



OFFICE OF THE COUNTY AUDITOR

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November 1, 2018

Hon. John E. Zaruba, County Sheriff
DuPage County
Wheaton, IL 60187

Dear Sheriff Zaruba:

The Office of the County Auditor has completed an audit of the Federal Law Enforcement Treasury Account administered by the County Sheriff's Office. The audit consisted of examining the internal controls, records, receipts, and disbursements of the Account for the fiscal year ended November 30, 2017. The results of the audit are presented herein.

Results

- All transactions were examined and were found to be consistent with the intent of the Account; and,
- The internal controls related to the Account appear to be adequate.

Objective

The County Auditor will perform a series of audit procedures designed to evaluate the internal controls over certain bank accounts outside the control of the County Treasurer. The objectives of the audit were to evaluate the procedures related to the processing of Account receipts and disbursements during fiscal year 2017 in order to determine if internal controls in place at the Sheriff's Office were adequate to safeguard the funds in the Account, that receipts were properly documented, recorded and deposited intact and in a timely manner, and that disbursements were appropriate and documented.

Background / Audit Scope

The Drug Traffic Prevention Account was initially established to account for transactions related to DuPage County Sheriff's Office drug-related investigations, education, and enforcement. The County's share of funds seized during local, state, or federal drug-related investigations are distributed by state and federal agencies and deposited into the Account. Disbursements are made to support undercover operations and drug enforcement activities.

In 2016, the Drug Traffic Prevention Account was renamed the Drug Traffic Prevention - *Federal* Account and a new bank account under the Sheriff's Office administration, the Drug Traffic Prevention - *State* Account was created. This was done to separate the funding sources.

During 2017, the US Department of the Treasury performed a review of the Sheriff's Office compliance regarding funds received from the Treasury Department in connection with the Sheriff's Office participation in federal law enforcement cases. One of the findings from the review was the requirement that funds received from the Treasury Department may not be combined with funds from other sources. In order to comply with the federal regulations, the Drug Traffic Prevention Account – Federal was renamed the Federal Law Enforcement Treasury Account (Treasury Account), to administer the receipts and disbursement of US Treasury Department Equitable Sharing Funds for both narcotic and non-narcotic cases. In September 2017, Treasury Department receipts for non-narcotic cases previously deposited into the Sheriff's Investigative Account were transferred to the Treasury Account.

The November 30, 2017 balance of \$566,864 in the Treasury Account agrees to the Ending Equitable Sharing Treasury Funds Balance in the Annual Certification Report for fiscal 2017, filed with the federal government. That report also included an Other Income adjustment of \$98,381, resulting from the Treasury Department's review and agreed-upon procedures performed by the County Auditor's Office (audit report #17-120, Sheriff's Office Reporting of Equitable Sharing Funds, 2010 through 2016, issued December 27, 2017).

During FY2017, \$322,900 in receipts were deposited into the Account and \$145,034 was disbursed. The Account is included in the County's Comprehensive Annual Financial Report (CAFR) as an agency fund.

The audit procedures included reviewing pertinent accounting records, banking transactions, and other supporting documentation related to the deposit and disbursement of Account funds by the Sheriff's Office. Interviews were conducted with the County Sheriff and Sheriff's Office management staff as deemed necessary in order to obtain an understanding of the procedures and internal controls related to the financial transactions of the Account.

The County Auditor examined all banking records and transactions of the Account for fiscal year 2017. Procedures included verifying that deposits were made in a timely manner, and that reconciliations were performed and independently reviewed in a timely manner.

Audit Findings and Recommendations

Internal Controls

The County Auditor obtained an overview of the internal controls relative to the Account. It appeared that the internal controls as described were adequate and operating properly. A review of the bank statements noted that the reconciliations were performed on a timely basis and reviewed by Sheriff's Office supervisory staff.

An internal audit previously performed by the County Auditor recommended that the Sheriff's Office prepare detailed procedures specific to the Account. The Sheriff's Office stated that these procedures have been prepared and are being reviewed by the State's Attorney.

Bank Deposits

All 20 deposits processed into the Account during fiscal year 2017 were examined. Sixteen of the deposits totaling \$199,585 were wire transfer deposits from the US Department of the Treasury. These deposits represent the County's share of cash seized from drug-related investigations. One transfer of \$122,367 was made from the Sheriff's Investigative Account, representing funds received from the Department of the Treasury during FY2017. The

remaining deposits of miscellaneous funds were prepared by the Account custodian. Deposits are made by a Sheriff's Office Deputy who is not involved in the accounting or collection of the funds. All deposits were consistent with the nature of the account and had sufficient supporting documentation.

