



# OFFICE OF THE COUNTY AUDITOR

**Bob Grogan, CPA, CFE**  
*DuPage County Auditor*

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January 30, 2019

Hon. James Mendrick, County Sheriff  
DuPage County  
Wheaton, IL 60187

Dear Sheriff Mendrick:

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 period from December 1, 2017 through November 30, 2018. The results of the audit are presented herein.

## **Results**

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- All transactions were examined and were found to be consistent with the intent of the Account;
- Capital purchases made from the Account do not appear to be included in the County's fixed asset records;
- Some purchases from the Account did not comply with the County's Procurement Ordinance;
- The agency fund classification for financial reporting purposes may not be appropriate; and,
- The internal controls related to the transactions made from Account appear to be adequate.

## **Objective**

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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 2018 to date 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**

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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, 2018 balance in the Treasury Account was \$417,456.

During the period from December 1, 2017 through November 30, 2018, \$399,610 in receipts were deposited into the Account and \$549,019 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 of the Account for the audit period. Procedures included verifying that deposits were made in a timely manner, that transactions recorded in the internal accounting system agreed to the bank statements, and that reconciliations were performed and independently reviewed in a timely manner.

**Audit Findings and Recommendations**

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**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 52 deposits processed into the Account during fiscal year 2018 were examined, 50 of these were wire transfers into the Account from the US Department of the Treasury. These deposits represent the County's share of cash seized from drug-related investigations. Two small deposits totaling \$309 representing 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**

There were 83 disbursements from the Account during the audit period. 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.

**Capital Equipment Acquisitions**

It was noted that there were several disbursements for capital equipment 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 County's accounts payable system, the Finance Department would not be aware to include the items in the County's financial records as fixed assets. The Sheriff's Office should notify the Finance Department of capital items having a unit value, or aggregate value of \$5,000 or above. If the disclosure of the equipment could compromise law enforcement activities, an alternate description could be given to the items.

Audit procedures identified disbursements for the purchase of passenger transport equipment 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. It is advised that consideration should be given to providing a means for waiving the requirements if the purchase is for law enforcement equipment of a confidential or sensitive nature.

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. It was noted that the procurement policies were followed with respect to the significant purchase of in-car video equipment.

**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**

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- It is recommended that consideration be given to determining whether the current Account designation as an agency fund for financial reporting purposes is appropriate.

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- 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.
- It is suggested that the Sheriff's Office work with the State's Attorney's Office to complete the detailed written procedures.
- 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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cc: County Board  
Tom Cuculich, County Administrator  
Paul Rafac, Chief Financial Officer