



CITY AUDITOR'S OFFICE

Police Special Revenues

January 16, 2020

AUDIT REPORT NO. 1907

CITY COUNCIL

Mayor W.J. "Jim" Lane

Suzanne Klapp

Virginia Korte

Vice Mayor Kathy Littlefield

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January 16, 2020

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Police Special Revenues*, which was included on the Council-approved FY 2019/20 Audit Plan. This audit was conducted to evaluate management controls over sources and uses of special revenues, which included RICO proceeds, donations, court surcharges for crime labs and safety equipment, a service agreement for crime lab services, and revenues from the Pawn and 30-Day Tow programs. As of July 1, 2019, the Police Department special program accounts totaled more than \$680,000, with an additional \$4 million in RICO funds held by external entities.

Our audit found that the department's RICO community grants appear to instead be donations, and other RICO program aspects can be better managed. Also, the department's Cadet program maintained a bank account outside of the City treasury, and controls over revenues, expenses and records retention were not adequate. Further, the department's controls over donations, cash handling and expenditure approvals can be improved.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Kyla Anderson, CIA, CLEA – Senior Auditor
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AUDIT HIGHLIGHTS

Police Special Revenues

January 16, 2020

Audit Report No. 1907

WHY WE DID THIS AUDIT

An audit of *Police Special Revenues* was included on the City Council-approved fiscal year (FY) 2019/20 Audit Plan. The audit objective was to evaluate management controls over sources and uses of special revenues, such as RICO, donations, 30-Day Tow, etc.

BACKGROUND

Special program funds are used to account for dedicated funding sources and donations earmarked for specific purposes. For example, federal and state laws dictate how RICO (Racketeer Influenced and Corrupt Organizations) revenues may be spent.

The Police Department has 10 special programs, including RICO, donations, court surcharges for crime labs and safety equipment, a service agreement for crime lab services, and revenues from the Pawn and 30-Day Tow programs.

In FY 2018/19, the Police Department's special programs had approximately \$1.2 million in revenue and \$1.4 million in expenditures.

City Auditor's Office

City Auditor 480 312-7867
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WHAT WE FOUND

RICO community grants appear to be donations, and other program aspects could be better managed.

RICO funds spent as community grants instead seem to be given as donations, which are an unallowable expense. Further, the annual RICO budget does not include all available monies and other RICO program controls can also be improved.

A department bank account exists outside the City Treasurer's Office, these moneys are not budgeted, and internal controls can be improved.

The Cadet program maintained a bank account outside the City treasury, program moneys were not budgeted, and controls over program revenues, expenses and records retention were lacking.

Management controls over donations can be improved.

The Police Department does not have transparent, public procedures for donations and seldom retained signed copies of donation acknowledgement letters. Further, it retained unredacted donor check copies and can improve donation oversight, monitoring and recordkeeping.

Management controls over cash handling and expenditure approval can be improved.

The 30-Day Tow program's cash handling did not comply with administrative regulation, and the program has limited service hours for individuals to retrieve their vehicles. As well, some individuals approving expenditures do not have operational knowledge or signature authority.

WHAT WE RECOMMEND

We recommend the Police Department:

- Ensure appropriate processes for RICO community grants, provide RICO balance information to the City Manager and/or Budget office, and improve program controls.
- Transfer the Cadet program account balance to the City treasury and ensure internal controls and records retention.
- Establish appropriate internal controls over donations and the 30-Day Tow program's cash handling.

MANAGEMENT RESPONSE

The department agreed with the audit recommendations, reporting that some have already been implemented and others will be completed during 2020.

BACKGROUND

The Scottsdale Police Department has 10 special programs in the City’s Special Programs Fund, which is used to account for moneys restricted by formal action of the City Council or by the outside funding source to being spent for specific purposes. Any remaining unspent balances at the end of the current fiscal year carry over to the next fiscal year for the intended purposes.

Table 1 summarizes the Police Department’s special program balances for the past three fiscal years.

Special Programs Fund

Special program funds are used to account for dedicated funding sources and donations earmarked for specific purposes.

City of Scottsdale FY 2019/20
Adopted Budget, Volume One

Table 1. Police Department Special Program Balances

	As of July 1,		
	2017	2018	2019
Crime Lab	\$41,009	\$69,664	\$91,024
Family Advocacy Center Donations	41,099	37,331	23,664
Forensic Science Agreement	234,062	256,940	279,825
General Police Donations	54,994	51,264	52,078
Pawn Ordinance	132,484	169,458	194,692
Police 30-Day Tow	93,523	51,419	0
Police Mounted Donations	1,834	1,834	1,834
Police Officer Safety Equipment	495,855	361,062	157,890
RICO Federal Forfeitures ¹	(21,100)	(23,899)	(59,501)
RICO State Forfeitures ¹	(131,739)	(40,851)	(60,540)
Total	\$942,021	\$934,222	\$680,966

¹ The department receives reimbursement for RICO-related expenditures. Available funds are held by either the Maricopa County Attorney’s Office or the Arizona Attorney General’s Office.

SOURCE: Auditor analysis of SmartStream general ledger records.

As detailed in the City of Scottsdale *FY 2019/20 Adopted Budget*, the Police Department forecasts receiving between \$2.0 million and \$2.5 million each year for its special programs and spending between \$1.6 million and \$2.3 million per year over the next five fiscal years. As Table 2 summarizes, the department’s actual revenues have ranged from \$1.2 million to \$1.6 million and expenditures have ranged from \$1.4 to \$1.6 million in the last two fiscal years.

