 months after the end of its fiscal year, as required. However, we found that the ESAC forms were incomplete and did not contain certain revenues and expenditures, which we discuss in detail in the next section. Also, we determined that the Police Chief and the City Manager did not review for accuracy and sign the ESAC forms in eShare prior to submission, as required by the Equitable Sharing Guide. The WCPD Manager stated that the Police Chief had previously been provided access to eShare but, due to inactivity, the Police Chief's access lapsed, and the City Manager does not have access to eShare. Although MLARS's eShare Portal allows agencies to save inputted data and print the ESAC form, the WCPD Manager was unaware that printing out the completed ESAC form for the Police Chief and City Manager's review prior to submitting the report in eShare was possible. Thus, in 2019, instead of providing the Police Chief and City Manager their own eShare account to review and sign the ESAC forms or printing and obtaining wet signatures, the WCPD Manager explicitly requested, and was granted, permission from the Police Chief and City Manager to sign the ESAC form on their behalf.

The WCPD Manager then completed the ESAC forms in eShare, signed the forms on behalf of both officials, and submitted the forms to MLARS. The Equitable Sharing Guide states clearly that the ESAC form must be reviewed and approved by the head of the law enforcement agency and a designated official of the governing body prior to submission and in no instance can any individual from the law enforcement agency sign as the governing body head. Therefore, by signing the ESAC form on behalf of the Police Chief and the City Manager in addition to the lack of review by the Police Chief and City Manager, the WCPD was not in compliance with the Equitable Sharing Guide.

In addition, this process lacks the necessary internal controls and separation of duties to allow for effective oversight of Program funds. Without appropriate separation of duties and proper review, the WCPD increases the likelihood that incomplete and inaccurate information is provided on the ESAC form. Therefore, we recommend that the Criminal Division work with the WCPD to ensure that the ESAC forms are reviewed and signed by the appropriate officials prior to ESAC submission, in accordance with equitable sharing guidelines.

## Accuracy of ESAC Forms

To verify the accuracy of the annual ESAC forms, we compared the receipts listed on the WCPD's ESAC forms to the total amounts listed as disbursed on the eShare report—as well as the accounting records—for the same time period. The ESAC forms we reviewed indicated receipts of \$4,769,253 and \$479,156 for FYs 2020 and 2021, respectively, which matched the receipts listed on the eShare report. We determined that about 83 percent of equitable sharing funds deposited into the WCPD's equitable sharing fund account were DOJ funds.

The ESAC form requires agencies to separately report DOJ and Treasury funds and activities. The WCPD Manager explained that because the WCPD's accounting records did not delineate its expenditures between the two entities, the expenditure amounts for both the DOJ and Treasury programs were artificially attributed in order to "zero-out" Treasury's revenue. By doing so, the Treasury's equitable sharing beginning and ending balances were zero and all revenue was shown as having been expended each year. Therefore, we could not verify the DOJ expenditure amounts on the ESAC forms against the WCPD's accounting records, but we were able to reconcile the total expenditures (combined DOJ and Treasury amounts) to the

WCPD's accounting records. To verify the total expenditures listed on the WCPD's FYs 2020 and 2021 ESAC forms, we compared expenditures listed on the ESAC forms to the WCPD's accounting records for each period. We determined that the WCPD did not rely on its financial system for its total ESAC beginning and ending balances, and it had not reported fourth quarter interest allocations, leading to compounding errors year after year.

**Table 2**

**ESAC Forms and Accounting Records Comparison**

Summary of Equitable Sharing Activity	ESAC Form		Total	WCPD's Accounting Records
	DOJ	Treasury		
<b>FY 2020</b>				
<b>Beginning Equitable Sharing Funds Balance</b>	<b>\$3,167,579</b>	<b>0</b>	<b>\$3,167,579</b>	<b>\$3,096,202</b>
Equitable Sharing Funds Received	4,769,253	427,956	5,197,209	5,197,210
Other Income	1,900	0	1,900	1,900
Interest Income	43,226	0	43,226	79,593
<b>Total Equitable Sharing Funds Received</b>	<b>4,814,379</b>	<b>427,956</b>	<b>5,242,335</b>	<b>5,278,702</b>
<b>Equitable Sharing Funds Spent</b>	<b>1,395,371</b>	<b>427,956</b>	<b>1,823,327</b>	<b>1,834,142</b>
<b>Ending Equitable Sharing Funds Balance</b>	<b>\$6,586,587</b>	<b>0</b>	<b>\$6,586,587</b>	<b>\$6,540,763</b>
<b>FY 2021</b>				
<b>Beginning Equitable Sharing Funds Balance</b>	<b>\$6,586,587</b>	<b>0</b>	<b>\$6,586,587</b>	<b>\$6,540,763</b>
Equitable Sharing Funds Received	479,156	657,512	1,136,668	1,136,668
Other Income	0	0	0	0
Interest Income	14,197	0	14,197	19,450
<b>Total Equitable Sharing Funds Received</b>	<b>493,353</b>	<b>657,512</b>	<b>1,150,865</b>	<b>1,156,118</b>
<b>Equitable Sharing Funds Spent</b>	<b>1,460,051</b>	<b>657,512</b>	<b>2,117,563</b>	<b>2,117,563</b>
<b>Ending Equitable Sharing Funds Balance</b>	<b>\$5,619,889</b>	<b>0</b>	<b>\$5,619,889</b>	<b>\$5,579,318</b>

Note: Any differences in the table amounts are due to rounding.

Source: OIG analysis of the WCPD ESACs and accounting records.

