



CITY AUDITOR'S OFFICE

Police Equitable Sharing Program Financial Reporting

August 2024

AUDIT NO. 2415

CITY COUNCIL

Mayor David D. Ortega

Tammy Caputi

Tom Durham

Vice Mayor Barry Graham

Betty Janik

Kathy Littlefield

Solange Whitehead



August 15, 2024

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Police Equitable Sharing Program Financial Reporting*, which was added to the Council-approved FY 2023/24 Audit Plan at the request of the Scottsdale Police Department. This audit was conducted to evaluate the effectiveness of controls over the reporting of federal forfeiture funds, including the accuracy and completeness of the reported amounts.

Inaccuracies in the reporting of federal forfeiture program revenues, interest, and expenditures in its annual Equitable Sharing Agreement and Certificate have resulted in a hold being placed on the Police Department's share of federal forfeitures. This audit report identifies the specific reporting errors for the period beginning FY 2015/16 to FY 2023/24. Additionally, separately accounting for each program's financial activity, as required by the Equitable Sharing Program, would help ensure more accurate reporting.

We would like to thank staff from the Scottsdale Police Department for their assistance and cooperation during this audit. If you need additional information or have any questions, please contact me at (480) 312-7851.

Sincerely,

A handwritten signature in blue ink that reads "Lai Cluff". The signature is cursive and fluid.

Lai Cluff, CIA
Acting City Auditor

Audit Team:

Mel Merrill, Sr. Auditor



WHY WE DID THIS AUDIT

This audit was requested by the Scottsdale Police Department (SPD) to assist with verifying unresolved differences in the fund balances and meeting federal reporting requirements. The audit evaluated the effectiveness of controls over the reporting of federal forfeiture funds, including the accuracy and completeness of the reported amounts.

BACKGROUND

The Equitable Sharing Program allows asset forfeiture proceeds resulting from federal cases to be shared with state, local, or tribal law enforcement agencies that participated in the related investigation.

Two federal asset forfeiture programs administer equitable sharing funds: **Department of Justice** and **Department of Treasury**. Each year SPD reports program activity on the **Equitable Sharing Agreement and Certificate (ESAC)**.

Scottsdale PD's federal forfeiture funds are maintained by the **Maricopa County Attorney's Office (MCAO)** in accordance with state laws. Funds are transferred to the City through an application for reimbursement of expenses.

Ongoing differences between information reported on the ESAC and MCAO account balances have resulted in a hold on deposits of SPD's share of federal forfeitures.

AUDIT HIGHLIGHTS

August 2024

Police Equitable Sharing Program Financial Reporting

Audit No. 2415

WHAT WE FOUND

Past ESAC reports have not accurately reflected the funds' balances, revenues, and expenditures. Improved controls are needed to prevent future errors.

For the period between FY 2015/16 through FY 2023/24, City records of federal forfeiture expenditures and reimbursements matched transactions reported by MCAO. However, amounts reported on the ESAC by SPD during this same period contained inaccuracies:

- Overall, Justice program interest income was over-reported by \$4,151 and Treasury interest was under-reported by \$4,334.
- Expenditures totaling \$48,550 were not reported, though reimbursed by MCAO, and another \$24,000 was reported under the wrong federal program.
- MCAO corrections to forfeiture allocations were incorrectly reported on the ESAC, resulting in over-reporting of Justice forfeitures by \$37,351 and under-reporting of Treasury by \$12,283.

Improvements to SPD's reconciliation process are needed to minimize errors.

Separately accounting for each federal program's activity, as required by the Equitable Sharing Program, would help ensure more accurate reporting.

The City's accounting of federal forfeiture revenues and expenditures combine Justice and Treasury program activity, making accurate reporting for these federal programs more difficult.

WHAT WE RECOMMEND

We recommend the Police Department:

- Work with the federal forfeiture programs to correct past reporting of fund revenues and expenditures as needed.
- Update the asset forfeiture tracking worksheets to require reconciliation to MCAO reports and additional documentation.
- Work with Accounting to update financial system codes to improve program reporting.

