INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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INTERNAL CONTROL REVIEW
OF
SHERIFF-CORONER

CONTRACT ADMINISTRATION AND CASH DISBURSEMENTS

For the Period
November 1, 2005 through December 31, 2006

AUDIT NUMBER: 2664 **REPORT DATE: July 26, 2007**

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Internal Control Review of
Sheriff-Coroner
Contract Administration and Cash Disbursements

For the Period
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COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

Transmittal Letter

Audit No. 2664

July 26, 2007

TO: Michael Carona
Sheriff-Coroner

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Internal Control Review of Sheriff-Coroner Contract Administration and Cash Disbursements

We have completed our Internal Control Review of Sheriff-Coroner contract administration and cash disbursement processes at Facilities Operations and South Operations for the period November 1, 2005 through December 31, 2006. The final report is attached along with your responses to our recommendations.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our **first Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will begin at 12 months from the release of the original report, by which time all audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a Follow-Up Audit Report Form. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will request your department complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of our final report.

Attachments

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Jo Ann Galisky, Undersheriff
Daniel Martini, Assistant Sheriff, Special Services
Ron White, Captain, South Operations
Bill MacDonald, Manager, Administration, Facilities Operations
Rick Dostal, Director, Financial/Administrative Services
Jane Reyes, Assistant Director, Financial/Administrative Services
Nicole Macias, Financial Officer, Financial/Administrative Services
Nasrin Solomon, Audit Manager, Financial/Administrative Services
Jeff Franzen, Manager, Financial Operations, Financial/Administrative Services
Paula Kielich, Manager, Purchasing
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

INTERNAL AUDITOR'S REPORT

Audit No. 2664

July 26, 2007

TO: Michael Carona, Sheriff-Coroner

SUBJECT: Internal Control Review of Sheriff-Coroner Contract Administration and Cash Disbursements

Scope of Review

We have completed our Internal Control Review of Sheriff-Coroner contract administration and cash disbursement processes at Facilities Operations and South Operations for the period November 1, 2005 through December 31, 2006. Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors.

Results

Based on our audit, **no material weaknesses were identified.** However, we did identify **four Significant Issues** and **eight Control Findings** resulting in **12 recommendations** to improve controls and processes as discussed in the Detailed Observations, Recommendations and Management Responses section of this report. See *Attachment A* for a description of Report Item Classifications.

Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual section S-2 - *Internal Control Systems*, "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because *management has primary responsibility* for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated and weaknesses, when detected, must be promptly corrected." The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Internal Audit's review enhances and complements, but does not substitute for the Sheriff-Coroner's continuing emphasis on control activities and self-assessment of control risks.

While our report indicates the specific areas where our observations are directly applicable, **the Sheriff-Coroner should implement the recommendations in other contract administration and cash disbursement processes they find applicable.** An expectation of the Board of Supervisors is that departments and agencies will view this report as a "lessons learned" opportunity to guide them in proactively self-assessing other similar operations or processes.

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

Inherent Limitations in Any System of Internal Control
Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our review made for the purpose described above *would not necessarily disclose all weaknesses* in the Sheriff-Coroner's operating procedures, accounting practices and compliance with County policy.

Acknowledgment
We appreciate the courtesy and cooperation extended to us during the audit by the personnel of Facilities Operations, South Operations, Financial/Administrative Services and Purchasing. If we can be of further assistance, please contact me or Eli Littner, Deputy Director at (714) 834-5899 or Michael Goodwin, Senior Audit Manager, at (714) 834-6066.

Respectfully Submitted,

Peter Hughes, Ph.D., CPA
Director, Internal Audit

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:
Members, Board of Supervisors
Members, Audit Oversight Committee
Jo Ann Galisky, Undersheriff
Daniel Martini, Assistant Sheriff, Special Services
Ron White, Captain, South Operations
Bill MacDonald, Manager, Administration, Facilities Operations
Rick Dostal, Director, Financial/Administrative Services
Jane Reyes, Assistant Director, Financial/Administrative Services
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Paula Kielich, Manager, Purchasing
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted an Internal Control Review of contract administration and cash disbursements that included in its scope a limited review of the accuracy over financial and accounting records; the adequacy and integrity of internal controls; compliance with applicable rules, regulations and department policies; and evidence of process efficiencies and effectiveness. The objectives of our audit were to determine if internal controls are in place and operating to ensure that:

- Contracts are appropriately monitored to prevent overruns; contract expenditures are reviewed and approved prior to payment; adequate supporting documentation exists for work/services performed; and expenditures are allowable in accordance with contractual requirements.

- Contract payments are processed completely, accurately, timely, and in compliance with management's authorization.

- Business processes are efficient and effective as related to Sheriff-Coroner contract administration and cash disbursements in the locations we reviewed.

