



A REPORT
TO THE
ARIZONA LEGISLATURE

Special Investigative Unit

Investigative Report

Maricopa County Attorney's Office

Theft of Public Monies

September • 2002



Debra K. Davenport
Auditor General

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AUDITOR GENERAL**

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AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

September 11, 2002

Members of the Arizona Legislature

The Honorable Richard Romley
Maricopa County Attorney's Office

The Honorable Janet Napolitano
Attorney General

We have conducted a special investigation of the Maricopa County Attorney's Office for the period April 1997 through September 2001. Our investigation was performed to determine the amount of public monies misused, if any, during that period, and the extent to which these monies had been misused.

Our investigation consisted primarily of inquiries and an examination of selected records and other documents. Therefore, our investigation was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on the adequacy of the financial records or the internal controls of the Maricopa County Attorney's Office. We also do not ensure that all matters involving the Office's internal controls that might be material weaknesses under standards established by the American Institute of Certified Public Accountants or other conditions that may require correction or improvement have been disclosed.

The accompanying Investigative Report describes our findings and conclusion as a result of this special investigation.

After this report is distributed to the members of the Arizona State Legislature, the Maricopa County Attorney, and the Attorney General, it becomes public record.

Debbie Davenport
Auditor General

Attachment

SUMMARY

In December 2001, the Maricopa County Attorney's Office requested that the Office of the Auditor General investigate allegations of financial misconduct by Ms. Marlene Larson, the former Assistant Controller for the Maricopa County Attorney's Office. Our Office and the Maricopa County Attorney's Office conducted concurrent investigations of those claims and submitted separate reports to the Attorney General's Office. The Attorney General has taken criminal action against Ms. Larson. See the Conclusion on page 11.

Our investigation revealed that from July 1997 to May 2001, Ms. Larson allegedly embezzled at least \$30,815 from the Maricopa County Attorney's Office Anti-Racketeering Influenced and Corrupt Organizations (RICO) fund. These public monies were entrusted to the County Attorney by various law enforcement agencies as a result of state law.

Marlene Larson, former Assistant Controller, allegedly embezzled at least \$30,815 from the Maricopa County Attorney's Office RICO fund.

Ms. Larson attempted to conceal her actions through a number of fraudulent schemes including disposing of documentation, falsifying documentation, and manipulating financial reports. As a result of her actions, the agencies and the County Attorney's Office may have lost interest earnings of approximately \$3,819 in addition to the money embezzled.

Because internal controls were inadequate, the County Attorney's Office was unable to deter or detect Ms. Larson's alleged thefts. Although two departments and multiple employees participated in the deposit process, duties were not properly segregated. Consequently, Ms. Larson's scheme continued for almost 4 years.

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BACKGROUND

The Maricopa County Attorney's Office is responsible for prosecuting all felonies that occur within Maricopa County and all misdemeanors that occur in unincorporated areas of the County. In addition, the County Attorney serves as legal counsel for the Maricopa County Board of Supervisors and all county departments. The County Attorney's Office employs over 900 lawyers, investigators, administrators, and support staff.

RICO monies are seized currency and proceeds from the sale of seized assets forfeited in the prosecution of racketeering crimes. A.R.S. §§13-2314.01 and 13-2314.03 require all state and local law enforcement agencies to maintain RICO monies with either the Attorney General or the local County Attorney, based on their discretion. The RICO fund maintained by the Maricopa County Attorney's Office is a revolving fund made up of a checking account and a trust account for more than 20 law enforcement agencies. On average, the RICO fund balance exceeds \$8 million. The agencies are generally required to allocate 20 percent of their deposits to the County Attorney's Office for prosecution assistance.

The Maricopa County Attorney's Office Financial Bureau is responsible for preparing the Office's budget, processing a biweekly payroll, overseeing payment of invoices, preparing periodic grant reports, conducting internal audits, and administering special funds. RICO monies are first remitted to the Investigations Division and are ultimately delivered to the Financial Bureau. However, the Financial Bureau lacked the internal controls necessary to ensure that these monies are safeguarded. Most importantly, the Financial Bureau's internal controls did not separate responsibilities for cash-handling and recordkeeping functions between employees. For example, the RICO Administrator was able to receive, record, deposit, and report RICO monies. Also, in the RICO Administrator's absence, the Assistant Controller performed these activities. In addition, the Assistant Controller was responsible for reconciling the Financial Bureau ledger system to the monthly bank statements. However, the reconciliation procedures failed to agree the original receipts to either the ledger system or the bank statements. Because the Financial Bureau's internal controls failed to prevent and detect unusual activities, Ms. Larson was able to conceal her actions for nearly 4 years.

The RICO fund has an average balance of over \$8 million.

The Maricopa County Attorney's Office Financial Bureau lacked internal controls necessary to adequately safeguard RICO monies.