Table 2. Police Department Special Program Activity, FYs 2017/18 and 2018/19

	FY 2017/18		FY 2018/19	
	Revenues	Expenditures	Revenues	Expenditures
Crime Lab	\$37,198	\$8,543	\$34,212	\$12,852
Family Advocacy Center Donations	0	3,768	146	13,813
Forensic Science Agreement	313,487	290,609	203,937	181,052
General Police Donations	366	4,097	1,900	1,086
Pawn Ordinance	60,357	23,383	47,384	22,150
Police 30-Day Tow	421,466	463,570	316,365	367,785
Police Mounted Donations	0	0	0	0
Police Officer Safety Equipment	157,693	292,486	142,368	345,540
RICO Federal Forfeitures ¹	154,897	157,696	178,269	213,872
RICO State Forfeitures ¹	485,601	394,713	229,879	249,567
Total	\$1,631,065	\$1,638,865	\$1,154,460	\$1,407,717

¹ RICO revenues are comprised of reimbursements received from the Maricopa County Attorney’s Office or the Arizona Attorney General’s Office.

SOURCE: Auditor analysis of SmartStream general ledger records.

Crime Lab

Arizona state statute requires the courts to add a surcharge to every fine, penalty and forfeiture for criminal and certain civil offenses, with monies collected to be used for forensics. Four percent of these collections is distributed to the City for operating its crime lab, educating and training its forensic scientists and/or purchasing and maintaining its crime lab equipment.

Family Advocacy Center Donations

The Scottsdale Family Advocacy Center accommodates multiple agencies involved in Crimes Against Persons investigations to address the special needs of these victims. Currently, the Scottsdale Family Advocacy Center provides office space to hospital forensic nurse examiners, Department of Child Safety investigators as well as Scottsdale Police Crisis Intervention Section staff and Crimes Against Persons investigative units. Family Advocacy Center donations are restricted for use for Family Advocacy Center purposes.

Forensic Science Agreement

An intergovernmental agreement with the Salt River Pima-Maricopa Indian Community (SRPMIC) provides funding for forensic science services. The SRPMIC pays an annual fee of \$203,937 for the Scottsdale PD Crime Lab to perform identification of controlled substances, blood alcohol testing, forensic biology (DNA) analysis, latent fingerprint analysis and courtroom testimony as needed for the Salt River Police Department. The Forensic Services Director attributes the increasing balance in this center to being understaffed by 6 technicians, which has decreased lab expenses.

General Police Donations

According to General Order 1512, *Donations to the Department*, the Scottsdale Police Department “may accept donations of funds or material goods made by private sources that benefit department operations or the welfare of department employees.” City management has also established Administrative Regulation (AR) 155 *Solicitation and Acceptance of Donations*, defining citywide policies and procedures for solicitation and acceptance of cash and in-kind (goods or services) donations.

Some of the Police Department donated funds were further restricted by the donors to use for the K9 Unit, the Police Cadets and the Police Crisis Intervention Section.

General Police Donations	July 1, 2019
General	\$14,009
Restricted:	
K9 Unit *	30,666
Police Cadets	4,049
Police Crisis Intervention Section	3,354
Total	\$52,078

* The K9 Unit donations include \$24,941 designated for canine Austin.

Secondhand, Auction and Pawn Ordinance

Scottsdale Revised Code requires that all auction houses, junk dealers, pawnbrokers and secondhand dealers report the receipt of goods and articles.¹ Currently, these businesses report to the Scottsdale Police Department through LeadsOnline, an online investigation software system. In 2012, the City established a fee of \$2 per report, up to a maximum of \$400 per month. The fee revenue is designated for costs of implementing and administering the pawn-related ordinance, including but not limited to ongoing software and administrative costs.

30-Day Tow

State law ARS §28-3511 requires vehicles to be towed and impounded for 30 days for any of the following violations:

- Aggravated DUI
- Cancelled driver’s license (must also be involved in a collision and not provide insurance)
- Driver under 21 with any amount of alcohol in their system
- Extreme DUI
- Ignition interlock violation

¹ These businesses must report the goods and articles received, whether they are received on deposit; in pawn, pledge or consignment, trade or exchange; or by purchase.

- No driver's license and no record of a license
- Revoked driver's license

Vehicles towed and impounded under this law are to be held for 30 days unless the registered owner or spouse qualifies under specific state provisions for the vehicle's early release. State law further specifies a \$150 administrative fee to be paid for recovering the immobilized or impounded vehicle. These fee revenues are designated for the purpose of implementing the program.

Police Mounted Donations

The Scottsdale Police Department's Mounted Unit officers patrol on horseback in performing their law enforcement patrol activities, including crowd control. While no donations have been received since January 2016 or spent since June 2016, the Police Mounted Donations special program moneys are restricted for use by the Mounted Unit. However, at the end of the audit, the Police Department informed us that it will close this center due to lack of use and will track any related donations in the general donation center.

Police Officer Safety Equipment

State law also requires a \$13 penalty to be assessed by the courts for criminal offenses, civil traffic violations, motor vehicle violations, and game and fish violations. The agency that investigated the offense or issued the citation receives \$4 of this assessment to supplement, but not supplant, monies available for officer safety equipment.

RICO Federal & State Forfeitures

Through state and federal Racketeer Influenced and Corrupt Organizations (RICO) laws, the Scottsdale Police Department is allowed to seize cash and non-cash assets used in the commission of a crime or obtained from illegal activities. Seized money and assets are not available to the Police Department until the related case has been fully adjudicated, and the proceeds must be used for law enforcement purposes that directly supplement the department's appropriated resources.

The department's applicable investigations may involve state, federal or other local agencies and the prosecution may occur under federal or state laws. Either the Maricopa County Attorney's Office or the Arizona Attorney General's Office hold the resulting RICO monies until the City submits a reimbursement request. As of September 30, 2019, the Arizona Attorney General's Office is holding almost \$1.6 million, and as of November 30, 2019, the Maricopa County Attorney's Office is holding more than \$2.4 million for the Scottsdale Police Department's adjudicated RICO seizures. The Maricopa County Attorney's Office also is holding almost \$2 million in pre-forfeiture (unadjudicated) funds for Scottsdale. However, unadjudicated funds are not available for budgeting or being committed for expenditure.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Police Special Revenues* was included on the City Council-approved fiscal year 2019/20 Audit Plan. The audit objective was to evaluate management controls over sources and uses of special revenues, such as RICO, donations, 30-Day Tow, etc.

