



Office of the Inspector General
U.S. Department of Justice

OVERSIGHT ★ INTEGRITY ★ GUIDANCE



**Audit of the Bloomington Police
Department's Equitable Sharing
Program Activities,
Bloomington, Minnesota**



Executive Summary

*Audit of the Bloomington Police Department's
Equitable Sharing Program Activities, Bloomington, Minnesota*

Objective

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

Results in Brief

We found that the Bloomington PD did not fully comply with the requirements of the DOJ Equitable Sharing Program. Specifically, we found that the Bloomington PD commingled its DOJ equitable sharing funds with other equitable sharing resources and did not separately account for all expenditures paid for with DOJ equitable sharing funds. Moreover, the Bloomington PD invested DOJ equitable sharing funds into financial instruments that bore market risk. In addition, we determined that the Bloomington PD did not submit accurate annual Equitable Sharing Agreement and Certification (ESAC) reports. We also identified expenditures paid for with DOJ equitable sharing funds for which there was no indication of the Chief of Police's authorization. Additionally, we noted that the Bloomington PD did not have formalized, written procedures for managing its DOJ equitable sharing activities, which we believe contributed to the areas of non-compliance we identified. After informing Bloomington PD and city of Bloomington officials about these issues, the officials took action to correct the noted deficiencies. We evaluated the actions taken and concluded that several areas of non-compliance that we identified during the audit had been adequately addressed, yet there remained areas where enhancements are still needed.

Recommendations

Our report includes two recommendations to assist the DOJ Criminal Division, which oversees the DOJ Equitable Sharing Program, with its oversight of the Bloomington PD's Equitable Sharing Program. We requested a response to our draft report from the Bloomington PD and the Criminal Division, which can be found in Appendices 2 and 3, respectively. Our analysis of those responses is included in Appendix 4.

Audit Results

This audit covered the Bloomington PD's fiscal years (FY) 2016 and 2017. During the period of January 1, 2016, and December 31, 2017, the Bloomington PD received \$174,892 and spent \$97,004 in DOJ equitable sharing funds. The Bloomington PD spent its equitable sharing funds on training, equipment, and overtime costs.

Equitable Sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations. In determining whether the Bloomington PD complied with applicable equitable sharing guidelines, we identified several areas in need of improvement, including its process for completing certification reports accurately, and its accounting for and use of equitable sharing funds.

Accounting for and Use of Equitable Sharing Funds

– We found that the Bloomington PD commingled its DOJ equitable sharing funds with other equitable sharing resources; DOJ and Department of Treasury equitable sharing revenues were recorded to the same accounting code. In addition, the Bloomington PD did not separately account for all expenditures paid for with DOJ equitable sharing funds. Moreover, the Bloomington PD invested a portion of the DOJ equitable sharing revenues into financial instruments that were subject to market risk. Finally, the Bloomington PD was unable to provide evidence that the Chief of Police authorized all expenditures purchased with DOJ equitable sharing funds, which is required under the DOJ Equitable Sharing Program.

Equitable Sharing Agreement and Certification Reports

– We found that the Bloomington PD did not submit accurate FY 2016 and FY 2017 certification reports. Specifically, we found that the Bloomington PD overstated its expenditures by \$40,558 and \$44,781 on its FY 2016 and FY 2017 ESAC reports, respectively. Further, these ESAC reports did not accurately reflect how the Bloomington PD spent its DOJ equitable sharing funds by expenditure category. In addition, the Bloomington PD did not accurately reflect the interest income earned on its equitable sharing funds.

**AUDIT OF THE
BLOOMINGTON POLICE DEPARTMENT'S
EQUITABLE SHARING PROGRAM ACTIVITIES
BLOOMINGTON, MINNESOTA**

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AUDIT OF THE BLOOMINGTON POLICE DEPARTMENT'S EQUITABLE SHARING PROGRAM ACTIVITIES BLOOMINGTON, MINNESOTA

INTRODUCTION

The Department of Justice (DOJ) Office of the Inspector General (OIG) completed an audit of the equitable sharing funds received by the Bloomington Police Department (Bloomington PD) in Bloomington, Minnesota. The objective of the audit was to assess whether the cash received by the Bloomington PD through the DOJ Equitable Sharing Program was accounted for properly and used for allowable purposes as defined by applicable regulations and guidelines. The audit covered the Bloomington PD's fiscal years (FY) 2016 and 2017 (January 1, 2016, through December 31, 2017). During that period, the Bloomington PD received \$174,892 and spent \$97,004 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).¹ The Asset Forfeiture Program is a nationwide law enforcement initiative that removes the tools of crime from criminal organizations, deprives wrongdoers of the proceeds of their crimes, recovers property that may be used to compensate victims, and deters crime. A key element of the Asset Forfeiture Program is the Equitable Sharing Program. The DOJ Equitable Sharing Program allows state or local law enforcement agencies that directly participate in an investigation or prosecution resulting in a federal forfeiture to claim a portion of federally forfeited cash, property, and proceeds.