TABLE OF CONTENTS

BACKGROUND	1
Figure 1. Federal forfeiture spending over the past 5 years.	2
Figure 2. MCAO federal forfeiture disbursements and ending cash balances, FY 2015/16 through FY 2023/24.	3
Figure 3. Expenditure process for federal forfeiture funds.	3
OBJECTIVES, SCOPE, AND METHODOLOGY	4
FINDINGS AND ANALYSIS	5
1. Past ESAC reports have not accurately reflected the funds’ balances, revenues, and expenditures. Improved controls are needed to prevent future errors.	5
Table 1. Federal forfeiture program revenues, FY 2015/16 through FY 2022/23.	6
Table 2. Federal forfeiture program expenditures, FY 2015/16 through FY 2022/23.	7
Table 3. Ending balances as of June 30, 2023.	8
2. Separately accounting for each federal program’s activity, as required by the Equitable Sharing Program, would help ensure more accurate reporting.	9
MANAGEMENT ACTION PLAN.....	11

BACKGROUND

This audit of *Police Equitable Sharing Program Financial Reporting* was conducted to evaluate the effectiveness of controls over the reporting of federal forfeiture funds, including the accuracy and completeness of the reported amounts. This audit was requested by the Scottsdale Police Department to assist with verifying unresolved differences in the fund balances and meeting federal reporting requirements.

Asset forfeiture is the taking of property by the government without compensation because of the property's connection to criminal activity.¹ Forfeiture proceeds resulting from federal cases may be shared, through the Equitable Sharing Program, with state, local, or tribal law enforcement agencies that participate in the related investigation. Two federal programs administer federal forfeitures:

- *Department of Justice Asset Forfeiture Program* – comprised of 13 member agencies, including Drug Enforcement Administration, Federal Bureau of Investigations, and Money Laundering and Asset Recovery Section.
- *Department of the Treasury Asset Forfeiture Program* – member agencies include Treasury and Homeland Security law enforcement agencies, such as Internal Revenue Service, US Immigration and Customs Enforcement, US Secret Service, and others.

To participate in the Equitable Sharing Program, the Scottsdale Police Department (SPD) must submit annually an *Equitable Sharing Agreement and Certificate* (ESAC) to the Money Laundering and Asset Recovery Section (MLARS). Through the ESAC, participating law enforcement agencies report a summary of the funds' activities, including the fund balance, amounts received and spent, and categories of the expenditures. The agency also recertifies that it agrees to the Program's requirements. Non-compliance with this agreement may result in ineligibility to receive equitable sharing payments.

In Arizona, state and federal forfeitures must be deposited in the anti-racketeering revolving funds administered by state and county attorneys.

Arizona state requirements

Although the Equitable Sharing Program specifies that the jurisdiction maintain and administer the equitable sharing funds, Arizona Revised Statutes Title 13, Chapter 23 requires that they be maintained in state and county anti-racketeering revolving funds administered by the state attorney general and county attorneys. In addition to costs recovered through the

enforcement of racketeering laws (which apply to many crimes committed for financial gain), the statute provides that “any monies or other property obtained as a result of a forfeiture by any political subdivision of this state or the federal government shall be deposited in the fund...” (ARS §13-2314.01 and §13-2314.03).

The Scottsdale Police Department's share of federal forfeitures (as well a portion of its state forfeitures) are deposited with the Maricopa County Attorney's Office (MCAO). MCAO administers these funds for all law enforcement agencies in the county and reports on the use of the funds to the Arizona Criminal Justice Commission.

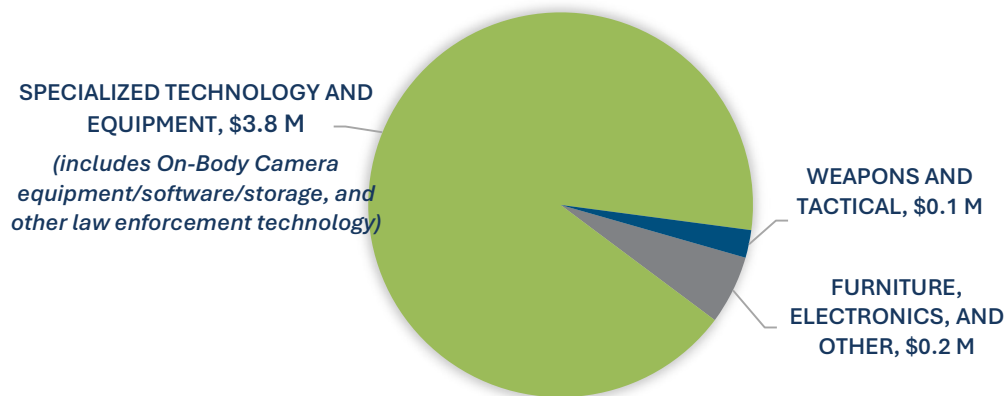
¹ *Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies, March 2024.*

Expenditure process

In order to use their share of federal forfeitures held by MCAO, Scottsdale PD must submit a *Maricopa County Attorney's Office Agency Application for RICO Funds*.² Each quarter, SPD runs a general ledger report of expenditures coded to the state and federal forfeitures cost centers and prepares the application. The supporting details include a breakdown of expenses by category and fund (i.e. State, Federal-Justice, Federal-Treasury). MCAO confirms that the expenses are allowable by state statute and federal guidelines before releasing the monies to the City. While similar, each forfeiture program has specific permissible and non-permissible uses.

