



Office of the Inspector General
U.S. Department of Justice



**Audit of the
City of Reno Police Department's
Equitable Sharing Program
Activities
Reno, Nevada**

AUDIT OF THE CITY OF RENO POLICE DEPARTMENT'S EQUITABLE SHARING PROGRAM ACTIVITIES RENO, NEVADA

EXECUTIVE SUMMARY

The U.S. Department of Justice (DOJ) Office of the Inspector General completed an audit on the use of DOJ equitable sharing revenue by the City of Reno Police Department (Reno PD), Reno, Nevada. Equitable sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations. During the period of July 1, 2012, through June 30, 2015, the Reno PD received a total of \$1,251,118 in DOJ equitable sharing revenue to support law enforcement operations. During the same period, the Reno PD reported expenditures of \$1,112,053 in equitable sharing funds, primarily on law enforcement equipment, communications, computers, training, and travel.

Based on our audit work, we determined that the Reno PD submitted inaccurate annual reports to the Criminal Division's Money Laundering and Asset Recovery Section (MLARS) by failing to: (1) include the interest income earned on equitable sharing funds, (2) correctly categorize its expenditures, and (3) include all of the equitable sharing expenditures incurred for the reporting period. The Reno PD also charged \$7,632 for non-sworn law enforcement salaries and \$1,000 for a scholarship program, both of which were unallowable based on DOJ equitable sharing regulations. In addition, the Reno PD failed to: (1) maintain adequate supporting documentation for \$75,500 in software and consulting expenditures and (2) report DOJ equitable sharing expenditures on its Single Audit reports for fiscal years 2013 through 2015.

We identified that the Reno PD's equitable sharing policies and procedures were inconsistent with MLARS's guidance. As a result, the Reno PD commingled equitable sharing funds with other city-wide revenue and improperly invested DOJ revenue received in treasury notes and bonds, which was not allowed according to DOJ equitable sharing rules. We determined that between FYs 2013 and 2015, the Reno PD recorded losses, totaling \$5,335 due to its investments. The Reno PD also incorrectly recorded in its accounting system \$24,915 of DOJ equitable sharing funding to the wrong fund accounts and recorded \$3,226 of non-DOJ funding to its DOJ equitable sharing account.

Our report includes 13 recommendations to the Criminal Division, which are detailed in this report. The audit objective, scope, and methodology are contained in Appendix 1 and Our Schedule of Dollar-Related Findings appears in Appendix 2. In addition, we requested written responses to our draft report from the Reno PD and MLARS. We received those responses and they are found in Appendices 3 and 4, respectively. Our analysis of those responses and the summary of actions necessary to close the report are found in Appendix 5.

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AUDIT OF THE CITY OF RENO POLICE DEPARTMENT'S EQUITABLE SHARING PROGRAM ACTIVITIES RENO, NEVADA

The U.S. Department of Justice (DOJ) Office of the Inspector General (OIG) completed an audit on the use of DOJ equitable sharing revenue by the City of Reno Police Department (Reno PD), Reno, Nevada. Equitable sharing revenues represent a share of the proceeds from the forfeiture of assets seized in the course of certain criminal investigations. During the period of July 1, 2012, through June 30, 2015, the Reno PD received a total of \$1,251,118 in DOJ equitable sharing revenue to support law enforcement operations.¹ During the same period, the Reno PD reported expenditures of \$1,112,053 in equitable sharing funds primarily on law enforcement equipment, communications, computers, training, and travel.²

DOJ Equitable Sharing Program

The Comprehensive Crime Control Act of 1984 authorized the implementation of the DOJ Asset Forfeiture Program (Asset Forfeiture Program). The Asset Forfeiture Program is a nationwide law enforcement initiative that removes the tools of crime from criminal organizations, deprives wrongdoers of the proceeds of their crimes, recovers property that may be used to compensate victims, and deters crime. A key element of the Asset Forfeiture Program is the Equitable Sharing Program.³ The DOJ Equitable Sharing Program allows any state or local law enforcement agency that directly participated in an investigation or prosecution resulting in a federal forfeiture to claim a portion of federally forfeited cash, property, and proceeds.

Although several DOJ agencies are involved in various aspects of the seizure, forfeiture, and disposition of equitable sharing revenues, three DOJ components work together to administer the Equitable Sharing Program – the United States Marshals Service (USMS), the Justice Management Division, and the Criminal Division's Money Laundering and Asset Recovery Section (MLARS). The USMS is responsible for transferring asset forfeiture funds from the DOJ to the receiving state or local agency. The Justice Management Division manages the Consolidated Asset Tracking System (CATS), a database used to track federally seized assets throughout the forfeiture life-cycle. Finally, MLARS tracks membership of state and local participants, updates the Equitable Sharing Program rules and policies, and monitors the allocation and use of equitably shared funds.

¹ The Reno PD's fiscal year begins July 1 and ends June 30.

² The Reno PD had a cash balance of \$1,376,033 as of June 30, 2013.

³ The U.S. Department of the Treasury also administers a federal asset forfeiture program, which includes participants from the Department of Homeland Security components. This audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program.

State and local law enforcement agencies may receive equitable sharing funds by participating directly with DOJ agencies on investigations that lead to the seizure and forfeiture of property, or by seizing property and requesting one of the DOJ agencies to adopt the seizure and proceed with federal forfeiture.⁴ Once an investigation is completed and the seized assets are forfeited, the assisting state and local law enforcement agencies can request a share of the forfeited assets or a percentage of the proceeds derived from the sale of forfeited assets. Generally, the degree of a state or local agency's direct participation in an investigation determines the amount or percentage of funds shared with that agency.

To request a share of seized assets, a state or local law enforcement agency must first become a member of the DOJ Equitable Sharing Program. Agencies become members of the program by signing and submitting an annual Equitable Sharing Agreement and Certification (ESAC) report to MLARS. As part of each annual agreement, officials of participating agencies certify that they will use equitable sharing funds for allowable law enforcement purposes.

In April 2009, MLARS issued the Guide to Equitable Sharing for State and Local Law Enforcement Agencies (Equitable Sharing Guide). The Guide identifies the accounting procedures and requirements for tracking equitably shared monies and tangible property, establishes reporting and audit requirements, and defines permitted uses of equitably shared resources. In addition, in July 2014, MLARS issued the Interim Policy Guidance Regarding the Use of Equitable Sharing Funds (Interim Policy Guidance), which outlines categories of allowable and unallowable uses for equitable sharing funds and property.

Reno Police Department

Established in 1903 and located in Reno, Nevada, the Reno PD serves a population of nearly 241,000 residents and reports that in 2015 the largest number of criminal offenses were larceny and theft. In FY 2015, the Reno PD had a workforce of 303 sworn officers and 57 civilian employees. The Reno PD became a member of the DOJ Equitable Sharing Program in 1992.

OIG Audit Approach

Our audit examined the Reno PD's equitable sharing activities occurring between July 1, 2012, and June 30, 2015. We tested Reno PD's compliance with what we consider to be the most important conditions of the DOJ Equitable Sharing Program. Unless otherwise stated, we applied the Equitable Sharing Guide and the Interim Policy Guidance as our primary criteria.

⁴ The adoption of property seized by state or local law enforcement under state law is only allowable if the property directly relates to public safety concerns, including firearms, ammunition, explosives, and property associated with child pornography. Property that does not fall under these four specific categories may not be adopted without the approval of the Assistant Attorney General for the Criminal Division.

