City of Dover
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MEMORANDUM

To: Members of Legislative, Finance, & Administration Committee

From: Donna Mitchell, Controller/Treasurer
Chief Hosfelt, Police Chief

Copy: Mayor, City Council, City Manager, City Clerk, & Asst. Finance Director

Date: December 29, 2010

Subject: Accounting Procedures for Federal Forfeiture Funds

Background

This past summer, it was brought to my attention that a separate bank account was being maintained by the Police Department and the transactions were not being accounted for in the City's records. I met with Chief Hosfelt and he confirmed that this statement was correct. Chief Hosfelt also agreed to provide the documentation to have a compliance review completed of the deposits and disbursements and to explain to City Council the existence of the account and the purpose for which it was being used. Chief Hosfelt provided a discussion on the Criminal Investigation Fund to the Legislative, Finance, & Administration Committee on August 23, 2010. It was agreed that once all records and documents have been transferred to the Finance Department and an audit has been performed, an update will be provided to Committee members.

Update

Chief Hosfelt and the Police Department staff worked cooperatively with the Finance Department to close out the separate bank account and deposit the cash balance into our City account we currently use for Law Enforcement Grants. All activity is now being processed through the City's accounting system in compliance with all policies and procedures. Please note, the previous bank account was being reconciled, financial reports were being prepared by the Police Department, and controls were in place to prohibit unauthorized spending per the Department's internal policies. However, these activities were not shared with anyone outside of the Police Department.

The Chief agreed to a compliance review conducted by the City auditor, Faw, Casson & Company, LLC to be paid for out of the federal forfeiture funds. It was decided to review a sample of transactions back to July 2006 (4 years) for time and cost purposes. Faw, Casson's report is attached for your review. Most of the non-compliance items were a result of not using the City's financial systems and has now been remedied. Also attached is a summary of the Fund Balances, Receipts, and Disbursements for the four years reviewed.

Staff Recommendations

We recommend that annual budgets be established for Police Grants and all other Criminal Investigation Funds. All estimated receipts and planned disbursements be adopted through the budget process and accounted for in the same manner as all other funds to insure visibility and accountability of the use of these funds. Everyone understands, through the use of the City's budgeting and financial systems all policies and procedures will be adhered to. Until such time a budget can be established the Finance Department will issue a summary of activity for these funds in conjunction with our monthly report.

Use of Federal Forfeiture Funds

Federal Forfeiture Funds come with some restrictions for their use. We have included a summary of permissible uses and impermissible uses.

General restriction – Sharing must be used to increase or supplement the resources of the receiving local law enforcement agency. Shared resources shall not be use to replace or supplant the appropriated resources of the recipient. The agency must receive a benefit from the shared funds. Example – A police department receives $100,000 in federal sharing money only to have its budget cut $100,000 by city council. In this instance, the police department has received no direct benefit from equitable sharing. Rather, the city as a whole has.

Permissible Uses	
Law enforcement investigations	Language assistance services
Law enforcement training	Transfers to other law enforcement agencies
Law enforcement and detention facilities	Law enforcement awards and memorials
Law enforcement equipment, furniture, supplies	Asset accounting and tracking; Grant audits
Law enforcement travel and transportation	Support of community based programs
Drug and gang education and awareness programs	Matching funds for the agency's matching contribution in a federal program
Pro rata funding – for the Police departments share of interdepartmental items or facilities. i.e. computerized payroll system with 20% use for police payroll	Exercise prudence to avoid the appearance of extravagance, waste, or impropriety

Impermissible Uses	
Salaries & benefits of current personnel unless permitted by: (1) Express statutory authorization – i.e. COPS program matching funds (2) Overtime of officers and investigators (3) New positions. First year salary & benefits of a new officer that supplements the current force (4) Salary of an officer hired to replace an officer assigned to a task force	Use of forfeited property by non-law enforcement personnel. Includes equipment; Payment of education-related costs Uses contrary to the laws of the state or local government Non-official government use of shared assets Purchase of food and beverages, unless for a conference package policy or meals during local operation

Federal Forfeiture Funds	**2007**	**2008**	**2009**	**2010**
Beginning Balance	$ 73,475.84	$ 34,709.68	$ 15,533.02	$ 187,855.42
Receipts	20,223.32	6,288.49	208,678.31	8,939.93
Expenditures	(58,989.48)	(25,465.15)	(36,355.91)	(55,015.99)
Ending Balance	$ 34,709.68	$ 15,533.02	$ 187,855.42	$ 141,779.36

A hold was put on non-essential spending from this account until the auditor completed their review. We have received additional federal funds this fiscal year and the cash balance as of December 31 is $166,986. Included with the January monthly report will be a financial report on Police Grants for this fiscal year as included in the staff recommendation.