Over the past five years SPD has primarily spent its federal forfeiture monies on specialized technology and equipment, such as On-Body Camera equipment, related-technology support and digital storage, as well as other law enforcement technology and equipment. As shown in Figure 1, a smaller portion of the funds have been spent on furniture, computers, software, and weapons.

Figure 1. Federal forfeiture spending over the past 5 years.



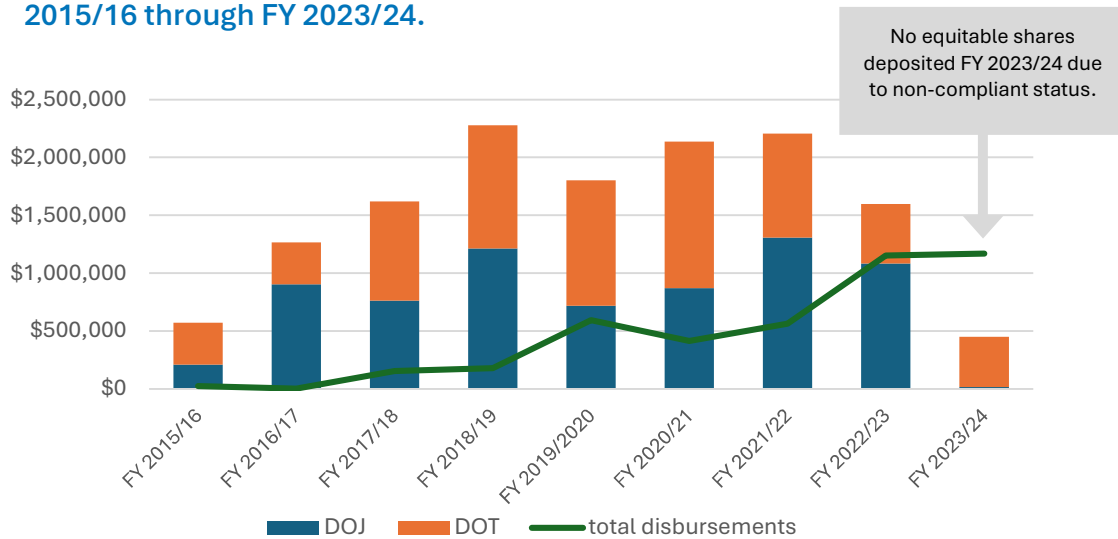
SOURCE: Auditor analysis of SmartStream reports of federal forfeiture expenditures, FY 2019/20 through FY 2023/24.

As the custodian of the federal forfeiture funds, MCAO provides Scottsdale PD with monthly statements of account activity, including forfeiture deposits, interest income, and payments (reimbursements) made to Scottsdale. Figure 2 on page 3, shows the account balances reported by MCAO from FY 2015/16 through FY 2023/24. For this nine-year period, forfeiture deposits and interest income totaled about \$4.3 million, and disbursements to Scottsdale totaled about \$4.26 million. No equitable shares were deposited in FY 2023/24 resulting in a decline in cash balances. According to the Department, deposits have been on hold until the variance in the reported balances and financial activities are resolved.

(continued on next page)

² Asset forfeiture funds are sometimes referred to as RICO funds because of their connection with federal Racketeer Influenced and Corrupt Organization Act (RICO) of 1970.