To conduct the audit, we tested the Reno PD's compliance with the following aspects of the DOJ Equitable Sharing Program:

- **Equitable Sharing Agreement and Certification Reports** to determine if these documents were complete and accurate.
- **Compliance with audit requirements** to ensure the accuracy, consistency, and uniformity of audited equitable sharing data.
- **Accounting for equitable sharing resources** to determine whether standard accounting procedures were used to track equitable sharing assets.
- **Use of equitable sharing resources** to determine if equitable sharing cash and property were used for allowable law enforcement purposes.
- **Monitoring of applications for transfer of federally forfeited property** to ensure adequate controls were established.

The audit objective, scope, and methodology are discussed in Appendix 1 and our Schedule of Dollar-Related Findings appears in Appendix 2. We discussed the results of our audit with Reno PD and MLARS officials and have included their comments in the report, as applicable. In addition, we requested written responses to our draft report from the Reno PD and MLARS. We received those responses and they are found in Appendices 3 and 4, respectively. Our analysis of those responses and the summary of actions necessary to close the report are found in Appendix 5.

Equitable Sharing Agreement and Certification Reports

Law enforcement agencies who participate in the Equitable Sharing Program are required to submit the Equitable Sharing Agreement and Certification (ESAC) report, on an annual basis, within 60 days after the end of an agency's fiscal year. This must be accomplished regardless of whether equitable sharing funds were received or maintained that year. Additionally, the ESAC report must be signed by the head of the law enforcement agency and a designated official of the local governing body. By signing and submitting the ESAC report, the signatories agree to be bound by and comply with the statutes and guidelines that regulate the Equitable Sharing Program.

Completeness and Timeliness of ESAC Reports

To determine if the Reno PD's ESAC reports were in compliance with the Equitable Sharing Guide, we reviewed each of the ESAC reports for FYs 2013, 2014, and 2015. We found that each of the ESAC reports was submitted timely; however, we determined that the reports were not complete. Each of the ESAC reports we reviewed did not include the interest income earned. We determined that between FYs 2013 and 2015, the Reno PD failed to report \$13,311 in interest income. The Reno PD's Administrative Services Manager stated that in order to complete the ESAC, she would create an accounting report that listed all

of the revenue and expenditures for the DOJ equitable sharing program. The DOJ equitable sharing revenue received was recorded in a subaccount, under a unique project code, within the Reno PD's asset forfeiture fund. The Reno PD's asset forfeiture fund consisted of six subaccounts for federal and state asset forfeiture programs. The Reno PD's DOJ equitable sharing expenditures were recorded in its general fund under the same project code as DOJ equitable sharing revenue received. When the Administrative Services Manager prepared the accounting reports by project code for each of the ESAC reports, the interest income earned was not listed because it had been recorded in the Reno PD's asset forfeiture fund nor in the subaccount and specific project code for DOJ equitable sharing funds. In addition, the DOJ interest income earned was commingled with interest income from other federal and state asset forfeiture programs, which we discuss in further detail in the Commingled within the Equitable Sharing Account section of this report. Therefore, we recommend that the Reno PD correct the errors from its FY 2013, 2014, and 2015 ESAC reports in its FY 2017 report.

Also, the Reno PD provided appropriate signatures for the FYs 2013 and 2014 ESAC reports, but it failed to provide appropriate signatures for its FY 2015 ESAC report. According to the Equitable Sharing Guide applicable for FY 2015, agencies were no longer required to submit a signed affidavit with the ESAC report but they were still required to obtain and maintain approvals from the agency and governing body heads. The Reno PD provided us a copy of the facsimile sent to the Chief of Police and the City Manager with the ESAC report attached. However, there was no evidence of the Chief's or City Manager's approval. A Reno PD official stated that by sending the ESAC report to both the Chief of Police and the City Manager it had obtained the appropriate acknowledgment and approval to meet the Equitable Sharing Guide requirement. We disagree with this explanation and do not believe that simply sending the ESAC reports to the Chief of Police and the City Manager is the equivalent of receiving approvals for the report from both of those individuals. In order to meet the requirements of the Equitable Sharing Guide, the Reno PD should obtain and document a formal approval of the ESAC report by the Chief of Police and City Manager. Therefore we recommend that the Criminal Division ensure that the Reno PD obtain appropriate approvals for its ESAC reports as required by the Equitable Sharing Guide.

Accuracy of ESAC Reports

To verify the accuracy of the ESAC reports, we compared the receipts listed on the Reno PD's FYs 2013, 2014, and 2015 ESAC reports to the total amounts listed on JMD's CATS report. We found that the Reno PD accurately reported receipts for each of the FYs we reviewed. We also verified the total expenditures listed on the Reno PD's FYs 2013, 2014, and 2015 ESAC reports, by comparing the expenditures listed on the ESAC reports to the Reno PD's accounting records for the same time period. As shown in Table 1, we found that the total expenditures reported in the Reno PD's ESAC reports did not match the expenditures in the Reno PD's accounting records.

Table 1
Reno PD ESAC Report Expenditure Comparison

Fiscal Year	ESAC Reports	Accounting Records	Difference
2013	\$199,420	\$197,726	\$1,694
2014	\$458,006	\$458,864	(\$858)
2015	\$445,443	\$455,463	(\$10,020)

Source: Reno PD

We determined that the differences were primarily due to expenditures not being reported on the ESAC reports. According to a Reno PD official, transactions had either been reversed or backdated and recorded to the fund after the Administrative Services Manager had printed the accounting report used to compile the annual ESAC reports. This timing difference caused a difference between the amount reported on the ESAC reports and the amounts recorded in the equitable sharing fund. The Reno PD official also stated that year-end adjustments were made to the fund after the ESAC reports were compiled which created additional reporting differences. Since the Reno PD's expenditures matched the accounting records at the time the ESAC reports were prepared, we do not take exception to the differences noted in Table 1.

Categorization of Equitable Sharing Expenditures

We judgmentally selected 54 expenditures, totaling \$562,098, that were expended between FYs 2013 and 2015 to ensure that the categories reported on the ESAC reports were accurate. We found that the Reno PD inaccurately reported 4 of the 54 expenditures we reviewed. Specifically, we found that the Reno PD reported spending \$1,000 for a salary payment that was for a student scholarship program and \$894 on law enforcement operations that were actually community-based programs. A Reno PD official stated that some expenditures could be placed in multiple categories and that the Reno PD attempted to place all expenditures in the correct category listed on the ESAC report. We also found that the Reno PD did not report \$2,248 on its ESAC reports that was spent on computers and community-based programs. A Reno PD official stated that the transactions occurred toward the end of the fiscal year, after the accounting report used to compile the ESACs had been created, which caused the expenditures to be excluded from the ESAC reports. We recommend that the Criminal Division ensure that the Reno PD establish policies and procedures to ensure ESAC reports are complete and accurately reflect the Reno PD's equitable sharing activities for the period under review.

Compliance with Audit Requirements

The Guide requires that state and local law enforcement agencies that receive equitable sharing cash, proceeds, or tangible property comply with the

Single Audit Act and the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133). The Single Audit Act requires that recipients of federal funding above a certain threshold receive an annual audit of its financial statements and federal expenditures. Under OMB Circular A-133, such entities that expend \$500,000 or more in federal funds within the entity's fiscal year must have a single audit performed annually covering all federal funds expended for that year.⁵ The Single Audit Report is required to include a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. In addition, an entity must submit its Single Audit Report no later than 9 months after the end of the fiscal year covered by the audit.