SCOPE

Our audit reviewed controls and processes over contract administration and cash disbursements at two locations: **Facilities Operations** and **South Operations.** We also reviewed certain processes in Purchasing and Financial Operations/Accounts Payable related to our audit. We did not audit other types of contracts or contract administration processes at other Sheriff-Coroner locations. Additionally, we did not review the contract bidding and development processes, or other areas related to purchasing. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation relating to contract administration and cash disbursements in the above noted areas.

BACKGROUND

The primary mission of the Sheriff-Coroner is to provide a safe environment for all residents, businesses and visitors in Orange County. The Sheriff-Coroner is comprised of four main organizational areas: Operations, Investigations/Communications/Court Operations, Special Services, and Jail Operations.

Facilities Operations, a unit of the Research & Development Division under Special Services, is responsible for building maintenance for approximately 2 million square feet of Sheriff Department facilities. As of December 2006, **Facilities Operations had 57 Price Agreements totaling approximately $2.8 million.** South Operations provides contracted police services to cities and unincorporated areas in South County. **South Operations had 25 active Price Agreements totaling approximately $4 million** and **25 Purchase Orders totaling approximately $242,245.** Our audit included South Operations Main Headquarters and the Mounted Enforcement Unit at Musick Jail.

Contract Administration. Divisions that administer price agreements/contracts <u>are primarily responsible</u> for monitoring contract expenditures and preventing contract overruns. To accomplish this, divisions should have appropriate processes and tools in place to monitor expenditures for compliance with contract terms and that they do not exceed authorized contract amounts. Accounts Payable generates a Financial Integrated System (FIS) *Contracts List* that shows remaining contract balances and expiration dates. These reports are provided to user divisions as a monitoring tool; however, some divisions also utilize their own contract tracking systems. Accounts Payable also has a process where it notifies user divisions when contract balances reach a certain threshold so as not to exceed the authorized contract amount.

Cash Disbursements/Invoice Processing. Vendor invoices are received either directly in the divisions or in Financial Operations, who submits them to the applicable divisions for review and approval. Invoices are reviewed against contract terms and other supporting documentation verifying the receipt of contracted goods/services, and are then approved by authorized individuals. Invoices are submitted back to Accounts Payable, who verify invoice and contract information and send the payment request to A/C Claims & Disbursing for check issuance to the vendor.

RESULTS

No material weaknesses were noted. Based upon the objectives of our audit, we noted the following:

Objective: *To determine if contracts are appropriately monitored to prevent overruns; contract expenditures are reviewed and approved prior to payment; adequate supporting documentation exists for work/services performed; and expenditures are in accordance with contractual requirements.*

Results: **Facilities Operations** has controls and processes in place to ensure contracts are appropriately monitored to prevent overruns. We have no recommendations in this area. *Facilities Operations should be considered as a benchmark in contract administration when reviewing contracting processes in other Sheriff-Coroner locations.*

South Operations did not have adequate controls and processes in place to ensure contracts are appropriately monitored to prevent overruns. We note in this report where improvements are needed in contract administration and monitoring; paying for contract-related purchases with revolving funds; purchasing contracted goods/services; and segregating purchasing and contracting duties, which we consider collectively as **Significant Issues.** (See Attachment A for a description of Report Item Classifications.) *South Operations personnel were very cooperative and responsive in taking immediate corrective action on several issues as they were identified.*

At **Facilities Operations** and **South Operations**, controls and processes are generally in place to ensure contract expenditures are reviewed and approved, supporting documentation existed, and expenditures were within contractual requirements. We note in our report where enhancements are needed in agreeing invoices to price agreements, documenting reviews and approvals, and retaining invoice support documentation. These are considered **Control Findings**.

Objective: *To determine if contract payments are processed completely, accurately, timely, and in compliance with management's authorization.*

Results: Controls and processes are in place to ensure contract payments are processed timely, completely, and accurately. We note in our report an item in Facilities Operations concerning invoice processing times. This is considered as a **Control Finding**.

Objective: *To determine if business processes are efficient and effective as related to contract administration and cash disbursements.*

Results: No inefficient or ineffective procedures came to our attention during fieldwork.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Our audit reviewed controls and processes over contract administration and cash disbursements in **Facilities Operations** and **South Operations**, which also included limited reviews in Purchasing and Financial Operations/Accounts Payable. Below are our observations and recommendations categorized by location and by subject of contract administration and invoice processing:

FACILITIES OPERATIONS

As of December 2006, Facilities Operations had 57 Price Agreements totaling approximately $2.8 million, which included 23 commodity agreements, 34 service/maintenance agreements, and 8 Master Price Agreements. Facilities Operations identifies their Price Agreements as "Standing Contracts."

