

Manual for External Audits
of
County Forfeiture Accounts

November 3, 2004

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Enclosures

Forfeiture Program CPA Audit Standards Authority

Tab #

1. Attorney General Law Enforcement Directive No. 2004-4 This directive is the authority for the implementation of the audit procedures as outlined in the manual.
2. N.J.S.A. 2C:64-1 et seq. Forfeiture - This statute is the authority for the implementation of the forfeiture program, and must be followed accordingly.
3. State of New Jersey - Forfeiture Program Administration Standard Operation Procedure - This enclosure provides the index and copies of all the standard operating procedures required in the implementation of the forfeiture program.
4. N.J.S.A. 40A:5-1 et seq. Local Fiscal Affairs Law - Title 40A is the authority for auditing firms to follow in the administration and operation of the audit.
5. N.J.A.C. 5:30-6.1 et seq. Annual Audit - These regulations describe the requirements and standards for conducting the annual audits.
6. Department of U.S. Treasury - Guidelines for Seized and Forfeited Property, Revised Edition July **2001**

Samples

7. Sample - Audit Plan
8. Sample - Balance Sheet/Statement of Assets, Liabilities, Reserves, and Fund Balance with comparative totals for the previous year
9. Sample - Statement of Revenues, Expenses, and Changes in Fund Balance with comparative totals for the previous year
10. Sample - Cash Flow Analysis with comparative totals for the previous year
11. Sample - Schedule of Distribution to Law Enforcement Agencies
12. Sample - Schedule of Law Enforcement Trust Fund Expenditures
13. Sample - Statement of Vehicles and Property - Seized and Forfeited
14. Sample - Independent Auditor's Report
15. Sample - Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Statutory Basis Financial Statements performed in accordance with Government Auditing Standards
16. Sample - Schedule Findings and Recommendations
17. Sample - Summary Schedule of Prior Audit Findings Year Ended xx/xx/xxxx

Authority: Attorney General Law Enforcement Directive 2004-4
Enclosure 1: Law Enforcement Directive 2004-4

Authority: N.J.S.A. 2C:64-1 et seq. Forfeiture
Enclosure 2: Chapter 64 Forfeiture

Authority: State of New Jersey Forfeiture Program Administration Standard
Operating Procedures (SOP's 1-12)
Enclosure 3: SOP's 1-12

I. Purpose:

The purpose of this manual is to implement the provisions of Attorney General Law Enforcement Directive 2004-4 (Enclosure 1), by providing protocols for annual Certified Public Accountant (CPA) audits of accounts containing seized and forfeited property subject to the provisions of Title 2C of the New Jersey Code (Enclosure 2).

The primary purposes of audits by the independent auditor are:

- A. To evaluate the effectiveness, efficiency, economy, and compliance with which the Prosecutor's Offices carry out their financial, management, and program responsibilities.
- B. To assist the Attorney General and County Prosecutor in carrying out their responsibilities by providing objective and timely information on the conduct of all seizure and forfeiture financial activities, to include conclusions and recommendations.

II. Background:

A review of external independent CPA audit reports revealed the desirability of standardizing the evaluations of the internal accounting and administrative controls over the county forfeiture programs. The Attorney General, in consultation with the County Prosecutors' Association of New Jersey has decided to publish this manual to

elevate, integrate, and institutionalize CPA auditing practices to ensure a uniform audit approach throughout the 21 County Prosecutors' Offices. This decision was made to enhance existing auditing practices, and not in response to any finding of impropriety. The Attorney General Directive authorizing this manual is included in Enclosure 1. Prior to adoption of this Manual for External Audits of County Forfeiture Accounts (Manual), a copy of the Manual was circulated to the County Prosecutor's Association of New Jersey, the Division of Criminal Justice, the New Jersey Society of CPAs, and forfeiture auditors for comment. The Manual was posted on the Office of Government Integrity web page for public comment. Suggestions and comments on the Manual were addressed in the final version of the Manual.

III. Prosecutor's Responsibilities:

Each Prosecutor's Office is responsible for managing and using its resources -- funds, property, and personnel -- for authorized law enforcement programs or activities, and for conducting its programs or activities in an effective, efficient, and an economical manner. Each office's system of organization, management, and control should be designed to accomplish these ends, with due regard to the requirements of applicable laws, regulations, directives, and SOPs.

The prevention of misuse of the forfeiture program is of extreme importance and that responsibility rests with the Prosecutor. The Prosecutor's Office structure, the division of accounting responsibilities, and related control procedures should be devised to prevent misuse, and an internal accounting and administrative control system should be in operation to detect any consequential irregularity.