The audit focused on reviewing Police Department special revenues during fiscal years 2017/18 and 2018/19, including analysis of the current and prior fiscal years where relevant for comparative purposes and to illustrate trends.

To gain an understanding of applicable legal requirements, we reviewed related audit reports previously issued by this office including Audit No. 0704 *Controls Over the Safeguarding, Use and Disposal of Seized and Forfeited Property, and Funds Advanced to the Police Department for Undercover Operations* and Audit No. 0160 *RICO and Imprest Checking Account*. In addition, we reviewed:

- U.S. Department of Justice and U.S. Department of Treasury *Guide to Equitable Sharing for State, Local and Tribal Law Enforcement Agencies* July 2018
- Arizona Revised Statutes
 - Title 12 *Courts and Civil Proceedings* Chapter 1 *Courts of Record* Article 1 *The Supreme Court* §12-116.04 *Assessment; law enforcement officer equipment; gang and immigration intelligence team enforcement mission*
 - Title 28 *Transportation* Chapter 8 *Motor Vehicle Driver Licenses* Article 9 *Vehicle Immobilization, Impoundment and Storage* §28-3513 *Administrative charges*
 - Title 41 *State Government* Chapter 12 *Public Safety* Article 2 *Department of Public Safety* §41-1730 *Department of Public Safety Forensic Fund*
- Scottsdale Revised Code
 - Chapter 16, *Licenses, Taxation and Miscellaneous Business Regulation* Article IX *Secondhand Dealers, Scrap Metal Dealers, Junk Dealers, Pawnbrokers, Auctioneers and Auction Houses*
- Scottsdale Administrative Regulations
 - AR 155 *Solicitation and Acceptance of Donations*
 - AR 210 *City Travel Expenditures*
 - AR 220 *Purchasing Card Usage and Administration (ProCard)*
 - AR 268 *Cash Handling*
 - AR 269 *Miscellaneous Accounts Receivable*
 - AR 285 *Signature Authority*
- Intergovernmental Agreement No. 2016-141-COS for crime laboratory services with the Salt River Pima-Maricopa Indian Community (SRPMIC)

To gain an understanding of the Police Department's special programs, we reviewed information available on the City's website, budget books and general ledger. We also reviewed select Police Department Field, General and Operation Orders.

To further understand policies, procedures and available data, we interviewed an Assistant Chief, the Police Budget Manager, and the department's key supervisory personnel operating the special revenue programs. In addition, we interviewed key accounting and budget personnel in the City Treasurer's Office.

To evaluate management controls over sources and uses of Police Department special revenues, we:

- Tested a sample of 10 RICO-related expenditures to determine if the expenditures appear to comply with program laws and guidance. Further, we reviewed cash handling and expenditure controls over the related cash and checking account and the community grant and asset forfeiture programs.
- Analyzed budgeted and actual RICO-related expenditures.
- Reviewed all expenditures for FY 2017/18 to November 2019 and tested one expenditure each from the Crime Lab and Forensic Science centers for compliance with state law and the intergovernmental agreement with SRPMIC.
- Reviewed available documentation for five judgmentally selected donations. Further, we reviewed two judgmentally selected expenditures to evaluate whether donated funds were used appropriately and in compliance with City requirements.
- Assessed cash handling-related practices for the 30-Day Tow program and reviewed the related documents, including daily cash balancing documents and manual receipts. Further, we reviewed allocated Patrol Services and Traffic Enforcement costs for FYs 2017/18 and 2018/19 to evaluate whether they appear to comply with state requirements.
- Interviewed City Court staff and reviewed general ledger reports for Police Officer Safety Equipment funds. Further we reviewed three judgmentally selected expenditures to evaluate whether these funds were used in compliance with state requirements.
- Interviewed City Treasurer's Office staff and reviewed LeadsOnline reports for Pawn Ordinance funds. Further, we reviewed one judgmentally selected expenditure to evaluate whether the funds were used in compliance with City requirements.
- Reviewed available documentation related to the Scottsdale Police Cadet program's bank account. Further, we assessed controls over the program's revenues, expenditures and records retention.

Our audit found that RICO community grants lack significant documentation and, therefore, appear to be donations, and other program aspects can be better managed. The Cadet program maintained a separate bank account outside the City treasury and controls need improvement. Further, management controls over donations, cash handling and expenditure approvals can be improved.

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 September to December 2019.

FINDINGS AND ANALYSIS

1. RICO community grants appear to be donations, and other program aspects can be better managed.

RICO funds have been used for community grants which appear to instead be donations, an unallowable expense. Additionally, the annual RICO budget does not include all available money, and some RICO program controls can be improved.

A. RICO funds appear to have been used for charitable donations, which would not be an allowable RICO expense and may not comply with a City Charter provision. The department paid a total of \$21,000 in FY 2017/18 and FY 2018/19 to four organizations. While the department indicated these payments are community grants, standard grant processes were not followed.

RICO - Racketeer Influenced and Corrupt Organizations laws. Law enforcement organizations can seize assets, including cash, used in the commission of a crime or obtained from illegal activities. The seized assets, after adjudication, can only be used for law enforcement purposes.

1. The use of RICO funds is subject to federal, state and City laws and regulations. The federal *Guide to Equitable Sharing* states that RICO funds may be paid to non-profit organizations whose stated missions are supportive of and consistent with law enforcement effort, policy, and/or initiative. Examples provided of allowable organizations include those carrying out drug and crime prevention efforts. The federal Office of Management and Budget's *Uniform Guidance* lists donations as unallowable uses of federal grant funds. As well, the department's General Orders require that RICO community grant money be spent on gang and substance abuse prevention or substance abuse education programs within the City of Scottsdale. Further, the City Charter prohibits donating public moneys unless it provides direct assistance to those in need.²
 - Since June 2016, the Police Department paid \$14,200 to the Special Olympics of Arizona for its Law Enforcement Torch Run. The Run's purpose is to raise awareness and funds for the Special Olympics movement, which does not appear to be for a law enforcement purpose. Within the *Guide's* context of uses being for law enforcement purposes, a U.S. Department of Justice opinion from 2008 further clarifies that law enforcement agencies may not transfer cash to a community-based organization, but they may directly pay or reimburse specific expenses on behalf of the supported organization.³ Further, this payment also does not comply with the department's general order.