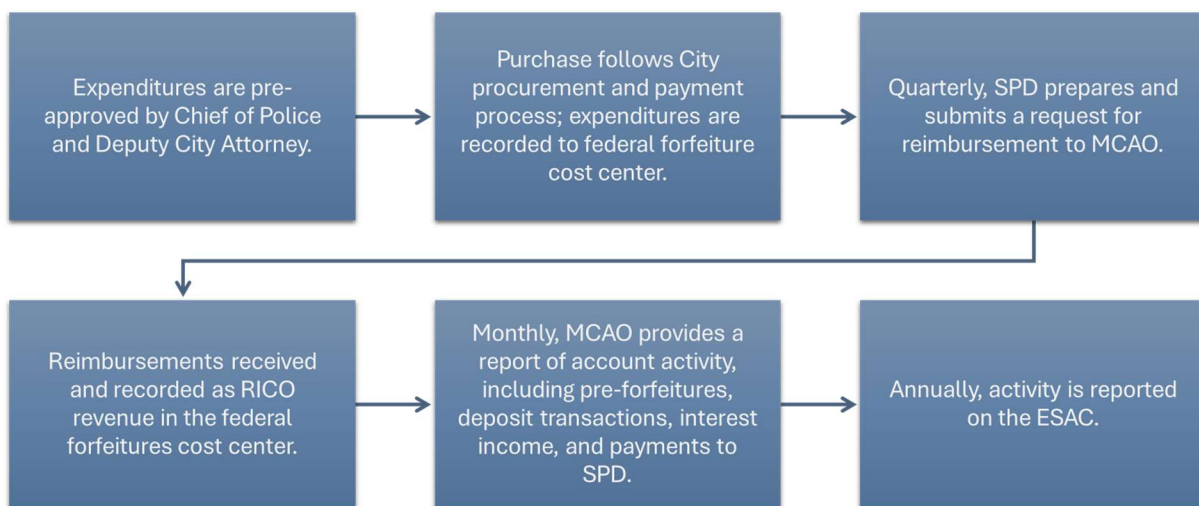
Figure 2. MCAO federal forfeiture disbursements and ending cash balances, FY 2015/16 through FY 2023/24.



SOURCE: Auditor analysis of detailed transaction reports and monthly statements provided by MCAO to SPD.

As illustrated by the expenditure process in Figure 3 below, SPD requires authorization from the Chief of Police and the Deputy City Attorney prior to spending asset forfeiture funds. Purchasing processes follow established City procedures for procurement and invoice payment. Expenditures are coded to the “state forfeitures” or “federal forfeitures” cost centers. Subsequent reimbursements for those expenditures are also coded to these same cost centers. Balances held by MCAO are recorded by Accounting at fiscal year-end as *Unearned Intergovernmental Revenues*, offset by an entry to receivables.

Figure 3. Expenditure process for federal forfeiture funds.



SOURCE: Auditor analysis based on personnel interviews and documentation review.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Police Equitable Sharing Program Financial Reporting* was added to the City Council-approved fiscal year (FY) 2023/24 Audit Plan at the request of the Scottsdale Police Department. The audit's objective was to evaluate the effectiveness of controls over the reporting of federal forfeiture funds, including the accuracy and completeness of the reported amounts.

The Equitable Sharing Program fund balances reported on the ESAC submissions have not reconciled to MCAO balances for multiple years, and in April 2024 the Department of Justice requested confirmation or explanation of the differences.

Our review is limited to the financial reporting of federal forfeitures and did not review state forfeiture funds maintained by the Maricopa County Attorney's Office or the Arizona Attorney General.

To gain an understanding of the reporting requirements we reviewed:

- *Guide to Equitable Sharing for State, Local, and Tribal Law Enforcement Agencies*, July 2018 and March 2024 publications, as well as newsletters and other guidance issued by Department of Justice and/or Department of Treasury relating to ESAC reporting.
- Equitable Sharing Agreement and Certificate form.
- Arizona Revised Statutes §13-2314.01 *Anti-racketeering revolving fund; use of monies; reports; audit* and §13-2314.03 *County anti-racketeering revolving fund; use of fund; reports*.
- Maricopa County Attorney's Office Application for RICO Funds.

Additionally, to gain an understanding of the SPD's processes and controls, we interviewed staff responsible for reporting of federal forfeiture funds, including the Finance Manager, Sr. Police Analyst, and Police Operational Support Director. We also interviewed Accounting staff from the City Treasurer's Office to understand the federal forfeiture-related accounting entries and financial reporting.

To assess controls over the reporting and determine the accuracy of the reported amounts, we:

- Validated the transaction report provided by MCAO to SPD for the period between July 1, 2015 thru October 31, 2023, comparing it against previously provided MCAO statements to determine the completeness and reliability of the transaction report.
- Compared all disbursements from the MCAO account to City financial reports to determine whether all payments had been received and recorded. As well, reconciled disbursements to City expenditures.
- Compared all City federal forfeiture expenditures to amounts reported on the ESAC.
- Traced ESAC reports to SPD's internal worksheets to evaluate the tracking and reporting process.
- Reviewed ESAC reported balances, revenues, and expenditures against MCAO transaction and City records.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from May to July 2024.