Contract Administration

Facilities Operations utilizes a Computerized Maintenance Management System (CMMS) to track Standing Contracts, facility maintenance and contract expenditures. We observed that the Contract Services Supervisor generates weekly *Standing Contract Costs Reports* from CMMS and sends the reports via e-mail to contract administrators in Facilities Operations. Any Standing Contracts with 25% remaining are highlighted in the reports, and the e-mails specifically identify contracts with low balances. Meetings are held weekly to discuss the cost report and any contracts with 25% remaining. Facilities Operations also receives a *Contracts Listing* from Accounts Payable, which identifies contract balances and expiration dates; however, Facilities Operations relies more on its *Standing Contract Costs Reports* for purposes of monitoring contract status. Management in Facilities Operations indicated they have a zero tolerance policy regarding contract overruns.

We found that Facilities Operations has adequate contract administration, monitoring and notification processes in place to help prevent contract overruns. Therefore, we have no recommendations in this area. **The Sheriff Department should consider Facilities Operations as a benchmark for contract administration when considering similar contracting processes in other locations.**

Invoice Processing

Facilities Operations generates a *Daily Accounts Payable List* from CMMS that includes contract items purchased and invoiced amounts. This report is provided to Craft Supervisors, the Contract Supervisor, Storekeeper and Administrative Manager I to enable them to monitor vendor payments. Each month, an *Open Accounts Payables* report is generated, which includes items identified as "Hold" status. Each of these is analyzed to determine why the vendor was not paid.

Facilities Operations also receives the monthly FIS *Contract Listings* from Accounts Payable. The *Contract Listing* is reviewed and compared with balances shown on the CMMS *Standing Contract Costs Report*. Differences exist since the CMMS report includes encumbrances and the FIS report includes only invoices processed. Facilities Operations researches significant variances to ensure that invoices were properly processed and were correctly applied to the Price Agreement.

We noted the following observations concerning invoice processing in Facilities Operations:

1. **Comparing Invoices with Price Agreement Terms (Control Finding).** We noted the following two Price Agreements where vendor invoices were not prepared in accordance with contract terms and were not detected during invoice processing. In both instances, we found no written documentation noting the reasons for the differences between contract terms and invoiced items.

   - Tririga Price Agreement ($44,096 annually) is for maintenance and support of various site licenses. We noted two incorrectly prepared vendor invoices that were $638 less than should have been charged based on the annual Price Agreement contract amount.

   - GE Security Inc. (dba Edwards Services) Price Agreement ($50,425 annually) is for preventative maintenance and repair services to fire and life safety systems. The contract specifies 1/12 of the annual inspection requirement be done monthly; weekly inspections of the fire alarm panel, and bi-monthly inspection and cleaning of smoke detectors. However, the vendor provided a quarterly inspection in place of required weekly, monthly and bi-monthly requirements and billed the County on a quarterly basis. Other items noted included *Exhibit D* which allows for monthly payment in arrears; whereas the vendor was actually billing two months in advance. Also, inspection reports are referenced as support documentation for invoice payments. We noted that inspection reports were not consistently provided in accordance with the Price Agreement terms.

   Recommendation No. 1
   We recommend Facilities Operations ensure invoices and required supporting documentation are validated to Price Agreement terms before approving them for payment. Any differences between contract terms, required supporting documentation, and invoice amounts should be researched and documented in writing.

   Sheriff-Coroner Management Response:
   The Sheriff-Coroner Department (hereafter the Department) concurs with the recommendation and the Division has issued an internal policy memorandum to emphasize and reinforce the importance of documenting action taken to validate services and materials received against price agreements, confirm contract terms, approve vendor invoices and approve corrections made to invoices.

   In the case of the Tririga Price Agreement, the vendor did invoice per the price agreement; however, staff noted that services billed had not been performed. The staff corrected the invoice accordingly but did not adequately document the reason for the correction.

   In the case of GE Security, Inc. (dba Edwards Services), the variance in the inspection reports was a result of the acquisition of Edwards Services by GE Security, Inc. Facilities Operations staff appropriately withheld payment until the services were performed and paid the invoices in arrears as specified in the price agreement. The contract administrator has initiated action with GE Security Inc. in order to correct inspection dates and billing cycles.

2. **Documented Reviews and Approvals of Invoices (Control Finding**). The invoice review and approval process includes reviewing contractor supporting documentation to contract terms and requirements, and/or verifying receipt of goods/services received from the divisions before paying the invoices. Documented reviews and approvals provide evidence that goods/services

were satisfactorily received in accordance with contract terms. We noted two areas where invoice review and approval is performed but is not documented:

- An Administrative Manager reviews Receivers (one-time Purchase Orders) to invoice support documentation before submitting the invoices to Purchasing.

- Project Managers/Shop Planners give verbal approval of project completion when delivering invoices to the Contract Services Supervisor.

Recommendation No. 2
We recommend Facilities Operations personnel document their invoice review and approval showing that goods/services were satisfactorily received in accordance with contract terms.

Sheriff-Coroner Management Response:
The Department concurs with the recommendation and the Division has issued an internal policy memorandum to emphasize and reinforce the importance of documenting action taken to validate all services and materials invoices.

