



Office of the City Auditor

Results of the Agreed-Upon Procedures for the Police Property and Evidence Unit



Report Date: June 9, 2017

Office of the City Auditor
2401 Courthouse Drive, Room 344
Virginia Beach, Virginia 23456
757.385.5870

"Promoting Accountability and Integrity in City Operations"



Office of the City Auditor

"Promoting Accountability and Integrity in City Operations"

www.vbgov.com/cityauditor

Lyndon Remias, CPA, CIA, CRMA, CGAP

Tony Gonzalez, CPA, MBA

Gretchen Hudome, CIA, CRMA

Tim Bell, CICA

City Auditor

Senior Auditor

Deputy City Auditor

Senior Auditor

Office of the City Auditor

2401 Courthouse Drive, Room 344

Virginia Beach, VA 23456

Telephone: 757.385.5870

Fax: 757.385.5875

Fraud, Waste, and Abuse Hotline 757.468.3330



Office of the City Auditor Transmittal Letter

June 9, 2017

David L. Hansen, City Manager



Subject: Results of the Agreed-Upon Procedures for the Police Property and Evidence Unit

We have performed the procedures detailed herein, which were agreed to by the management of the Virginia Beach Police Department with respect to the inventory of the Police Property and Evidence Unit solely for providing an independent assessment of how said inventory is handled. The period covered was from January 1, 2016 to April 7, 2017.

This agreed-upon procedures engagement was conducted in accordance with Government Auditing Standards. Government Auditing Standards incorporate financial and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance for performing and reporting the results of agreed-upon procedures. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described herein either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to perform and did not perform an audit, the objective of which would have been the expression of an opinion or limited assurance on the compliance of the Police Property and Evidence Unit with Department, City, and State policies and procedures as well as accreditation standards. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you. Findings considered to be of insignificant risk have been discussed with management. We completed the agreed-upon procedures on May 18, 2017.

This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate management including the Police Department and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to commend the Police Property and Evidence Unit for the courtesy and cooperation extended to us during the engagement. If you have any questions about this report or any engagement-related issue, I can be reached at 385-5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: Steve Cover, Deputy City Manager
J. A. Cervera, Chief of Police
City Council Members
Audit Committee Members



Office of the City Auditor
Results of the Agreed-Upon Procedures for the
Police Property and Evidence Unit

Table of Contents

Transmittal Letter i

Purpose 1

Scope and Objectives 1

Methodology 1

Standards 2

Background 3

Results 4

Acknowledgements 10

Management Response Attachment A



Purpose

To determine that property and evidence items in the Police Property and Evidence Unit (PPE Unit), including currency deposited in the bank, are complete, accurately recorded, and properly maintained.

Scope and Objectives

The scope of our engagement was from January 1, 2016 through April 7, 2017. In addition, we reviewed transactions from earlier periods, as necessary.

The objectives were to determine whether:

- Property and evidence inventory was complete, accurately recorded, and had proper supporting documentation.
- Property and evidence released to other parties were authorized and had complete supporting documentation.
- Disposal of property and evidence was properly authorized, timely, and had complete supporting documentation.
- Property and evidence funds deposited in the bank were reconciled monthly, maintained in accordance with requirements, and that checks issued from it were properly authorized.
- Staff access to Barcoded Evidence Analysis and Statistical Tracking (BEAST) system was appropriate and consistent with job responsibilities.
- Required audits and inspections were performed and findings were resolved.

Methodology

To accomplish our objectives, we performed the following agreed-upon procedures:

- Obtained and reviewed policies and procedures.
- Interviewed Virginia Beach Police Department (VBPD) personnel to obtain knowledge of actual procedures.
- Obtained and analyzed data extract from the BEAST system, the VBPD's data management software for property and evidence.
- Obtained and assessed supporting documentation of various property and evidence testing samples derived from the data analysis.
- Conducted a physical inventory of property and evidence items.
- Obtained, reviewed, and analyzed bank statements, copies of cleared checks, and bank reconciliations.
- Obtained and reviewed reports of required audits and inspections of the PPE Unit.