FINDINGS AND ANALYSIS

1. Past ESAC reports have not accurately reflected the funds' balances, revenues, and expenditures. Improved controls are needed to prevent future errors.

We compared Maricopa County Attorney's Office (MCAO) reports of federal forfeiture funds to the City's accounting records for the period from FY 2015/16 through FY 2023/24 and confirmed:

- All expenditures charged to the City's federal forfeiture cost center were approved and reimbursed by MCAO, and
- All disbursements from the MCAO account had been received and recorded by the City's Accounting department.

However, inaccuracies in the reporting of revenues, interest, and expenditures on the annual ESAC have resulted in differences in the fund balances between the two reports. In response to past federal audit findings the Department has made adjusting entries in its ESAC submission to correct the account balances. However, it needed to identify the specific errors adjusted to comply with the program's requirements. We detailed those reporting differences in this report. Differences existing at the start of FY 2015/16 were not reviewed due to limited availability of older records (they totaled about \$12,500). To prevent errors in the future, improvements to its tracking tool and documentation procedures are needed.

A. Revenues and interest amounts were misreported in some years.

MCAO statements of account activity are typically provided 1 to 2 weeks after the end of the month. As such, all forfeiture deposits and related interest reported by MCAO should be reflected in the annual ESAC, which is due two months after the end of the fiscal year. However, we noted differences in the amounts reported, as shown in Table 1 on page 6. These differences were comprised of two main categories:

- 1) *In past years, corrections to MCAO allocation of forfeitures between Justice and Treasury accounts were duplicated by SPD or not reported.*

In two instances where MCAO corrected the program to which funds were allocated, the adjustment was duplicated by the Department in its ESAC reporting (as noted by (a) and (f) in Table 1). Explanation was not documented; however, based on the timing of the entries, it appears the Department was anticipating the corrections and made adjustments to total revenues that already reflected MCAO's corrections. One of these duplicated corrections was reversed the subsequent year but the other was not. Additionally, in FY 2018/19, an MCAO allocation correction reducing SPD's forfeitures by \$24,473 was not captured in the ESAC reporting. These program allocation differences resulted in total over-reporting of Justice revenues by \$37,351 and under-reporting of Treasury revenues by \$12,283 for the period reviewed.

Federal asset forfeiture allocations to SPD are deposited with the Maricopa County Attorney's Office (MCAO). MCAO tracks the pre-forfeiture (unadjudicated) and forfeiture amounts by case. Interest on deposited amounts is allocated to each forfeiture account.

2) *Inaccurate reporting of interest income.*

As shown in Table 1, there were instances where interest revenue was incorrectly reported as forfeiture revenue, not reported, or over-reported. Net differences for the period reviewed showed over-reporting of Justice interest by \$4,151, and under-reporting Treasury interest by \$4,334.

Table 1. Federal forfeiture program revenues, FY 2015/16 through FY 2022/23.