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

¹ The U.S. Department of the Treasury also administers a federal asset forfeiture program, which includes participants from the Department of Homeland Security. This audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program.

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 adopt the seizure and proceed with federal forfeiture. Once an investigation is completed and the seized assets are forfeited, the assisting state and local law enforcement agencies can request a share of the forfeited assets or a percentage of the proceeds derived from the sale of forfeited assets. Generally, the degree of a state or local agency's direct participation in an investigation determines the equitable share allocated to that agency.

To request a share of seized assets, a state or local law enforcement agency must first become a member of the DOJ Equitable Sharing Program. Agencies become members of the program by signing and submitting an annual Equitable Sharing Agreement and Certification (ESAC) report to MLARS. As part of each annual agreement, officials of participating agencies certify that they will use equitable sharing funds for allowable law enforcement purposes. The Guide to Equitable Sharing for State and Local Law Enforcement Agencies (Equitable Sharing Guide), issued by MLARS in April 2009, and the Interim Policy Guidance Regarding the Use of Equitable Sharing Funds (Interim Policy Guidance), issued by MLARS in July 2014, outline categories of allowable and unallowable uses for equitable sharing funds and property.²

Bloomington Police Department

The Bloomington Police Department is located in Bloomington, Minnesota, approximately 10 miles south of Minneapolis. The Minneapolis/St. Paul International Airport and the Mall of America both fall within Bloomington's city limits. Established in 1953, the Bloomington PD serves a population of over 80,000 residents. The Bloomington PD became a member of the DOJ Equitable Sharing Program in 1996. As of April 2018, the Bloomington PD had a workforce of 123 sworn officers and 36 civilian employees.

OIG Audit Approach

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

² In July 2018, an updated Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies was issued, covering both DOJ and Treasury equitable sharing programs. Because the scope of our audit was focused on activities that occurred during FYs 2016 and 2017, we relied upon the April 2009 Equitable Sharing Guide and Interim Policy Guidance in carrying out the audit.

- **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 allowable law enforcement purposes.
- **Compliance with audit requirements** to ensure the accuracy, consistency, and uniformity of audited equitable sharing data.

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

AUDIT RESULTS

Accounting for Equitably Shared Resources

The Equitable Sharing Guide requires that law enforcement agencies use standard accounting procedures and internal controls to track DOJ Equitable Sharing Program receipts. In addition, law enforcement agencies participating in the Equitable Sharing Program are required to use the eShare Portal.³ Based upon our review of documentation and interviews with the auditee, we identified weaknesses in the Bloomington PD's accounting of DOJ equitably shared funds.

Commingling of DOJ Equitable Sharing Funds

According to the Equitable Sharing Guide, participating agencies must not commingle DOJ equitable sharing funds with funds from any other source. Participating agencies must establish a separate revenue account or accounting code through the agency's finance department for the proceeds from the DOJ Equitable Sharing Program. Further, the account or accounting code is to be used solely for funds from the DOJ Equitable Sharing Program. We found that the Bloomington PD commingled its DOJ equitable sharing activities with other equitable sharing resources.

Receipts

The Bloomington PD's DOJ equitable sharing receipts were deposited into the city of Bloomington's general bank account. However, the city of Bloomington Finance Department stated that it established a separate accounting code for equitable sharing activities.

Between January 1, 2016, and December 31, 2017, the Bloomington PD received DOJ equitable sharing revenues totaling \$174,892 to support law enforcement operations. We confirmed that these receipts were deposited into the city of Bloomington's general bank account, and that each receipt was properly recorded to the accounting code designated for DOJ Equitable Sharing Program activities. We found that the Bloomington PD received all of the receipts during this time via electronic funds transfer from the USMS's E-Share program, and that these deposits were timely.⁴

During our review of the DOJ equitable sharing receipts, we identified other revenues being recorded to the accounting code established for DOJ Equitable Sharing Program activities. The city of Bloomington confirmed that funds from the Department of the Treasury's Equitable Sharing Program were recorded to the

³ The eShare Portal is a web-based tool that enables a participating agency to view the status of its pending equitable sharing requests and run reports on disbursed equitable sharing funds, as well as to submit their ESAC reports. The eShare portal is also the mechanism used to process electronic payments. Use of the eShare Portal for these equitable sharing activities is mandatory.

⁴ E-share notification is the process of electronic payment from the USMS. Participation in the process is mandatory.

same accounting code and, thus, were commingled with DOJ equitable sharing receipts. As a result, the Bloomington PD was not in compliance with DOJ equitable sharing guidance on properly accounting for DOJ equitable sharing funds.