3. **Retention of Shipping Documents (Control Finding).** Three of five invoices we reviewed did not have proper support documents because shipping documents had not been retained. Shipping documents provide evidence of goods received and are part of the three-way match in ensuring goods/services requested were actually received (e.g., purchase requisition, shipping/receiving document, and vendor invoice).

Recommendation No. 3
We recommend that Facilities Operations ensure packing slips/shipping documents are retained as supporting documentation.

Sheriff-Coroner Management Response:
The Department concurs with the recommendation and the Division has issued an internal policy memorandum to emphasize and reinforce sign off and retention of all shipping documents including a requirement that the receiving party document in writing, the receipt of materials or services if shipping documents are lost or not provided.

4. **Invoice Processing Times (Control Finding).** Facilities Operations has an informal procedure that requires invoices to be processed and sent to either Accounts Payable or Purchasing within 15 days of invoice receipt. We noted in our testing that 4 of 14 invoices (29%) reviewed were not sent to Accounts Payable or Purchasing within 15 days. The four invoices were sent between 19 days and 4 months after receipt of the invoice.

Recommendation No. 4
We recommend Facilities Operations ensure invoices are processed within the established procedural timeframe. Any exceptions should be documented in writing as to the reasons for delays in processing invoices.

Sheriff-Coroner Management Response:
The Department concurs with the recommendation and the Division has added emphasis to its internal policy designed to reinforce the 15 days Division target for invoice processing time. The policy also requires documentation of reasons for any delays in processing.

SOUTH OPERATIONS

South Operations utilizes Price Agreements, one-time Purchase Orders and County Master Agreements. During the audit period, South Operations had 25 active Price Agreements totaling approximately $4 million which included 9 for Commodities; 8 for Service/Maintenance; 8 for Rental/Lease Agreements, and 25 Purchase Orders totaling approximately $242,245. Our audit reviewed controls and processes at **South Operations Main Headquarters** and the **Mounted Enforcement Unit** at the Musick Jail Facility. We identified the following items which we consider collectively as **Significant Issues**. It should be noted that South Operations personnel were very committed and responsive to our recommendations and started taking corrective action as issues were identified during our audit.

Contract Administration

Contract administration and invoice approval are primarily centralized at South Operations Main Headquarters. Purchase requests are initiated via e-mail or phone to the Administrative Manager at Main Headquarters. The Administrative Manager reviews the existing Price Agreements to determine whether the item(s) may be purchased using the established agreement or if a new Price Agreement needs to be created. A majority of the purchased items are shipped to Main Headquarters. An invoice tracking spreadsheet is maintained for seven vendors only. Based on our audit, we noted the following observations concerning contract administration in **South Operations Main Headquarters**:

5. **Contract Administration and Monitoring (Significant Issue).** South Operations has 25 active Price Agreements; however, contract expenditures are only monitored for 7 Price Agreements using invoice tracking spreadsheets. Our review of the tracking process noted the following:

   - The columns for "Date Paid" and "Amount Paid" were not entered on the spreadsheets.
   - Staff did not have access to CAPS/ERMI to track the status of invoice payments. South Operations staff would sometimes contact vendors to determine if payments were received.
   - The spreadsheets do not identify remaining contract balances for purposes of preventing contract overruns or determining if a Price Agreement modification is necessary.
   - We noted one instance where a **contract overrun** of $150 had occurred which resulted in delays in paying a vendor (Professional Farrier Services – see Report Item No 11).
   - Contract balances are not periodically reconciled to Accounts Payable's *Contracts List*.
   - There were no written procedures in place for monitoring Price Agreements and for related invoice processing. Staff expressed a commitment for improvement in this area and a desire for additional training and expertise.

   It is important to have a process in place by which all Price Agreements and expenditures are monitored and communicated to prevent future contract overruns. Primary responsibility for contract administration and monitoring should be clearly established and communicated. To have effective monitoring processes, tracking spreadsheets should identify the authorized contract amounts, expenditures incurred-to-date, and the remaining contract balances. A notification process should be in place when contract balances reach a designated threshold. This monitoring and communication process should be documented into written policy when formalized.

Recommendation No. 5.
We recommend South Operations establish contract administration procedures and tracking mechanisms for all Price Agreements under their administration. This includes designating responsibility for contract monitoring; developing and maintaining tracking spreadsheets; establishing notification protocols; developing and distributing written procedures, and ensuring staff is trained and have the appropriate tools to monitor Price Agreements.

Sheriff Management Response:
The Department concurs with the recommendation and the Division has issued an internal policy memorandum and revised internal procedures that incorporate all of the recommendations above.

6. **Segregation of Duties (Significant Issue).** The following duties are not adequately segregated:

- The Administrative Manager is responsible for contract oversight, including determining contract scope and specifications; advising Division Commanders regarding contract amendments; placing orders for supplies/services with vendors; verifying the receipt of goods and services; approving vendor invoices, and monitoring contract expenditures.

- The Office Supervisor is responsible for placing orders for supplies; verifying receipt of goods; approving vendor invoices, and monitoring contract expenditures.