Office of the City Auditor
Results of the Agreed-Upon Procedures for the
Police Property and Evidence Unit

Standards

Our agreed-upon procedures engagement was conducted in accordance with generally accepted government auditing standards. Government Auditing Standards incorporate financial and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance for performing and reporting the results of agreed-upon procedures. The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, City Manager, and Virginia Beach Police Department. This report will also be made available to the public.



Office of the City Auditor Results of the Agreed-Upon Procedures for the Police Property and Evidence Unit

Background

The Virginia Beach Police Department's mission is to provide a safe community and improve the quality of life for all people. It accomplishes this by delivering quality police services and enforcing laws with equity and impartiality. This includes maintaining strict controls over all property and evidence that comes into the possession of department personnel, including cash seized and other evidence obtained from crime scenes and lost property turned-in by citizens.



PPE Unit office window in Building 11

The PPE Unit has been created to ensure that the integrity of evidence and property is maintained to the utmost manner possible. It operates according to VBPD policies and procedures, as well as federal, state, and local laws. It is subject to numerous audits and inspections throughout the year that are performed by the VBPD management, Internal Affairs, City Auditor's Office, Virginia Beach Sheriff's Office, and the Commission on Accreditation for Law Enforcement Agencies (CALEA).

The PPE Unit is organizationally under the Support Division. The unit is under the supervision of the Unit Sergeant and staffed by a combination of five full-time police officers and civilian employees and one part-time civilian employee. They manage over 72,000 items of property and evidence. Among their numerous duties are receipts, data entry, storage, inventory, releases to other parties, disposals, currency deposits and check issuance, and assistance during audits and inspections.

The PPE Unit office and one of its storage facilities is located in the Police Headquarters (Building 11). This storage facility contains recently received property and evidence items (up to three years) and evidence from active court cases. Items received in earlier years are kept at a second facility located on Leroy Drive. The Leroy Drive facility has a floor area of approximately 10,000 square feet and has a state-of-the-art shelving system, professional grade refrigerators to store biological evidence, and separate locked vaults and rooms for cash, jewelry, firearm, and narcotic items. Access to the office and both storage facilities is restricted to PPE Unit staff by means of electronic controls and manual locks. Authorized guests are required to sign in/out in the guest log



PPE Unit storage facility at Leroy Drive



Office of the City Auditor Results of the Agreed-Upon Procedures for the Police Property and Evidence Unit

and escorted by staff at all times. The office and both storage facilities are monitored by a closed circuit camera system.

Results

Finding 1: Physical Inventory

We randomly selected 494 items and performed a physical inventory at both PPE Unit sites. We were able to locate all items except the following two items:

- One (1) 14-pound bag of prescription medication. PPE Unit management states that this item was included in the June 7, 2016 destruction of narcotics. However, the destruction of the prescription medication was not documented and not annotated in BEAST system. We did speak with the Internal Affairs manager, an independent source, who confirmed that prescription medication was destroyed along with seized narcotics on that day. However, because there was no documentation to support this, the status of the prescription medication could not be verified.

The VBPD started the “Prescription Medication Take Back” program in June 2015 to provide a means of disposing unused or expired household and personal medications. Citizens are able to drop off unused medications at any precinct. The VBPD disposes these medications safely by incineration together with seized narcotics.



Prescription Medication Take Back drop box

- One (1) .38 caliber handgun magazine. This property item was collected on February 4, 2016 and most likely was destroyed after 90 days as required by the PPE Unit Orders. However, because BEAST system was not updated, the status of the handgun magazine could not be verified.

Recommendations

Management should:

- 1.1 Ensure that prescription medication items are included in the narcotics destruction documentation package and annotated in BEAST system accordingly. We also recommend that Internal Affairs include prescription medications in its inventory of items being destroyed.