According to information provided by the Reno PD, it expended more than \$500,000 in federal funds and met the Single Audit Act reporting threshold for FYs 2013, 2014, and 2015. To determine if the City of Reno accurately reported Reno PD equitable sharing fund expenditures on its SEFAs, we reviewed the Reno PD's accounting records and the City of Reno's Single Audit Reports for FYs 2013 through 2015. We found that the City of Reno did not report DOJ equitable sharing fund expenditures on any of the SEFAs, as required by the Single Audit Act. A Reno PD official stated that they were not aware of the requirement to report DOJ equitable sharing expenditures on its SEFA. We recommend that the Criminal Division ensure that the Reno PD includes DOJ equitable sharing fund expenditures on its Single Audit Report's SEFA for the period covered by the auditee's financial statements.

Accounting for Equitable Sharing Receipts

According to guidance issued by MLARS, participating agencies must implement a number of bookkeeping procedures and internal controls to track DOJ equitably shared monies and tangible property. The Equitable Sharing Guide requires agencies to establish a separate revenue account or accounting code to separately track DOJ equitable sharing funds. In addition, any interest income earned on those funds is required to be deposited in the same revenue account or under the same accounting code. MLARS also requires agencies to maintain a record of all expenditures from the revenue account or accounting code. Despite this guidance, we found that the Reno PD did not fully comply with these requirements.

Internal Controls over Funds

As part of our audit, we attempted to gain an understanding of the Reno PD's internal controls over its administration and management of DOJ equitable sharing

⁵ OMB Circular A-133 was superseded by 2 C.F.R. 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The new guidance, which affects all audits of fiscal years beginning on or after December 26, 2014, raised the audit threshold from \$500,000 to \$750,000. The Single Audit Report activities included here were conducted under OMB Circular A-133.

funds. We found that the Reno PD's policy and procedures for the administration of DOJ equitable sharing funds were not in compliance with MLARS's guidance. According to the Reno PD's Financial Policies, the asset forfeiture fund was established to account for the collection and expenditure of various forfeitures; including federal and state forfeitures collected on behalf of the Reno PD for the City of Reno. However, we found that the Reno PD was recording expenditures for its federal and state forfeiture programs to its general fund and on a quarterly basis transferring money from the asset forfeiture fund to the general fund to pay for those expenditures. We determined that the transfers were estimated amounts of equitable sharing expenditures incurred for the quarter rather than actual amounts expended. As a result, the Reno PD's asset forfeiture fund was overstated by \$32,999. A Reno PD official did not know why expenditures were being recorded in its general fund and stated that in FY 2017 the Reno PD stopped this practice and started recording its DOJ equitable sharing non-personnel expenditures in its DOJ equitable sharing fund. However, we also believe that the Reno PD should record all DOJ equitable sharing expenditures, including personnel costs, to its DOJ equitable sharing fund, and that the Reno PD's policies and procedures for its DOJ equitable sharing program should be in alignment with MLARS's guidance. We discuss this further in the Commingling within the Equitable Sharing Account section of this report. We recommend that the Criminal Division ensure that the Reno PD's policies and procedures for the administration of DOJ equitable sharing funds are in compliance with MLARS's Equitable Sharing Guide.

Commingling within the Equitable Sharing Account

The Equitable Sharing Guide requires agencies to establish a separate revenue account or accounting code to separately track DOJ equitable sharing funds. Further, the Guide prohibits subaccounts and the inclusion of other funds within this fund code. We found that the Reno PD has six subaccounts that make up its asset forfeiture fund, which includes federal and state asset forfeiture programs.⁶ Although the Reno PD utilized a unique project code for DOJ equitable sharing revenues, we found that it failed to establish a unique fund code that would allow for separate accounting of both revenue and expenditures related to DOJ equitable sharing funds. Instead, the Reno PD commingled DOJ and Reno PD expenditures in its general fund.

The Equitable Sharing Guide also requires participating law enforcement agencies to deposit any interest income earned on equitably shared funds into the same accounting code established solely for DOJ equitable sharing funds. Although the Reno PD utilized a unique project code for DOJ equitable sharing revenue received, we found that it failed to record its interest income earned to this project

⁶ The Reno PD's asset forfeiture fund is made up of six subaccounts including: (1) the Reno PD's DOJ equitable sharing revenue; (2) the City of Reno Attorney's Office DOJ asset forfeiture funds; (3) the Reno PD's asset forfeiture funds from the State of Nevada; (4) the City of Reno Attorney's Office asset forfeiture funds from the State of Nevada; (5) the Reno PD's non-drug forfeiture funds from other sources; and (6) the City of Reno Attorney's Office non-drug forfeiture funds from other sources.

code. Instead, the Reno PD's Finance Department deposited DOJ equitable sharing distributions into its general fund bank account and then invested those funds into treasury notes and bonds along with other City of Reno funding. A City of Reno official explained that the amount of interest income earned from its investments were calculated monthly by the City of Reno's Fiscal Department and then recorded into the asset forfeiture fund. We found that the Reno PD commingled \$13,311 in DOJ interest income earned with non-DOJ funds. It is the Reno PD's responsibility to ensure the proper administration of DOJ equitable sharing funds, which includes recording the accurate amount of interest income earned on DOJ equitable sharing funds to the appropriate account. In addition, we found that the Reno PD had invested and was earning income on equitable sharing funds, which is not allowed. We discuss this matter further in the Revenue Invested section of this report. We recommend that the Criminal Division ensure that the Reno PD establish a unique account or unique fund code to separately track DOJ equitable sharing funds, including all revenue, interest income earned, and expenditures, from other equitable sharing funds as required by the Guide.

Revenue Invested

The Reno PD received cash receipts, generally via electronic funds transfer (EFT), from the USMS's E-Share program, and the receipts were deposited directly into a City of Reno bank account.⁷ The DOJ funds are then invested into treasury notes and bonds along with other City of Reno funding. The City of Reno's Finance Department calculated interest income earned by totaling the earnings from all of its investment accounts and then allocating the interest earned monthly to each fund based on the fund's average cash balance. As previously mentioned, \$13,311 in DOJ interest income earned was commingled with non-DOJ funding within the Reno PD's asset forfeiture fund. We also found that between FYs 2013 and 2015 the Reno PD recorded losses totaling \$5,335 to its asset forfeiture fund due to its investments. According to the Guide, DOJ equitable sharing funds are to be maintained in an interest or non-interest bearing federally insured depository account. Other investment accounts that have a risk of loss are unacceptable depositories for equitably shared funds. A Reno PD official explained that while she was aware of the requirement, the City of Reno was responsible for the management of the bank account and investment of DOJ equitable sharing funds. Even though the City of Reno is managing the DOJ equitable sharing bank account, we believe that the Reno PD is still responsible for the oversight of its equitable sharing program and compliance with MLARS's guidance. We recommend that the Criminal Division ensure that the Reno PD maintain its equitable sharing funds in an interest or non-interest bearing federally insured depository account and be maintained separate from other funds.

⁷ We found three exceptions to the EFT procedure where the United States Postal Service mailed checks to Reno PD, which were then deposited into the City of Reno's bank account.

Receipts

The Equitable Sharing Guide requires that law enforcement agencies use standard accounting procedures to track Equitable Sharing Program receipts. As of March 31, 2015, law enforcement agencies participating in the Equitable Sharing Program are required to use the E-Share portal. E-Share enables a participating agency to submit and track sharing receipts, run sharing distribution reports, and receive an e-mail notification of the deposit.