With regard to the independent audit of seized and forfeited property, the County Prosecutor shall endeavor to include in any written audit agreement executed by the auditor who is to perform the audit a provision that the auditor will adhere to this Manual, the applicable statutes, regulations, and standard operating procedures. The Manual includes all current references as listed in the Table of Contents. It shall

be the responsibility of the County Prosecutor to provide the contracted auditor with a copy of the Manual and all revisions. Furthermore, the County Prosecutor will provide a contact person for the auditor and access to the appropriate records and personnel needed to complete the audit. It is the primary responsibility of the County Prosecutor to insure the contracted auditor provides an audit as defined in the Manual. Prosecutors' Offices with concerns about providing access to confidential information shall consult with DCJ.

Upon receipt, the County Prosecutor shall forward one copy of the CPA audit report to the Division of Criminal Justice and one copy to the Office of Government Integrity. The CPA auditor shall file a copy of the audit report with the Division of Local Government Services, in the Department of Community Affairs pursuant to N.J.S.A. 40A:5-6, if the overall county government audit report does not include forfeiture accounts. Each County Prosecutor shall be responsible for addressing any findings in the annual external audit and furnish a response to DCJ within 120 days of receipt of a copy of the audit.

IV. Scope of Independent Audit:

Section A. Seized and Forfeited Funds

Independent audits extend to seized or forfeited property (funds and other tangible and intangible assets), and the administration and operation of accounts related to seized and forfeited property. The authority for the administration and operation of these accounts is outlined in N.J.S.A. 2C:64-1 et seq. (Enclosure 2) and the State of New Jersey, Forfeiture Program Administration, Standard Operating Procedure (Enclosure 3). The basic audit requirements for these accounts are described in N.J.S.A. 40A:5-1 et sea. (Enclosure 4) and N.J.A.C. 5:30-6.1 Annual Audit (Enclosure 5). In addition to the audit of these accounts, the auditor will be required to test for compliance with the aforementioned statutes, regulations, and standard operating procedures.

Auditors shall have full access to all documents, accounts, and work papers. Audits shall be set up in a manner to avoid confidentiality issues. Any failure by the prosecutor or staff to provide the auditor with access to records and personnel must be incorporated in the auditor's report and opinion.

Section B. Confidential Funds:

The CPA will audit confidential funds only to the extent of reviewing internal controls and the totals, not including allowing or disallowing specific transactions. DCJ shall have responsibility for the financial review of confidential funds.

V. Audit Plan:

Each audit must include an audit plan as a part of the auditor's work papers. The audit plan incorporates the minimum audit procedures which must be utilized by the auditor in establishing accountability for seized and/or forfeited property, and tests for compliance with forfeiture statutes, regulations, directives, and SOPs (Enclosure 7). Both the audit plan and work papers shall be maintained by the auditor for a period of seven (7) years.

VI. Independent Auditor's Report and Opinions:

Upon completion of the audit, the auditors shall prepare two reports to be included in the audit. The first shall be a report and opinion containing the financial audit with findings and recommendations: The second shall be a report as to the internal controls citing material weaknesses and reportable conditions. All the information outlined in the Forfeiture Program CPA Audit Standards segment of this Manual shall be included in the financial audit report. Three copies of the audit report shall be addressed to the County Prosecutor.

VII. Forfeiture Program CPA Audit Standards:

Section A. Basis of Accounting

Accounting principles and practices as prescribed by the Division of Local Government Services require the financial statements to be presented in accordance with a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, revenues are realized only when collected and expenditures are recorded when incurred.

Section B. Audit Standards

In addition to the minimum requirements for all CPA audits set forth above, the auditor shall comply with the requirements outlined in the following authoritative resources, as required by N.J.S.A. 40A:5-1 et seq. (Enclosure 4) and N.J.A.C. 5:30-6.1 (Enclosure 5), incorporated herein by reference, in conducting the annual audit as appropriate and applicable:

1. Generally Accepted Auditing Standards as promulgated by the American Institute of Certified Public Accountants;
2. Government Accounting Standards Board with regard to disclosure of notes to the financial statements;
3. U.S. Office of Management and Budget Circular A-133;
4. New Jersey Office of Management and Budget Circular 98-07; and,
5. Generally Accepted Government Auditing Standards promulgated by the U.S. General Accounting Office.