Office of the City Auditor
Results of the Agreed-Upon Procedures for the
Police Property and Evidence Unit

- 1.2 Ensure that the status of the item in BEAST system is updated as destroyed. The PPE Unit staff member destroying the property and a second employee witnessing the destruction both sign on BEAST system's signature pad.

Finding 2: Release and Disposal of Items

We reviewed supporting documents for a sample of items that were released to parties outside the PPE Unit and items that were disposed through various processes, such as sale, destruction, and returns. The only exception we found is discussed below.

In the fall of 2016, the VBPD management instructed the removal of firearms displayed on the walls of the PPE Unit office and those from the designated storage room for disposal. The group was composed of firearms that were no longer needed as evidence and VBPD-owned firearms that were no longer in service. The firearms that were evidence items were disposed through destruction or donation to the Virginia Department of Forensic Science. The VBPD-owned firearms were sold to police officers.

The sale, completed in December 2016, was approved by the VBPD management and the City Attorney. The transfer of the firearms was conducted using a Federal Firearms Licensed (FFL) dealer. Payments were made in checks, payable to the City Treasurer's Office. However, we noted the following:

- The sale of all five (5) VBPD-owned firearms was not advertised to all police officers; only a limited number of police officers had knowledge of the sale. Two of the guns were ultimately purchased by police officers working in PPE.
- There was no sound basis for valuing the firearms sold (shotguns \$75 and handguns \$50). Although the sales values were based on past years' sales of similar-type firearms, an appraisal from a FFL dealer would have provided a more reliable basis.

Recommendations

Management should:

- 2.1 Ensure that subsequent sales of VBPD-owned firearms are advertised to all police officers through a department-wide email to afford everyone an equal opportunity to purchase.
- 2.2 Obtain an appraisal from a FFL dealer that is not a related party to potential purchasers. The appraisal value should be used to determine a sales price that is fair to the purchaser and the City.
- 2.3 Update the PPE Unit Orders to include all VBPD and relevant legal procedural requirements in the sale of such firearms.



Finding 3: Reconciliations and Funds Management

All currency that comes into the possession of the VBPD, whether through seizure, forfeiture, lost and found, or criminal investigations shall be held by the PPE Unit. Unless classified as collectible or the actual physical currency is required as evidence in court, all currency shall be deposited into the PPE Unit bank account. They shall be recorded in both BEAST system and in Quicken software, the accounting software used in PPE Unit funds management.

The currency is deposited in a checking account in a Qualified Public Depository and insured by the Virginia Security for Public Deposits Act §2.2-4401. It had a balance of \$1.39M as of March 31, 2017.

We reviewed bank reconciliations and bank statements and assessed the overall manner in how the funds were maintained. We noted the following:

- Five (5) of eight monthly bank reconciliation samples were not performed each month as required by the VBPD Evidence Collection and Handling Field Guide and the PPE Unit Orders. The five reconciliations were performed between 36 and 71 days after the month has ended.
- Interest earnings in the checking account were not sufficient to cover banking and other costs, despite having a balance that consistently exceeded \$1M. See Table 1 for details.

Table 1 – Earnings and Costs from April 2014 to March 2017

Rolling Totals	Gross Interest Earned	Bank Charges	Check Order Costs	Net Interest Earned /(Costs)
First 12 Months	\$2,183	\$2,722	\$115	(\$654)
Second 12 Months	\$2,465	\$2,696	\$20	(\$251)
Third 12 Months	\$2,335	\$2,764	\$117	(\$546)
All 36 Months	\$6,983	\$8,183	\$252	(\$1,452)
Average Per Year	\$2,328	\$2,728	\$84	(\$484)

- Actual bank service rates were higher than initially expected. In 2013, management decided to change banks to reduce costs. A spreadsheet that compares rates from various banks was created and helped management in its decision to select the current bank, which provided a written rates proposal and guaranteed those rates for two years. However, when we compared the proposal to the first bank statement in 2013, we found some rates in the bank statement were significantly higher than those in the proposal. Individual amounts appear small, but through time, their cumulative volume could be considered material. See Table 2 for details.