To determine if the funds were properly accounted for and deposited, we compared JMD's CATS reports with the Reno PD's accounting records and bank statements. Between FYs 2013 and 2015, the DOJ made 158 equitable sharing distributions, totaling \$1,251,118, to the Reno PD. We judgmentally selected 10 receipts totaling \$248,803 (20 percent) from FYs 2013, 2014, and 2015 to verify whether the 10 receipts were properly deposited. As shown in Table 2, we found that all 10 sampled receipts were properly deposited into the City of Reno's bank account.

Table 2
Sampled Receipts between FYs 2013 and 2015

Count	CATS Reports	Bank Statements	Accounting Records	Difference Between Accounting Records and Bank Statements
1	\$8,578	\$8,578	\$0	\$8,578
2	\$9,666	\$9,666	\$0	\$9,666
3	\$35,986	\$35,986	\$35,986	\$0
4	\$40,752	\$40,752	\$40,752	\$0
5	\$56,909	\$56,909	\$56,909	\$0
6	\$3,048	\$3,048	\$0	\$3,048
7	\$938	\$938	\$0	\$938
8	\$2,685	\$2,685	\$0	\$2,685
9	\$43,436	\$43,436	\$43,436	\$0
10	\$46,805	\$46,805	\$46,805	\$0
Total	\$248,803	\$248,803	\$223,888	\$24,915

Source: Reno PD and OIG

We found five receipts, totaling \$24,915, which were properly deposited into the City of Reno's bank account but were not properly recorded in the Reno PD's accounting system. Of the five receipts, the Reno PD incorrectly recorded three DOJ receipts totaling \$6,671 in its general fund and two DOJ receipts totaling \$18,244 in its asset forfeiture fund rather than to its DOJ equitable sharing account. Additionally, we found a non-DOJ receipt in the amount of \$3,226 incorrectly

recorded into the DOJ equitable sharing account. A Reno PD official stated that the receipts were received by the City of Reno's Finance Department instead of by the Reno PD and were recorded incorrectly to the accounting system by the Finance Department. In addition, the Reno PD official overseeing the DOJ equitable sharing fund explained that she has not been receiving electronic notification of incoming distributions in order to alert the City of Reno's Finance Department of the incoming funds. We advised the Administrative Services Manager that she should contact MLARS to determine why she is not receiving electronic notifications and to remedy the issue. Based on the \$28,141 in misapplied funds that we identified from our testing, we believe that the Reno PD needs to strengthen its internal controls, including establishing procedures to ensure revenue is properly and accurately accounted for and recorded. Therefore, we recommend that the Criminal Division ensure that the Reno PD makes correcting journal entries to properly account for all DOJ equitable sharing distributions and to correct all misapplied funds in its DOJ equitable sharing account. Also, we recommend that the Criminal Division ensure that the Reno PD establishes controls for the proper recording and accounting of equitable sharing deposits.

Use of Equitable Sharing Resources

The Equitable Sharing Guide and Interim Policy Guidance requires that equitable sharing funds or tangible property received by state and local agencies be used for law enforcement purposes.

Use of Equitable Sharing Funds

As of June 2015, the Reno PD had expended \$1,112,053 (89 percent) of the total equitable sharing funds received. We judgmentally selected a sample of 54 expenditures, totaling \$562,098 to determine if the costs charged were allowable, properly authorized, adequately supported, and in compliance with the terms and conditions of the Guide. Of the 54 expenditures we tested, 39 were non-personnel expenditures while 15 were personnel expenditures. The Reno PD used equitable sharing funds to pay for overtime, law enforcement equipment and supplies, and other expenditures. The following sections discuss the results of our testing.

Non-Personnel Expenditures

Our sample included 39 non-personnel expenditures totaling \$556,423. Specifically, we reviewed expenditures which included weapons and ammunition, computers and software, an anti-graffiti truck, and other law enforcement equipment. We reviewed supporting documentation including purchase orders, invoices, and receipts to determine if costs were allowable, properly authorized, adequately supported, and in compliance with the terms and conditions of the Guide.

We determined that \$1,000 was expended for a Cadet Scholarship program. A Reno PD official stated that the 2-year scholarship program was to go toward

paying for the tuition of a college student looking to pursue a career in law enforcement. The Cadet Scholarship program funding request was approved by the Reno PD's Division Chief. According to the Equitable Sharing Guide, funds may not be used to create scholarships. Therefore, we question the \$1,000 in unallowable costs expended on a scholarship program.

According to the City of Reno's policy, purchases over \$25,000 must be approved by the City Manager and require a competitive bid process. Exceptions to the competitive bid process include emergency purchases and items that are not adaptive to competitive bidding due to their nature or the fact that they may only be obtained from a sole source. Such exceptions include software, professional services, books, and parts compatibility. We determined that the Reno PD spent \$28,000 on an E-safe software license renewal that allowed for content security, data control, and data leak prevention. We also identified \$47,500 that the Reno PD paid a professional consultant to conduct training related to a Reno PD-wide diversity initiative.⁸ Based on the City of Reno's purchasing policy both of these purchases were exempt from the competitive bid process. However, both did require the City Manager's approval because the purchases were greater than \$25,000. We requested supporting documentation related to the City Manager's approval of both expenditures, but we were not provided any. In response, a Reno PD official stated that the purchases had to have been approved by the City Manager if they had been purchased. The Reno PD official provided an e-mail from the Chief of Police to the professional consultant stating that the City Manager had approved the purchase, but was unable to provide the City Manager's documented approval. Therefore, we question the \$75,500 in unsupported costs expended on software and a professional consultant.

Personnel Expenditures

We judgmentally selected 15 personnel transactions for overtime, plus the associated fringe benefits, totaling \$5,675. We reviewed supporting documentation including timecards, pay rate tables, fringe benefit rate tables, and other documentation. Based upon our review of the supporting documentation, we determined that all overtime was accurately recorded and properly authorized.

In addition, we determined that the Reno PD expended \$7,632 in unallowable costs on salaries for two non-sworn law enforcement personnel. According to MLARS's guidance, DOJ equitable sharing funds may not be used to pay the salaries and benefits of sworn or non-sworn law enforcement personnel. The Reno PD official we asked stated that she was unaware that temporary salaries for non-sworn law enforcement personnel were unallowable. Based on MLARS's guidance, the purpose of this rule is to protect the integrity of the Equitable Sharing Program so that the prospect of receiving equitable sharing funds does not influence, or appear to influence, law enforcement decisions. Therefore, we

⁸ The Reno PD's training for \$47,500 was made in two equal payments of \$23,750.

question the \$7,632 in unallowable costs expended on non-sworn law enforcement salaries.

Maintaining Inventory of Accountable Property

To determine if equipment purchased with DOJ equitable sharing funds were accurately recorded, we observed accountable property purchased by the Reno PD and verified it to the Reno PD's property records. According to the Reno PD's policy, fixed assets are valued at \$10,000 or more and biennial physical inventories are required for all fixed assets and intangible assets such as software. Of the 39 non-personnel expenditures that we tested, we identified 6 fixed assets. Four fixed assets included intangible software purchases and two were tangible property purchases including an anti-graffiti truck and KeyTracer, a system used to maintain all vehicle keys and electronically track when vehicles are taken out and returned to the police department. We determined that the Reno PD properly recorded in its property records the anti-graffiti truck and the product key for one of the software purchases. The product keys for the other two software purchases and KeyTracer were not recorded in Reno PD's property records. When we asked a Reno PD official about these items, she stated that the product keys for the other two software purchases and KeyTracer were not inventoried and agreed to add these items to its property records. Therefore, we recommend that the Criminal Division ensure that the Reno PD implement a process to accurately track accountable property purchased with DOJ equitable sharing funds.