6. Requirements of Audit may be obtained from:
 - Local Finance Board
 - Division of Local Government Services
 - Department of Community Affairs
 - PO Box 803
 - Trenton, New Jersey 08625-0803

Section C. Audit Report Content

The following are the minimum content requirements for the CPA's annual audit of Seized Asset Trust Account, the Law Enforcement Trust Account, the Asset Maintenance Account, Federal Justice Account, and the Federal Treasury Account(Enclosure 6). Each audit must contain the following:

1. Independent Auditor's Report (Enclosure **14**)
2. Report on compliance with forfeiture statutes, regulations, directives, SOPs, and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards (Enclosure 15).
3. Balance sheet containing assets, liabilities, and fund balance for the forfeiture-related accounts. Unclaimed funds included in the Seized Asset Trust Account balance for more than three (3) years must be clearly identified and reported as a finding. Any other accounts which may be funded by forfeiture funds, i.e., petty cash, extradition account, etc., are to be included in the audit.
4. A Statement of Revenues, Expenses, and Changes in Fund Balance for the forfeiture-related accounts must include revenue, expenditures,

forfeiture-related costs, and changes in fund balance. The Statement of Revenues, Expenses, and Changes in Fund Balance shall include explanatory footnotes relating to each Law Enforcement Trust Account, Asset Maintenance Account, and forfeiture expenditure. The memo section of a check must tie a check into an expenditure, invoice, or corresponding record, if not, this must be reported in the audit report.

5. Statements of Inventory are to be expressed in units and dollar value. Vehicles are to be reported separately from all other property. Units and dollar value for vehicles and property are to be classified in two categories: first, seized property and second, property which has been forfeited to the Law Enforcement Trust Account. Records of forfeited property should be maintained separately for the length of time required by SOP 3 (*2 years for vehicles; 1 year for other property worth more than \$500*).

6. Minimum supplemental exhibits consisting of the following:
 - a. Statement of Cash Flow - Include a cash flow analysis for the Seized Asset Trust Account, Asset Maintenance Account, and the County Law Enforcement Trust Account.

 - b. Schedule of Municipal and Other Law Enforcement Agency Distributions and Expenditures - Include every local law enforcement entity in the Schedule of Municipal and Other Law Enforcement Agency Distributions and Expenditures regardless of the amount of money received (zero or greater).

c. Statement of Seized and Forfeited Vehicles expressed in units and dollars, valued at lower of Cost or Market • the auditor shall report on the existence/nonexistence of inventory control systems, as required by SOP 8:2B.3-7, to include the tracking of seized vehicles and the tracking of vehicles forfeited or purchased with forfeiture funds.' The vehicle tracking system shall include the following information maintained in a database and the vehicle file:

- 4 Value of the vehicle at the time of seizure
- 4 Condition of the vehicle at the time of seizure (photographs should be considered for the vehicle file)
- 4 Vehicle mileage
- 4 Final disposition of vehicle

d. Statement of Seized and Forfeited other Property expressed in units and dollars - The property tracking system shall include the following information maintained in a database and the case file:

- 4 Value of the property at the time of seizure
- 4 Condition of the property at the time of seizure (photographs should be considered for the file)
- 4 Final disposition of property²

Note: Since the dollar value given to unusable items such as weapons and drugs is meaningless, it is further recommended that the inventory value of this type of seized property be eliminated from the financial statements except as a footnote to expenses incurred for the destruction of this type of property.

¹ Forfeited **vehicles** or vehicles purchased with funds from the Law Enforcement Trust Account should be tracked separately as forfeited property for at least two years. SOP 3.

² Forfeited property or property purchased with funds from the Law Enforcement Trust Account with a fair market value of five hundred dollars or more should be tracked separately as forfeited property for at least one year; forfeited real estate should be tracked separately as long as it is held by the funding entity. SOP 3.

- e. Schedule of Findings and Recommendations - if none, state "None"
- f. Summary Schedule of Prior Year Audit Findings and Status.
- g. Notes to Financial Statements

Note: The supplemental exhibits listed in this paragraph 6 are required. Suggested formats and supplemental exhibits are included in Tabs 10 through 17. Auditors need not use a suggested format, so long as the information is presented.

- 7. Other possible supplemental exhibits consisting of the following:
 - a. Schedule of Cash Reconciliation
 - b. Schedule of Investments
 - c. Additional statements and schedules may be added at the discretion of the auditor.

Section D. Standardized Terminology

- 1. CPA auditors shall adhere to the terminology used in the forfeiture-related statutes, regulations, Standard Operating Procedures, and the Manual.
- 2. References to forfeiture-related accounts must not be confused by using any other terms, such as "confiscated," or "special" funds, or related terms when referring to these accounts.

Section E. Financial Statement Presentation -

1. It is recommended that the format for the Balance Sheet (Enclosure 8) and Statement of Revenues, Expenses, and Changes in Fund Balance (Enclosure 9) be in columnar form with a comparison of the current year with the prior year (total memorandum only). All other schedules will be considered as supplemental to the required schedules.

2. If the auditor uses a columnar format or another approach, the statements must include the Seized Asset Trust Account, the Law Enforcement Trust Account, the Asset Maintenance Account, the Federal Justice Account and the Federal Treasury Account. It is not required to use the recommended standardized format as long as the accounting information is prepared as suggested, and is available in the required schedules and supplemental schedules.

3. Specific regulations and requirements for State and Federal forfeiture programs are included in this manual.

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TAB NO. 1