In addition, the department spent about \$1,500 from the City's General Fund for two Police employees to attend a related Special Olympics training. The training request forms noted that the training would increase knowledge on the Law Enforcement Torch Run and Special Olympics in general, provide a greater understanding of how law enforcement interfaces with Special Olympics and share new ideas for increasing participation. This expense does not appear to comply with City Administrative

² City Charter Article 1, Section 3, Subsection O.

³ U.S. Department of Justice opinion Re: Donation of Equitable Sharing Funds, April 11, 2008.

Regulations (AR) 210 *City Travel Expenditures*, which requires all travel to have a clear benefit to the City and be job-related.

- The department made payments to other organizations, as summarized in Table 3. These organizations appear allowable by federal guidelines, such as those that provide anti-bullying programs. However, one organization was not in Scottsdale and two organizations were not related to gang or substance abuse programs as required by the department’s policy.

Table 3. Donations from RICO Funds, FYs 2017/18 and 2018/19

Organization	Purpose	Amount	Notes
A	Youth leadership training	\$1,000 in FY 2017/18	No evidence of monitoring.
B	Construction of Law Enforcement Museum	\$5,000 in FY 2017/18	Not located in Scottsdale and not a gang or substance abuse program, but specifically allowed by U.S. Dept. of Justice legal opinion.
C	Anti-bullying/substance abuse	\$5,000 in FY 2017/18 \$5,000 in FY 2018/19	Police Chief on board of directors. Organization independently provided a final report.
D	Fundraising	\$5,000 in FY 2018/19	Not a gang or substance abuse program. No evidence of monitoring.

SOURCE: Auditor analysis of Police and Accounting records.

2. The Police Department did not follow a grant proposal and award process, issue grant agreements, or monitor services provided.
 - The department’s Budget Manager stated that because of the time involved, the department stopped requiring community grant proposals starting with FY 2017/18 funding. As a result, these payments appear to be donations of public moneys rather than payments for specific services.
 - The Police Chief has been on the board of directors for one of the organizations since at least 2015. Dating back to 2015, the department has paid the organization a total of \$25,000 from RICO funds. An established grant application process and documentation that the Chief did not participate in the award would provide greater assurance that the transactions did not represent a potential conflict of interest.
- B. The department has submitted a RICO budget that has been significantly lower than the available balance.

Since at least FY 2017/18, the department has budgeted significantly less for RICO-related expenses than was actually available. Table 4, which summarizes funds held by the Maricopa County Attorney’s and Arizona Attorney General’s offices, shows that between 44% and 67% of the available resources were not included.

The Budget Director reported that the Budget office does not have a record of receiving the RICO balances held by third parties for the department. The City Manager is tasked by City Charter with preparing the annual budget. Departments are responsible for providing all relevant information, such as the current balances in the externally held RICO accounts, to the Budget office throughout the process. While the budgeting process occurs months prior to the start of the fiscal year and the available balance will change during this time, the actual available RICO funds can be updated throughout this process.

Table 4. Budgeted and Actual RICO Expenses, FYs 2017/18, 2018/19 and 2019/20

	FY 2017/18	FY 2018/19	FY 2019/20
Available Balances Held by Third Parties	\$ 3,053,824	\$ 3,147,886	\$ 4,162,676
Budgeted Revenues and Expenditures	\$ 1,018,488	\$ 1,750,890	\$ 1,716,229
% Not Budgeted	66.6%	44.4%	58.8%
Actual Expenditures	\$ 552,409	\$ 463,439	N/A
% Budget Expended	54.2%	26.5%	N/A

N/A – not applicable as FY 2019/20 is not yet completed.

SOURCE: Auditor analysis of budget documents and RICO reports from Maricopa County Attorney’s Office and Arizona Attorney General’s Office.

- C. The Special Enforcement checking account balance may be higher than necessary and authorized signers are not kept updated.

The Special Investigative unit uses a bank account separate from the City’s main account for “buy” funds.⁴ In November 2019, the bank account contained almost \$20,000, and the safe held about \$5,700 in additional cash. While there is no formal record of an agreed-to amount, the staff reported trying to keep between \$10,000 and \$20,000 in the bank account. The account is maintained so that the department has money readily available if needed while keeping cash in the safe at a reasonable level. However, since August 2016, the department-maintained account ledger does not show this level of use. For example, less than \$10,000 was used in the first quarter of FY 2019/20. Further, the department has not kept the account’s authorized signers up to date as staff assignments changed.

- D. Other RICO program controls can be improved with better segregation of duties and supervisory review.
 - 1. One assigned detective creates, updates, reports and retains the records of seized assets. Additionally, this position coordinates forfeited asset sales and deposits the proceeds with either the Maricopa County Attorney’s Office or the Arizona Attorney General’s Office.

⁴ The Accounting department has access to the checking account and receives the statements.

2. RICO receivables were not directed to Remittance Processing for receipt and deposit. The department's Budget Manager requests reimbursements for its RICO-related expenses and then receives the RICO reimbursement checks. Instead, directing receivable payments to the City's Remittance Processing section would provide proper segregation of the duties of requesting and receiving money. During the audit, the department reported that the reimbursement checks are now being directed to Remittance Processing.
 3. The Investigative Services Commander receives quarterly reports of buy fund account transactions for review, but he does not receive a copy of the monthly bank statement. Instead the department's Budget Manager receives the bank statements although she would have no knowledge of authorized transactions. The commander's informed review of bank statements would provide a more effective control of transactions.
- E. The safe combination has not been changed for an extended period. The Police Department Special Investigative Unit maintains a cash buy fund for use in investigations. Although assigned staff change periodically, it is unknown when the safe combination was last changed or if it has ever been changed.