Supplanting

The Equitable Sharing Guide requires that shared resources be used to increase or supplement the resources of the recipient agency and prohibits the use of shared resources to replace or supplant the appropriated resources of the recipient. To identify indicators of supplanting, we examined the Reno PD's total budgets for FYs 2012 through 2015 and compared them both to the City of Reno's budgets and to the Reno PD's equitable sharing expenditures, which consisted mostly of equipment and supplies as well as training costs. Based on the documentation we reviewed, we did not find any indication of supplanting.

Monitoring of Applications for Transfer of Federally Forfeited Property

The Reno PD is a member of the Nevada Interdiction Task Force (NITF).⁹ The task force signed a memorandum of understanding that equitable sharing funds from joint investigations would be shared equally among its members. The Equitable Sharing Guide states that all participating agencies must complete a DAG-71 form when requesting its portion of equitable sharing funds. According to the Guide, the agency that submits the DAG-71 should maintain a log and copies

⁹ The NITF is made up of the U.S. Drug Enforcement Administration, Amtrak Police Department, Reno PD, Washoe County Sheriff's Office, Las Vegas Metropolitan Police Department, Sparks Police Department, Nevada Department of Public Safety, Reno-Tahoe Airport Authority Police, and Henderson Police Department.

of all DAG-71 forms.¹⁰ In addition, the Guide requires that the DAG-71 log be updated when an E-Share notification is received.

To request a portion of a seizure, a Reno PD officer completes the DAG-71 form and each agency head within the NITF signs it. Officers completing and submitting the DAG-71 utilize the electronic E-Share system to make these requests. During our fieldwork, we found that the Reno PD maintained copies of the DAG-71 forms it had submitted, but it failed to maintain a complete and accurate log of equitable sharing requests. We judgmentally selected 15 DAG-71 forms to determine if the Reno PD accurately completed the forms when requesting its portion of equitable sharing funds. All 15 DAG-71 forms were accurately completed and properly maintained. Regarding the failure to maintain a complete and accurate log of equitable sharing requests, as required, a Reno PD official stated that the Washoe County Sheriff's Office (WCSO) maintains the log of equitable sharing receipts because the WCSO handles the paperwork for the NITF. Even though the WCSO maintains the log of receipts, we believe that the Reno PD is still responsible for maintaining documentation of its DAG-71s as was required by the Guide at the time of these requests. However, because agencies are no longer required to maintain a manual log of DAG-71 forms, we make no recommendation regarding the Reno PD's failure to maintain a complete and accurate DAG-71 log.

Conclusion

Over the course of our audit, we determined that the Reno PD lacked effective internal controls and expended equitable sharing funds for unallowable purposes. We found that the Reno PD commingled DOJ equitable sharing funds with other city-wide revenue and improperly invested DOJ equitable sharing revenue received in treasury notes and bonds, contrary to DOJ equitable sharing regulations. In addition, the Reno PD failed to report DOJ equitable sharing expenditures on its FYs 2013, 2014, and 2015 Single Audit Reports. As a result of our findings we identified \$84,132 in questioned costs and make 13 recommendations to the Criminal Division to assist in its oversight of the Reno PD's equitable sharing program.

Recommendations

We recommend that the Criminal Division:

1. Ensure that the Reno PD correct the errors in its FY 2013, 2014, and 2015 ESAC reports in its FY 2017 ESAC report.

¹⁰ According to MLARS's guidance, as of March 31, 2015, all agencies were required to submit DAG-71s electronically through the USMS's E-Share Portal. According to MLARS, due to the implementation of this new technology, agencies are no longer required to maintain a manual log of DAG-71s.

2. Ensure that the Reno PD obtain appropriate approvals for its ESAC reports as required by the Equitable Sharing Guide.
3. Ensure that the Reno PD establish policies and procedures to ensure ESAC reports are complete and accurately reflect the Reno PD's equitable sharing activities for the period under review.
4. Ensure that the Reno PD includes DOJ equitable sharing fund expenditures on its Single Audit Report's SEFA for the period covered by the auditee's financial statements.
5. Ensure that the Reno PD's policies and procedures for the administration of DOJ equitable sharing funds are in compliance with MLARS's Equitable Sharing Guide.
6. Ensure that the Reno PD establish a unique account or unique fund code to separately track DOJ equitable sharing funds, including all revenue, interest income earned, and expenditures, from other equitable sharing funds as required by the Guide.
7. Ensure that the Reno PD maintain its equitable sharing funds in an interest or non-interest bearing federally insured depository account and be maintained separate from other funds.
8. Ensure that the Reno PD makes correcting journal entries to properly account for all DOJ equitable sharing distributions and to correct all misapplied funds in its DOJ equitable sharing account.
9. Ensure that the Reno PD establishes controls for properly recording and accounting for equitable sharing deposits.
10. Remedy \$1,000 in unallowable costs expended on a scholarship program.
11. Remedy \$75,500 in unsupported costs expended on software and training.
12. Remedy \$7,632 in unallowable costs expended on non-sworn law enforcement salaries.
13. Ensure that the Reno PD implement a process to accurately track accountable property purchased with DOJ equitable sharing funds.

OBJECTIVE, SCOPE, AND METHODOLOGY

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 and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Objective

The objective of the audit was to assess whether the Reno PD accounted for equitable sharing funds properly and used such revenues for allowable purposes defined by applicable guidelines. We tested compliance with what we considered to be the most important conditions of the DOJ's Equitable Sharing Program. We reviewed laws, regulations, and guidelines governing the accounting for and use of DOJ equitable sharing receipts, including the *Guide to Equitable Sharing for State and Local Law Enforcement Agencies*, dated April 2009 as well as the Interim Policy Guidance Regarding the Use of Equitable Sharing Funds that was issued in July 2014. Unless otherwise stated in our report, the criteria we audited against are contained in these documents.

Scope and Methodology

Our audit focused on, but was not limited to, equitable sharing receipts received by the Reno PD between July 1, 2012, and June 30, 2015. The U.S. Department of the Treasury administers a similar Equitable Sharing Program. Our audit was limited to equitable sharing revenues received through the DOJ Equitable Sharing Program.

We performed audit work at the Reno PD's headquarters located in Reno, Nevada. We interviewed Reno PD and City of Reno officials and examined records, related revenues, and expenditures of DOJ equitable sharing funds. In addition, we relied on computer-generated data contained in CATS to identify funds from equitably shared revenues and property awarded to the Reno PD during the audit period. We did not establish the reliability of the data contained in CATS as a whole. However, when viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations included in this report are valid.

Our audit specifically evaluated Reno PD's compliance with three essential equitable sharing guidelines: (1) Equitable Sharing Agreement and Certification reports, (2) accounting for equitable sharing receipts, and (3) the use of equitable sharing funds. In planning and performing our audit, we considered internal controls over DOJ equitable sharing receipts established and used by the Reno PD. However, we did not assess the reliability of the City of Reno's financial

management system, or the extent to which the financial management system complied with internal controls, laws, and regulations overall.