Office of the City Auditor
Results of the Agreed-Upon Procedures for the
Police Property and Evidence Unit

Table 2 – Comparison of Rates

Bank Charges	Rates Proposal	First Bank Statement	Difference	First Bank Statement Higher By
Monthly Maintenance	\$13.00	\$20.00	\$7.00	54%
Per Deposit	\$0.60	\$0.80	\$0.20	33%
Per Cash Deposit	\$0.10	\$0.12	\$0.02	20%
Per Check Paid	\$0.09	\$0.20	\$0.11	122%
Per Analysis/Mailed Statement	\$2.00	\$3.00	\$1.00	50%

Recommendations

Management should:

- 3.1 Ensure that bank reconciliations are performed each month in accordance with the VBPD Evidence Collection and Handling Field Guide and the PPE Unit Orders to timely detect errors, omissions, or fraud.
- 3.2 Examine alternatives to keeping all of the funds in a regular checking account to recover banking costs. One safe alternative is depositing some of the funds in certificates of deposit of varying maturities to generate higher yield and maintain certain liquidity levels. Use past periods' deposits and check issuance as basis for determining a safe balance in the checking account to cover all obligations. Obtain guidance from the Department of Finance and the City Treasurer's Office, if needed.

The current bank has since increased its rates, and as charges and other expenditures are incurred and grow in the future, it is important that costs are funded by its interest earnings and not subsidized by the City.

- 3.3 Review bank charges in detail monthly for accuracy and occasionally survey whether they are in line with offerings to other institutional depositors. Additionally, consider exploring means to lower bank charges through renegotiation or by availing of current discounted rate offerings. For example, the bank's website currently provides multiple ways for general depositors to avoid maintenance charge through larger deposits. Having a consistent balance of over \$1M and being a customer for years provide excellent renegotiation leverage.



Finding 4: Completeness and Accuracy of Data

The VBPD's automated property and evidence system, BEAST, allows the department to track the status and location of all property and evidence discovered, gathered, or received in connection with departmental responsibilities. The following information is maintained within the system:

- Item description, identifying numbers, owner
- Date and time property or evidence was received or released
- Current Property or Evidence Location
- Chain of Custody from the time the property or evidence was recovered until its final disposition

It is the responsibility of the officer collecting the property or evidence to ensure the accuracy and completeness of the information required on the *Property and Evidence Voucher* (Form PD 478).

Once received, staff members of the PPE Unit enter the information provided on the *Property and Evidence Voucher* and assign a storage location. The PPE Unit is staffed with civilian employees, sworn officers, and one sergeant. Routinely, officers and recruits on limited duty are assigned to the unit on a temporary basis. Regardless of rank or status, all employees assigned to the unit are responsible for maintaining the integrity and safekeeping of all property and evidence held.

All new and/or temporary employees, including officers and recruits on limited duty, are required to complete a detailed training program specific to the PPE Unit. New and/or temporary employees are mentored by experienced staff for a period of time sufficient to ensure the new or temporary employees become proficient with their new role and responsibilities.

It is the responsibility of the PPE Unit to ensure the accuracy of all entries into the BEAST system.

As part of our procedures, we performed analysis and tests of data designed to determine the completeness and accuracy of the property and evidence data maintained within the BEAST system. Our analysis included data for all active items (items on hand) and transactions related to non-active items (items no longer in the custody of the PPE Unit) received and disposed of during the period under review, a total of 82,258 items representing 21,272 cases. Exhibit 1 provides a pictorial view of the number of records analyzed.



Exhibit 1 – Number of Records Analyzed

Tables 3 and 4 provide the results of our tests of completeness for case information and item information, respectively.