Recommendations:

- A. The City Manager should determine if the department's RICO community grant program should continue. If it does, the department should ensure appropriate grant application, review and award processes, grant agreements and service monitoring occur. Additionally, the department should ensure all travel is job-related and provides a clear benefit to the City.
 - B. The department should ensure the City Manager and/or Budget staff receive the total available RICO balance information, with updates throughout the budgeting process.
 - C. The department should request buy funds as needed and determine an appropriate balance for the Special Enforcement checking account.
 - D. The department should ensure separation of duties by directing receivables to the City's Remittance Processing group and enable an effective supervisory review of the asset forfeiture program by routing the bank statements to the unit Commander.
 - E. The department should require staff to change the safe combination after Special Investigative unit personnel or supervisory changes.
2. **A department bank account exists outside the City Treasurer's Office, these moneys are not budgeted, and internal controls can be improved.**

The Scottsdale Police Cadet program maintains a bank account outside of the City Treasurer's Office, and program revenues and expenditures are not budgeted during the City's annual budget process. Additionally, controls over the receipt and use of program revenues and records retention need improvement.

- A. The Scottsdale Police Department has a Cadet program bank account at a local credit union that exists without oversight of the City Treasurer's Office. This combined checking and savings account appears to have been opened in 1983 when the Cadet program operated as an affiliate of a separate nonprofit entity. After the separate entity discontinued the affiliation and the

department began operating the program, the account remained outside the City treasury. Since 2017, the account balance has ranged from about \$9,000 to over \$15,000; the account contained \$12,488 as of November 30, 2019.

1. Currently two Police Department staff, an Administrative Secretary and a Sergeant, are listed on bank records as the account signers. Further, the checkbook was stored in an unlocked cabinet in a department facility, and checks were not used in numerical order. Bank statements were not available for 8 months, and the program had to purchase copies from the bank for this audit. As well, bank records were not reconciled to program records of financial activity.

The City’s Charter and its Code state that the City Treasurer shall receive and have custody of all the City’s money, dispensing the money only as provided by law, and shall keep the City’s accounting records. Since the City Treasurer’s Office does not have access to the account, City fiscal oversight does not occur. Further, having program staff responsible for managing the bank account increases the risk of misappropriation and decreases the transparency, oversight and accountability of City funds.

2. The department has not included program revenues and expenditures maintained in this bank account as part of the City’s annual budget process. As shown in Table 5, in addition to the department’s General Fund and Special Revenue Program Fund expenditures, the program spent almost \$7,400 in FY 2017/18, \$5,700 in FY 2018/19, and \$1,500 in FY 2019/20 (as of November 30, 2019) through the bank account.

Table 5. Scottsdale Police Cadet Program Budget, FYs 2017/18 to 2019/20

	FY 2017/18	FY 2018/19	FY 2019/20*
General Fund Budget - Clothing, meeting supplies, memberships and training	\$2,100	\$2,100	\$1,900
Actual Expenditures	\$1,808	\$4,446	\$188
Special Revenue Program Fund Budget - Sponsored training	\$1,000	\$1,000	\$1,000
Actual Expenditures	\$0	\$0	\$0
Bank Account Budget	\$0	\$0	\$0
Actual Expenditures	\$7,395	\$5,685	\$1,477
Total Actual Expenditures	\$9,203	\$10,131	\$1,665

* - FY 2019/20 amounts are through November 2019 as the fiscal year is not yet complete.

SOURCE: Auditor analysis of Police Department budget and program bank account records.

Failure to budget all program revenues and expenditures during the annual budget process decreases transparency, oversight and accountability of City funds.

B. Department staff has not implemented internal controls or retained sufficient documentation for program receipts and expenses.

1. The program receives donations and registration fees for an annual cadet competition that it sponsors. However, revenue-related records are insufficient to determine if all receipts were deposited. For example, the program charged \$65 per cadet and \$20 per advisor for its March 2019 competition. Registration forms listing the individual participants were available for two cities' programs to support \$870 in deposited fees. However, the only record available to support an additional \$3,185 deposited was the Scottsdale program's receipt stating the number of participants for the county and 5 other cities' programs.

The City's AR 268 *Cash Handling* provides policies and procedures related to cash handling and guidelines for reducing the risks associated with cash and cash equivalents. Specifically, AR 268 provides procedures for receiving cash and balancing cash receipts, including segregation of duties, safeguarding cash and records retention. However, the department has not ensured segregation of duties, dual custody balancing or revenue reconciliations.

In addition, donations for cadet competitions included two of the department's current vendors. These vendors paid event expenses or directly donated a total of about \$3,000 in FYs 2017/18 and 2018/19. City AR 155 *Solicitation and Acceptance of Donations* does not allow departments to accept donations from vendors as the vendors could perceive donation giving as necessary to win or maintain a contract.

2. The Cadet program staff use the bank account to pay various expenses including meeting refreshments and supplies, competition shirts and competition travel. However, the department has not implemented internal controls over these expenditures.

Most of the account expenditures during the past two and a half fiscal years were not supported or had limited documentation. Further, the available records did not include documented supervisory approval of transactions. This lack of documentation was exacerbated by the lack of segregation of duties, with one individual being responsible for maintaining the checkbook and related records as well as having signature authority on the account.

The bank statements included many debit or point-of-sale entries for undocumented payments to fast food-type restaurants. AR 205 *Business Meeting Expenditures* requires an original, itemized receipt; a list of attendees; date, time and location of the meeting; signature of the requestor and supervisory approval. However, these elements were not documented for program meetings, other than an occasional detailed receipt. In addition, several bank statement entries were for undocumented payments at retail, grocery or sporting goods stores. As summarized in Table 6, without the detailed receipts and supporting documentation, it is not possible to determine whether the purchases were for program or personal use.

The City has various administrative regulations related to expenditures, including AR 205 *Business Meeting Expenditures*; AR 209 *Conference, Certification and Training Expenditures*; and AR 285 *Signature Authority*, that were not followed.