Account Disbursements

All 80 disbursements made from the Account were examined. All of the disbursements were properly documented and were consistent with the nature of the Account. The checks were signed by an authorized individual and all disbursements exceeding \$5,000 had the required two signatures. One disbursement check was returned to the Sheriff's Office by the vendor, and then voided because the invoice had been paid through the County's accounts payable system. It is recommended that procedures be developed to avoid the possibility of invoices being submitted to both the account custodian and the accounts payable process.

General Ledger

The FY17 general ledger activity was incorrectly posted by the Finance Department to the Demand Deposit - CCC Agency general ledger account (8500-4840-10002-0000), while the beginning balance is in the Cash – Other Agency Funds account (8500-4840-10000-0002). This posting was corrected by the Finance Department in April, 2018.

Capital Equipment Acquisitions

It was noted that several expenditures for capital equipment were made from the Account during the year. These items exceeded the County's \$5,000 threshold for capital purchases as prescribed in the County's financial policies. As these expenditures were not processed through the normal County's accounts payable system, they were not included in the County's financial records as fixed assets.

The nature of some of these transactions may preclude the full disclosure of the expenditure in the County's financial records. For example, the identification of specific vehicles used in undercover operations would compromise the effectiveness of law enforcement and hinder tactical operations. These vehicles are regularly rotated in and out of service resulting in a service life of often less than one year – thus their inclusion in the fixed asset records (which by definition have a useful life of one year or greater) may not be warranted. However, as the combined value of the vehicles in use at any given time is significant, consideration should be given by the County's Finance Department to including a static aggregated approximate amount on the County's financial records. On an annual basis, this amount would be reviewed with the County Sheriff to ensure that it reflects the value of the vehicles in use.

Similarly, though not examined in this audit, non-cash acquisitions of other types of equipment through forfeiture or seizure should also be recognized in the County's financial records. The Finance Department should discuss the appropriate accounting classification for these transactions with the County's external financial auditors.

Audit procedures identified disbursements which exceeded the Committee Level procurement level and the County Board procurement level, defined in the Procurement Ordinance as \$5,000 and \$25,000 respectively. Generally, equipment purchases made by the Sheriff's Office at these levels are required to follow the procedures defined in the Ordinance which may include obtaining quotes, bidding and County Board / Committee approval. As the Account is administered by the County Sheriff, has not been subject to appropriation by the County Board and the use of the funds is restricted per statute and/or the Department of Justice,

it is not known whether the Ordinance applies. Further, if Account funds are used to purchase equipment for undercover investigations, public disclosure of the purchase may not be appropriate. It is recommended that the County Sheriff seek the guidance of the State's Attorney's Office as to the applicability of the Ordinance in this situation.

Fund Classification

The County's Comprehensive Annual Financial Report (CAFR) classifies the Account as an agency fund. As defined, an agency fund accounts for situations when the government receives and disburses resources in an agency capacity; i.e., held for a third-party. In this case, the agency fund classification for financial reporting purposes may not be appropriate. Although the funds are held and administered outside of the County Treasurer's Office, the funds are not being held in a fiduciary capacity for a third party; rather, the County Sheriff has use of the funds for prescribed activities. The nature of the Account may be better described as a special revenue fund. Further, the CAFR incorrectly states that the account is used to account for drug enforcement expenditures in coordination with federal agencies, although the federal guidelines state that the funds must be used more generally for law enforcement purposes. It is recommended that the County's Finance Department examine how the Account is classified and described for purposes of the external financial reporting.

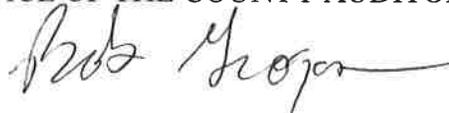
Summary of Recommendations

- It is recommended that consideration be given to determining whether the current Account designation as an agency fund for financial reporting purposes is appropriate.
- Given the nature of the expenditures made from the Account, it is suggested that the Sheriff's Office seek guidance as to the applicability of the Procurement Ordinance to purchases made from the Account.
- As capital equipment is acquired by the Account outside of the County's usual accounts payable process, these items are not included on the County's fixed assets schedule. Consideration should be given to exploring options to include these items in the financial reports.

I want to express my sincere appreciation for the generous assistance provided by your Office and your staff. If you have any questions, please contact me.

Sincerely,

OFFICE OF THE COUNTY AUDITOR



Bob Grogan, CPA, CFE
County Auditor

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Revised