Ms. Larson became the RICO Administrator in April of 1997. She was later promoted to Assistant Controller, where she continued to exercise power over the RICO fund. She held this position until her resignation in December 2001.

At the time of Ms. Larson's resignation, the County Attorney's Office requested that the Office of the Auditor General investigate the allegations of her financial misconduct. Both agencies began conducting concurrent investigations. The investigations were concluded in June 2002 and subsequently submitted to the Attorney General's Office.

FINDING 1

Employee embezzled public monies

From July 1997 to May 2001, Ms. Marlene Larson, former Assistant Controller, allegedly embezzled \$30,815 from the Maricopa County Attorney's Office. Ms. Larson allegedly removed cash from 27 RICO forfeitures remitted to the County Attorney's Office by 6 law enforcement agencies. The agencies and the County Attorney's Office may have lost the ability to earn approximately \$3,819 in interest. Ms. Larson attempted to conceal her actions through a number of fraudulent schemes, including disposing of documentation, falsifying documentation, and manipulating information in the Financial Bureau ledger system.

Within months of becoming the RICO Administrator, Ms. Larson allegedly embezzled several thousand dollars by taking advantage of insufficient control procedures. Ms. Larson was solely responsible for both cash-handling and recordkeeping functions. She received, recorded, deposited, reported, and reconciled RICO monies.

The \$30,815 allegedly embezzled by Ms. Larson consisted of individual thefts ranging from \$103 to \$4,500. Because Ms. Larson freely wielded extensive control over RICO functions, she was able to conceal her actions in the following ways:

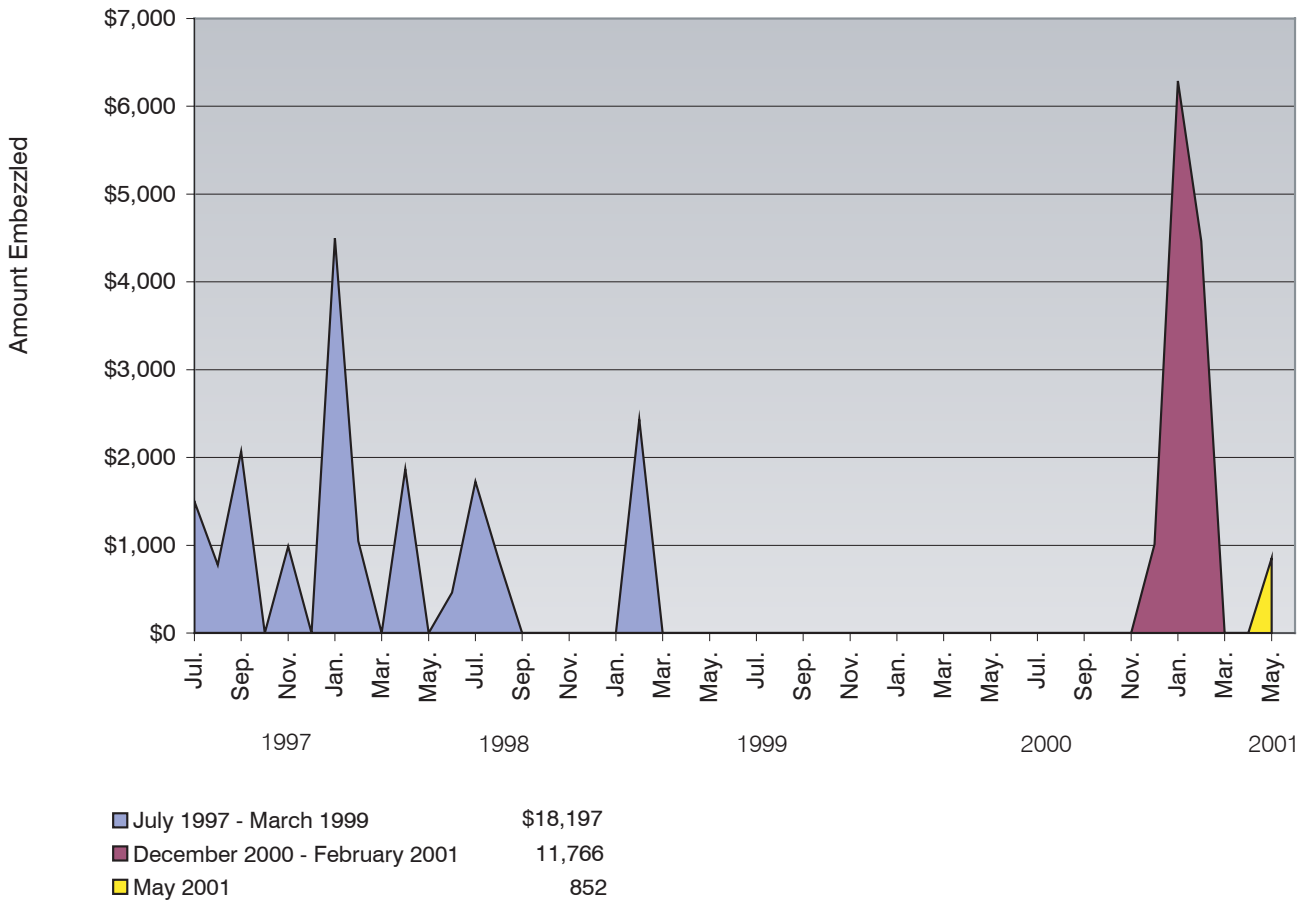
- altering the original amount on receipt forms by writing a lesser amount
- entering false deposit amounts in the Financial Bureau ledger system
- preparing false reconciliations that concealed her actions
- sending false reports to law enforcement agencies
- failing to retain the supporting documentation for numerous forfeitures