3. Program records retention needs improvement. As shown in Table 6, supporting documentation was not maintained for a significant portion of the account expenditures over the past two and a half fiscal years.

Records retention can protect program staff from the uncertainty created by undocumented transactions and can protect the program from the expense of reconstructing records. Further, the State’s records retention schedule GS 1017 and the Police Department’s records inventory require accounts payable and receivable records to be retained for 3 years after the fiscal year created or received. However, in addition to compliance with state and City requirements, maintaining financial records provides accountability and increases transparency.

Table 6. Scottsdale Police Cadet Program Credit Union Expenditures, FYs 2017/18 to 2018/19

	FY 2017/18				FY 2018/19				FY 2019/20*			
	#	%	Amt	%	#	%	Amt	%	#	%	Amt	%
Expenditures	36		\$7,395		40		\$5,685		7		\$1,477	
No Receipt	13	36%	\$2,451	33%	16	40%	\$1,649	29%	4	57%	\$357	24%
Potential for Personal Use	17	47%	\$1,757	24%	24	60%	\$1,483	26%	2	29%	\$85	6%

* - FY 2019/20 amounts are through November 2019 as the fiscal year is not yet complete.

SOURCE: Auditor analysis of Police Department program and bank account records.

Scottsdale Revised Code § 2-131 requires that the City Treasurer keeps a complete set of books showing where moneys were received from and for what purpose they were expended. Further, the absence of strong internal controls over the receipt and use of program revenues increases the risk of misappropriation and decreases transparency.

Recommendations:

Police Department management should:

- A. Establish the Scottsdale Police Cadet program as a separate program in the Special Programs Fund and deposit the account moneys into the City treasury to ensure appropriate oversight, transparency and accountability. In addition, Police Department management should ensure this program is budgeted as part of the City’s annual budget process.
- B. Establish strong cash handling and expenditure controls over the program and ensure compliance with applicable City administrative regulations. Further, retain appropriate receipt and expenditure records for the program.

3. Management controls over donations can be improved.

The Police Department does not have transparent, public procedures for donations. Further, the department often did not retain signed copies of donation acknowledgement letters and retained unredacted donor check copies.

- A. The department does not have transparent, public procedures for donations. Publicly available information regarding how the Police Department accepts and processes donations, such as providing an acknowledgement letter with the donated amount listed, would decrease the risk of loss or theft. As shown in Table 7, the department received 10 donations totaling \$22,250 over the past two years.

Table 7. Scottsdale Police Department Donations Received, July 1, 2017 to December 31, 2019

Date	Donor	Center	Amount
May 2018	Individual	General	\$60
June 2018	Individual	General – K9 Unit	200
June 2018	Individual	General	90
August 2018	Individual	General	200
October 2018	Non-Profit	General – Police Cadets	1,000
October 2018	Individual	General – K9 Unit	100
May 2019	Business	General – K9 Unit	500
May 2019	Individual	General – PCIS ¹	100
October 2019	Individual	Family Advocacy Center	10,000
December 2019	Individual	General – K9 Unit	10,000
Total			\$22,250

¹ Police Crisis Intervention Section

SOURCE: Auditor analysis of SmartStream general ledger and Police Department records.

- B. The department often did not retain signed copies of donation acknowledgement letters. For four of five donations selected for review, or 80%, Police Department staff was not able to provide copies of signed acknowledgement letters. Preparing and retaining signed acknowledgement letters for donations creates a record of the donation and reduces the risk of loss or theft.

AR 155 *Solicitation and Acceptance of Gifts* states that City staff receiving donations should acknowledge the receipt of a donation through a thank you letter. Also, the Police Department’s General Order (GO) 1512, *Donations to the Department*, states that the department program manager is to send a formal letter of appreciation to the donor.

Additionally, the department's GO 1512 provides that citizens wishing to make donations that benefit department operation should be referred to the appropriate program manager or the Police Budget office, who will contact the donor to determine the intended use of donated funds or property.

However, requiring donation-related records be provided to and maintained by the Police Budget office, rather than the operational unit, would provide centralized oversight, monitoring and recordkeeping. Also, requiring letters of acknowledgement to be signed by the Police Chief or an Assistant Police Chief would strengthen oversight and awareness of Police Department donations.

- C. Department staff retained unredacted donor check copies. The Scottsdale Records Management Manual states that records or documents must be redacted when they contain an individual's first and last name or first initial and last name in combination with a complete checking account number. City staff keeping sensitive personal financial information in departmental files puts the donor at risk for fraud and possible identity theft.

Recommendations:

Police Department management should:

- A. Consider developing transparent, public procedures for donations and make information available to Scottsdale citizens, organizations and other current and potential donors.
- B. Ensure that acknowledgment letters are prepared, signed and provided to donors for all donations received. Copies of the signed acknowledgment letter (donation receipt) should be maintained in accordance with the City's records retention schedule. In addition, require donations be centrally managed through the Police Budget office.
- C. Require Police Department staff to either redact sensitive information contained on checks maintained in paper or electronic files or refrain from retaining check copies.

4. Management controls over cash handling and expenditure approvals can be improved.

Cash handling-related controls and the available service hours for the department's 30-Day Tow program can be improved. Additionally, some Police special program expenditures did not have appropriate documented operational approval.

- A. Cash handling-related controls for the Police Department's 30-Day Tow program can be improved.
 - 1. Receipts were not immediately accounted for in the City's iNovah cashiering system by the staff handling the transactions.

When the two 30-Day Tow police aides were not available to receive a payment, the Traffic Program Supervisor or a Traffic Enforcement police aide would handle the transaction, recording it on a manual receipt as they did not have access to the iNovah cashiering system. AR 268 *Cash Handling* requires that all transactions are immediately accounted for using the location's automated cashiering system. Manual receipts are to be used only when the system is not available.

Further, while there are generally two 30-Day Tow police aides performing cash handling duties, only one police aide would open an iNovah batch each day. That police aide would enter the day's transactions into iNovah for both police aides and the other staff's manual receipts. However, for accountability purposes, each employee performing cash handling duties should enter his or her own transactions into iNovah as they occur.