**ESAC Form Summary of Equitable Sharing Activity**

The WCPD's FYs 2020 and 2021 ESAC beginning balances were overstated by \$71,377 and \$45,824, respectively. The WCPD Manager explained to us that it was the WCPD's practice to use the prior year ESAC form's ending balance—rather than the WCPD accounting system report—for the following year's beginning balance. In addition to summarizing the shared monies spent by category on the ESAC forms, entities are required to report the amount of interest income earned during the given reporting period. As we

previously discussed, we determined that the City allocated interest earned to WCPD's equitable sharing account based on commingled DOJ and Treasury fund balance. Based on our review of the supporting documentation provided by the City's Finance Department, we found that the interest income was incorrectly reported only under DOJ, not Treasury, on the FYs 2020 and 2021 ESAC forms and did not capture all interest income earned, as shown in Table 2. The WCPD's fourth quarter interest allocations were posted to the WCPD's general ledger account after the ESAC forms were due. The WCPD Manager submitted the ESAC forms on time, without the fourth quarter interest allocations, and did not subsequently request that the ESAC forms be amended in order to capture the additional interest income. Thus, the WCPD's interest income was understated by \$36,367 and \$5,253 for FYs 2020 and 2021, respectively.

Furthermore, in our reconciliation of expenditures reported on the ESAC form to the City's accounting records, we found that the WCPD did not report \$10,814 in expenditures for contractual services posted after the close of the fiscal year. Based on an annotation from March 2021 on the City's backup documentation, the WCPD Manager indicated that submission of an amendment to the ESAC was planned in order to capture the additional \$10,814 in expenditures. However, the WCPD Manager never requested the amendment. ESAC forms submitted to MLARS should accurately reflect the beginning and ending balances, as well as the revenues and expenditures for the reporting period and be supported by the agency's financial system accounting records, as required by the Equitable Sharing Guide. Inaccurate reporting of equitable sharing fund activity on the ESAC form negatively impacts efforts to monitor the DOJ equitable sharing program. Thus, we recommend that the Criminal Division ensure that the WCPD submits accurate ESAC forms that are supported by the official accounting records.

#### ***ESAC Form Summary of Shared Funds Spent***

In addition, we reviewed the section of the ESAC form that summarizes the shared monies spent by specific category—such as law enforcement operations and investigations, travel and training, and law enforcement equipment—for accuracy. We determined that expenditures were not accurately reflected in the proper ESAC categories because the WCPD Manager reported all of the expenditures, with the exception of payroll, travel, and contracts under the first ESAC category of “Law Enforcement Operations and Investigations.”<sup>7</sup> As we previously discussed, the WCPD Manager artificially attributed expenditure amounts for DOJ and Treasury on the ESAC form in order to “zero-out” Treasury's revenue. In doing so, the WCPD Manager artificially attributed all of the Treasury expense to the “Law Enforcement Operations and Investigations” category, as shown in Table 3, rather than reporting the expenditures according to the permissible use categories as described in the Equitable Sharing Guide. See Table 3 for our comparison of the WCPD's reported expenditures by category to the expenditure totals and categories based on its accounting records.

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<sup>7</sup> MLARS defines expenditures under the ESAC category of “Law Enforcement Operations and Investigations” as expenditures in support of investigations and operations that further the law enforcement goals or missions. Examples include reward money (annual dues paid to a crime tip organization or payment for a specific reward for information in a specific case), recruitment and advertisement costs, agency accreditation or agency membership dues (but individual dues are impermissible), equitable sharing account maintenance fees, reimbursement to the jurisdiction for payments to informants, purchase of evidence, buy-back programs, and “buy” money.

**Table 3**

**ESAC Form Cost Categories and Accounting Records Comparison**

Summary of Equitable Sharing Expenditures by Categories	ESAC Form		WCPD Accounting Records
	Justice	Treasury	Justice and Treasury
<b>FY 2020</b>			
Law Enforcement Operations and Investigations	\$346,396	\$427,956	0
Training and Education	0	0	6,997
Law Enforcement, Public Safety, and Detention Facilities	181,341	0	181,341
Law Enforcement Equipment	0	0	557,182
Joint Law Enforcement/Public Safety Equipment and Operations	0	0	35,017
Contracts for Services	684,905	0	695,719
Law Enforcement Travel and Per Diem	6,997	0	0
Support of Community Based Programs	0	0	\$111
Non-Categorized Expenditures	0	0	182,042
Salaries	175,733	0	175,733
<b>Total</b>	<b>\$1,395,371</b>	<b>\$427,956</b>	<b>\$1,834,142<sup>a</sup></b>
<b>FY 2021</b>			
Law Enforcement Operations and Investigations	\$446,720	\$657,512	0
Training and Education	0	0	4,986
Law Enforcement, Public Safety, and Detention Facilities	0	0	30,998
Law Enforcement Equipment	0	0	1,072,891
Joint Law Enforcement/Public Safety Equipment and Operations	0	0	0
Contracts for Services	825,011	0	825,011
Law Enforcement Travel and Per Diem	4,986	0	0
Support of Community Based Programs	0	0	343
Non-Categorized Expenditures	0	0	0
Salaries	183,334	0	183,334
<b>Total</b>	<b>\$1,460,051</b>	<b>\$657,512</b>	<b>\$2,117,563</b>

Note: Any differences in the table amounts are due to rounding.

<sup>a</sup> This total reflects the previously discussed \$10,814 expenditure under the Contracts for Services category that was not reported on the WCPD's FY 2020 ESAC form.

Source: OIG analysis of ESAC and the WCPD accounting records.