Duties of contract administration, ordering, verifying goods and services received, and approving vendor invoices should be segregated to reduce the opportunities for any one person to be in a position to both perpetrate and conceal errors or irregularities. If duties cannot be adequately segregated, a detailed supervisory review would be a mitigating control.

Recommendation No. 6
We recommend South Operations segregate the duties of contract administration, ordering and confirming goods/services received, and reviewing and authorizing vendor payment. If duties cannot be adequately segregated, supervisory review should be established to mitigate risk.

Sheriff-Coroner Management Response:
The Department concurs with the recommendation and the Division as issued an internal policy memorandum and revised internal procedures that incorporates supervisory review at multiple levels.

All requisitions, in accordance with existing Department policy require approval by the Division Commander/Director or other authorized signer as designated by the Division Commander/Director. Additionally all purchase requisitions over $3,000 and contract renewals that will increase $3,000 or more require a signature for authorization by the Assistant Sheriff responsible for a given Division. It is the responsibility of the Division to obtain the Assistant Sheriff's approval prior to submitting the request to their Budget Analyst for review and processing. The following exceptions to this policy continue to be in place: 1) opportunity buys; 2) facility maintenance, alterations and improvements, which all must be processed through Research & Development Division; 3) renewal of contract agreement/amendments under $3,000, 4) purchases that are offset by grant funding, and 5) budgeted equipment (these exceptions have their own approval requirements).

7. **Purchasing of Goods/Services (Significant Issue).** At the Mounted Enforcement Unit, the Correctional Farm Supervisor and Farm Foreman are responsible for placing orders to vendors. We noted these individuals did not have copies of the current Price Agreements for Equine Veterinarian Service and Professional Farrier Services. As a result, staff was unaware of the authorized limits in these Agreements and an overrun occurred with one contract - see report Item No. 9. We also noted two instances where items were purchased that were not included in the Price Agreements for Kruse Feed & Supply and Fly Guard Systems, Inc. Although staff had a copy of the agreements, the items were assumed to have been allowable per the agreements. Staff responsible for purchasing goods and services should maintain the related Price Agreement and validate the propriety of goods/services requested.

   Recommendation No. 7
   We recommend South Operations ensure the divisions responsible for ordering goods/services are provided the respective Price Agreements. Purchase requisitions should be verified to the terms of the Price Agreements before approving the requests.

   Sheriff Management Response:
   The Department concurs with the recommendation and the Division has implemented procedures that will ensure that each unit within the Division, responsible for placing and receiving orders for goods/services, receive copies of any related Price Agreements. Training in the Department's established policies and procedures related to purchasing will be provided.

Invoice Processing

Vendor invoices are received at Main Headquarters and at the Mounted Enforcement Unit where they are compared to packing slips and purchase requisitions. Invoice copies are maintained and the originals are submitted to Accounts Payable for processing. We noted the following observations:

8. **Items Purchased with Revolving Funds – Main Headquarters (Significant Issue).** Prior to the modification of the Adamson Police Products Price Agreement, effective 3/1/06, the agreement only included flares. However, we noted that Adamson was used on a regular basis to purchase other police supplies such as drug kits, chalk, barrier tape, etc. As a result, vendor invoices would also contain items not included in the Price Agreement. When paying invoices, items included in the Price Agreement were calculated separately and paid with contract funds. Items not in the agreement were paid for using revolving funds.

   The Auditor-Controller *County Accounting Manual* procedure C.7 –*Revolving Cash Fund*, Section 1.4.1 states the revolving funds may not be used in instances such as "purchasing additional supplies and/or services from a contract vendor in lieu of using a change order or contract modification." Although the Adamson agreement was modified, South Operations should ensure this practice is not occurring with other existing Price Agreements.

   Recommendation No. 8
   We recommend South Operations ensure compliance with County Accounting Procedures concerning use of revolving funds to pay for items not included in existing Price Agreements.

   Sheriff-Coroner Management Response:
   The Department concurs with the recommendation and the Division has added procedures including training and supervisory review to ensure compliance with County Accounting Procedures concerning use of revolving funds to pay for items not included in existing Price Agreements. In addition, the Division has reviewed frequently purchased items and is modifying existing Price Agreements when necessary to add goods/services that are purchased or utilized on a frequent and recurring basis.

9. **Agreeing Invoice Amounts to Price Agreements – Main Headquarters (Control Finding).** We noted invoices for the Adamson Police Products Price Agreement where the vendor incorrectly charged $24 for cocaine test kits. The Price Agreement states the price as $19. This was not detected because the Price Agreement was not reviewed during invoice processing. Invoice approval should include verification that goods were billed in accordance with Price Agreement terms. In these instances, the result was overpayment to the vendor.

   Recommendation No. 9
   We recommend South Operations establish a process by which vendor invoice prices are agreed to Price Agreements when approving invoices. South Operations should also identify the overpayments made on the Adamson Police Products Price Agreement and determine if any refunds or future adjustments are necessary.