Office of the City Auditor
Results of the Agreed-Upon Procedures for the
Police Property and Evidence Unit

Table 3 – Results of Testing for Completeness of Case Information

Exception Type	Number of Exceptions	% of Total
Case Number=Blank	0	0.00%
Case Officer=Blank	24	0.11%
Offense Date=Blank	345	1.62%
Offense Code=Blank	1	0.00%
Date Collected=Blank	0	0.00%

Table 4 – Results of Testing for Completeness of Item Information

Exception Type	Active Items	Non- Active Items	Total Exceptions	% of Total
Item Number=Blank	11	8	19	0.02%
Description=Blank	10	12	22	0.03%
Location=Blank	81	0	81	0.10%
Status Date=Blank	1	0	1	0.00%

Table 5 provides a summary of our findings related to the accuracy of the data. The exceptions noted below are based tests of the reasonableness of data and logical relationships between data elements.

Table 5 – Tests of Data Accuracy and Reasonableness

Exception Type	Active Items	Non-Active Items	Total Items	% of Total	Number of Cases	% of Total
Case Year < Offense Year	1,133	54	1,187	1.44%	173	0.81%
Current Status: Possible Discrepancy	5	358	363	0.44%	148	0.70%
Collected Date < Offense Date	548	0	548	0.67%	64	0.30%
Case Number v Offense Date	65	44	109	0.13%	34	0.16%
Case Number: Possible Data Entry Error	8	0	8	0.01%	4	0.02%
Item Type: Possible Data Entry Error	215	96	311	0.38%	n/a	n/a
Item Type not MONY; Value >0	138	23	161	0.20%	n/a	n/a
Location: Possible Discrepancy	124	0	124	0.15%	n/a	n/a
Item Type=MONY; Value=0 or Blank	15	25	40	0.05%	n/a	n/a
Collected Date: Possible Data Entry Error	1	0	1	0.00%	n/a	n/a

Approximately 25% of the exceptions noted are for items collected prior to or during the initial data conversion in 2001. Some records may have more than one exception. Management is working to address the issues noted above.



Office of the City Auditor Results of the Agreed-Upon Procedures for the Police Property and Evidence Unit

Based on our analysis and the results of our physical confirmation of the information stored in BEAST system, except as noted herein, we determined the data to be complete and accurate.

Recommendation

4.1 Management should incorporate additional quality assurance steps within its normal processes, such as:

- Explore system and field configuration options within the BEAST system to require data input and/or tests of data validity.
- Design and develop exception-based reports and/or queries to identify potential data omissions and/or entry errors.
- Periodically, select a sample to compare data entered in BEAST system to information submitted on the *Property and Evidence Vouchers*

Required Audits and Inspections

We reviewed the results of the most recent required audits and inspections of the PPE Unit to determine whether they were performed and associated findings were resolved. We did not find any exceptions.

Acknowledgements

We would like to thank the Police Property and Evidence Unit's management and staff for their responsiveness to our requests during the engagement and their receptiveness to questions and comments. We thank all those involved in the process for their help and offer our assistance should future concerns regarding this or other engagement-related issues arise.



City of Virginia Beach

POLICE DEPARTMENT
OFFICE OF THE CHIEF OF POLICE
(757) 385-4141
FAX (757) 427-9163

VBgov.com
MUNICIPAL CENTER
BUILDING 11
2509 PRINCESS ANNE ROAD
VIRGINIA BEACH, VA 23456

INTER-OFFICE MEMORANDUM

DATE: June 7, 2017
TO: Lyndon Remias, City Auditor
FROM: Chief James A. Cervera *JAC*
SUBJECT: Police Property and Evidence Unit Audit Report

I again appreciate the efforts of the Office of the City Auditor in conducting, at my request, the eighth annual inventory of the Police Property and Evidence Unit's cash handling processes and inventory.

We agree with your findings and recommendations and offer the following responses:

Recommendation 1.1 – Ensure that prescription medication items are included in the narcotics destruction documentation package and annotated in BEAST system accordingly. We also recommend that Internal Affairs include prescription medications in its inventory of items being destroyed.