In the scope of this audit, the Reno PD received 158 DOJ distributions between FYs 2013 and 2015, totaling \$1,251,118. During the same period, the Reno PD expended \$1,112,053 of DOJ equitable sharing funds. We judgmentally selected and tested a sample of 10 receipts totaling \$248,803 and a sample of 54 expenditures totaling \$562,098. A judgmental sampling design was applied to capture numerous aspects of the disbursements reviewed, such as dollar amounts. This non-statistical sample design does not allow projection of the test results to all disbursements.

Our audit included an evaluation of the Reno PD's Single Audit Reports for FYs 2013, 2014, and 2015. The Single Audit Reports were prepared under the provisions of the Office of Management and Budget Circular A-133. We discussed the results of our review with officials from the Reno PD and the City of Reno throughout the audit. As appropriate, their input has been included in the relevant sections of the report.

APPENDIX 2

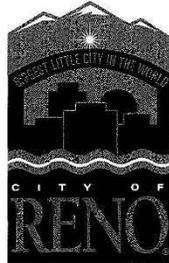
SCHEDULE OF DOLLAR-RELATED FINDINGS

<u>Description</u>	<u>Amount</u>	<u>Page</u>
Unallowable Costs		
Scholarship Program	\$1,000	11
Non-sworn Law Enforcement Salaries	\$7,632	11
Total Unallowable Costs	\$8,632	
Unsupported Costs:		
Software and Training	\$75,500	11
Total Unsupported Costs	\$75,500	
Total Questioned Costs¹¹	\$84,132	
TOTAL DOLLAR-RELATED FINDINGS	<u>\$84,132</u>	

¹¹ **Questioned Costs** are expenditures that do not comply with legal, regulatory, or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation.

RENO PD'S RESPONSE TO THE DRAFT AUDIT REPORT¹²

Reno Police Department
"Your Police, Our Community"



Jason Soto
Chief of Police

July 20, 2017

David J. Gaschke
Regional Audit Manager
San Francisco Regional Audit Office
Office of the Inspector General
U.S. Department of Justice
90 7th Street, Suite 3-100
San Francisco, California 94103

Dear Mr. Gaschke:

Below are the recommendations which resulted from the audit conducted by United States Department of Justice of the Inspector General and Reno Police Department (RPD) responses.

1. Ensure that the Reno PD correct the errors in its FY 2013, 2014, and 2015 ESAC reports in its FY 2017 ESAC report.
 - a. Finance Response: Interest income allocated to fund 10090, which is the accounting fund that records the revenues and expenditures (including transfers), has been separated and allocated to the Reno PD's Equitable Sharing Fund Program funds on hand at the end of FY 2013 through 2016. The cumulative interest income figure through FY 2016 has been given to the Reno PD for inclusion in its FY 2017 ESAC report.
 - b. Also, please see comment under Recommendation #7.
 - c. Administrative Services Response: The cumulative interest income through FY2016 will be reported for inclusion on the FY 2017 ESAC report.
2. Ensure that the Reno PD obtains appropriate approvals for its ESAC reports as required by the Equitable Sharing Guide.
 - a. Administrative Services Response: Copies of the ESAC reports for FY 2015 and 2016 have been reviewed and signed by the Chief of Police and the current City Manager retroactively. (see attached)
 - b. Reno Police Department's Federal Forfeiture Fund policy has been updated to reflect obtaining appropriate approvals for its ESAC reports as required by the Equitable Sharing Guide.

¹² Attachments to this response were not included in this final report.

3. Ensure that the Reno PD establish policies and procedures to ensure ESAC reports are complete and accurately reflect the Reno PD's equitable sharing activities for the period under review.
 - a. Administrative Services Response: Reno Police Department's Federal Forfeiture Fund policy has been updated to reflect procedures to ensure ESAC reports are complete and accurately reflect the Reno PD's equitable sharing activities as well as obtaining appropriate approvals for its ESAC reports as required by the Equitable Sharing Guide.
4. Ensure that the Reno PD includes DOJ equitable sharing fund expenditures on its Single Audit Report's SEFA for the period covered by the auditee's financial statements.
 - a. Finance Response: The Equitable Sharing Fund Program expenditures for FY 2016 were reported on the SEFA of the City's FY 2016 Single Audit Report. Expenditures will continue to be reported on the SEFA in subsequent years.
 - b. Reno Police Department's Federal Forfeiture Fund policy has been updated to reflect inclusion of DOJ equitable sharing fund expenditures on its Single Audit Report's SEFA each fiscal year.
5. Ensure that the Reno PD's policies and procedures for the administration of DOJ equitable sharing funds are in compliance with MLARS's Equitable Sharing Guide.
 - a. Finance Response: The Reno Finance Department will work with the Reno PD to ensure that all applicable policies and procedures comply with the MLARS's Equitable Sharing Guide.
 - b. Administrative Services Response: Reno Police Department's Federal Forfeiture Fund policy has been updated to ensure the administration of DOJ equitable sharing funds is in compliance with MLARS's Equitable Sharing Guide.
6. Ensure that the Reno PD establish a unique account or unique fund code to separately track DOJ equitable sharing funds, including all revenue, interest income earned, and expenditures, from other equitable sharing funds as required by the Guide.
 - a. Finance Response: Beginning in FY 2018 (commenced July 1, 2017), the net balance of the Reno PD's equitable sharing funds has been transferred to a new accounting fund 10091. This fund will be non-interest bearing.
 - b. Administrative Service Response: Reno Police Department's Federal Forfeiture Fund policy has been updated to reflect a new unique account fund to separately track DOJ equitable sharing funds, including all revenue, and expenditures, from other equitable sharing funds as required by the Guide.

7. Ensure that the Reno PD maintain its equitable sharing funds in an interest or non-interest bearing federally insured depository account and be maintained separate from other funds.

- a. Finance Response: While the City of Reno operates in a pooled cash environment whereby interest earnings on the entire investment portfolio are allocated to the various accounting funds based on their respective average cash balances, the pool cash environment includes over \$23 million in its depository account at Bank of America, NA, and over \$59 million in the State of Nevada's Local Government Investment Pool. Therefore, as a matter of practicality, equitable sharing funds are kept very liquid so they are not invested in treasury bonds, notes, or other securities.

However, with the creation of a separate account fund referenced in the response to Recommendation #6, the cash account in that fund will be considered to reside in the City's depository account effective July 1, 2017, and will not earn interest. Furthermore, in FY 2017, interest was not allocated to the equitable sharing funds residing in Fund 10090.

- b. Administrative Service Response: Reno Police Department's Federal Forfeiture Fund policy has been updated to ensure the Reno Police Department maintain its equitable sharing funds in a non-interest bearing federally insured depository account and be maintained in a separate account fund separate from other funds.

8. Ensure that the Reno PD makes correcting journal entries to properly account for all DOJ equitable sharing distributions and to correct all misapplied funds in its DOJ equitable sharing account.

- a. Finance Response: As part of moving the equitable funds into a separate accounting, the Finance Department is working with the Reno PD to ensure that the balance transferred into the new fund is accurate and properly accounts for all transactions.

- b. Administrative Service Response: Reno Police Department's Federal Forfeiture Fund policy has been updated to ensure that a fiscal year-end reconciliation between the ESAC report and the ending fund balance for the DOJ equitable sharing account fund show no discrepancies.

9. Ensure that the Reno PD establishes controls for properly recording and accounting for equitable sharing deposits.

- a. Administrative Service Response: Reno Police Department's Federal Forfeiture Fund policy has been updated to ensure that controls are in place for properly recording and accounting for equitable sharing deposits. Any corrections made will be coordinated with the city's Finance Department and signed by the Police Department's Administrative Services Manager.