   Sheriff-Coroner Management Response:
   The Department concurs with the recommendation. The Division Administrative Manager and Office Supervisor have already begun a review of all Price Agreements to ensure that current price lists are available. Procedures have been developed to compare vendor prices per the invoices to the Price Agreement prior to approving an invoice for payment.

   The Divisions will also review the Adamson Police Products Price Agreement and paid invoices to identify any potential variances in pricing to determine if adjustments are required. The Division will work with Financial Services and Purchasing to obtain refunds or complete contract modifications as appropriate.

10. **Retention of Shipping Documents–Main Headquarters (Control Finding).** Shipping documents are not retained. Shipping documents provide evidence of goods received and support for amounts invoiced.

    Recommendation No. 10
    We recommend that South Operations ensure packing slips/shipping documents are retained.

    Sheriff-Coroner Management Response:
    The Department concurs with the recommendation and the Division has issued an internal policy memorandum that requires the retention of all written approvals, packing slips and shipping documentation.

ACCOUNTS PAYABLE

The following observations and recommendations are from our review Accounts Payable's processes concerning contract administration and cash disbursements:

11. **Contract Status Notification (Control Finding).** A Price Agreement for Professional Farrier Services was established to provide horse shoe services. We noted that an invoice dated August 10, 2006 was not processed and paid until October 2006 due to a contract overrun of $150. Mounted Enforcement Unit staff informed us of recent problems in processing vendor invoices. This particular vendor was not paid for several months and had called to request payment.

    Our audit noted that Accounts Payable was aware in July 2006 that expenditures exceeded the authorized balance; however South Operations Main Headquarters was not notified by Accounts Payable until September 1, 2006. This was cited as an oversight by management as they usually provide timely notification to the divisions.

    Accounts Payable generates monthly *Contracts Lists* and has a process to notify divisions when contracts reach a designated 70% threshold. We believe this process is an important "backstop" in helping the divisions monitor their contracts. Because our audit did not review Accounts Payable's notification process, we suggest a self-assessment of the process be conducted to determine its effectiveness.

    Recommendation No. 11
    We recommend Financial/Administrative Services assess Accounts Payable's contract notification process to determine its effectiveness and if any enhancements are needed to ensure divisions receive timely notification of remaining contract balances.

    Sheriff-Coroner Management Response:
    The Department concurs with the recommendation and has requested that the Department's Audit Services unit conduct an internal review of the existing process and make recommendations as appropriate.

12. **Lists of Authorized Signers (Control Finding).** We noted that Accounts Payable does not maintain a list of division designees authorized to approve vendor invoices. Although Accounts Payable acknowledges the importance of maintaining such as list, we were told that establishing a list would be extremely difficult due to frequent staff rotation in the divisions. Because of this environment, we believe it is important to have a list of individuals authorized who can approve vendor invoices. This could be accomplished by obtaining memos from division managers identifying individuals authorized to approve vendor invoices. Without such as process, invoices could be approved by unauthorized individuals and not be detected.

    Recommendation No. 12:
    We recommend Financial/Administrative Services evaluate the feasibility of maintaining lists of individuals authorized to approve vendor invoices in the divisions.

    Sheriff-Coroner Management Response:
    The Department concurs with evaluating the feasibility of the recommendation.

The Department's Financial Services Unit has evaluated the feasibility of the recommendation and decided it was not feasible to implement. Based on the evaluation, the Department believes it is impractical to implement this recommendation due to the large number of individuals who are authorized to approve invoices, coupled with routine, ongoing changes that are experienced as a result of employee turnover and rotations. The Department currently has 47 separate functional areas with multiple funds that purchase goods and services under contract. Various individuals ranging from Division Commanders to receptionists are authorized to approve invoices depending on the nature of the goods or services being purchased. The number of authorized approvers varies by division; but, a representative average would be five (5) individuals per division, resulting in a list of authorized approvers approximating 235 individuals. A list of this size, given the frequency of staff rotations, would be difficult to maintain; the volume of authorized approvers would have a negative impact on processing time; and due to ongoing changes in personnel, the list would likely be out of date most of the time.

In addition, all invoices, prior to processing for payment, are reviewed against purchase documentation. Purchase requisitions have a more stringent authorization process (see related comment under response to Recommendation No. 6). The purchase authorization process, the matching of the invoice to the purchase order, and the review of the resulting invoice package by Purchasing, Financial Services Accounts Payable and Auditor-Controller staff, provides a higher level of internal control than maintaining a list of persons authorized to approve invoices for payment.

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we classify audit report items into three distinct categories:

- **Material Weaknesses:**
  Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.

- **Significant Issues:**
  Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

- **Control Findings:**
  Audit findings that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.