The WCPD Manager agreed that many of the expenditures reported under "Law Enforcement Operations and Investigations" should have been reported under the "Law Enforcement Equipment" category but explained that the discrepancy between the definition of the term "equipment" as defined in the Equitable Sharing Guide and the WCPD's definition of "equipment" may have contributed to the error. Specifically, the WCPD would not have categorized furniture, file cabinets, and office supplies as "Law Enforcement Equipment," but these types of items are provided as examples of equipment in the Equitable Sharing

Guide. When we discussed this issue with the City Finance Department, the Finance Director stated that it can use a segment in the chart of accounts that align with the ESAC categories. By utilizing a new accounting structure, the WCPD and the City Finance Department can produce reports that will directly correlate with the ESAC cost categories, which should help ensure accurate ESAC reporting. Thus, we recommend that the Criminal Division work with the WCPD to ensure that it accurately reports expenditures by ESAC cost categories.

### **Use of 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. Table 4 reflects examples of permissible and impermissible uses under these guidelines. In addition, state and local law enforcement agencies must retain all documents and records pertaining to their participation in the Program for a period of at least 5 years.

**Table 4**

**Summary of Permissible and Impermissible Uses of Equitable Sharing Funds**

<b>Permissible Uses</b>
Matching grants
Contracts for services
Law enforcement equipment
Law enforcement travel and per diem
Support of community-based organizations
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, gang, and other prevention or awareness programs
<b>Impermissible Uses</b>
Loans
Supplanting
Costs related to lawsuits
Extravagant or wasteful expenditures and entertainment
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 (MLARS may consider a waiver in limited circumstances.)
Cash on hand, secondary accounts, and stored value cards
Purchase of items for other law enforcement agencies
Uses contrary to state or local laws
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**

Although DOJ and Treasury are two separate federal agencies with two separate forfeiture programs, the Equitable Sharing Guide and the policies contained therein apply to both agencies' equitable sharing programs, unless otherwise specified. As previously discussed, the WCPD commingled the DOJ and Treasury equitable sharing expenditures. Therefore, we tested expenditures from the universe of the WCPD's commingled expenditures. According to its accounting records, the WCPD expended commingled equitable sharing funds totaling \$1,834,142 in FY 2020 and \$2,117,563 in FY 2021, for a total of \$3,951,705. We judgmentally selected and tested 17 transactions totaling \$586,149, or about 15 percent of the total funds expended, in order to determine if the expenditures of the equitable sharing funds were permissible and supported by adequate documentation. With the exception of an expenditure related to a renovation project, which is covered in detail below, we determined that for the transactions we reviewed the WCPD used equitable sharing funds for permissible purposes, such as the salary of an officer hired to replace an

officer assigned to a federal task force, vehicles, vehicle camera systems, training equipment, computers, software licenses and support, and communication network expenses. Also, based on our review of the documentation to support the outlay of funds, we determined that its equitable sharing fund expenditures were supported by adequate documentation as outlined in the Equitable Sharing Guide, except as noted below.

### ***Firing Range Renovation***

The WCPD spent \$111,280 on a renovation project to upgrade its firing range without notifying MLARS of the project prior to expending the funds, as required by the Equitable Sharing Guide. The Equitable Sharing Guide allows for costs associated with the purchase, lease, construction, expansion, improvement, or operation of law enforcement, public safety, or detention facilities used or managed by the recipient agency. However, agencies must contact MLARS prior to using DOJ equitable sharing funds for all improvement and expansion projects. Due to the WCPD's commingling of expenditures, we could not determine what portion of this renovation project was paid for by DOJ funds.

In August 2018, the WCPD Manager sought and obtained approval from MLARS to proceed with cosmetic remodeling improvements to the police station, including flooring, interior walls, desks, and identification card/fob-reading door locks for security purposes. This communication did not include the WCPD's plans to upgrade its firing range. The WCPD Manager provided us with email correspondence with MLARS where MLARS had given the WCPD the go-ahead to proceed with the remodeling that began in FY 2018, which was before the requirement to contact MLARS went into effect. Because the WCPD was continuing to perform upgrades to the WCPD's facility, the WCPD Manager was under the assumption that the WCPD did not have to contact MLARS regarding the firing range renovation prior to expending DOJ equitable sharing funds but rather that the work would be covered under the 2018 approval previously obtained.

We provided MLARS with details of the WCPD firing range upgrade project. MLARS stated that because the WCPD's firing range renovation project started in May 2019, after the July 2018 Equitable Sharing Guide became effective, the WCPD needed to contact MLARS on this particular project prior to expending DOJ equitable sharing funds. Without MLARS's review of construction or renovation-related costs, the WCPD is at risk of expending equitably shared funds on impermissible expenses in violation of the Equitable Sharing Guide and is at risk of having its status suspended by MLARS. Therefore, we question the costs associated with this transaction and recommend that the Criminal Division work with the WCPD to remedy the \$111,280 in questioned renovation costs.

### ***Vendor Verification***

MLARS issued an Equitable Sharing Wire on September 30, 2021, stating that agencies, when procuring goods or services from a vendor using equitable sharing funds, must verify that vendors are registered in the System for Award Management (SAM.gov) and are in good standing.<sup>8</sup> A vendor in good standing means the vendor is not suspended or debarred from receiving federal funds. This requirement applies to all qualifying purchases, which is defined as a single payment or multiple payments to a vendor that exceeds

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<sup>8</sup> SAM.gov is an official U.S. Government website managed by the General Services Administration where entities register to do business with the government. An active registration in SAM.gov provides entities the ability to apply for federal grants or loans or bid on government contracts. Awarding officials check SAM.gov to see if entities are debarred or suspended from receiving federal funds.

\$25,000 annually. Consequently, agencies must ensure that a vendor is both registered and in good standing by searching the vendor on SAM.gov before executing any procurement actions. If a vendor does not appear in SAM.gov, an agency may not execute qualifying purchases for goods or services from that vendor. In addition, the City's Purchasing Policy dated April 2018 required the verification of non-exclusion in SAM.gov on contracts that are funded by the federal agency awarded over the small purchase threshold. The City defined small purchases as the purchase of supplies, services, and equipment of an aggregate value between \$2,501 and \$30,000. The City also requires that a purchase order be awarded to the lowest responsible bidder after obtaining a minimum of three written rate quotes.