2. Program staff were unable to account for all manual receipts, resulting in \$750 potentially not being recorded in the iNovah system and deposited.

After giving the customer the original manual receipt, the supervisor or Traffic Enforcement police aide would remove the City's copy from the manual receipt book and place it with the payment into the locked drop safe. Later, a 30-Day Tow police aide would enter the transaction into iNovah and staple the iNovah receipt to the manual receipt copy. Recent manual receipts were generally stored in envelopes by calendar year; however, some were loose in a filing cabinet. Older manual receipts were found with daily cash balancing documents.

Using available records, auditors identified six different manual receipt books the 30-Day Tow program staff used from December 2007 to October 2019. While most receipts were found in envelopes or daily cash balancing documents, program staff were not able to account for five manual receipts. These missing receipts, each valued at \$150, are estimated to have been used between November 2016 and April 2019.

Since 30-Day Tow staff were not able to account for these receipts, there is a risk that \$750 in fees may not have been deposited.

3. Controls over manual receipts can be improved, site-specific cash handling procedures should be developed, and distribution of safe keys should be limited.
 - The 30-Day Tow program manual receipts were not used in numerical order nor were they accounted for at the end of each day. Further, although both copies of two voided manual receipts were retained, neither included a written explanation or signature of the approving manager or supervisor. AR 268 requires that all manual receipts must be used in numerical order and accounted for at the end of each day. In addition, any missing or voided receipts must be explained and approved by the supervisor/manager.
 - The 30-Day Tow program has unique cash handling requirements, such as only accepting money orders and cashier's checks for exactly \$150. However, the program has not developed site-specific cash handling procedures. AR 268 requires cash handling procedures be developed that apply uniquely to the location's requirements and be submitted for Accounting Director approval.
 - The key for the locking cash drawer was not secured although AR 268 requires limited distribution of a safe key. Anyone with access to the office could have found the key's location and opened the locking cash drawer. During the audit, the Traffic Program Supervisor purchased and installed a key box with a combination lock.
- B. The 30-Day Tow program has limited service hours for individuals to retrieve their impounded vehicles.

When a vehicle is towed, with limited exceptions, the owner or authorized person must pay a \$150 fee to the Police Department and then pay the towing company its fees to get the vehicle returned. However, the 30-Day Tow program is open Monday through Thursday from 8:00 am to 4:30 pm. The program's two police aides are scheduled to work Monday through Thursday from 7 am to 5 pm, and the Traffic Program Supervisor is scheduled Tuesday through Friday from 9 am to 6 pm. While the Traffic Program Supervisor indicated that current staffing does not allow the program to be open on Fridays, the current hours of operation do not allow individuals to retrieve their impounded vehicles on Friday, Saturday or Sunday.

- C. Some Police special program expenditures did not have appropriate documented operational approval. For example, the Police Budget Manager approved vendor invoices for on-body cameras and related equipment, less-lethal ammunition and an advance travel request for a per diem expense check. The Police Budget Manager would not have operational knowledge of whether such expenditures were appropriate, such as quantities or type. We also noted instances where a training unit lieutenant approved a training request for registration fees and a training unit sergeant approved an advance travel request although these employees had not been given signature authority for the special program funds used to pay the expenses.

AR 285 *Signature Authority* provides that all expenditure-related documents must include the review and approval of one level of management higher than the preparer, such as the immediate supervisor. Further, AR 285 requires staff to ensure they have the appropriate signature authority to approve a transaction. As well, operational supervisory review helps to ensure that expenditures are appropriate prior to approval for payment.

Recommendations:

Police Department management should:

- A. Ensure the Police Department 30-Day Tow program complies with AR 268 *Cash Handling* and implements strong cash handling-related controls, including:
- Requiring each cash handler to immediately enter his or her own transactions in iNovah.
 - Limiting use of manual receipts and ensuring the City's copies are retained in the receipt book. Further, ensure manual receipts are used in numerical order and accounted for each day, with a written explanation and supervisory approval for any voided or missing receipts.
 - Developing site-specific cash handling procedures.
 - Securing the locking cash drawer key.
- B. Consider alternatives for increasing the 30-Day Tow program's availability for impounded vehicle retrievals.
- C. Require invoices and travel requests to be signed by appropriate operational supervisors prior to approval for payment.

MANAGEMENT ACTION PLAN

1. RICO community grants appear to be donations, and other program aspects can be better managed.

Recommendations:

- A. The City Manager should determine if the department's RICO community grant program should continue. If it does, the department should ensure appropriate grant application, review and award processes, grant agreements and service monitoring occur. Additionally, the department should ensure all travel is job-related and has a clear benefit to the City.
- B. The department should ensure the City Manager and/or Budget staff receive the total available RICO balance information, with updates throughout the budgeting process.
- C. The department should request buy funds as needed and determine an appropriate balance for the Special Enforcement checking account.
- D. The department should ensure separation of duties by directing receivables to the City's Remittance Processing group and enable an effective supervisory review of the asset forfeiture program by routing the bank statements to the unit Commander.
- E. The department should require staff to change the safe combination after Special Investigative unit personnel or supervisory changes.

1A. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: The Chief of Police will recommend to the City Manager, dependent upon available funds, that the RICO community grant continues. If continued, the department will reinstate the community grant process that includes proposal review, award letters, final reports and reimbursement for costs incurred.

The Police Department has an extensive review process for travel requests. The process includes multiple layers of supervisory approval to ensure each request complies with Administrative Regulation 210 *City Travel Expenditures*.

RESPONSIBLE PARTY: Budget Manager

COMPLETED BY: 7/1/2020

1B. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: The Chief of Police will send prepared reports to the City Manager quarterly.

RESPONSIBLE PARTY: Chief of Police

COMPLETED BY: 2/3/2020

1C. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: The Investigative Services Bureau Leadership Team will determine an appropriate balance for the buy fund account and make any necessary adjustments to both the balance and frequency of requests.