Interest Income

The Bloomington PD earned interest income on its DOJ equitable sharing receipts. The city of Bloomington Finance Department told us that the accounting code used to record the interest income includes not only that earned on DOJ equitable sharing funds but also interest earned on Department of the Treasury and state equitable sharing funds. Therefore, as we found with the receipts, the Bloomington PD was not in compliance with DOJ equitable sharing guidance on properly accounting for interest income earned on DOJ equitable sharing funds.

Expenditures

As with receipts, the Bloomington PD uses one set of accounting codes for recording DOJ and Department of the Treasury expenditures. Moreover, the accounting codes do not capture the actual expenditures paid for with DOJ equitable sharing funds. During the budget process, the city of Bloomington, in conjunction with the Bloomington PD, determine the amount of DOJ equitable sharing funds that will be spent during the upcoming fiscal year. Then, the city of Bloomington records a monthly expense to an account described as "interdepartmental support services" that, in total, equals the budgeted amount. As a result, the Bloomington PD's accounting records do not show the specific expenses paid for with DOJ equitable sharing funds within the accounting code established for such funds. The city of Bloomington Finance Department subsequently identifies expenditures originally paid for with other funding sources as those associated with DOJ equitable sharing funds. As a result, the Bloomington PD did not fully comply with the Equitable Sharing Guide's requirement to separately account for all expenditures paid for with DOJ equitable sharing funds.

During the audit, we told Bloomington PD and city of Bloomington Finance Department officials about these deficiencies. In response, the city of Bloomington Finance Department established a new accounting code solely for DOJ equitable sharing receipts and interest income earned. In addition, the city of Bloomington Finance Department established a new bank account solely for DOJ equitable sharing activities. We verified that both a new accounting code and bank account for DOJ equitable sharing activities were created. However, officials from the city of Bloomington Finance Department told us that they will not be able to correct the process for recording actual expenditures paid for with DOJ equitable sharing funds until FY 2019 because the FY 2018 budget had already been set. Therefore, we recommend that the Criminal Division ensure that the Bloomington PD, in conjunction with the city of Bloomington Finance Department, implement the process to separately account for expenses paid for with DOJ equitable sharing funds, which is to take effect in FY 2019.

Investment of Equitable Sharing Funds

According to a June 2013 Equitable Sharing Wire, shared funds must only be deposited into an interest-bearing or non-interest bearing federally insured depository account; other investment accounts that have a market risk, including money market or uninsured accounts, are unacceptable. City of Bloomington Finance Department officials told us that the DOJ equitable sharing funds, along with other city funds, are placed into either a money market account or a portfolio of investment accounts. According to the City of Bloomington, Minnesota, Investment Policy, the city's investment strategy is conservative. However, city of Bloomington Finance Department officials stated that the portfolio of investment accounts is subject to a risk of loss, albeit minimal. As a result, the Bloomington PD did not comply with program guidance on the investment of DOJ equitable sharing funds.

We informed the Bloomington PD and city of Bloomington Finance Department officials about this area of non-compliance. In response, the city of Bloomington Finance Department opened a separate FDIC-insured, interest-bearing bank account solely for DOJ equitable sharing funds and transferred the balance of DOJ equitable sharing funds into that bank account. We confirmed the existence of this new bank account and that the appropriate balance of DOJ equitable sharing funds had been transferred into it. Therefore, the DOJ equitable sharing funds were no longer being held in accounts that were exposed to market risk. We believe that the Bloomington PD has taken adequate actions to address this weakness, and therefore, we are not recommending further action.

Internal Control Environment

As will be discussed in the Equitable Sharing Agreement and Certification Reports section of this report, the Bloomington PD did not submit accurate ESAC reports for FYs 2016 and 2017. Similarly, this section of the report presents other areas of non-compliance related to the commingling of funds and investment of funds in accounts with a market risk. In the Equitable Sharing Resources section of this report, we discuss another area of non-compliance pertaining to the authorization of expenditures. We believe that a contributing factor to all of these areas of non-compliance is the Bloomington PD's lack of formalized procedures for managing its DOJ equitable sharing activities.

During our discussions with Bloomington PD and city of Bloomington officials, we inquired if any such policies or procedures existed, and they confirmed that none did. In response to that inquiry and us informing them about the areas of non-compliance we identified throughout our audit, the Bloomington PD began drafting policies and procedures for governing its DOJ equitable sharing activities, which became effective September 6, 2018. We reviewed these new procedures and believe the contents provide the necessary framework to adequately manage DOJ equitable sharing funds. In particular, we noted that each area of non-compliance we identified during the audit is addressed in the new procedures except where noted in our report. Therefore, we believe that the Bloomington PD has taken adequate actions to address this internal control weakness, and as a

result, we are not recommending further action on the development of such procedures.