We determined that the WCPD did not abide by MLARS's Equitable Sharing Wire. From our sample of 17 expenditures, 13 sampled expenditures met the threshold for SAM.gov verification. The WCPD provided us evidence that it verified the SAM.gov active registrations on 5 of the 13 vendors. We determined 1 of the 5 was conducted prior to executing the expenditure; we could not determine whether the other 4 verifications occurred prior to executing the expenditure. The WCPD did not perform SAM.gov verification on the remaining eight vendors. Of these eight vendors, we determined that only two had an active registration in SAM.gov before the procurement, while the remaining six were either not registered or did not have active registrations. The WCPD Manager explained that the City's independent auditor had previously explained that whenever the City is entering into a new contract with any vendor, they are required to perform due diligence and ensure the entity has no current exclusions. The WCPD interpreted that to mean that the requirement was only applicable to procurement that results in the awarding of a contract. However, doing business with a prohibited source constitutes failure to comply with Equitable Sharing Guide requirements and federal regulations.<sup>9</sup> Failure to comply with the policies may subject participating agencies to sanctions such as denial of sharing requests, temporary or permanent exclusion from the equitable sharing program, or the placement of a freeze on the expenditure of shared funds.

After we notified the City of this finding, it revised its Purchasing Manual, effective July 2022, requiring all contracts and purchases funded by a federal agency to be checked for exclusion on the SAM.gov website and if the vendor is suspended or debarred, the contract cannot be awarded. Additionally, the City revised its Expenditure Authorization Form to include a place to indicate a SAM.gov verification was completed when a procurement is federally funded. We deemed this internal control enhancement sufficient to ensure that the WCPD complies with the Equitable Sharing Wire as well as the City's purchasing policies. Thus, we make no recommendation with regard to this matter.

### ***Inventory of Accountable Property***

We determined that the WCPD was not in compliance with the equitable sharing guidelines and its own jurisdiction policies and procedures for conducting physical inventories. The Equitable Sharing Guide requires agencies to comply with the Office of Management and Budget (OMB) requirements, which state that: (1) property records shall be maintained, (2) a physical inventory of property shall be taken at least once every 2 years and reconciled to the property records, (3) an appropriate control system shall be used

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<sup>9</sup> According to 2 C.F.R. § 200.214 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. § 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.

to safeguard property, and (4) property shall be adequately maintained.<sup>10</sup> OMB requires that property records include a description of the property, the date of acquisition, purchase amount, source of funds used to purchase the asset; location, unit, or individual assigned; serial number or other tracking number; disposal date; and amount recovered at the time of disposal. Furthermore, the City's Capital Asset Management policy requires an annual physical inventory. The policy also requires that on an annual basis, the Capital Asset Management Policy should be reviewed and disbursed to Department heads and a notification of physical inventory counts should be communicated to all departments. However, we found that the City had not performed a full inventory since 2018. A Finance official attributed the City's noncompliance with its own policy to the high turnover within the Finance Department.<sup>11</sup>

Additionally, the WCPD provided us with inventory records that were incomplete and contained inaccurate information. We received multiple inventory trackers from various departments within the City, such as Finance, Fleet, and Information Technology, but there was no consistency to the type of information captured within the logs or the completeness of the information. Also, the WCPD could not provide us with a complete log of all items purchased with equitable sharing funds. Multiple logs were required to gain insight into the inventory items tracked at the WCPD. Many entries on various inventory logs we reviewed were missing key identifying information such as serial numbers or asset tag numbers. While the computer inventory report contained serial numbers, it lacked information such as date of acquisition, purchase amount, and source of funds. Finally, the City's asset tracker did not reconcile to other trackers being utilized. For example, there was an instance of an equitable sharing-funded vehicle listed on the Fleet Department's inventory for the WCPD that was not listed on the City's vehicle inventory.

Without accurate and complete property management records, inventory verification may not be accomplished effectively and the WCPD risks not being able to account for property purchased with equitable sharing funds to ensure they are utilized appropriately for law enforcement-related purposes and safeguarded against theft, as required by the Equitable Sharing Guide. Thus, we recommend that the Criminal Division ensure that the WCPD conducts a physical inventory, in compliance with OMB requirements, to include accounting for tangible items purchased with equitable sharing funds and create an inventory log containing all inventory elements, as required.

### ***Lack of Internal Controls***

The WCPD does not have written policies and procedures for its equitable sharing activities. Since the WCPD Manager appeared to us to have the most knowledge of the DOJ Equitable Sharing Program at the WCPD, we believe the WCPD would benefit from written policies and procedures to prevent any disruption in equitable sharing program activities in the event of staff turnover and will help ensure the WCPD continues to comply with the DOJ Equitable Sharing Guide. The Equitable Sharing Guide states that all participating state and local law enforcement agencies must implement standard accounting procedures

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<sup>10</sup> OMB requires inventory of equipment, which it defines as tangible personal property (including information technology systems) having a useful life of more than 1 year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or \$5,000.

<sup>11</sup> The City's Finance Department experienced a high turnover rate for several years. According to its FY 2020 Single Audit Report, there were findings that were caused by the City failing to maintain appropriate staffing levels. In its response to the FY 2020 Single Audit Report findings, the City stated that the turnover of staff at all levels in the City's Finance Department had been volatile over the preceding few years and that it was further exacerbated by the COVID-19 pandemic. However, we note that staffing levels were no longer an issue in FY 2021.

and internal controls to ensure that it tracks equitably shared funds and tangible property. The WCPD must also 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 or any subsequent updates and jurisdiction policies. Further, the OMB guidance requires non-federal entities to establish and maintain effective internal controls in compliance with the Standards for Internal Control in the Federal Government by designing and implementing control activities to achieve adequate segregation of duties.