SHERIFF-CORONER DEPARTMENT
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July 15, 2007

County of Orange
Internal Audit Department
Director, Dr. Peter Hughes, CPA
400 W. Civic Center Drive, Room 232
Santa Ana, CA 92701-4521

The Sheriff-Coroner Department has completed its response to the "Draft Report on Internal Control Review of Sheriff-Coroner-Contract Administration and Cash Disbursements." The Department's response indicates our concurrence or non-concurrence and any corrective action taken or planned.

The enclosed document represents the Department's response to be included in the final report as Attachment B.

Sincerely,

Michael S. Carona
Sheriff-Coroner

Daniel J. Martini, Assistant Sheriff
Special Services, Sheriff-Coroner Department

Enclosure

Cc: Eli Littner, Deputy Director, Internal Audit Department
Michael J. Goodwin, Senior Audit Manager, Internal Audit Department
Undersheriff Jo Ann Galisky, Sheriff-Coroner Department
Rick Dostal, Director, Financial/Administrative Services, Sheriff-Coroner Department
Jane Reyes, Assistant Director, Financial/Administrative Services, Sheriff-Coroner Department
Nasrin Soliman, Audit Manager, Financial/Administrative Services, Sheriff-Coroner Department

PROUDLY SERVING THE UNINCORPORATED AREAS OF ORANGE COUNTY AND THE FOLLOWING CITIES AND AGENCIES:

ALISO VIEJO • DANA POINT • LAGUNA HILLS • LAGUNA NIGUEL • LAGUNA WOODS • LAKE FOREST • MISSION VIEJO
RANCHO SANTA MARGARITA • SAN CLEMENTE • SAN JUAN CAPISTRANO • STANTON • VILLA PARK
HARBORS, BEACHES & PARKS • JOHN WAYNE AIRPORT • OCTA • SUPERIOR COURT

DRUG USE IS LIFE ABUSE

SHERIFF-CORONER
RESPONSE TO FINDINGS & RECOMMENDATIONS

Beginning at Page 5 - Facilities Operations

Recommendation No. 1

It was recommended that Facilities Operations ensure invoices and required supporting documentation are validated to Price Agreement terms before approving them for payment. Any differences between contract terms, required supporting documentation, and invoice amounts should be researched and documented in writing.

Sheriff-Coroner Management Response:

The Sheriff-Coroner Department (hereafter the Department) concurs with the recommendation and the Division has issued an internal policy memorandum to emphasize and reinforce the importance of documenting action taken to validate services and materials received against price agreements, confirm contract terms, approve vendor invoices and approve corrections made to invoices.

In the case of the Tririga Price Agreement, the vendor did invoice per the price agreement; however, staff noted that services billed had not been performed. The staff corrected the invoice accordingly but did not adequately document the reason for the correction.

In the case of GE Security, Inc. (dba Edwards Services), the variance in the inspection reports was a result of the acquisition of Edwards Services by GE Security, Inc. Facilities Operations staff appropriately withheld payment until the services were performed and paid the invoices in arrears as specified in the price agreement. The contract administrator has initiated action with GE Security Inc. in order to correct inspection dates and billing cycles.

Recommendation No. 2

It was recommended that Facilities Operations document invoice review and approval showing that goods/services were satisfactorily received in accordance with contract terms.

Sheriff-Coroner Management Response:

The Department concurs with the recommendation and the Division has issued an internal policy memorandum to emphasize and reinforce the importance of documenting action taken to validate all services and materials invoices.

Recommendation No. 3

It was recommended that Facilities Operations ensure that packing slips/shipping documents are retained as supporting documentation.

Sheriff-Coroner Management Response:

The Department concurs with the recommendation and the Division has issued an internal policy memorandum to emphasize and reinforce sign off and retention of all shipping documents including a requirement that the

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receiving party document in writing, the receipt of materials or services if shipping documents are lost or not provided.

Recommendation No. 4

It was recommended that Facilities Operations ensure that invoices are processed within the established procedural timeframe. Any exceptions should be documented in writing as to the reasons for delays in processing invoices.

Sheriff-Coroner Management Response:

The Department concurs with the recommendation and the Division has added emphasis to its internal policy designed to reinforce the 15 days Division target for invoice processing time. The policy also requires documentation of reasons for any delays in processing.

Beginning at Page 8 - South Operations

Recommendation No. 5

It was recommended that South Operations establish contract administration procedures and tracking mechanisms for all Price Agreements under their administration. Recommended procedures included designating responsibility for contract monitoring; developing and maintaining tracking spreadsheets; establishing notification protocols; developing and distributing written procedures, and ensuring staff is trained and have the appropriate tools to monitor Price Agreements.

Sheriff-Coroner Management Response:

The Department concurs with the recommendation and the Division has issued an internal policy memorandum and revised internal procedures that incorporate all of the recommendations above.

Recommendation No. 6

It was recommended that South Operations establish segregation of duties over contract administration, ordering and confirming goods/services received and reviewing and authorizing vendor payment. If duties cannot be adequately segregated, it was recommended that supervisory review be established to mitigate risk.

