



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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May 6, 2021

Mr. Morgan Gire, District Attorney
Placer County District Attorney's Office
10810 Justice Center Drive, Suite 240
Roseville, CA 95678

Re: Asset Forfeiture Fiduciary Fund Review

Dear Mr. Gire:

The Internal Audit Division of the Auditor-Controller's Office performed a review of the Asset Forfeiture Fiduciary Funds (with the exception of the TRIDENT program) for the period of January 1, 2019 through December 31, 2019 for the District Attorney's Office (Office). The objectives of our review were to obtain an understanding of the Office's internal controls over the Asset Forfeiture Fiduciary Funds and determine whether internal controls have been designed, put in place, and operating as designed; accounting records and financial reports were accurate and adequate; transactions recorded have complied with Health and Safety Code, Federal and State Regulations, and County policies; and, make recommendations for improvement.

Our review consisted of inquiries of the Office staff regarding current processes and procedures established by the Office, obtained accounting records and financial reports, and reviewed the Office's accounting records for Asset Forfeiture Fiduciary Fund compliance requirements.

The funds and cost centers included in our review are listed in Attachment A.

As a result of our review, it appears the transactions recorded have complied with Health and Safety Code, Federal and State Regulations, and County policies and except for the observations noted below, accounting records and financial reports were accurate and adequate. However, we noted areas where internal controls over the Asset Forfeiture Fiduciary Funds could be strengthened. Accordingly, our summary of observations and recommendations are as follows.

Summary of Observations and Recommendations

Observation #1: Expenditures Paid Through a Special Purpose Fiduciary Fund

During our review, we noted expenditures were paid through the Office's Asset Forfeiture Fiduciary Fund, FD31033 DA Recovery Fund, for a total of \$65,095.01 for calendar year 2019. The employee initiating the supplier invoices for expenditures relating to asset forfeiture funds was not aware that expenditures should not be processed through the Special Purpose Fiduciary Fund as per County policies and procedures. Also, the Workday approver overlooked the fund associated with the expenditures when reviewing and approving the supplier invoices.

The *Accounting Policies and Procedures Manual - Custodial Fund Accounting: Special Purpose Fiduciary Fund* states, "The concept is to hold the cash received until qualifying expenditures have been made from funds where the activity has been budgeted (authorized). A journal transfer is then made to move the cash and related revenue to the fund incurring the cost. Disbursements are not allowed to be made by issuing warrants from any of these funds directly."

Recommendation

We recommend the Office develop procedures for initiating and approving transactions relating to asset forfeiture funds to ensure that expenditures are processed through the Office's operating fund, FD10100 Public Safety Fund (Cost Center 11001), and then a journal is created to transfer the costs of expenditures from the Asset Forfeiture Fiduciary Fund to the Office's operating fund.

Also we recommend the Office develop training for new employees processing transactions to ensure they are aware of County policies and procedures for Special Purpose Fiduciary Funds.

Office's Response:

The Office of the District Attorney acknowledges this recommendation and the controlling Placer County Policy related to this finding. The administration of the Placer County District Attorney's office has begun the process of developing policies and procedures related to Asset Forfeiture expenditures. Upon their completion all staff will be trained in department policies. Staff will immediately comply with county policies regarding Special Purpose Fiduciary Funds. Current staff have been advised that all expenditures shall be processed through the Office's operating fund (DA Cost center 11001). Administration will ensure that all new staff are educated in office policies as they relate to Asset Forfeiture expenditures, as well as county policies and procedures for Special Purpose Fiduciary Funds.

Observation #2: Missing Asset Forfeiture Disbursements

An asset forfeiture disbursement in the amount of \$91.28 was not properly transferred into the Placer Law Enforcement Agency (PLEA) Fund maintained by the Sheriff's Office because the transaction was erroneously cancelled and the Office did not perform a reconciliation to ensure the disbursement transfers were accurately posted.

The *Accounting Policies and Procedures Manual - Custodial Fund Accounting* states, "The Department Head has the following responsibilities for all custodial funds assigned to the department.

- (1) Maintain subsidiary records sufficient to support the ownership of all assets of the custodial funds.
- (2) During each accounting period, the custodial department should reconcile the department's subsidiary records to the general ledger. If other departments initiate transactions to the fund, copies of those transactions should be provided to the custodial department to assist with this requirement. If the reconciliation identifies an error occurred in the general ledger, a correction needs to be entered."

Recommendation

We recommend the Office work with the Sheriff's Office to ensure the disbursement is properly moved into the PLEA Fund, including the appropriate supporting documentation.

We also recommend the Office continue to develop procedures to track and reconcile disbursements transferred to participating agencies in Workday with an additional level of supervisory review over these funds.