Equitable Sharing Agreement and Certification Reports

Law enforcement agencies who participate in the Equitable Sharing Program are required to submit the ESAC report, on an annual basis, within 60 days 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 report is not accepted before the end of the 60-day filing timeframe, the law enforcement agency will be moved into a non-compliance status. Additionally, the head of the law enforcement agency and a designated official of the local governing body must sign the ESAC report. By signing and submitting the ESAC report, the signatories agree to be bound by and comply with the statutes and guidelines that regulate the DOJ Equitable Sharing Program.

To complete the ESAC report, the Commander of the Bloomington PD's Investigations Division uses information contained in the eShare Portal and official accounting system to determine the amount of DOJ equitable sharing funds received. Meanwhile, the city of Bloomington Finance Department provides the Bloomington PD with the amount of interest income earned during the fiscal year. As discussed in the next section of this report, Bloomington PD officials told us that the expenditure totals and categories of expenses reported are not derived from the official accounting records and do not reflect actual expenditure information. After completing the ESAC report, the Commander submits the report to the Chief of Police and then to the City Manager for review and signature. After both the Chief of Police and the City Manager have signed the ESAC report, the Bloomington PD Commander submits the report to MLARS via the eShare Portal.

Accuracy of ESAC Reports

To verify the accuracy of the annual ESAC reports, we first compared the total receipts reported on the Bloomington PD's two most recent ESAC reports to the total amounts listed as disbursed on the DOJ's CATS report for the same time period. Our analysis showed that the Bloomington PD's most recent ESAC reports indicated receipts of \$36,692 and \$138,200 for FYs 2016 and 2017, respectively, which matched the receipts listed on the DOJ's CATS report.

We then compared the reported expenditures on the FY 2016 and FY 2017 ESAC reports to the total expenditures reflected in the Bloomington PD's accounting records for each period. Our analysis showed that the total expenditures reported in the Bloomington PD's two most recent ESAC reports were \$40,558 and \$141,785 in FYs 2016 and 2017, respectively, which did not match the expenditures stated in the Bloomington PD's accounting records. Both reports overstated the total amount of DOJ equitable sharing funds spent as identified in the official accounting records. For FY 2016, expenditures were overstated by \$40,558, and for FY 2017, the ESAC report overstated total expenditures by \$44,781, as shown in Table 1.

Table 1
ESAC Expenditures and Accounting Records Comparison

Fiscal Year	Expenditures According to ESAC Report	Expenditures According to Accounting Records	Difference
2016	\$40,558	\$ 0	\$40,558
2017	\$141,785	\$97,004	\$44,781

Source: OIG analysis of Bloomington PD ESAC reports and accounting records.

Based upon our discussions with Bloomington PD personnel, the Bloomington PD did not have a formalized process for completing the ESAC reports. In addition, Bloomington PD personnel told us that they did not rely on any accounting records when inputting the expenditures amount. Instead, they added the total funds received and interest income earned, and used that amount for the total expenditures.

We also reviewed the section of the ESAC report that summarizes the shared monies spent by specific category, such as law enforcement operations and investigations, training and education, and law enforcement equipment. To do so, we reviewed the Bloomington PD's accounting records, along with supporting documentation for the expenditures, and compared the results to the amounts reflected on the ESAC reports. We found that the category totals reflected on the ESAC reports did not match the documentation we reviewed. The Bloomington PD's ESAC reports identified all of the expenditures as training and education even though the documentation provided by the Bloomington PD showed that DOJ equitable sharing funds were also spent on other types of expenses, including overtime and law enforcement equipment. The previous and current Commanders who completed the ESAC reports told us that the instruction they had received was to record all expenditures as training and education.

In addition to summarizing the shared monies received and spent by category on the ESAC reports, entities are required to report the amount of interest income earned during the given reporting period. Based upon our review of the supporting documentation provided by the Bloomington PD and city of Bloomington Finance Department, we found that the interest income figures reported on the FY 2016 and FY 2017 ESAC reports were inaccurate. The FY 2016 amount was inaccurate because: (1) the Bloomington PD did not apply an allocation methodology, and (2) there was a timing issue with the realization of the year-end market value adjustment.⁵ The FY 2017 amount was inaccurate because the Bloomington PD used an inadequate allocation methodology.

⁵ As discussed in the Accounting for Equitably Shared Resources section of this report, we found that the accounting records identified the interest income earned on all of the Bloomington PD's equitable sharing funds as a lump sum and, therefore, included interest income earned on other funds.