For an extended period of time between 1997 and 1999, several law enforcement agencies were allowed to remit RICO forfeitures directly to the Financial Bureau instead of the Investigations Division. Accordingly, Ms. Larson was presented with an opportunity to remove monies before any division or department had recorded them.

Ms. Larson allegedly stole different cash forfeitures ranging from \$103 to \$4,500 at a time.

As Ms. Larson was responsible for initially receiving and recording RICO monies, it is possible that forfeitures were not recorded in order to conceal acts of theft. For this reason, not all embezzlements may be accounted for.

Exhibit 1: Maricopa County Attorney's Office RICO Forfeiture Fund Embezzlement Time Line



From July 1997 to March 1999, Ms. Larson controlled the receiving, recording, depositing, reporting, and reconciling of RICO monies and allegedly embezzled at least \$18,197.

With her promotion to assistant controller and the hiring of a new RICO Administrator, Ms. Larson was removed from direct access to RICO monies. No evidence illustrated that thefts occurred while the new RICO Administrator was responsible for the cash-handling and recordkeeping functions.

Ms. Larson used her supervisory role to temporarily regain control of the RICO fund between November 2000 and February 2001. Specifically, Ms. Larson instructed the RICO Administrator to concentrate on other responsibilities while Ms. Larson fulfilled the RICO cash-handling and recordkeeping functions. Consequently, Ms. Larson allegedly embezzled nearly \$12,000 during this time period.

In May 2001, Ms. Larson took advantage of another situation. County policy inappropriately requires the Assistant Controller to fulfill the RICO cash-handling and recordkeeping functions in the RICO Administrator's absence. Specifically, when the RICO Administrator was on a 3-day leave, Ms. Larson allegedly embezzled four different cash forfeitures totaling over \$800.

Ultimately, in December 2001, the RICO Administrator began reviewing deposits to the RICO fund in anticipation of an internal audit. During the review, the RICO Administrator discovered several forfeitures that were not deposited and consequently notified management. On December 17, 2001, management confronted Ms. Larson about the missing money and she immediately resigned.

Exhibit 2 on page 6 details the individual thefts.

There is no record of money missing when Marlene Larson's cash-handling and record-keeping responsibilities were removed.

Exhibit 2: Maricopa County Attorney's Office RICO Forfeiture Fund
Embezzlement Summary Table

| Remitting Agency | Date Recorded by Investigations | Forfeiture Amount Stolen | Percentage of Total Forfeiture % |
|--|---------------------------------|--------------------------|----------------------------------|
| Maricopa County Sheriff's Office | 8-5-97 ¹ | \$ 1,500.00 | 93% |
| Maricopa County Sheriff's Office | 9-23-97 | 775.00 | 100 |
| Maricopa County Sheriff's Office | 10-6-97 | 2,069.00 | 100 |
| Maricopa County Sheriff's Office | 12-9-97 | 985.61 | 100 |
| Maricopa County Sheriff's Office | 2-9-98 | 4,500.00 | 50 |
| Maricopa County Sheriff's Office | 3-25-98 | 1,047.00 | 100 |
| Maricopa County Sheriff's Office | 5-7-98 | 1,745.00 | 100 |
| Maricopa County Sheriff's Office | 5-7-98 | 123.00 | 10 |
| Scottsdale Police Department | 7-9-98 | 460.80 | 20 |
| Arizona Department of Corrections | 8-12-98 | 1,000.00 | 37 |
| Maricopa County Sheriff's Office | 8-19-98 | 280.60 | 20 |
| Maricopa County Sheriff's Office | 8-19-98 | 340.00 | 20 |
| Maricopa County Sheriff's Office | 8-19-98 | 103.20 | 20 |
| Maricopa County Sheriff's Office | 9-15-98 | 500.00 | 16 |
| Scottsdale Police Department | 9-22-98 | 336.00 | 21 |
| Maricopa County Sheriff's Office | 3-12-99 | 2,432.00 | 100 |
| Goodyear Police Department | 12-4-00 | 1,010.00 | 100 |
| Avondale Police Department | 1-9-01 | 712.27 | 100 |
| Avondale Police Department | 1-9-01 | 534.95 | 100 |
| Avondale Police Department | 1-9-01 | 793.10 | 100 |
| Maricopa County Sheriff's Office | 1-12-01 | 2,450.00 | 89 |
| Scottsdale Police Department | 1-30-01 | 1,800.00 | 24 |
| Tolleson and Avondale Police Departments | 2-20-01 | 4,465.43 | 100 |
| Avondale Police Department | 5-21-01 | 163.63 | 20 |
| Avondale Police Department | 5-21-01 | 270.20 | 20 |
| Avondale Police Department | 5-21-01 | 229.20 | 20 |
| Avondale Police Department | 5-21-01 | 189.20 | 20 |
| | Total | <u>\$30,815.19</u> | |