Office's Response:

The Office of the District Attorney recognizes that an error occurred in cancelling a journal transferring \$91.28 to the Sheriff's PLEA trust fund. District Attorney staff and Sheriff staff have worked together to correct and process the journal. District Attorney fiscal staff have created new spend categories to track disbursements. Additionally, District Attorney staff tracks the seizure, adjudication, and distribution of all assets. District Attorney staff are developing procedures to reconcile accounts, including a process ensuring subsidiary ledgers reconcile to trust funds (including funds disbursed to other agencies and supporting documentation). The District Attorney's Office will ensure review of expenditures and deposits of Asset forfeiture funds.

Observation #3: Equitable Sharing Funds Deposited into the Incorrect Program's Fund

During our review, we noted that there were asset forfeiture funds issued by Department of Justice Equitable Sharing Program participants totaling \$175,716.50. These deposits were incorrectly recorded into the Office's assigned Department of Treasury Equitable Sharing Program Fund between July through September 2019. As a result, these funds were not appropriately transferred into the Office's assigned Department of Justice program Fund in Workday.

The Guide to Equitable Sharing, section VI. A. Bookkeeping Procedures and Internal Controls states, "The state or local participating law enforcement agency must establish separate Department of Justice and Department of the Treasury accounts or accounting codes to track both revenues and expenditures for each respective Program. No other funds may be commingled in these accounts or with these accounting codes."

Recommendation

We recommend the Office transfer the remaining Department of Justice Equitable Sharing Program participant funds, in the amount of \$175,716.50, from the Department of Treasury program assigned fund, FD10107 Treasury Asset Forfeiture Federal Acct. 2, to the Office's Department of Justice program assigned fund, FD10106 DEA Asset Forfeiture Federal Acct. 1, in Workday.

Furthermore, we recommend the Office continue to maintain the equitable sharing program funds from the Department of Justice and the Department of Treasury separately as specified in the Guide to Equitable Sharing with an additional level of review over these funds to ensure deposits are recorded appropriately.

Office's Response:

District Attorney staff have identified the cause of the incorrect recording as an input error. Following reconciliation and identification of the entry error – the balances now accurately support the Equitable Sharing Program report. To ensure compliance with Federal Equitable Sharing Guidelines, and for clarity, fiscal staff will rename Account FD 10106 DEA Asset Forfeiture Federal Acct 1 to Account FD 10106D Dept. of Justice AF Federal Acct. 1 in Workday. District Attorney fiscal staff will develop policies and procedures to ensure funds are inputted and deposited into the appropriate trust fund. All policies and procedures will be in compliance with Placer County Policies, as well as Federal Guidelines to Equitable Sharing and will include a layer of supervisory review.

Observation #4: Equitable Sharing Annual Certification report does not Agree to the Office's Accounting Records

We noted that the Office's Equitable Sharing Annual Certification (ESAC) Report for fiscal year 2018-19 does not agree to the accounting records for the Office's Department of Justice and Department of Treasury program funds, FD10106 DEA Asset Forfeiture Federal Acct. 1 and FD10107 Treasury Asset Forfeiture Federal Acct. 2, respectively. Specifically, the beginning balances, interest income, and ending balances are understated in the ESAC Report when compared to the balances in Workday.

The Guide to Equitable Sharing, section VI. A. Bookkeeping Procedures and Internal Controls states,

- (1) "At any time, the Department of Justice or the Department of the Treasury may request documents related to equitable sharing, conduct and audit, or compliance review or implement additional reporting requirements and spending plans,
- (2) The state or local participating law enforcement agency must establish separate Department of Justice and Department of the Treasury accounts or accounting codes to track both revenues and expenditures for each respective Program. No other funds may be commingled in these accounts or with these accounting codes, and;
- (3) Must maintain records of all revenue and expenditures posted to the account or accounting code."

The County's *Accounting Policies and Procedures Manual - Custodial Fund Accounting* states, "The Department Head has the following responsibilities for all custodial funds assigned to the department.

- (1) Maintain subsidiary records sufficient to support the ownership of all assets of the custodial funds.
- (2) During each accounting period, the custodial department should reconcile the department's subsidiary records to the general ledger. If other departments initiate transactions to the fund, copies of those transactions should be provided to the custodial department to assist with this requirement. If the reconciliation identifies an error occurred in the general ledger, a correction needs to be entered."

Recommendation

We recommend the Office develop procedures to routinely reconcile the assigned Equitable Sharing Program Funds in Workday to ensure the ledger balances accurately support the amounts reported in the ESAC report. The Office should maintain records supporting any fund balance variances between Workday and the amounts reported in the ESAC report.

Furthermore, we recommend the Office document their procedures for completing the annual ESAC report and the reconciliation process with an additional level of review over the reconciliation and preparation of the ESAC report.