Participants in the DOJ Equitable Sharing Program should prepare ESAC reports that accurately reflect all activities for the reporting period, as well as maintain documentation to support the reported activities. Inaccurate reporting of equitable sharing fund activity on the ESAC report may negatively impact efforts to monitor the DOJ Equitable Sharing Program. After discussing the inaccuracies with the Bloomington PD and city of Bloomington Finance Department, the Bloomington PD developed formal, written procedures for administering DOJ equitable sharing funds, including a process for submitting accurate ESAC reports. In addition, the DOJ equitable sharing funds are now put into a separate, interest-bearing bank account and funds are no longer commingled with equitable sharing funds from the Department of the Treasury.

As previously discussed, we confirmed that the Bloomington PD established a separate, interest-bearing bank account solely for DOJ equitable sharing funds. Therefore, the Bloomington PD will be able to use the interest income earned on that account when completing its ESAC report instead of allocating interest income earned among different funding sources.

We also reviewed the new procedures and confirmed that they contain guidance on preparing the ESAC reports. Specifically, the procedures direct the Bloomington PD to continue to use information contained in the eShare Portal when completing the ESAC report. Further, the procedures state that the city of Bloomington Finance Department will verify the reported DOJ equitable sharing funds received, and that any authorized expenditures using DOJ equitable sharing funds will be tracked under a separate DOJ equitable sharing account. However, as discussed in the Accounting for Equitably Shared Resources section of this report, city of Bloomington Finance Department officials told us that the process for recording actual expenditures paid for with DOJ equitable sharing funds will not take effect until FY 2019. Therefore, we recommend that the Criminal Division ensure that the Bloomington PD, in conjunction with the city of Bloomington Finance Department, implement a process to separately account for expenses paid for with DOJ equitable sharing funds, which is to occur in FY 2019. Following implementation of this new process, the Bloomington PD should use the accounting records to accurately complete the expenditure portion of the required annual ESAC report for that reporting period.

Completeness and Timeliness of ESAC Reports

We tested the Bloomington PD's compliance with ESAC reporting requirements to determine if its reports were complete and submitted in a timely manner. We found that the FY 2016 and FY 2017 ESAC reports were complete and signed by appropriate officials. We also determined that the FY 2016 and FY 2017 ESAC reports were submitted within the 60-day required timeframe.

Equitable Sharing Resources

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

resources of the recipient law enforcement agency. Also, participating agencies must use the funds prudently to avoid any appearance of extravagance, waste, or impropriety. During FYs 2016 and 2017, the Bloomington PD did not receive any forfeited tangible property.

Use of Equitable Sharing Funds

According to its accounting records, the Bloomington PD expended DOJ equitable sharing funds totaling \$0 in FY 2016 and \$97,004 in FY 2017. To determine if the expenditures of DOJ equitable sharing funds were allowable and supported by adequate documentation, we judgmentally selected and tested 27 transactions totaling \$81,432, or 84 percent of the total expenditures. Based upon our review of the supporting documentation provided by the Bloomington PD, we determined that the approvals of its equitable sharing expenditures were not always supported by adequate documentation, but were used for appropriate purposes, as detailed below.

According to the Equitable Sharing Guide, the head of the law enforcement agency must authorize all expenditures from the DOJ equitable sharing revenue account. We identified that the Bloomington PD was unable to provide supporting documentation showing that either the Chief of Police or the Deputy Chief, as the Chief's designee, approved 6 of the 10 non-personnel transactions tested. The Chief of Police told us that he was aware of all equipment and training purchased with DOJ equitable sharing funds, and the Deputy Chief stated that either he or the Chief of Police sign off on the paper copy of the requisition. However, we found that the Bloomington PD does not always maintain copies of all requisitions once they have been entered into the city of Bloomington's financial management system. The Deputy Chief told us that the Bloomington PD will update its procedures to ensure proper documentation is maintained showing the Chief or Deputy Chief's signature for all expenditures paid for with DOJ equitable sharing funds.

The Bloomington PD provided a copy of its new procedures for managing its DOJ equitable sharing activities, which became effective September 6, 2018. We found that the procedures include direction to obtain approval for expenditures from the governing body, such as the city council or city manager's office, when required. However, the procedures did not include a requirement that the Chief or Deputy Chief (as the Chief's designee) approve all expenditures involving DOJ equitable sharing funds, and that documentation is maintained showing this authorization. Therefore, we recommend that the Criminal Division ensure that the Bloomington PD enhance its procedures to incorporate the requirement that the Chief (or Deputy Chief as the Chief's designee) approve all expenditures involving DOJ equitable sharing funds, and that documentation is maintained showing the authorization.

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 of Bloomington and, specifically, the Bloomington PD for FYs 2013 through 2018.