Source: MCAO records and Bank of America records.

¹ This forfeiture was incorrectly remitted directly to the Financial Bureau on July 24, 1997. It was not reported to the Investigations Division until August 5, 1997.

FINDING 2

County attorney management failed to maintain adequate controls

The County Attorney's Office management failed to implement an adequate system of internal controls. In fact, the RICO-related controls in place left management unable to prevent or detect acts of theft.

Financial Bureau management failed to properly separate responsibilities for cash-handling and recordkeeping between employees. The RICO Administrator received, recorded, deposited, and reported all RICO monies. Although the Assistant Controller was responsible for reconciling the bank statements to the Financial Bureau ledger system, the RICO Administrator improperly performed this function.

Financial Bureau management failed to separate cash-handling and recordkeeping responsibilities and allowed staff to perform flawed reconciliations.

Further, the County Attorney's Office policy specified that the Assistant Controller perform the RICO duties in the RICO Administrator's absence. Therefore, the Assistant Controller improperly exercised undue control over the RICO fund whenever the RICO Administrator was absent.

Financial Bureau management also allowed staff to perform faulty and insufficient reconciliations of the RICO fund. Particularly, bank statements were reconciled only to the incomplete and altered Finance receipt copies rather than original receipts held by the Investigations Division. Further, the reconciliation improperly included ledger amounts in place of bank statement amounts, inadequately reconciling the ledger to itself instead of to the bank statement.

In addition, management did not ensure the integrity of the Financial Bureau ledger system or the resultant accuracy of reports generated from that system. No controls were established to prohibit retroactive changes or deletions of information in the ledger system. Although law enforcement agencies are provided with monthly

reports documenting their RICO activity, including deposits and withdrawals, certain reports omitted or falsely stated cash forfeitures.

Financial Bureau management also failed to ensure monies were deposited in a timely manner. RICO forfeitures were kept in the office for up to 1 month after receipt while County Attorney policy requires at least weekly deposits. Further, management allowed employees to make deposits after work hours and at branch offices over 17 miles away from the County office, even though the bank's home office is only a few blocks away. Further, monies not deposited were stored in the RICO Administrator's locking desk drawer rather than a locked safe or vault.

Finally, the County Attorney's Office management failed to ensure that RICO monies were remitted to the Investigations Division. County Attorney RICO procedures state that forfeitures are to be delivered to the Investigations Division, where the forfeiture should be initially and independently recorded. However, for an extended period of time, County Attorney management allowed law enforcement agencies to remit forfeitures directly to the Financial Bureau. This failure exacerbated the inadequate system of internal controls.

RECOMMENDATIONS

To help ensure proper control over public monies, management should implement several policies and procedures as stated below.

1. No individual employee should have responsibility for cash-handling and recordkeeping functions. Accordingly, the following functions should be properly segregated:
 - receiving cash and check forfeitures
 - recording forfeitures in the ledger system
 - depositing cash and check forfeitures
 - reporting RICO activity to law enforcement agencies
 - reconciling original receipts to the bank statements and ledger system
2. Cash and checks should be properly secured in locking safes or cash boxes. Access should be restricted to a limited number of employees.
3. All deposits should be made on a timely basis, preferably daily.
4. Management should require independent approval for all changes made in the ledger system.
5. The ledger system should be backed up on a regular basis.
6. Status reports of agencies' accounts should be generated from the ledger system in conjunction with the reconciliation.
7. Monthly reconciliations should be independently reviewed and approved.
8. Policies and procedures should be established and implemented to address the proper assignment of functions in the absence of specific personnel.
9. Management should establish monitoring practices to ensure that all policies and procedures are followed.

CONCLUSION

On September 10, 2002, the Attorney General's Office took criminal action against Ms. Marlene Larson through the Superior Court Grand Jury. This action resulted in a two-count indictment, including theft and fraudulent schemes.