The WCPD Manager did not believe that a separate equitable sharing guide was necessary because it would be redundant to the DOJ's Equitable Sharing Guide. However, as discussed throughout this report, we determined that the WCPD is not in compliance with the Equitable Sharing Guide's requirements on inventory control, vendor exclusion verification, accurate and validated ESAC forms, and proper accounting of DOJ equitably shared funds. With regard to inventory, although the City had inventory procedures, we determined that the inventory requirements for the program were not carried out.

In addition to the Police Chief and the City Manager delegating signatory authority for ESAC forms to the WCPD Manager, a practice that is in violation of the Equitable Sharing Guide, we also found that the Police Chief delegated the WCPD Manager authority to sign for purchases up to \$2,500 for him, according to the City's April 2018 Purchasing Policy. This policy was then amended to allow up to \$5,000 in the City's July 2022 Purchasing Manual. Because the WCPD Manager can initiate purchase orders for the WCPD as a matter of that position's duties, having delegated authority to complete the purchase order through signatory authority by signing on behalf of the Police Chief, without review of the purchase orders, is an example of a lack of separation of duties and constitutes poor internal controls, which could lead to the misuse of equitable sharing funds or fraud. The WCPD should develop written policies and procedures for equitable sharing activities and establish controls to ensure adequate separation of duties. Based on our findings discussed in the *Accounting for Equitable Sharing Resources*, *Equitable Sharing Agreement and Certification Forms*, and *Use of Equitable Sharing Resources* sections of this report, we believe that a comprehensive procedure manual is necessary to prevent similar issues from recurring. Therefore, we recommend that the Criminal Division work with the WCPD to develop a comprehensive procedure manual to ensure compliance with the equitable sharing guidelines and address all areas of control weakness identified in this report.

## 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 total budgets for the City and the operational budgets for the WCPD for FYs 2019 through 2022.

We determined that the City's budget had increased by 3 percent during this time. We then reviewed the WCPD's operational budgets for the same period and determined that it had decreased by 20 percent. In addition, we compared the WCPD's equitable sharing funds spent to its operational budget and found that these were, on average, about 3 percent of the agency's own resources. Also, we determined that the WCPD expended an average of 24 percent of its equitable sharing fund balance on hand for the years we reviewed.

There did not appear to be a significant decrease in the City's budget that was offset by the WCPD's operational budget. There also did not appear to be a significant decrease in the WCPD's operational budget that coincided with a proportional increase in equitable sharing revenue. The City Finance Director and the WCPD Manager explained that the \$7 million reduction in the WCPD's FY 2022 budget was mainly due to the issuance of bonds. Despite the budget reduction, we did not see a corresponding increase in the WCPD's equitable sharing expenditures. Therefore, we determined that there was a low risk that the WCPD was supplanting its budget with equitable sharing funds during our period of review. Based on our review of budget documents, we did not identify any indication that the City used DOJ equitable sharing funds to supplant its own or the WCPD's budget.

## **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 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 must 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 WCPD accurately reported DOJ equitable sharing fund expenditures on its SEFA, we reviewed the WCPD's accounting records and the City's Single Audit Reports for the FYs ended 2020 and 2021. We found that, due to the commingled nature of the WCPD's DOJ and Treasury equitable sharing funds, the City did not accurately report DOJ equitable sharing fund expenditures on the SEFA, for both fiscal years, as required by the Uniform Guidance. We believe our previous recommendation for the WCPD to separately account and report DOJ equitable sharing fund expenditures from other funds will help ensure accurate reporting of expenditures on the SEFA in future reporting periods.

The City's Single Audit Reports for FYs 2019 and 2020 contained findings related to the City's internal control environment. As a result of the City not maintaining appropriate staffing levels within its Finance Department, the auditors found delays in producing complete, reconciled, and properly adjusted financial statements, delays in the accurate completion of the SEFA, as well as outdated "purchasing approval limit" authorizations. During our audit, we found that the City Finance Department addressed its staffing levels. We believe that the City's new finance staff have made efforts to update policies and procedures, which should help resolve the internal control deficiencies identified in the FYs 2019 and 2020 Single Audit Reports.

## Conclusion and Recommendations

We found that although the WCPD accurately and timely recorded its equitable sharing receipts, the WCPD commingled its DOJ and Treasury funds for expenditures and interest income allocations. Due to the commingled funds, the WCPD could not determine which expenditures were paid for with DOJ funds. In addition, the WCPD's ESAC forms were filed timely, but they were inaccurate; the ESAC beginning and ending balances were not supported by its accounting records, and the WCPD inaccurately categorized and reported its equitable sharing fund expenditures on its ESACs. We also determined that the ESAC forms had not been reviewed by the appropriate officials prior to submission. Additionally, we determined that the WCPD did not contact MLARS prior to using equitable sharing funds for its firing range renovation project, resulting in \$111,280 in questioned renovation costs. The WCPD had not performed an annual inventory since 2018 and thus was not in compliance with the City's Capital Asset Management policy as well as the Equitable Sharing Guide. Due to the commingled nature of the WCPD's equitable sharing funds from DOJ and Treasury, the WCPD's reported expenditures on its Schedule of Expenditures of Federal Awards were also inaccurate. Finally, we determined that the WCPD did not have written policies and procedures related to its equitable sharing program, incorporating internal controls over equitable sharing program activities, to ensure compliance with program requirements.