Office's Response:

Upon recognition of the accounting/input error noted in finding number 3, staff corrected recording errors within the ESAC report, which now matches balances in workday. District Attorney staff will work to reconcile Equitable Sharing Program Funds with Workday balances – including a review of subsidiary ledgers, deposits, withdrawals to ensure that the appropriate funds balance is reflected in each. Any deposits or withdrawals from the fund not assigned to the Treasury or Department of Justice trust funds will be transferred via journal to the appropriate fund.

District Attorney staff will develop policies to ensure all ESAC reports are reconciled/balanced to Workday. Prior to any ESAC report submittal, fiscal staff will have a layer of supervisory approval/review to ensure procedural compliance as well as appropriate reconciliation.

Observation #5: Accounting and Administrative Support Does not Utilize Current County Accounting Coding

We noted that the Office is currently using the County's prior accounting system coding on the Asset Forfeiture Distribution Memorandums which does not agree to the County's current accounting system coding. Best practices state that Departments should ensure all documentation reflects the current accounting processes and coding.

Recommendation

We recommend the Office update all accounting and administrative support to reflect the current accounting coding to ensure all transactions are processed to the correct Funds, Programs, Cost Centers, and Activity Based Costing.

Also, we recommend the Office establish procedures to review and compare the accounting and administrative documentation to the Office's current accounting coding, including Funds, Programs, Cost Centers, and Activity Based Costing, to ensure all records are maintained and kept up to date.

Office's Response:

All Asset Forfeiture Distribution Memorandums will be updated to reflect the current accounting coding. District Attorney fiscal staff will work with IT, and paralegal staff to ensure that this is completed as quickly as possible. Fiscal staff will train other staff to ensure all are aware and familiar with current accounting coding. District Attorney Fiscal staff will review all practices and forms to verify that current accounting coding is applied to all transactions within all subsidiary ledgers/memorandums.

Observation #6: Lack of Established Reconciliation, Monitoring, and Review Procedures

During our review, we noted that the Office does not have established procedures to reconcile, review, and monitor the Asset Forfeiture Fiduciary Funds under their responsibility, which allowed the oversight of deposits to be transferred into incorrect funds, disbursements not being transferred appropriately, and expenditures processed through Asset Forfeiture Fiduciary Funds.

The *Accounting Policies and Procedures Manual - Custodial Fund Accounting* states, "The Department Head has the following responsibilities for all custodial funds assigned to the department.

- (1) Maintain subsidiary records sufficient to support the ownership of all assets of the custodial funds.
- (2) During each accounting period, the custodial department should reconcile the department's subsidiary records to the general ledger. If other departments initiate transactions to the fund, copies of those transactions should be provided to the custodial department to assist with this requirement. If the reconciliation identifies an error occurred in the general ledger, a correction needs to be entered."

Recommendation

We recommend the Office establish and document procedures to routinely reconcile, monitor, and review the Asset Forfeiture Fiduciary Funds under their responsibility during each accounting period to ensure that funds deposited and disbursed to the correct funds and expenditures are being processed in accordance with the County's policies and procedures.

Office's Response:

The current administration of the District Attorney's Office has initiated a review of pre-existing department wide policies. This review includes a thorough examination of policies and procedures within the fiscal unit of the office as well as the creation of new policies where none existed previously. The findings of this audit, as well as our review, have illustrated the need to develop comprehensive departmental fiscal policies and procedures that correspond to county policies as well as federal guidelines for equitable sharing. The District Attorney's Office will create an internal fiscal policy manual that includes guidelines for reconciliation within accounting periods to verify funds are posted and processed correctly. Policies will also mandate a review of trust funds to ensure documentation and separation by funding source, so that monies are not comingled. District Attorney fiscal practices will also include supervisory

review for accuracy and compliance with appropriate policies. Institution and development of these policies, may require additional time and require additional staff/contract support.

The Office's responses to our recommendations identified by our review are included above. We did not audit their responses and, accordingly, we do not express an opinion on them.

We appreciate the courtesy and cooperation of the Office staff throughout the course of this review.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Nicole C. Howard'.

Nicole C. Howard, CPA
Assistant Auditor-Controller

cc: Lauren Featherstone, Administrative and Fiscal Officer II, District Attorney's Office
Placer County Audit Committee

District Attorney's Office
Asset Forfeiture Fiduciary Funds and Cost Centers
Attachment A

FUND	FUND TITLE	COST CENTER	COST CENTER TITLE
FD10106	DEA Asset Forfeiture Federal Acct. 1	CC11008	DEA Asset Forfeiture Fed Acct 1
FD10107	Treasury Asset Forfeiture Federal Acct. 2	CC11009	Treasury Asset Forfeiture Fed Acct 2
FD10114	DA Recovery Fund – 371	CC11002	DA Recover – DA
FD31033	DA Recovery Fund	CC11002	DA Recovery – DA