

UCLA AUDIT & ADVISORY SERVICES



Edwin D. Pierce, CPA
Director

CONFIDENTIAL

10920 Wilshire Boulevard, Suite 700
Los Angeles, California 90024-1366
310 • 794-6110
Fax: 310 • 794-8536

June 30, 2011

VICE CHANCELLOR STEVEN A. OLSEN
SENIOR VICE PRESIDENT/CHIEF COMPLIANCE & AUDIT OFFICER SHERYL VACCA:

Re: UCLA Police Department Asset Seizure and Forfeiture Audit Report #11-2216

Enclosed is the audit report covering our review of the University of California, Los Angeles Police Department's (UCPD) asset seizure and forfeiture management.

The primary purpose of the review was to ensure that UCPD's organizational structure and controls, and the related systems and procedures, are conducive to accomplishing its business objectives surrounding asset seizure and forfeiture activities. The secondary purpose was to evaluate the adequacy and efficiency of internal controls to ensure that asset seizures and forfeitures are properly recorded, controlled, and monitored. Our objective was, and is, to assist management in maintaining adequate control over the operation.

Physical security related to asset seizures and forfeitures was recently reviewed in our UCLA Police Department Property and Evidence Audit #10-2212. The scope of this audit focused on the following:

- Recording
- Depositing
- Monitoring
- Use and release of funds

Based on the results of the work performed within the scope of the audit, the organizational structure and control procedures of the UCPD are generally conducive to accomplishing its business objectives. However, management should strengthen controls over the depositing and monitoring of seized and forfeited assets. Items requiring attention consist of the following:

- Funds were not always deposited to the appropriate account.
- Evidence of account reconciliations and annual financial audits of the Cash Seized account for fiscal year 2009-2010 could not be obtained.
- Selected cash receipts were not always deposited timely.
- Individual accountability was not always maintained and adequately documented.
- The back-up key and record of the combination to the safe were not secured in such a way that requires opening under dual custody.

In accordance with our follow-up policy, a review to assess the implementation of our recommendations will be conducted approximately three months from the date of this letter.

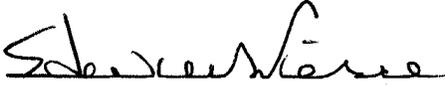
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SENIOR VICE PRESIDENT/CHIEF COMPLIANCE & AUDIT OFFICER SHERYL VACCA

June 30, 2011

Please feel free to contact us if we can be of further assistance.

A handwritten signature in black ink, appearing to read "Edwin D. Pierce". The signature is fluid and cursive, with a large initial "E" and "P".

Edwin D. Pierce, CPA, CFE

Director

Enclosure

cc: J. Powazek

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UCLA POLICE DEPARTMENT ASSET SEIZURE AND FORFEITURE
AUDIT REPORT #11-2216

UCLA POLICE DEPARTMENT ASSET SEIZURE AND FORFEITURE
AUDIT REPORT #11-2216

Background

In accordance with the campus administration's audit plan, Audit & Advisory Services has completed a review of the University of California, Los Angeles Police Department's (UCPD) asset seizure and forfeiture management. The UCPD is dedicated to providing a safe and secure environment for teaching, research, and public service through patrol, rapid response to calls for service, investigations, education, and implementation of preventative strategies. As part of the statewide University of California Police system, the UCPD employs approximately 64 sworn officers, 41 civilians, and 90 students.

UCPD considers a seized asset as any money that is in police custody for safekeeping, as evidence, or through the Lost and Found program. Seized assets are transitory in nature; these funds can be returned to its rightful owner, or eventually become departmental funds if unclaimed. A forfeited asset is essentially money from criminal activity that the court, through the District Attorney, awards directly to the police department through a formalized process. According to California Health and Safety Code § 11469, which offers guidance on the proper use and treatment of forfeiture proceeds, these assets should be maintained in a separate fund or account.