Response: We have modified our procedures to require Internal Affairs personnel to include the prescription medications slated for destruction in their pre-destruction inventory. Additionally, a list of all vouchers for prescription medications destroyed will be printed and included with the destruction paperwork. To ensure that the statuses of all items are properly updated to "destroyed" after the destruction, a query of the "prescription medication" location will be conducted in BEAST after the items have been marked destroyed. The Property & Evidence Unit Orders have been updated to reflect these changes.

Recommendation 1.2 – Ensure that the status of the item in BEAST system is updated as destroyed. The PPE Unit staff member destroying the property and a second employee witnessing the destruction both sign on BEAST system’s signature pad.

Response: The Property & Evidence Unit Orders have been updated since this item was destroyed. All destructions now require two employees to sign the signature pad when the item status is updated to “destroyed.” Additionally, to ensure the statuses of all items are properly updated when purging property bins, a query of the bin will be conducted in BEAST once the bin is empty.

Recommendation 2.1 – Ensure that subsequent sales of VBPD-owned firearms are advertised to all police officers through a department-wide email to afford everyone an equal opportunity to purchase.

Recommendation 2.2 – Obtain an appraisal from a FFL dealer that is not a related party to potential purchasers. The appraisal value should be used to determine a sales price that is fair to the purchaser and the City.

Recommendations 2.3 – Update the PPE Unit Orders to include all VBPD and relevant legal procedural requirements in the sale of such firearms.

Response: While no department policies or legal statutes were violated, in order to avoid any perception of irregularities, we will no longer sell department-owned firearms held within Property and Evidence to department personnel (with the exception of the purchase of service handguns by retired sworn personnel allowed for under Section 59.1-148.3 of the Code of Virginia). The Property and Evidence Unit Orders have been updated to reflect this change.

Recommendation 3.1 – Ensure that bank reconciliations are performed each month in accordance with the VBPD Evidence Collection and Handling Field Guide and the PPE Unit Orders to timely detect errors, omissions, or fraud.

Response: Reconciliations will be performed no later than within the subsequent calendar month of receiving the bank statements. General Order 15.01, Property and Evidence, is the proper location for this policy change and will be modified.

Recommendation 3.2 – Examine alternatives to keeping all of the funds in a regular checking account to recover banking costs. One safe alternative is depositing some of

the funds in certificates of deposit of varying maturities to generate higher yield and maintain certain liquidity levels. Use past periods' deposits and check issuance as basis for determining a safe balance in the checking account to cover all obligations. Obtain guidance from the Department of Finance and the City Treasurer's Office, if needed.

The current bank has since increased its rates, and as charges and other expenditures are incurred and grow in the future, it is important that costs are funded by its interest earnings and not subsidized by the City.

Response: The Police Department will discuss options with staff from the Finance Department and City Treasurer's Office. Police Department staff members do not have expertise in fund management.

Recommendation 3.3 – Review bank charges in detail monthly for accuracy and occasionally survey whether they are in line with offerings to other institutional depositors. Additionally, consider exploring means to lower bank charges through renegotiation or by availing of current discounted rate offerings. For example, the bank's website currently provides multiple ways for general depositors to avoid maintenance charge through larger deposits. Having a consistent balance of over \$1M and being a customer for years provide excellent renegotiation leverage.

Response: The Police Department will discuss options with staff from the Finance Department and City Treasurer's Office to reduce the cost of bank charges.

Recommendation 4.1 – Management should incorporate additional quality assurance steps within its normal processes, such as:

- Explore system and field configuration options within the BEAST system to require data input and/or tests of data validity.
- Design and develop of exception-based reports and/or queries to identify potential data omissions and/or entry errors.
- Periodically, select a sample to compare data entered in BEAST to information submitted on the *Property and Evidence Vouchers*

Response: We are currently working with City Information Technology staff and our vendor to determine if certain data fields can be required to prevent missing information. Additionally, Property and Evidence staff will no longer accept vouchers that do not contain the required information. Each month the Property & Evidence supervisor will select a random sampling of records from BEAST for review as a measure of quality assurance. Any errors discovered will be addressed with the respective employee.