		MCAO Reports	ESAC	Difference	Note
FY 15/16	Justice Forfeitures	190,737	190,737	-	
	Justice Interest	345	345	-	
	Treasury Forfeitures	24,573	24,573	-	
	Treasury Interest	1,635	1,635	-	
FY 16/17	Justice Forfeitures	694,878	617,862	(77,016)	(a) Correction to DOJ/DOT allocation was duplicated.
	Justice Interest	3,278	3,285	7	(a) Correction to DOJ/DOT allocation was duplicated.
	Treasury Forfeitures	-	77,016	77,016	(a) Correction to DOJ/DOT allocation was duplicated.
	Treasury Interest	1,906	1,906	-	
FY 17/18	Justice Forfeitures	7,819	84,835	77,016	(a) Reversal of duplicated correction
	Justice Interest	6,091	6,084	(7)	(a) Reversal of duplicated correction
	Treasury Forfeitures	489,725	412,709	(77,016)	(a) Reversal of duplicated correction
	Treasury Interest	5,036	5,036	-	
FY 18/19	Justice Forfeitures	609,900	609,900	-	
	Justice Interest	18,327	20,332	2,005	(b) Sept interest duplicated
	Treasury Forfeitures	188,343	216,952	28,609	(c) MCAO forfeiture adjustment not captured \$24,473; (d) Apr interest reported as forfeiture revenue, \$4,136 (e) Jan interest not reported; Apr interest reported as forfeiture; Nov interest over-reported.
	Treasury Interest	19,852	13,255	(6,597)	
FY 19/20	Justice Forfeitures	81,974	81,974	-	
	Justice Interest	17,083	17,083	-	
	Treasury Forfeitures	1,573	1,573	-	
	Treasury Interest	16,964	16,964	-	
FY 20/21	Justice Forfeitures	160,940	197,696	36,756	(f) Correction to DOJ/DOT allocation was duplicated.
	Justice Interest	3,587	4,182	595	(f) Correction to DOJ/DOT allocation was duplicated.
	Treasury Forfeitures	574,246	537,490	(36,756)	(f) Correction to DOJ/DOT allocation was duplicated.
	Treasury Interest/Other	11,010	14,562	3,552	(g) SPD adjustment to income to correct balance
FY 21/22	Justice Forfeitures	430,894	430,894	-	
	Justice Interest	6,886	8,438	1,552	(h) Sept interest duplicated.
	Treasury Forfeitures	187,177	187,177	-	
	Treasury Interest	8,833	11,097	2,263	(i) Sept interest duplicated.
FY 22/23	Justice Forfeitures	517,671	517,671	-	
	Justice Interest	18,268	18,268	-	
	Treasury Forfeitures	-	-	-	
	Treasury Interest	9,027	9,027	-	
	Net Differences Justice			40,908	
	Net Differences Treasury			(8,929)	

SOURCE: Auditor analysis of MCAO transaction detail and SPD's annual ESAC submissions.

B. Some reported expenditures were incomplete or reported for the wrong federal program.

All expenditures recorded in the City’s federal forfeitures cost center were reimbursed by MCAO and should be reportable on the ESAC.

We found reporting differences in two general categories:

- 1) Fourth quarter expenditures in FY 2017/18 and FY 2018/19 were not reported, although approved and reimbursed by MCAO. These totaled about \$48,550 and indicated in Table 2, note (b) and (d).
- 2) FY 2015/16 expenses totaling about \$24,000 were reported under the wrong federal program, as indicated in Table 2, note (a).

Differences due to the timing of the 4th quarter request for reimbursement are expected and can be accounted for. The fourth quarter request is due to MCAO by the end of July, and payment is received 1 to 3 weeks later.

Table 2. Federal forfeiture program expenditures, FY 2015/16 through FY 2022/23.

		Actual	ESAC	Difference	Note
FY 15/16	Justice	5,000	28,826	23,826	(a) Expense reported to wrong program, DOJ vs. DOT
	Treasury	23,826	-	(23,826)	(a) Expense reported to wrong program, DOJ vs. DOT
FY 16/17	Justice	21,100	21,100	-	
	Treasury	-	-	-	
FY 17/18	Justice	157,696	133,797	(23,899)	(b) 4th Qtr expenses were not reported
	Treasury	-	-	-	
FY 18/19	Justice	213,871	161,730	(52,141)	(c) Equip expense under-reported by \$113. (d) 4th Qtr expenses not reported: \$24,648. (e) Delayed reporting and reimbursement of an invoice: \$27,380.
	Treasury	-	-	-	
FY 19/20	Justice	547,751	575,131	27,380	(e) Delayed reporting and reimbursement of an invoice: \$27,380.
	Treasury	-	-	-	
FY 20/21	Justice	-	37,350	37,350	(f) SPD Adjusting entry to correct balance
	Treasury	401,208	401,208	-	
FY 21/22	Justice	-	-	-	
	Treasury	957,197	957,197	-	
FY 22/23	Justice	1,067,274	1,096,013	28,739	(f) SPD Adjusting entry to correct balance
	Treasury	-	2,263	2,263	(f) SPD Adjusting entry to correct balance
	Net Differences Justice			41,255	
	Net Differences Treasury			(21,563)	

SOURCE: Auditor analysis of MCAO transaction detail, City of Scottsdale SmartStream financial reports, and SPD ESAC submissions.

C. Improvements to the Department’s reconciliation process are needed to minimize risk of errors.

Starting in FY 2020/21, following an audit by the Department of Treasury, SPD made several adjusting entries to bring the balances into alignment. As shown in Table 3 below, adjustments to Justice program expenditures totaled about \$66,000 and adjustments to the Treasury income and expenditures netted to about \$1,300.