10. Remedy \$1,000 in unallowable costs expended on a scholarship program.
 - a. Administrative Service Response: Reno Police Department's Federal Forfeiture Fund policy has been updated to reflect unallowable and allowable expenses as described in the Guide to Equitable Sharing for State and Local Law Enforcement Agencies.

11. Remedy \$75,500 in unsupported costs expended on software and training.
 - a. Administrative Service Response: City Manager approval was obtained retroactively on the following expenditures:
 - i. \$28,000 – E-Safe software
 - ii. \$47,500 – Reginald Chenn Stewart Diversity Training (see attached copies)

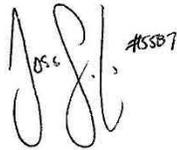
12. Remedy \$7,632 in unallowable costs expended on non-sworn law enforcement salaries.
 - a. Administrative Service Response: Reno Police Department's Federal Forfeiture Fund policy has been updated to reflect unallowable and allowable expenses as described in the Guide to Equitable Sharing for State and Local Law Enforcement Agencies.

13. Ensure that the Reno PD implement a process to accurately track accountable property purchased with DOJ equitable sharing funds.
 - a. Administrative Services Manager Response: During the audit three items were found to be missing from the capital asset report:
 - i. Key Tracer 144 Vehicle Key Tracking System
 - ii. E-Safe Software
 - iii. Kronos Telestaff SoftwareAll items have been added to the departments and the city's capital asset report. (See attached)

 - b. Administrative Service Response: Reno Police Department's Federal Forfeiture Fund policy has been updated to reflect a process to accurately track property purchased with DOJ equitable sharing funds.

Our goal is to fully comply with all requirements of the equitable sharing program and we appreciate the assistance and guidance from the Department of Justice Office of the Inspector General throughout the audit.

Sincerely,

Handwritten signature of Jason Soto in black ink. The signature is stylized and includes the initials 'ASB' and '7'.

Jason Soto
Chief of Police
Reno Police Department

**CRIMINAL DIVISION'S
RESPONSE TO THE DRAFT AUDIT REPORT**



U.S. Department of Justice

Criminal Division

Money Laundering and Asset Recovery Section

Washington, D.C. 20530

JUL 17 2017

MEMORANDUM

TO: David Gaschke, Regional Audit Manager
San Francisco Regional Audit Office
Office of the Inspector General

FROM: Jennifer Bickford, Deputy Chief
Program Management and Training Unit
Money Laundering and Asset
Recovery Section *Jennifer Bickford*

SUBJECT: DRAFT AUDIT REPORT for the Reno Police Department's
Equitable Sharing Program Activities

In a memorandum dated June 26, 2017, your office provided a draft audit report for the Reno Police Department (RPD), which included actions necessary for closure of the audit report findings. The Money Laundering and Asset Recovery Section (MLARS) concurs with all findings and recommendations in the draft audit report.

Upon receipt of the final audit report, MLARS will work with RPD to correct all identified findings.

cc: Denise Turcotte
Audit Liaison
Criminal Division

Richard P. Theis
Assistant Director, Audit Liaison Group
Internal Revenue and Evaluation Office
Justice Management Division

**OFFICE OF THE INSPECTOR GENERAL
ANALYSIS AND SUMMARY OF ACTIONS
NECESSARY TO CLOSE THE REPORT**

The Department of Justice (Department) Office of the Inspector General (OIG) provided a draft of this audit report to the Reno PD and the DOJ Criminal Division Money Laundering and Asset Recovery Section (MLARS). The responses from Reno PD and MLARS are incorporated in Appendices 3 and 4, respectively, of this final report. In response to our draft audit report, MLARS concurred with our recommendations and as a result, the status of the audit report is resolved. The following provides the OIG analysis of the responses and summary of actions necessary to close the report.

Recommendations for the Criminal Division:

- 1. Ensure that the Reno PD correct the errors in its FY 2013, 2014, and 2015 ESAC reports in its FY 2017 ESAC report.**

Resolved. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD in its response did not state whether it agreed with our recommendation. Instead, the Reno PD described corrective action that it has taken and will take to address this recommendation. We interpreted the Reno PD's response to be an implicit agreement with our recommendation. Specifically, the response stated that the cumulative interest income through 2016 has been provided to the Reno PD by the Finance Department. The City of Reno's Finance Department also stated that the commingled interest income allocated to fund 10090 has been separated, and allocated to the Reno PD's equitable sharing account. The Reno PD also stated that it will report the cumulative interest income earned for FY 2013, 2014, and 2015 on its FY 2017 ESAC report.

This recommendation can be closed when we receive evidence that the Reno PD has corrected the errors in its FY 2013, 2014, and 2015 ESAC reports by incorporating corrective changes in its FY 2017 ESAC report.

- 2. Ensure that the Reno PD obtain appropriate approvals for its ESAC reports as required by the Equitable Sharing Guide.**

Closed. This recommendation is closed. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD in its response did not state whether it agreed with our recommendation. Instead, the Reno PD stated that it has obtained the appropriate retroactive approvals for its FYs 2015 and 2016 ESAC reports as required by the Equitable Sharing Guide. The Reno PD provided evidence of the Chief of Police's and the City Manager's retroactive approvals for the FYs 2015 and 2016 ESAC reports. In addition, the Reno PD provided us with its updated Federal Forfeiture Fund policy, which requires signatures of both the Chief of Police and the City Manager to be obtained on the ESAC report once it has been completed. This will verify that the ESAC report has been reviewed and approved by the appropriate agency and governing body heads. Once the signatures have been obtained, the ESAC report will be submitted to MLARS.

We reviewed the documents provided and determined that they adequately address our recommendation.

3. Ensure that the Reno PD establish policies and procedures to ensure ESAC reports are complete and accurately reflect the Reno PD's equitable sharing activities for the period under review.

Closed. This recommendation is closed. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD in its response did not state whether it agreed with our recommendation. Instead, the Reno PD provided its updated policy, effective June 29, 2017, which states it will be the responsibility of the Administrative Services Manager to complete the annual ESAC report correctly and timely. The policy further states that all revenue, expenditures, interest income earned, and expense categories shall be listed using the general ledger postings obtained from the financial system. Once the report is complete and accurate it will be forwarded to the Chief of Police and the City Manager for final review and approval.

We reviewed the documents provided and determined that it adequately addresses our recommendation.

4. Ensure that the Reno PD includes DOJ equitable sharing fund expenditures on its Single Audit Report's SEFA for the period covered by the auditee's financial statements.

Closed. This recommendation is closed. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD in its response did not state whether it agreed with our recommendation. Instead, the Reno PD provided its FY 2016 Single Audit report's SEFA and updated Federal Forfeiture fund policy, which requires that

DOJ equitable sharing fund expenditures be reported on its Single Audit report's SEFA.

We reviewed the documents provided and determined that they adequately address our recommendation.

5. Ensure that the Reno PD's policies and procedures for the administration of DOJ equitable sharing funds are in compliance with MLARS's Equitable Sharing Guide.

Closed. This recommendation is closed. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD in its response did not state whether it agreed with our recommendation. However, the Reno PD provided its updated Federal Forfeiture Fund policy, which is consistent with MLARS's guidance for preparing and approving accurate annual ESAC reports, properly recording and reporting interest income earned, maintaining DOJ equitable sharing funds in an interest or non-interest bearing federally insured depository account, reconciling on a monthly basis the DOJ equitable sharing fund to ensure accurate accounting and reporting, and separately maintaining DOJ equitable sharing funds from other non-DOJ funds.