We recommend that the Criminal Division:

1. Work with the WCPD to ensure that it complies with Equitable Sharing Program guidelines and separately accounts for and reports DOJ equitable sharing fund expenditures from other funds.
2. Require the WCPD to separately account for interest earned on DOJ equitable sharing funds from other funds.
3. Work with the WCPD to ensure that the ESAC forms are reviewed and signed by the appropriate officials prior to ESAC submission, in accordance with equitable sharing guidelines.
4. Ensure that the WCPD submits accurate ESAC forms that are supported by the official accounting records.
5. Work with the WCPD to ensure that it accurately reports expenditures by ESAC cost categories.
6. Work with the WCPD to remedy the \$111,280 in questioned renovation costs.
7. Ensure that the WCPD conducts a physical inventory, in compliance with OMB requirements, to include accounting for tangible items purchased with equitable sharing funds and create an inventory log containing all inventory elements, as required.
8. Work with the WCPD to develop a comprehensive procedure manual to ensure compliance with the equitable sharing guidelines and address all areas of control weakness identified in this report.

# APPENDIX 1: Objective, Scope, and Methodology

## Objective

The objective of the audit was to assess whether the West Covina Police Department (WCPD) accounted for equitable sharing funds properly 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, 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 funds received by the WCPD between July 1, 2019, and June 30, 2021. 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.

We performed audit work at the WCPD's headquarters located in West Covina, California. We interviewed the WCPD and City officials and examined accounting records as well as related revenues and expenditures of DOJ equitable sharing funds. In addition, we relied on computer-generated data contained in eShare to identify equitably shared revenues awarded to the WCPD 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 WCPD'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 WCPD. However, we did not assess the reliability of the City'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 WCPD had 22 DOJ cash/proceeds receipts totaling \$5,248,409 which represented about 83 percent of total equitable sharing funds deposited into the WCPD's equitable sharing fund account. In the same period, the WCPD had commingled DOJ and Treasury expenditures totaling \$3,951,705. We judgmentally selected and tested a sample of 5 receipts totaling \$4,393,626 and a sample of 17 expenditures totaling \$586,149. 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's most recent annual audits. The results of these audits were reported in the Single Audit Report that accompanied the City's basic financial statements for the years ended June 30, 2020, and June 30, 2021. The Single Audit Reports were prepared under the provisions of the Uniform Guidance. We reviewed the independent auditor's assessments, which disclosed internal control weaknesses or significant noncompliance issues, some of which were repeat findings, but none were related specifically to the WCPD's equitable sharing program. The FY 2020 Single Audit Report identified high turnover at the City Finance department, leading to delayed financial reports, financial reports requiring multiple revisions, as well as an outdated listing of authorized personnel's purchasing approval limits. During our audit, we also noted several internal control weaknesses and we have addressed them in our report as they relate to the WCPD's equitable sharing program.

We discussed the results of our review with officials from the WCPD and the City 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 WCPD to provide assurance on its internal control structure as a whole. The WCPD 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 WCPD's internal control structure as a whole, we offer this statement solely for the information and use by the WCPD and the DOJ Criminal Division.<sup>12</sup>

In order to assess the WCPD's design, implementation, and operational effectiveness of its internal controls, we reviewed the sufficiency of the City and the WCPD's policies and procedures to ensure compliance with the Equitable Sharing Guide requirements. In addition, we interviewed the WCPD personnel to discuss practices related to separation of duties, restrictions on the spending of equitable sharing funds, and how the WCPD delineates receipts and expenditures between DOJ and the Treasury. We reconciled the WCPD's submitted ESAC forms to its accounting system records to determine accuracy, reviewed bank statements and journal vouchers to determine whether its accounting of receipts was accurate and timely, and selected a judgmental sample of the WCPD's expenditures to ensure proper approval and allowability. Finally, we reviewed the WCPD's inventory records for evidence of proper accountability.

The internal control deficiencies we found are discussed in the Audit Results section of this report. However, because our review was limited to those internal control components and underlying principles that we found significant to the objectives of this audit, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

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<sup>12</sup> 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>
<b>Questioned Costs:</b> <sup>13</sup>		
Renovation Costs	\$111,280	12
<b>Total Questioned Costs</b>	<b>\$111,280</b>	
<b>TOTAL DOLLAR-RELATED FINDINGS</b>	<b><u>\$111,280</u></b>	

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<sup>13</sup> **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 Criminal Division's Response to the Draft Audit Report



U.S. Department of Justice

Criminal Division

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Money Laundering and Asset Recovery Section

Washington, D.C. 20530

December 20, 2022

## MEMORANDUM

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

FROM: R. Matthew Colon, Deputy Chief *by RMC*  
Program Management and Training Unit  
Money Laundering and Asset  
Recovery Section

SUBJECT: DRAFT AUDIT REPORT for the West Covina Police Department's Equitable Sharing Program Activities

In a memorandum dated November 28, 2022, your office provided a draft audit report for the West Covina Police Department (WCPD), 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 WCPD to correct all identified findings.

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

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

Tracey A. Waters  
Audit Liaison Group  
Internal Revenue and Evaluation Office  
Justice Management Division

# APPENDIX 4: The West Covina Police Department's Response to the Draft Audit Report



December 19, 2022

David J. Gaschke  
Regional Audit Manager  
San Francisco Regional Audit Office  
Office of the Inspector General  
U.S. Department of Justice  
90 7th Street, Suite 3-100  
San Francisco, California 94103

**Response to Fiscal Years 2020 and 2021 Draft Audit by  
U.S. Department of Justice (USDOJ) Office the Inspector General  
of the West Covina Police Department's Equitable Sharing Program Activities**

Dear Sir,

Per the instructions included in your letter of November 28, 2022, this document is submitted as West Covina's response to the Fiscal Years 2020 and 2021 Draft Audit of the West Covina Police Department's Equitable Sharing Program Activities by the U.S. Department of Justice (USDOJ) Office the Inspector General. Responses to each of the eight recommendations in that audit are below.