Table 3. Ending balances as of June 30, 2023.

	JUSTICE			TREASURY		
	MCAO/COS	ESAC	Difference	MCAO/COS	ESAC	Difference
FY 2015/16 Beginning Balance¹	20,057	20,404	347	357,867	345,233	(12,634)
Total Received	2,768,679	2,809,587	40,908	1,539,901	1,530,972	(8,929)
<i>Equitable Sharing Funds Received</i>	<i>2,694,814</i>	<i>2,731,570</i>		<i>1,465,637</i>	<i>1,457,490</i>	
<i>Interest Income</i>	<i>73,865</i>	<i>78,016</i>		<i>74,264</i>	<i>69,930</i>	
<i>SPD Adjustment to Income</i>					<i>3,552</i>	
Equitable Sharing Funds Spent	(2,012,693)	(2,053,948)	(41,255)	(1,382,231)	(1,360,668)	21,563
<i>Expenditures</i>	<i>(1,706,548)</i>	<i>(1,987,859)</i>		<i>(1,382,231)</i>	<i>(1,358,405)</i>	
<i>SPD Adjustment to expenditures</i>		<i>(66,089)</i>			<i>(2,263)</i>	
<i>Pending Reimbursement</i>	<i>(306,145)</i>					
FY 2022/23 Ending Balance	776,043	776,043	0	515,537	515,537	0

Note¹ : FY 2015/16 MCAO Beginning Balance was adjusted for an expenditure incurred in FY 2014/15, but reimbursed in FY 2015/16, reducing the balance by \$51.

SOURCE: Auditor analysis of MCAO transaction detail, City of Scottsdale SmartStream financial reports, and SPD ESAC submissions.

While differences exist in the revenue and expenditure categories, the adjustments brought the ESAC and MCAO accounts balances into alignment as of the end of FY 2022/23. However, these were lump-sum adjustments and MLARS requested supporting details on the related revenues and expenditures to verify compliance with program requirements.

To prevent errors in the future, improvements to its tracking worksheets and documentation procedures are needed.

1. ***The tracking tool does not reconcile to account balances reported by MCAO to identify data entry or calculation errors*** – The Department uses a worksheet to track federal and state forfeiture activity for reporting to the various agencies with oversight responsibilities. SPD tracks the revenues, interest, and expenditures each month and each quarter. However, data entry errors, such as duplicating interest amounts or allocation adjustments, were not caught and corrected. Amounts could also differ from one tab to another. Adding control totals and reconciling to monthly MCAO statements would help prevent data entry errors.
2. ***Manual adjustments to the MCAO-reported activity need to be documented to provide explanation and support for the ESAC amounts*** – In addition to identifying the expenses paid but not yet reimbursed from the fund at the end of the fiscal year, any other differences need to be documented when completing the ESAC. For example, the Department made several adjustments to revenues and expenditures

reported on the ESAC to correct on-going variances in the reported fund balances. However, the tracking worksheets did not explain these adjustments or show how it was reported. Similarly, in past years when adjustments were for other purposes, such as correcting a program allocation, minimal explanation was documented regarding the reason for the adjustments.

Additionally, instructions for the completion of the tracking worksheets would help ensure that information is entered consistently over time.

Recommendations:

The Police Department should:

- 1.1 Work with the federal forfeiture programs to correct reporting of fund revenues and expenditures as needed.
- 1.2 Update the asset forfeiture tracking worksheets to require reconciliation to the MCAO monthly statements, source of reported amounts, and explanation of any differences. Add procedures for completing the worksheets.

2. Separately accounting for each federal program’s activity, as required by the Equitable Sharing Program, would help ensure more accurate reporting.

The *Guide to Equitable Sharing* requires participants to:

“Establish separate Justice and Treasury accounts or accounting codes within the jurisdiction’s financial management system to track both revenues and expenditures, and interest if interest-bearing, for each respective Program. No other funds may be commingled in these accounts or with these accounting codes.”

While MCAO maintains these two program funds under separate account codes and tracks revenues, expenditures, and interest separately, the City’s accounting system does not currently meet this requirement.

- **City’s accounting of federal forfeiture revenues and expenditures combine Justice and Treasury program activity.**

In the City’s accounting system, all federal forfeitures revenues and expenditures are recorded in a single cost center. For example, when reimbursements are received from MCAO, one revenue entry is recorded that may include funds from both Justice and Treasury forfeitures. This makes it more difficult for the Department to monitor its revenues and expenditures, requiring more manual tracking methods.