Sheriff-Coroner Management Response:

The Department concurs with the recommendation and the Division as issued an internal policy memorandum and revised internal procedures that incorporates supervisory review at multiple levels.

All requisitions, in accordance with existing Department policy require approval by the Division Commander/Director or other authorized signer as designated by the Division Commander/Director. Additionally all purchase requisitions over $3,000 and contract renewals that will increase $3,000 or more require a signature for authorization by the Assistant Sheriff responsible for a given Division. It is the responsibility of the Division to obtain the Assistant Sheriff's approval prior to submitting the request to their Budget Analyst for review and processing. The following exceptions to this policy continue to be in place: 1) opportunity buys; 2) facility maintenance, alterations and improvements, which all must be processed through Research & Development Division; 3) renewal of contract agreement/amendments under $3,000, 4) purchases that are offset by grant funding, and 5) budgeted equipment (these exceptions have their own approval requirements).

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Recommendation No. 7

It was recommended that South Operations ensure that the units responsible for ordering goods/services are provided the respective Price Agreements. Purchase requisitions should be verified to the terms of the Price Agreements before approving the requests.

Sheriff-Coroner Management Response:

The Department concurs with the recommendation and the Division has implemented procedures that will ensure that each unit within the Division, responsible for placing and receiving orders for goods/services, receive copies of any related Price Agreements. Training in the Department's established policies and procedures related to purchasing will be provided.

Recommendation No. 8

It was recommended that South Operations ensure compliance with County Accounting Procedures concerning use of revolving funds to pay for items not included in existing Price Agreements.

Sheriff-Coroner Management Response:

The Department concurs with the recommendation and the Division has added procedures including training and supervisory review to ensure compliance with County Accounting Procedures concerning use of revolving funds to pay for items not included in existing Price Agreements. In addition, the Division has reviewed frequently purchased items and is modifying existing Price Agreements when necessary to add goods/services that are purchased or utilized on a frequent and recurring basis.

Recommendation No. 9

It was recommended that South Operations establish a process by which vendor invoice prices are compared to Price Agreements when approving invoices. It was also recommended that South operations should also identify the overpayments made on the Adamson Police Products Price Agreement and determine if any refunds or future adjustments are necessary.

Sheriff-Coroner Management Response:

The Department concurs with the recommendation. The Division Administrative Manager and Office Supervisor have already begun a review of all Price Agreements to ensure that current price lists are available. Procedures have been developed to compare vendor prices per the invoices to the Price Agreement prior to approving an invoice for payment.

The Divisions will also review the Adamson Police Products Price Agreement and paid invoices to identify any potential variances in pricing to determine if adjustments are required. The Division will work with Financial Services and Purchasing to obtain refunds or complete contract modifications as appropriate.

Recommendation No. 10

It was recommended that South Operations ensure that packing slips/shipping documents are retained.

Sheriff-Coroner Management Response:

The Department concurs with the recommendation and the Division has issued an internal policy memorandum

that requires the retention of all written approvals, packing slips and shipping documentation.

Beginning at Page 11 – Accounts Payable

Recommendation No. 11

It was recommended that Financial/Administrative Services assess Accounts Payable's contract notification process to determine its effectiveness and if any enhancements are needed to ensure divisions receive timely notification of remaining contract balances.

Sheriff-Coroner Management Response:

The Department concurs with the recommendation and has requested that the Department's Audit Services unit conduct an internal review of the existing process and make recommendations as appropriate.

Recommendation No. 12

It was recommended that Financial/Administrative Services evaluate the feasibility of maintaining lists of individuals authorized to approve vendor invoices in the divisions.

Sheriff-Coroner Management Response:

The Department concurs with evaluating the feasibility of the recommendation.

The Department's Financial Services Unit has evaluated the feasibility of the recommendation and decided it was not feasible to implement. Based on the evaluation, the Department believes it is impractical to implement this recommendation due to the large number of individuals who are authorized to approve invoices, coupled with routine, ongoing changes that are experienced as a result of employee turnover and rotations. The Department currently has 47 separate functional areas with multiple funds that purchase goods and services under contract. Various individuals ranging from Division Commanders to receptionists are authorized to approve invoices depending on the nature of the goods or services being purchased. The number of authorized approvers varies by division; but, a representative average would be five (5) individuals per division, resulting in a list of authorized approvers approximating 235 individuals. A list of this size, given the frequency of staff rotations, would be difficult to maintain; the volume of authorized approvers would have a negative impact on processing time; and due to ongoing changes in personnel, the list would likely be out of date most of the time.

In addition, all invoices, prior to processing for payment, are reviewed against purchase documentation. Purchase requisitions have a more stringent authorization process (see related comment under response to Recommendation No. 6). The purchase authorization process, the matching of the invoice to the purchase order, and the review of the resulting invoice package by Purchasing, Financial Services Accounts Payable and Auditor-Controller staff, provides a higher level of internal control than maintaining a list of persons authorized to approve invoices for payment.

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