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INDEPENDENT ACCOUNTANTS REPORT ON APPLYING AGREED-UPON PROCEDURES

DONNA MITCHELL,
CONTROLLER/TREASURER
CITY OF DOVER
Dover, Delaware

We have performed the procedures enumerated below, which were agreed to by the City of Dover ("the City"), solely to assist the City in evaluating compliance with City Policies and Procedures and the Guide to Equitable Sharing for State and Local Law Enforcement Agencies ("the Program Guide") relating to funds received by the Dover Police Department under the Department of Justice Asset Forfeiture Program ("the Program") from July 1, 2006 to June 30, 2010. The management of the City of Dover is responsible for compliance with City of Dover Policies and Procedures and compliance with the Program Guide. The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the City of Dover. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

Procedures

1. Obtain and review the following City Policies and Procedures and extract significant compliance requirements applicable to the Program:

   a. Budget Administration - Guidelines for Operating Departments
   b. Training, Conference and Travel
   c. Grant Application
   d. Grants Management and Compliance
   e. Purchasing.

2. Review the "Guide to Equitable Sharing for State and Local Law Enforcement Agencies ("the Program Guide") and extract allowable uses for the funds.

3. For all disbursements of $3,000 or more and a sample of 20 disbursements of less than $3,000 made from July 1, 2006 through June 30, 2010, test for compliance with City Policies and Procedures referenced above and allow ability of use under the Program Guide.

Findings

1. Budget Administration - The City of Dover Budget Administration Policy #F306 requires a Form #306 to be prepared to document the approval process for supplemental budget appropriations. Such a form was not prepared for any of the disbursements we sampled.
2. Training, Conference and Travel Policy - The City of Dover Training, Conference and Travel Policy requires that a Travel Approval Form (Form #047) be completed and approved by the City Manager of Council Designee prior to out of state travel beyond one day. Although a travel approval form was completed and approved by a police department management official, no approval was noted by the City Manger or Council Designee for the five out of state travel- related disbursements sampled. City of Dover Travel Policies also require a Travel Expense Report be completed. One of the five travel-related disbursements we tested did not have a corresponding Travel Expense Report Form, check # 357 dated August 26, 2009 payable to US Airways in the amount of $1,171.80.
3. The Grant Application Procedures - The City Of Dover Grant Application Procedures (Procedure F317) were not followed except for the maintenance of a grant-related file. A Grant Application Form was not completed, Department Head approval on the form was not obtained, and further approval by the Mayor and City Council (since the funds received exceeded $25,000) were not obtained. Documents supporting assets purchased were not forwarded to the Finance Department for the purpose of updating the City of Dover's fixed asset reporting system records.
4. Grant Management and Compliance-We noted no disbursements for political activities in our sample.
5. Purchasing Procedures - Invoices for items and services purchased were not processed through the City of Dover Accounts Payable Department. Purchase orders were not issued through the City of Dover purchasing system. Seven of the thirty-three items sampled did not have approval signatures noted on the corresponding invoices. Two items did not have supporting invoices, but had other documentation supporting for the purchase. We did not have supporting documentation for three of the thirty-three items selected in our sample.

   The seven items with no approval signatures on the corresponding invoices are:

Check #	Date	Payee	Amount
302	4/16/07	Lawmen Supply	$12,694.32
304	4/27/07	Lawmen Supply	$ 5,148.00
305	5/16/07	Lawmen Supply	$ 3,302.40
314	7/2/07	Iron Brigade Armory	$13,868.00
339	11/13/08	Action Fighting Arts, LLC	$ 900.00
376	3/15/10	Chrome World	$ 2,147.80
379	4/30/10	Pugh's Service, Inc.	$15,539.00

   The three items with no corresponding invoices are:

Check #	Date	Payee	Amount
337	10/6/08	U.S. Marshalls Service	$1,842.77
343	1/23/09	Diane Glenn	$ 451.63
344	2/24/09	Lt. Hosfelt	$ 700.00

The two items with no corresponding invoices but other supporting documentation are:

Check #	Date	Payee	Amount
278	8/4/06	Von Liche Kennels	$5,000.00
334	8/11/08	Venosa Kennels	$6,500.00

6. Program Guide Requirements - three items included in our sample were not supported by corresponding paperwork. We could therefore not determine if the disbursement was for a permissible use according to the program guide. The remaining thirty items included in our sample appeared to be permissible uses. The items without paperwork are:

Check #	Date	Payee	Amount
337	10/6/08	U.S. Marshalls Service	$1,842.77
343	1/23/09	Diane Glenn	$ 451.63
344	2/24/09	Lt. Hosfelt	$ 700.00

7. Guide For Financial Reporting - We were not provided with copies of the Forms DAG-71 used to request Forfeiture Funds. We could not determine if the requirement to update the permanent log of Forfeited Funds received was completed once funds were received. We could not determine from the information provided if the items purchased were held for use for two years. We were also unable to determine if in the case that an item was sold after two years, its sales proceeds were deposited into the Federal Forfeited Funds account and used according to the policies and procedures of the program. As we previously determined in the Purchasing Polices, City of Dover Purchase Orders were not utilized in the purchasing process. As we determined in the Grant Application Process, approval of the "governing body" was not obtained prior to the disbursement of funds.

We were not engaged to, and did not; conduct an audit, the objective of which would be the expression of an opinion on our tests of compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is solely for the information and use of City's management and is not intended to be and should not be used by anyone other than this specified party.

Fair, Cason & Co., LLP

Dover, Delaware
December 23, 2010