Several UCPD units play a role in the asset seizure and forfeiture process. Seized assets may be taken in by a patrol officer, or submitted through the Lost and Found program that is administered by UCPD's Community Services Bureau. The Property and Evidence unit is responsible for ensuring the integrity of seized assets and evidence by maintaining the chain of custody and securing items in custody from contamination or loss. The Business and Finance unit handles the cash management issues related to depositing seized and forfeited assets. And finally, the Detective Division is responsible for determining the status of related cases and notifying the Property and Evidence unit, as well as the Business and Finance unit, when a case has

been adjudicated. Upon instructions from the Detective Division, the other two units can address the seized asset accordingly.

Purpose and Scope

The primary purpose of the review was to ensure that UCPD's organizational structure and controls, and the related systems and procedures, are conducive to accomplishing its business objectives surrounding asset seizure and forfeiture activities. The secondary purpose was to evaluate the adequacy and efficiency of internal controls to ensure that asset seizures and forfeitures are properly recorded, controlled, and monitored. Our objective was, and is, to assist management in maintaining adequate control over the operation.

Physical security related to asset seizures and forfeitures was recently reviewed in our UCLA Police Department Property and Evidence Audit #10-2212. The scope of this audit focused on the following:

- Recording
- Depositing
- Monitoring
- Use and release of funds

The review was performed in accordance with generally accepted auditing standards and included tests of records, interviews, and other procedures necessary to complete the audit.

Summary Opinion

Based on the results of the work performed within the scope of the audit, the organizational structure and control procedures of the UCPD are generally conducive to accomplishing its business objectives. However, management should strengthen

controls over the depositing and monitoring of seized and forfeited assets. Items requiring attention consist of the following:

- Funds were not always deposited to the appropriate account.
- Evidence of account reconciliations and annual financial audits of the Cash Seized account for fiscal year (FY) 2009-2010 could not be obtained.
- Selected cash receipts were not always deposited timely.
- Individual accountability was not always maintained and adequately documented.
- The back-up key and record of the combination to the safe were not secured in such a way that requires opening under dual custody.

The audit results and corresponding recommendations are detailed in the following section of the report.

Audit Results and Recommendations

Recording

A sample of FY 2009-2010 deposits representing seized and forfeited assets were reviewed to verify if the funds were properly processed and recorded. The sale of seized assets was reviewed to determine if the process is appropriate, done with due diligence, and in compliance with internal and external policies/guidelines.

There were no significant control weaknesses found in this area.

Depositing

A sample of FY 2009-2010 deposits representing seized and forfeited assets were reviewed to verify if cash receipts were recorded to the appropriate account and deposited with a major cashiering station at least weekly or whenever collections exceeded \$500. The selected deposits were also examined for the maintenance and documentation of individual accountability for all asset seizure and forfeiture activities, from receipt through deposit. The process for handling asset forfeiture funds that were mailed to the UCPD from the Los Angeles County District Attorney was reviewed to determine if these funds were appropriately verified and processed.

- A. Funds were not always deposited to the appropriate account. The UCPD deposits both seized and forfeited assets into the same account – the Cash Seized account. Moreover, some funds that represent revenue to the department were incorrectly deposited into this account. According to the California Health and Safety Code, §11469 (h), as well as the department's internal policy manual, forfeiture proceeds shall be maintained in a separate fund or account, subject to appropriate accounting controls. In addition, the UCLA Financial Policy establishes that all transactions must be verified for account classification.

Recommendation: Management should work with General Accounting to establish a separate account for asset forfeitures in compliance with the California Health and Safety Code, § 11469 (h). Additionally, management should strengthen its oversight and the Post Authorization Notification (PAN) review process to ensure that funds are recorded to the appropriate account.

Response: Concur. We will work with General Accounting to establish a separate fund specifically for Asset Forfeitures as it relates to the California Health and Safety Code by May 2011.

- B. Selected cash receipts were not always deposited with a major cashiering station in accordance with University policy. Three out of the 17 sampled deposits were made 14 to 42 days from the initial intake date. UC Business and Finance Bulletin 49: Policy for Cash and Cash Equivalents Received (BUS-49), Policy XB.2 states that collections at sub-cashiering stations and departments shall be deposited at least weekly or whenever collections exceed \$500.