We reviewed the evidence provided and determined that it adequately addresses our recommendation.

6. Ensure that the Reno PD establish a unique account or unique fund code to separately track DOJ equitable sharing funds, including all revenue, interest income earned, and expenditures, from other equitable sharing funds as required by the Guide.

Resolved. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD in its response did not state whether it agreed with our recommendation. Instead, the Reno PD described corrective action that it has taken to address this recommendation. We interpreted the Reno PD's response to be an implicit agreement with our recommendation.

Specifically, the Reno PD stated that it has created a new, non-interest bearing fund to separately account for DOJ equitable sharing funds and it has transferred the net balance of its DOJ equitable sharing funds to the newly created accounting fund 10091. The Reno PD also provided its updated Federal Forfeiture Fund policy, which requires a unique account fund to be used to separately track DOJ equitable sharing funds, including revenue, and expenditures, from other equitable sharing funds as required by the Equitable Sharing Guide.

This recommendation can be closed when we receive evidence that the Reno PD has established a unique accounting fund to separately track DOJ equitable sharing funds, including all revenue, interest, and expenditures as required by the Guide and that it has transferred the net balance of the DOJ equitable sharing funds into the new accounting fund.

7. Ensure that the Reno PD maintain its equitable sharing funds in an interest or non-interest bearing federally insured depository account and be maintained separate from other funds.

Resolved. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD in its response did not state whether it agreed with our recommendation. Instead, the Reno PD described corrective action that it has taken and will take to address this recommendation. We interpreted the Reno PD's response to be an implicit agreement with our recommendation.

Specifically, the Reno PD stated that the City of Reno operates in a pooled cash environment whereby interest income earnings on the entire investment portfolio are allocated to the various accounting funds based on their respective average cash balances; the pooled cash includes over \$23 million in its depository account, and over \$59 million in the state's local government investment pool. The Reno PD stated that as a matter of practicality, equitable sharing funds are kept very liquid so they are not invested in treasury bonds, notes, or other securities. However, we determined that the Reno PD's Finance Department deposited DOJ equitable sharing distributions into its general fund bank account and then invested those funds into treasury notes and bonds along with other City of Reno funding. We also found that between FYs 2013 and 2015, the Reno PD recorded losses, totaling \$5,335 due to its investments.

The Reno PD further stated that the cash account, in its newly created separate fund for all DOJ equitable sharing related transactions, will reside in the City of Reno's depository account and will not earn interest. The Reno PD also provided its updated Federal Forfeiture Fund policy, which requires equitable sharing funds to be separately maintained in a non-interest bearing federally insured depository account as required by the Equitable Sharing Guide.

This recommendation can be closed when we receive evidence that the Reno PD maintain its DOJ equitable sharing funds in a non-interest bearing federally insured depository account and that those funds are separate from other funds.

8. Ensure that the Reno PD makes correcting journal entries to properly account for all DOJ equitable sharing distributions and to correct all misapplied funds in its DOJ equitable sharing account.

Resolved. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD in its response did not state whether it agreed with our recommendation. Instead, the Reno PD described corrective action that it has taken to address this recommendation. We interpreted the Reno PD's response to be an implicit agreement with our recommendation.

Specifically, the Reno PD stated that it has updated its Federal Forfeiture Fund policy to require a year-end reconciliation of the DOJ equitable sharing fund to its annual ESAC report. Based on our review of the Reno PD's updated Federal Forfeiture Fund policy, we could not locate the updated language regarding a year-end reconciliation. We determined that the updated policy requires a monthly reconciliation of the DOJ equitable sharing fund to the City of Reno's general ledger to ensure that the accounting fund is accurate. The City of Reno's Finance Department also stated that it is working with the Reno PD to ensure that the DOJ equitable sharing account balance transferred into the newly created accounting fund is accurate and properly accounts for all DOJ equitable sharing related transactions.

This recommendation can be closed when we receive evidence that the Reno PD has properly accounted for all DOJ equitable sharing distributions and corrected all misapplied funds in its DOJ equitable sharing account.

9. Ensure that the Reno PD establishes controls for properly recording and accounting for equitable sharing deposits.

Closed. This recommendation is closed. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD, in its response, did not state whether it agreed with our recommendation. However, the Reno PD provided its updated Federal Forfeiture Fund policy, which includes requirements for reporting interest, preparing and approving the annual ESAC report, reporting DOJ equitable sharing expenditures on its annual Single Audit report's SEFA, ensuring compliance with MLARS's Equitable Sharing Guide, reconciling the DOJ equitable sharing fund on a monthly basis, and properly tracking fixed assets purchased with DOJ equitable sharing funds.

We reviewed the updated Federal Forfeiture Fund policy that the Reno PD implemented on June 29, 2017, and determined that it adequately addresses our recommendation.

10. Remedy \$1,000 in unallowable costs expended on a scholarship program.

Resolved. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD in its response did not state whether it agreed with our recommendation. Instead, the Reno PD described corrective action that it has taken to address this recommendation. We interpreted the Reno PD's response to be an implicit agreement with our recommendation.

Specifically, the Reno PD stated that it has updated its Federal Forfeiture Fund policy to include a listing of allowable and unallowable expenditures as described in the Equitable Sharing Guide. The Reno PD provided to us its updated Federal Forfeiture Fund policy.

This recommendation can be closed when we receive evidence that the Reno PD remedied the \$1,000 in unallowable costs expended on a scholarship program.

11. Remedy \$75,500 in unsupported costs expended on software and training.

Closed. This recommendation is closed. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD, in its response, did not state whether it agreed with our recommendation. However, the Reno PD stated that it has obtained the City Manager's retroactive approval for the E-safe software expenditure and the diversity training expenditure, totaling \$75,500. The Reno PD provided a copy of the City Manager's retroactive approval for both of the expenditures.

We reviewed the documentation and determined that it adequately addresses our recommendation.

12. Remedy \$7,632 in unallowable costs expended on non-sworn law enforcement salaries.

Resolved. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD in its response did not state whether it agreed with our recommendation. Instead, the Reno PD described corrective action that it has taken to address this recommendation. We interpreted the Reno PD's response to be an implicit agreement with our recommendation.

Specifically, the Reno PD stated that it has updated its Federal Forfeiture Fund policy to include a listing of allowable and unallowable expenditures as described in the Equitable Sharing Guide. The Reno PD provided us its updated Federal Forfeiture Fund policy.

This recommendation can be closed when we receive evidence that the Reno PD remedied the \$7,632 in unallowable costs expended on non-sworn law enforcement salaries.

13. Ensure that the Reno PD implement a process to accurately track accountable property purchased with DOJ equitable sharing funds.

Closed. This recommendation is closed. MLARS concurred with our recommendation and stated that it will work with the Reno PD to correct this finding.

The Reno PD did not state whether it agreed with our recommendation. Instead, the Reno PD stated that it has added to its property records the three fixed assets that were found to be missing and provided a copy of its updated property records. The Reno PD also provided us its updated Federal Forfeiture Fund policy, which now requires fixed assets purchased with DOJ equitable sharing funds to be accurately tracked by the Reno PD. In addition, the updated policy requires that all property purchased with a value of \$10,000 or more to be reported on the City of Reno's property records and to be identified with a bar code for tracking purposes and biennial inventory checks.

We reviewed the documentation and determined that it adequately addresses our recommendation.

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