Recommendation 1: USDOJ Criminal Division's Money Laundering and Asset Recovery Section (MLARS) work with the West Covina Police Department (WCPD) to ensure that it complies with Equitable Sharing Program guidelines and separately accounts for and reports DOJ equitable sharing fund expenditures from other funds.

Response: Agree. Equitable sharing funds are accounted for in its own fund, separate from other funds (e.g., the City's General Fund, grant funds, etc.). Two separate revenue accounts—one for equitable sharing funds received from USDOJ, and the other for equitable sharing funds received from the U.S. Department of the Treasury—have been used correctly for years. West Covina is ready to work with MLARS to ensure that expenditures are likewise separated. By the conclusion of fiscal year 2022-23, a new fund will be established so that USDOJ and Treasury equitable sharing revenue and expenditure accounts are separate.



Recommendation 2: MLARS require WCPD to separately account for interest earned on DOJ equitable sharing funds from other funds.

Response: Agree. West Covina is ready to work with MLARS on this. By the conclusion of fiscal year 2022-23, a new fund will be established to account for interest earned from USDOJ and Treasury equitable sharing separately.

Recommendation 3: MLARS work with WCPD to ensure that the ESAC forms are reviewed and signed by the appropriate officials prior to ESAC submission, in accordance with equitable sharing guidelines.

Response: Agree. West Covina has already accomplished this, and is ready to work with MLARS. In August of 2022, wet signatures were obtained on the hard copy of the ESAC submitted that month, covering fiscal year 2021-22. This signed hard copy was retained in the West Covina Police Department's equitable sharing files.

Recommendation 4: MLARS ensure that WCPD submits accurate ESAC forms that are supported by the official accounting records.

Response: Agree. Now that the audit report has been issued, West Covina is ready to work with MLARS and submit amended ESAC forms by the conclusion of the current fiscal year (2022-23).

Recommendation 5: MLARS work with WCPD to ensure that it accurately reports expenditures by ESAC cost categories.

Response: Agree. West Covina has already accomplished this. The ESAC submitted in August of 2022, covering fiscal year 2021-22, reported expenditures across a range of cost categories (e.g., law enforcement operations, equipment, travel/per diem, salaries, etc.)—these are supported by official accounting records. If MLARS determines that further changes are needed within the reported cost categories, West Covina is ready to work with MLARS to accomplish that, and submit any necessary ESAC amendment(s).

Recommendation 6: MLARS work with WCPD to remedy the \$111,280 in questioned renovation costs.



Response: Agree. West Covina is ready to work with MLARS on this. Our goal for MLARS approval or corrective action is the end of the current fiscal year (2022-23).

Recommendation 7: MLARS ensure that WCPD conducts a physical inventory, in compliance with OMB requirements, to include accounting for tangible items purchased with equitable sharing funds and create an inventory log containing all inventory elements, as required.

Response: Agree. In recent years, the West Covina Finance Department had substantial turnover among staff, resulting in the physical inventory of equipment items being delayed. Finance staff (working with Police Department staff) have already completed a sample physical inventory of police equipment items. A reconciliation of all equipment items is planned for completion by the end of 2023—West Covina Police Department will report this to MLARS.

Recommendation 8: MLARS work with WCPD to develop a comprehensive procedure manual to ensure compliance with the equitable sharing guidelines and address all areas of control weakness identified in this report.

Response: Agree. West Covina is ready to work with MLARS on this. Our goal for developing a manual agreeable to MLARS is by the end of the next fiscal year (2022-23).

Respectfully submitted,

  
Richard Bell  
Chief of Police

  
Stephanie Sikkema  
Finance Director

cc: USDOJ Criminal Division  
Money Laundering and Asset Recovery Section (MLARS)

## **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 West Covina Police Department (WCPD). The Criminal Division's response is incorporated in Appendix 3 and the WCPD'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 West Covina Police Department agreed with all eight recommendations. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

### **Recommendations for the Criminal Division:**

- 1. Work with the WCPD to ensure that it complies with Equitable Sharing Program guidelines and separately accounts for and reports DOJ equitable sharing fund expenditures from other funds.**

Resolved. The Criminal Division concurred with our recommendation. The Criminal Division stated in its response that it will work with WCPD to correct all identified findings. As a result, this recommendation is resolved.

The WCPD agreed with our recommendation and stated in its response that equitable sharing funds are accounted for in its own fund, separate from other funds (e.g., the City's General Fund, grant funds, etc.). In addition, the WCPD stated that it had been using two separate revenue accounts for equitable sharing funds received from DOJ Treasury for years. The response also stated that West Covina is ready to work with MLARS to ensure that expenditures are likewise separated and that by the conclusion of FY 2023, a new fund will be established so that DOJ and Treasury equitable sharing revenue and expenditures accounts are separate.

In our report, we acknowledged that the WCPD separately accounted for its DOJ and Treasury equitable sharing fund disbursements, although the WCPD did not accurately account for interest income revenue. However, we found that despite a 2014 MLARS compliance review finding that the WCPD did not separately account for DOJ expenditures, the WCPD was still commingling its DOJ and Treasury expenditures. This recommendation can be closed when we receive evidence that separate expenditure accounts have been established for DOJ and Treasury and the accounts are being utilized to track expenditures by the WCPD.

- 2. Require the WCPD to separately account for interest earned on DOJ equitable sharing funds from other funds.**

Resolved. The Criminal Division concurred with our recommendation. The Criminal Division stated in its response that it will work with WCPD to correct all identified findings. As a result, this recommendation is resolved.

The WCPD agreed with our recommendation and stated in its response that West Covina is ready to

work with MLARS on this. By the conclusion of FY 2023, a new fund will be established to account for interest earned from DOJ and Treasury equitable sharing separately.