Recommendation: Management should ensure that assets are adequately safeguarded and collections are deposited in a timely manner.

Response: Depositing of cash that is seized cannot always be deposited within the policy guidelines because of protocols that are set by the courts. For example, if we make a burglary arrest, any cash that is seized becomes evidence and the courts determine how we are to handle the money. Sometimes money can be photographed and then deposited, while other times the court will ask us to hold it as evidence. In such cases, we safeguard the cash in a locked safe in the Property Room which is alarmed. We will update our internal procedures to reflect how seized cash is processed.

- C. Individual accountability was not always maintained and adequately documented. Deposits were not validated and prepared under dual custody, and mailed payments were not verified and processed under dual control. Additionally, the

individual preparing the deposit is not required to document verification and receipt of mailed-in payments. As a result, the transfer of accountability for two sampled mailed-in payments was not adequately documented. BUS-49, Policy XA.1 establishes that deposits must be validated and prepared under dual custody at all times in a safe and secure area. BUS-49, Policy VIIIA.1.3 states that mailed remittances shall be verified and processed by two employees. Finally, BUS-49, Policy VIIIA.2 emphasizes that individual accountability must be maintained and documented for all cash handling procedures.

Recommendation: Management should ensure that deposits are validated and prepared under dual custody at all times, and two employees verify and process mailed-in payments. Management should also revise the department's transfer of accountability form to allow for the deposit-preparer to document his/her verification and receipt of mailed remittances.

Response: Concur. Effective immediately, employees are complying with the policy of ensuring that deposits are validated and prepared under dual custody at all times. Additionally, a signature line has been added to the form to document proper transfer of accountability.

- D. Although the safe is used primarily by one individual, the back-up key and record of the combination are not secured in such a way that requires opening under dual custody. Hence, the safe may be opened undetected by someone other than the primary user. BUS-49, Policy IXL states that a record of the safe combination, sealed and opened only under dual custody to prevent undetected access, must be maintained away from the safe area.

Recommendation: Management should improve its controls over undetected access to the safe by developing a mechanism that allows for a record of the safe combination to be sealed and opened only under dual custody.

Response: Concur. Effective immediately, a process to record the safe combination and open it under dual custody has been established.

Monitoring

UCPD's management of the Cash Seized account was reviewed to verify that seized or forfeited assets are handled in accordance with internal policy and the California Health and Safety Code §11469. Additionally, management's timely review of the PANs for Departmental Deposit Form (DDF) transactions in FY 2009-2010 was evaluated for compliance with the UCLA Financial Policy. Finally, reconciliations and annual financial audits of the Cash Seized account for FY 2009-2010 were requested and evaluated to ensure that management is adequately monitoring seized and forfeited asset funds.

Evidence of account reconciliations and annual financial audits of the Cash Seized account for FY 2009-2010 could not be obtained. Although UCPD was able to provide evidence of reconciliations for time periods outside of the audit scope, FY 2009-2010 documentation may have been misplaced due to a recent departmental move. The UCPD asserted that financial audits of the Cash Seized account are performed periodically, but are not formally documented. The UCLA Financial Policy emphasizes that all systems for monitoring and evaluating financial data must include a method for reviewing revenue and expenses at the end of each ledger cycle. Additionally, California Health and Safety Code, §11469 (h), and as well as the department's internal policy manual, state that proceeds from seized assets and forfeitures be subject to annual financial audits of all deposits and expenditures.

Recommendation: Management should ensure that reconciliations and annual financial audits are properly performed and documented.

Response: Concur. UCPD will document reconciliations and annual financial audits.

Use and Release of Funds

FYs 2008-09 and 2009-10 general ledgers for the Cash Seized account were reviewed to determine that the use of seized and forfeited asset funds was appropriate and controlled. All check requests made from the Cash Seized account were reviewed to ensure that funds returned to its rightful owner were adequately documented and verified.

There were no significant control weaknesses found in this area.

Asset Seizure/Forfeiture Ic02