RESPONSIBLE PARTY: ISB Assistant Chief

COMPLETED BY: 2/13/2020

1D. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: This recommendation has already been implemented. The Police Budget Manger directed the first quarter RICO reimbursement check to Remittance Processing in mid-October and will continue to direct future reimbursements to the same location.

The Investigative Services Division Commander has been added to the distribution list to receive the buy fund bank account monthly statement. In addition to the Police Budget Manager, the SIS Lieutenant also receives the statements monthly.

RESPONSIBLE PARTY: Police Budget Manager

COMPLETED BY: 1/13/2020

1E. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: This recommendation has already been implemented. Investigative Services Leadership Team changed the safe combination upon recent Special Investigative personnel changes. This action will be added into policy and documented when changed.

RESPONSIBLE PARTY: Special Investigations Lieutenant

COMPLETED BY: 2/28/2020

2. A department bank account exists outside the City Treasurer's Office, these moneys are not budgeted, and internal controls can be improved.

Recommendations:

Police Department management should:

- A. Establish the Scottsdale Police Cadet program as a separate program in the Special Programs Fund and deposit the account moneys into the City treasury to ensure appropriate oversight, transparency and accountability. In addition, Police Department management should ensure this program is budgeted as part of the City's annual budget process.
- B. Establish strong cash handling and expenditure controls over the program and ensure compliance with applicable City administrative regulations. Further, retain appropriate receipt and expenditure records for the program.

2A. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: The department will establish a separate program in the Special Programs Fund for the Cadet program and begin the process to deposit the outside funds into the established

center specifically for the Cadet program to ensure appropriate oversight, transparency and accountability.

The department will develop a budget for the Cadet program during the annual operating budget development process.

RESPONSIBLE PARTY: Training Unit Lieutenant, Budget Manager

COMPLETED BY: 3/2/2020

2B. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Cash handling and expenditure control established for general fund expenses and cash received will be applied to the Cadet Special Revenue center. Receipts and donation acknowledgement letters will be retained. Controls and process will be in compliance with AR 268 *Cash Handling* and AR 155 *Solicitation and Acceptance of Donations*.

RESPONSIBLE PARTY: Training Unit Lieutenant, Police Budget Manager

COMPLETED BY: 3/2/2020

3. Management controls over donations can be improved.

Recommendations:

Police Department management should:

- A. Consider developing transparent, public procedures for donations and make information available to Scottsdale citizens, organizations and other current and potential donors.
- B. Ensure that acknowledgment letters are prepared, signed and provided to donors for all donations received. Copies of the signed acknowledgment letter (donation receipt) should be maintained in accordance with the City's records retention schedule. In addition, require donations be centrally managed through the Police Budget office.
- C. Require Police Department staff to either redact sensitive information contained on checks maintained in paper or electronic files or refrain from retaining check copies.

3A. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: The department will develop an internal process to accept and account for donations made to the Police Department, centralizing the receipt of all donations to the Police Department. The process will identify the Police Budget Manager as the point of contact for donations and be shared internally with all department employees.

RESPONSIBLE PARTY: Police Budget Manager, Assistant Chiefs of Police

COMPLETED BY: 2/28/2020

3B. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: This recommendation has already been implemented. The Police Budget Manager retained a signed copy of a thank you letter for a recent donation (acknowledgement letter) and will continue to ensure signed copies are retained.

RESPONSIBLE PARTY: Executive Secretary, Police Budget Manager

COMPLETED BY: 1/13/2020

3C. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: This recommendation has already been implemented. Sensitive information was redacted from a recent donation check made to the Police Department prior to retaining of copy of the check. The Police Budget Manager will ensure this practice is continued.

RESPONSIBLE PARTY: Police Budget Manager

COMPLETED BY: 1/13/2020

4. Management controls over cash handling and expenditure approvals can be improved.

Recommendations:

Police Department management should:

- A. Ensure the Police Department 30-Day Tow program complies with AR 268 *Cash Handling* and implements strong cash handling-related controls, including:
 - Requiring each cash handler to immediately enter his or her own transactions in iNovah.
 - Limiting use of manual receipts and ensuring the City's copies are retained in the receipt book. Further, ensure manual receipts are used in numerical order and accounted for each day, with a written explanation and supervisory approval for any voided or missing receipts.
 - Developing site-specific cash handling procedures.
 - Securing the locking cash drawer key.
- B. Consider alternatives for increasing the 30-Day Tow program's availability for impounded vehicle retrievals.
- C. Require invoices and travel requests to be signed by appropriate operational supervisors prior to approval for payment.

4A. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: This recommendation has already been implemented. All iNovah users have been trained and are entering their own transactions into iNovah. Additionally, printers have been purchased to reduce the need to use manual receipts. In the event that a manual receipt is used out of numerical order, a written explanation will be provided and signed by the supervisor.

Finally, site specific cash handling procedures are being developed, and the cash drawer key has been placed in a secure location.

RESPONSIBLE PARTY: 30-Day Tow Program Manager, Special Operations Division Lieutenant and Commander

COMPLETED BY: 2/21/2020

4B. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: In evaluation of current staffing model, increasing the availability to citizens would require additional staffing. If/when additional staffing is provided, the program will look to increase the availability to retrieve impounded vehicles. NOTE: Additional staffing for the 30-Day Program was not included in the FY20/21 Proposed Operating Budget.

RESPONSIBLE PARTY: Special Operations Division Commander

COMPLETED BY: 10/30/2020

4C. MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: The Budget Manager has always been required to sign off on Special Revenue invoices, in consultation with operational supervisory, prior to payment to ensure good/service is in line with the funding requirements. The Budget Office will now document the interaction with a note on the invoice indicating goods/service was received.

Travel related documents will be forwarded to the Budget Manager, who has signature authority prior to any travel related expenses. The documents will only be forwarded to the Budget Manager after travel request has been routed through Chain of Command for travel/training approval.

RESPONSIBLE PARTY: Police Budget Office Analyst, Senior Analyst and Manager

COMPLETED BY: 1/31/2020

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