This recommendation can be closed when we receive evidence that the City calculated and allocated interest earned to DOJ's equitable sharing revenue account based on the DOJ equitable sharing fund balance that is not commingled with other funds.

**3. Work with the WCPD to ensure that the ESAC forms are reviewed and signed by the appropriate officials prior to ESAC submission, in accordance with equitable sharing guidelines.**

Resolved. The Criminal Division concurred with our recommendation. The Criminal Division stated in its response that it will work with WCPD to correct all identified findings. As a result, this recommendation is resolved.

The WCPD agreed with our recommendation and stated in its response that West Covina has already accomplished this and is ready to work with MLARS. In August 2022, wet signatures were obtained on the hard copy of the ESAC submitted that month, covering FY 2022. This signed hard copy was retained in the WCPD's equitable sharing files.

As noted in our report, the WCPD Manager was unaware that the draft ESAC form could be printed for the Police Chief and City Manager's review prior to submission. Alternatively, the WCPD Manager could also grant the officials their own eShare accounts. During our audit, the WCPD Manager provided us with its FY 2022 ESAC form information manually completed on a 2015 ESAC form. Although the form captured the officials' wet signatures, the signatures were not dated so we could not determine whether the officials reviewed and signed the ESAC form prior to ESAC submission. This recommendation can be closed when we receive evidence that ESAC forms are reviewed and signed by appropriate officials prior to ESAC submission, in accordance with equitable sharing guidelines.

**4. Ensure that the WCPD submits accurate ESAC forms that are supported by the official accounting records.**

Resolved. The Criminal Division concurred with our recommendation. The Criminal Division stated in its response that it will work with WCPD to correct all identified findings. As a result, this recommendation is resolved.

The WCPD agreed with our recommendation and stated in its response that now that the audit report has been issued, West Covina is ready to work with MLARS and submit amended ESAC forms by the conclusion of the current FY 2023.

This recommendation can be closed when we receive evidence that an amended ESAC form has been submitted and the amended ESAC form is accurate and supported by the official accounting records.

**5. Work with the WCPD to ensure that it accurately reports expenditures by ESAC cost categories.**

Resolved. The Criminal Division concurred with our recommendation. The Criminal Division stated in its response that it will work with WCPD to correct all identified findings. As a result, this recommendation is resolved.

The WCPD agreed with our recommendation and stated in its response that West Covina has already accomplished this. It reported that the ESAC submitted in August 2022, covering FY 2022, reported expenditures across a range of cost categories (e.g., law enforcement operations, equipment, travel/ per diem, salaries, etc.) and that these were supported by official accounting records. WCPD stated that if MLARS determines that further changes are needed within the reported cost categories, WCPD was ready to work with MLARS to accomplish that and submit the necessary ESAC amendments.

During our audit, the WCPD provided us with a copy of its FY 2022 ESAC form referenced in its response. We can confirm that the WCPD reported its expenditures across a range of ESAC cost categories. However, we noted that the WCPD had zeroed out its Treasury balance. As we discussed in our report, WCPD was in the practice of artificially attributing expenditures to Treasury in order to expend Treasury's equitable sharing fund balance each year. To ensure the WCPD is accurately reporting expenditures by ESAC cost categories, the WCPD must first demonstrate that it is separately accounting for DOJ equitable sharing fund expenditures from other funds, as discussed in Recommendation Number 1. The WCPD's reported expenditures by ESAC cost categories should be reconcilable to its accounting system expenditure accounts in accordance with the equitable sharing guidelines.

This recommendation can be closed after the WCPD sets up its accounting system to separately account for DOJ expenditures from other funds and accurately reports expenditures by ESAC cost categories.

**6. Work with the WCPD to remedy the \$111,280 in questioned renovation costs.**

Resolved. The Criminal Division concurred with our recommendation. The Criminal Division stated in its response that it will work with WCPD to correct all identified findings. As a result, this recommendation is resolved.

The WCPD agreed with our recommendation and stated in its response that it is ready to work with MLARS on this. The WCPD's goal is to obtain MLARS's approval or implement corrective actions by the end of FY 2023.

This recommendation can be closed when we receive evidence that the WCPD has remedied the \$111,280 in questioned costs.

**7. Ensure that the WCPD conducts a physical inventory, in compliance with OMB requirements, to include accounting for tangible items purchased with equitable sharing funds and create an inventory log containing all inventory elements, as required.**

Resolved. The Criminal Division concurred with our recommendation. The Criminal Division stated in its response that it will work with WCPD to correct all identified findings. As a result, this recommendation is resolved.

The WCPD agreed with our recommendation and stated in its response that in recent years, the City Finance Department had substantial turnover among staff, resulting in the physical inventory of equipment items being delayed. The WCPD stated that the City Finance staff (working with the WCPD staff) have already completed a sample physical inventory of police equipment items and that a reconciliation of all equipment items is planned for completion by the end of 2023, which WCPD will report to MLARS.

This recommendation can be closed when we receive evidence that WCPD has completed a physical inventory, in compliance with OMB requirements, to include accounting for tangible items purchased with equitable sharing funds and create an inventory log containing all inventory elements, as required.

**8. Work with the WCPD to develop a comprehensive procedure manual to ensure compliance with the equitable sharing guidelines and address all areas of control weakness identified in this report.**

Resolved. The Criminal Division concurred with our recommendation. The Criminal Division stated in its response that it will work with WCPD to correct all identified findings. As a result, this recommendation is resolved.

The WCPD agreed with our recommendation and stated in its response that it is ready to work with MLARS on this. The WCPD's goal for developing a manual agreeable to MLARS is by the end of FY 2023.

This recommendation can be closed when we receive evidence that the WCPD has developed a comprehensive procedures manual to ensure compliance with the equitable sharing guidelines and address all areas of control weakness identified in this report.