We determined that the Bloomington PD's budget increased from one fiscal year to the next from FY 2013 to FY 2018. The city of Bloomington's municipal budget also increased from one fiscal year to the next during the same period, with the exception of FY 2017 to FY 2018 where the total budget decreased by less than 1 percent. Therefore, we determined that there was a low risk that the city of Bloomington was supplanting its budget with equitable sharing funds during our period of review. Moreover, our testing of the sampled expenditure transactions did not reveal any evidence of supplanting.

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 perform an audit consistent 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 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.⁶ 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 FY 2016 Bloomington, Minnesota, Single Audit Report, which was submitted on time.⁷ As mentioned, the Bloomington PD did not have any expenditures paid for with DOJ equitable sharing funds during FY 2016, and therefore, the report did not identify any findings specifically related to the DOJ Equitable Sharing Program. Further, we noted that the Single Audit Report did not contain any findings regarding the city of Bloomington's financial statements or federal awards.

⁶ On December 26, 2014, the Uniform Guidance superseded OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization. Under OMB Circular A-133, which affected all audits of fiscal years beginning before December 26, 2014, the audit threshold was \$500,000.

⁷ The FY 2017 Single Audit Report was not available at the time of our review.

CONCLUSION AND RECOMMENDATIONS

We tested the Bloomington 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 allowable purposes. We concluded that the Bloomington PD did not fully comply with the requirements of the DOJ Equitable Sharing Program. Specifically, we found that the Bloomington PD commingled its DOJ equitable sharing activities with other equitable sharing resources and did not separately account for all expenditures paid for with DOJ equitable sharing funds. Moreover, the Bloomington PD invested DOJ equitable sharing funds into financial instruments that posed a market risk. In addition, we determined that the Bloomington PD did not accurately submit the required, annual ESAC reports. We also identified expenditures paid for with DOJ equitable sharing funds for which there was no indication of the Chief of Police's authorization. Finally, we noted that the Bloomington PD did not have formalized, written procedures for managing its DOJ equitable sharing activities, which we believe contributed to the areas of non-compliance we identified.

We informed Bloomington PD and city of Bloomington officials about these issues. In response, the Bloomington PD and city of Bloomington Finance Department worked to correct the noted deficiencies. For instance, the city of Bloomington Finance Department set up a separate accounting code and bank account for DOJ equitable sharing revenues. The Bloomington PD also developed written procedures to help adequately manage its DOJ equitable sharing activities, including the process for completing accurate ESAC reports. We evaluated the actions taken by the Bloomington PD and city of Bloomington Finance Department and believe those actions adequately address many of the findings we identified. However, we believe that further actions are necessary to fully address the weaknesses we identified, in particular, ensuring that the planned process to separately account for expenditures paid for with DOJ equitable sharing funds is implemented, as well as ensuring that the Chief (or the Chief's designee) approves the use of all DOJ equitable sharing funds and that approval is documented.

We recommend that the Criminal Division:

1. Ensure that the Bloomington PD, in conjunction with the city of Bloomington Finance Department, implements a process to separately account for expenses paid for with DOJ equitable sharing funds, which can be used to accurately complete the expenditure portion of the required annual ESAC report.
2. Ensure that the Bloomington PD enhances its procedures to include the requirement that the Chief (or Deputy Chief as the Chief's designee) approve all expenditures involving DOJ equitable sharing funds and that documentation is maintained showing this authorization.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of the audit was to assess whether the Bloomington PD accounted for equitable sharing funds properly and used such revenues for allowable 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, equitable sharing receipts received by the Bloomington PD between January 1, 2016, and December 31, 2017. Our audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program. We tested compliance with what we considered to be the most important conditions of the DOJ Equitable Sharing Program. We reviewed laws, regulations, and guidelines governing the accounting for and use of DOJ equitable sharing receipts, including the *Guide to Equitable Sharing for State and Local Law Enforcement Agencies*, dated April 2009, as well as the Interim Policy Guidance Regarding the Use of Equitable Sharing Funds, issued July 2014. Unless, otherwise stated in our report, the criteria we audited against are contained in these documents.

We performed audit work at the Bloomington PD's headquarters located in Bloomington, Minnesota. We interviewed Bloomington PD and city of Bloomington officials and examined records, related revenues, and expenditures of DOJ equitable sharing funds. In addition, we relied on computer-generated data contained in the DOJ Consolidated Asset Tracking System (CATS) to identify equitably shared revenues awarded to the Bloomington PD during the audit period. We did not establish the reliability of the data contained in the CATS 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 Bloomington PD'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 Bloomington PD. However, we did not assess the reliability of the city of Bloomington'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 Bloomington PD had 12 cash receipts totaling \$174,892. In the same period, the Bloomington PD had 44 expenditures totaling \$97,004. We reviewed all 12 receipts totaling \$174,892, and we reviewed a judgmental sample of 27 expenditures totaling \$81,432. A judgmental sampling design was applied to capture numerous aspects of the disbursements reviewed, such as dollar amounts and expenditure categories. This non-statistical sample design does not allow projection of the test results to all disbursements.