This accounting structure likely goes back to past processes when MCAO, after receiving the quarterly application for reimbursement, determined which forfeiture account would fund the costs. This is no longer the process and, as of FY 2021/22, SPD’s applications for reimbursement separate expenditures by program.

Additionally, because the City is not the custodian of the forfeiture funds, the Accounting department creates journal entries for Special Programs “Unearned Revenue” and “Unavailable Revenue” to record fund balances held by MCAO at year-end. However, the

account codes used do not identify the entries as federal forfeiture-related, only as “inter-governmental”. The related entry to “Federal RICO Receivables” account code also does not distinguish between the two programs.

- **Separate accounting would also facilitate more accurate reporting of program expenditures on the City’s Schedule of Expenditures of Federal Awards (SEFA).**

Over the past five years, the Accounting department has reported Equitable Sharing Program expenditures only under Department of Treasury, even though in three of the five years expenditures were funded by the Justice program.

Recommendation:

- 2.1 The Police Department should work with Accounting to update financial system codes to facilitate reporting of each forfeiture program’s activities and comply with Equitable Sharing Program requirements.

MANAGEMENT ACTION PLAN

1. Past ESAC reports have not accurately reflected the funds' balances, revenues, and expenditures. Improved controls are needed to prevent future errors.

Recommendations:

The Police Department should:

1.1 Work with the federal forfeiture programs to correct reporting of fund revenues and expenditures as needed.

Priority	Management Response and Proposed Resolution
Medium	<p>Agree.</p> <p>SPD will meet with the federal asset forfeiture programs to correct balances for both Justice and Treasury asset forfeiture funds on the Equitable Sharing Agreement & Certificate to match what is held at the Maricopa County Attorney's Office. SPD will also coordinate and communicate any communications from either Justice or Treasury to the Maricopa County Attorney's Office who is the custodian of the funds.</p>
<p>Responsible Party: Marcus Steele SPD Division Finance Manager</p>	
<p>Est. Completion Date: October 2024</p>	

1.2 Update the asset forfeiture tracking worksheets to require reconciliation to the MCAO monthly statements, source of reported amounts, and explanation of any differences. Add procedures for completing the worksheets.

Priority	Management Response and Proposed Resolution
Medium	<p>Agree.</p> <p>SPD will restructure the asset forfeiture tracking worksheets with more robust reconciliation measures, update detailed procedures for completing these monthly reconciliations and train additional staff on the process.</p> <p>A revised monthly reconciliation process with clearer discrepancy tracking, and internal staff cross-training will prevent future issues with the annual Equitable Sharing Agreement & Certificate (ESAC) for both Justice and Treasury funds.</p>
<p>Responsible Party: Marcus Steele SPD Division Finance Manager</p>	
<p>Est. Completion Date: October 2024</p>	

2. Separately accounting for each federal program’s activity, as required by the Equitable Sharing Program, would help ensure more accurate reporting.

Recommendations:

The Police Department should:

2.1 The Police Department should work with Accounting to update financial system codes to facilitate reporting of each forfeiture program’s activities and comply with Equitable Sharing Program requirements.

Priority	Management Response and Proposed Resolution
Medium	<p>Agree.</p> <p>SPD will meet with City of Scottsdale Accounting to acquire new chart of account elements that will facilitate reporting of each forfeiture program’s activity independently to comply with Equitable Sharing Program requirements. Any changes will be communicated to the Maricopa County Attorney’s Office who is the custodian of the funds and from whom reimbursements are requested.</p>
<p>Responsible Party:</p> <p>Marcus Steele SPD Division Finance Manager</p>	<p>Est. Completion Date:</p> <p>September 2024</p>

City Auditor's Office

Lai Cluff, Acting City Auditor
Travis Attkisson, Senior Auditor
Elizabeth Brandt, Senior Auditor
Mel Merrill, Senior Auditor
Shelby Trimaloff, Exec Asst to City Auditor

Audit Committee

Councilwoman Kathy Littlefield, Chair
Vice Mayor Barry Graham
Councilwoman Solange Whitehead

Our Mission

The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability, and integrity in City Operations.

City Auditor's Office

7447 E. Indian School Rd. | Suite 205 | Scottsdale, Arizona 85251
OFFICE (480) 312-7756 | INTEGRITY LINE (480) 312-8348
www.ScottsdaleAZ.gov/auditor