Our audit included an evaluation of the city of Bloomington's most recent annual audit. The results of this audit were reported in the Single Audit Report that accompanied the city of Bloomington's basic financial statements for FY 2016. The Single Audit Report was prepared under the provisions of 2 C.F.R. 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. We reviewed the independent auditor's assessment, which disclosed no internal control weaknesses or significant noncompliance issues related to the DOJ Equitable Sharing Program.

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

THE BLOOMINGTON POLICE DEPARTMENT'S RESPONSE TO THE DRAFT AUDIT REPORT⁸



October 15, 2018

Ms. Carol S. Taraszka
Regional Audit Manager
U.S. Department of Justice
Office of the Inspector General
Chicago Regional Audit Office
500 West Madison Street, Suite 1121
Chicago, Illinois 60661-2590

Dear Ms. Taraszka:

The Bloomington Police Department is in receipt of the Office of the Inspector General's draft report and findings related to the recently completed audit of our Equitable Sharing Program. We concur with the reported findings and have taken, or will take, the following corrective actions as a result of the following audit findings:

1. **Commingling of Equitable Sharing Funds.** As a result of this audit, and in conjunction with the City of Bloomington's Finance Department, separate accounts were created for Department of Justice (DOJ) and Department of Treasury (DOT) Equitable Sharing Funds in May, 2018. Deposit receipts and interest income, if any, will now be tracked as a result of the creation of the separate DOJ and DOT accounts.

The expenditures of Equitable Sharing Funds will also be documented as direct expenditures from these two newly created accounts for DOJ and DOT.

2. **Investment of Equitable Sharing Funds.** As a result of this audit, and in conjunction with the City of Bloomington's Finance Department, DOJ Equitable Sharing Funds have been transferred into newly created FDIC insured, interest bearing accounts eliminating any market risk for these funds. These funds were transferred to the new accounts on June 13, 2018.
3. **Internal Control Environment.** As a result of this audit, and in conjunction with the City of Bloomington's Finance Department, the Bloomington Police Department has drafted and published Investigative Procedure 411: Department of Justice and Department of Treasury Equitable Sharing Program. This Procedure was added to the Bloomington Police Department Policy and Procedure Manual and was effective September 6, 2018 and updated on October 9, 2018. Investigative Procedure 411:

POLICE DEPARTMENT
1800 W. OLD SHAKOPEE ROAD, BLOOMINGTON MN 55431-3027
PH 952-563-4900 FAX 952-563-4936 TTY 952-563-8740

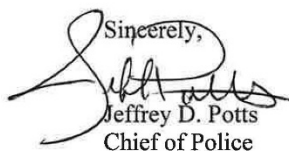
AN AFFIRMATIVE ACTION/EQUAL
OPPORTUNITIES EMPLOYER

⁸ The Bloomington PD included a copy of its policy associated with DOJ equitable sharing funds. We did not include this policy in our report due to the size and potentially sensitive information contained in the document.

Ms. Carol S. Taraszka
October 17, 2018
Page 2

Department of Justice and Department of Treasury Equitable Sharing Program is attached for your review.

4. **Equitable Sharing and Certification Reports.** As a result of this audit, the Bloomington Police Department will immediately begin working in conjunction with the City of Bloomington's Finance Department to more accurately complete the required Equitable Sharing Agreement Certification reports. This, along with the implementation of the procedures identified in steps 1 through 3, will help to ensure the accuracy of these reports in the future.
5. **Equitable Sharing Resources.** As a result of this audit, and in conjunction with the City of Bloomington's Finance Department, additional levels of approval have been implemented in the City's financial software system. More specifically, any expenditures made of Equitable Sharing Funds will need signed approval from the Chief of Police or their designee. In addition, when required, signed approval will be obtained from our governing body (i.e. City Manager, City Council). This policy was effective as of October 9, 2018.

Sincerely,

Jeffrey D. Potts
Chief of Police

Attachment

**THE CRIMINAL DIVISION
MONEY LAUNDERING AND ASSET RECOVERY SECTION
RESPONSES TO THE DRAFT AUDIT REPORT⁹**



U.S. Department of Justice

Criminal Division

Money Laundering and Asset Recovery Section

Washington, D.C. 20530

OCT 01 2018

MEMORANDUM

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

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

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

In a memorandum dated September 28, 2018, your office provided a draft audit report for the Bloomington Police Department (BPD), 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 BPD to correct all identified findings.

cc: Brian Averill
Audit Liaison
Criminal Division

Richard P. Theis
Assistant Director, Audit Liaison Group
Internal Revenue and Evaluation Office
Justice Management Division

⁹ MLARS submitted its initial response on October 1, 2018, and then submitted a revised response on November 19, 2018, after it had an opportunity to review the Bloomington PD's October 15, 2018, response. Both responses are included in this appendix.



U.S. Department of Justice

Criminal Division

Money Laundering and Asset Recovery Section

Washington, D.C. 20530

NOV 19 2018

MEMORANDUM

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

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

SUBJECT: DRAFT AUDIT REPORT for the Bloomington Police Department's
Equitable Sharing Program Activities – Updated Response

In a memorandum dated September 28, 2018, your office provided a draft audit report for the Bloomington Police Department (BPD), which included actions necessary for closure of the audit report findings. The Money Laundering and Asset Recovery Section (MLARS) concurred with all findings and recommendations on October 1, 2018.

After the submission of our response, MLARS received documentation related to the following recommendation:

Recommendation 2: Ensures that the Bloomington PD enhances its procedures to include the requirement that the Chief (or Deputy Chief as the Chief's designee) approve all expenditures involving DOJ equitable sharing funds, and that documentation is maintained showing this authorization.

BPD provided Investigative Procedure 411 (dated October 9, 2018) that outlines updates related to the Department of Justice and Department of Treasury Equitable Sharing. Section 8.k of the document states that the Chief of Police, or designee, is required to approve all expenditure of funds acquired through the Equitable Sharing Program. In addition, the approval for Program expenditures will be obtained from the governing body when required. See **Attachment A** for supporting documentation.

In light of the corrective actions taken by BPD, MLARS recommends that Recommendation 2 be closed. Upon receipt of the final audit report, MLARS will work with

BPD to correct any remaining findings. Please feel free to contact Brian Boykin, Equitable Sharing Program Manager, at (202) 598-2306 for further information.

cc: Brian Averill
Audit Liaison
Criminal Division

Richard P. Theis
Assistant Director, Audit Liaison Group
Internal Revenue and Evaluation Office
Justice Management Division

**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 Bloomington PD and Criminal Division officials. The Bloomington PD's response is incorporated in Appendix 2, and the Criminal Division's responses are incorporated in Appendix 3 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 following provides the OIG analysis of the responses and summary of actions necessary to close the report.

Recommendations for the Criminal Division:

- 1. Ensure that the Bloomington PD, in conjunction with the city of Bloomington Finance Department, implements a process to separately account for expenses paid for with DOJ equitable sharing funds, which can be used to accurately complete the expenditure portion of the required annual ESAC report.**

Resolved. The Criminal Division Money Laundering and Asset Recovery Section (MLARS) concurred with our recommendation and said that it will work with the Bloomington PD to correct this finding.

The Bloomington PD concurred with our recommendation and stated in its response that it, in conjunction with the city of Bloomington's Finance Department created a separate account for DOJ equitable sharing funds. The Bloomington PD further stated that this newly created account will reflect direct expenditures paid for with DOJ equitable sharing funds and that this new process will help ensure the accuracy of the annual required ESAC reports.

This recommendation can be closed when we receive evidence that the Bloomington PD implemented a process to separately account for expenses paid for with DOJ equitable sharing funds.

- 2. Ensure that the Bloomington PD enhances its procedures to include the requirement that the Chief (or Deputy Chief as the Chief's designee) approve all expenditures involving DOJ equitable sharing funds and that documentation is maintained showing this authorization.**

Closed. MLARS concurred with our recommendation and said that it believes the actions taken by the Bloomington PD are sufficient for closing the recommendation.

The Bloomington PD concurred with our recommendation and stated in its response that as a result of our audit, the Bloomington PD, in conjunction with the city of Bloomington's Finance Department, established formal

procedures for administering DOJ equitable sharing funds, which became effective in September 2018. The Bloomington PD stated that in October 2018, it updated this policy, and the Bloomington PD provided a copy of the updated policy. In addition, the Bloomington PD stated that additional levels of approval have been implemented within the city of Bloomington's financial software system. According to the Bloomington PD's response, any expenditures paid for with DOJ equitable sharing funds require approval from the Chief of Police or the Chief of Police's designee.

We reviewed the documentation provided and found that the Bloomington PD's updated policy includes guidance that the Chief of Police, or the Chief of Police's designee, must approve all expenditures to be paid for with DOJ equitable sharing funds. The policy also states that the required approvals will be documented and maintained within the city of Bloomington's financial software system. We believe that the Bloomington PD's actions adequately address our recommendation. Therefore, this recommendation is closed.



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U.S. DEPARTMENT OF JUSTICE OFFICE OF THE INSPECTOR GENERAL

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