

Sonoma County

Auditor-Controller-Treasurer-Tax Collector

Internal Audit Report

**Internal Audit:
Sonoma County Sheriff's Office
Purchasing Unit**

For the Fiscal Year Ended
June 30, 2022

Engagement No: 3483
Report Date: February 22, 2023



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Executive Summary

At the request of the Sonoma County Sheriff's Office (Sheriff), Internal Audit (IA) performed a review of internal controls over two processes performed by the Sheriff's Purchasing Unit: 1) cash handling and 2) accounts payable.

The Sheriff's non-salary and benefit expenditures for FY 2021-22 were \$54 million. The Purchasing Unit is responsible for receiving and processing invoices for all goods and services purchased by the Sheriff. The Purchasing Unit is also responsible for receiving cash collected by various operating units in the Sheriff's Office and transporting it to the County Treasurer's Office for deposit. Annually, the Purchasing Unit receives and transports approximately \$14.0 million in cash¹ to the County Treasurer's Office.

We recommend the Sheriff's Office make the following changes to strengthen internal controls over the two processes:

- 1) Implement an automated purchasing and invoice processing workflow system to expedite invoice processing and reduce the risk of overpayments.**
- 2) Require encumbrances be recorded at the time purchase requisitions are approved to improve invoice processing time and ensure department records of encumbrance is up to date.**
- 3) Cross train employees so that transaction processing continues during employee absences.**
- 4) Require matching of approved packing slips or receiving reports with invoices as part of the payment approval process to reduce the risk of over payments.**
- 5) Require two employees to transport cash to the Treasurer's Office to reduce the risk of loss of cash and ensure safety of employees.**
- 6) Change the combination of the safe where cash is stored annually or when employees who have access to the safe leave employment or are transferred to improve security over cash.**
- 7) Require two employees be present when the cash safe is opened to improve security over cash.**

Based on our review, as discussed in the following sections of the report, the risks of over/duplicate payments and significant delays in processing invoices is high. Best practices in cash handling are not being followed, increasing the risk of loss of cash, and elevating physical risk to employees transporting cash. We did not identify any instances of theft or note any staff safety compromised. We recommend the Sheriff's Office make the above improvements to better manage risks in these two areas of their operation.

¹Cash comprises currency, coin, checks, wire transfers, electronic fund transfers, debit, and credit card payments.

Introduction, Background, Objective, Scope & Methodology

Introduction

At the request of the Sheriff's Office, we reviewed internal controls over cash handling and accounts payable processes at the Sonoma County Sheriff's Office Purchasing Unit. We conducted the audit in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These standards require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve our audit objectives. We believe that the evidence obtained during this audit provides a reasonable basis for the results, findings, and recommendations contained in our report. The primary purpose of our engagement is to furnish management with independent and objective analysis, recommendations, and other information concerning the activities reviewed.

Background

The Purchasing Unit of the Sheriff's Office, among other functions, performs the accounts payable function and receives and transports to the County Treasurer's Office cash collected throughout the Sheriff's Office. The Sheriff's non-salary and benefit expenditures for FY 2021-22 was \$54 million. The Purchasing Unit is responsible for receiving invoices, routing them for approvals and entering them into EFS for payment. The Purchasing Unit processes over 7,000 EFS expense line items per year.

The Sheriff's Office collects and transports to the County Treasurer approximately \$14.0 million in cash annually. The Purchasing Unit receives cash from the operating units, counts and reconciles the cash to the record of cash submitted by the collecting unit, and holds it in the cash safe located in the Unit. One individual retrieves and transports the cash twice a week to the County Treasurer's Office. The Accounting Unit is responsible for reconciling cash per EFS to cash per department records.

Objective

The objective of this review is to assist the Sheriff's Office in evaluating the design of internal controls over accounts payable and cash handling processes of the Sheriff's Office Purchasing Unit.

Scope and Methodology

The review covered transactions occurring in March and April of 2022. The scope of our work included the following:

- A walkthrough of the Purchasing Unit's processes in cash handling and purchasing/accounts payables to update our knowledge of the operating environment, systems, personnel, and organization structure.
- An analysis of the Purchasing Unit's policies and procedures over accounts payable and cash handling processing to identify significant risks and opportunities for gaining efficiencies. A review and evaluation of internal controls designed to address risks identified above.
- Tests of sample transactions to gain assurance that the internal control system is functioning as intended and is achieving its design objectives.

Results

The following are our findings and recommendations, and management responses.

Finding #1: Risk Classification C: Control Finding: The Purchasing Unit does not have an effective workflow system to manage accounts payable processing, including policies, procedures and automated tools resulting in significant delays in invoice processing and increasing the risk of overpayments.

The Purchasing Unit utilizes a manual process to distribute invoices and manage approval and processing of payments. Given the large number of transactions and 3 employees in the Purchasing Unit, invoices are often not processed timely. Out of the 35 invoices we reviewed, 17 were not paid by the due date. The longest delay we noted was 106 days past the due date.

Table 1: Summary of Invoices Paid Past Due Date

No. of Days Past Due Date	No. of Invoices	Amount (\$)
30 days	12	\$136,247
31 – 60 days	3	\$40,148
> 60 days	2	\$29,074
Total	17	\$205,469

Some common risks associated with an ineffective procurement/accounts payable workflow management system are: 1) missed opportunities for taking advantage of available discounts, 2) failure to encumber funds, increasing risk of going over budget, 3) items delivered are not as ordered, 4) over or duplicate payments are made and 5) payments are delayed, negatively impacting vendor relationship.

Recommendation #1:

We recommend that the Sheriff's Office replace its manual procurement/account payable workflow system with an automated system. The key features of such a system generally would include:

- a) **Three-way invoice matching** - matching of purchase order, packing slip/receiving report and invoice is automated.
- b) **Invoice approval workflows** - invoice routing is automated based on certain criteria.
- c) **Email notification** - email notification to approvers is automated.
- d) **Summary reminders** - summary reminders to managers falling behind is automated.
- e) **Approval dashboard** - pending approval requests are displayed.
- f) **Integration with accounting system** - has capability to interface with the general accounting system.

Results

Management Response #1:

The Sheriff's Office concurs. The Sheriff's Office agrees that modern software would tremendously assist the Purchasing Unit. However, initial inquiries into procuring or building an internal system have revealed that the Sheriff's Office would need an employee with the job classification that included the job duties of a programmer to support such a system. Currently, this position does not exist in the Sheriff's Adopted Department Allocation List. In addition, funding to procure or build a system, pay for ongoing licenses, pay for ongoing support, and to pay for integration costs would have to be added to the Sheriff's General Fund budget. It is also important to note that invoices from the only Sheriff's Office provider of uniforms are all handwritten. This may limit the capabilities of automated capture and may reduce the value add of a software system if automated capture cannot be used. There are hundreds of uniform invoices processed annually.

Internal Audit Position #1:

In our opinion the current manual system is not adequate given the volume and dollar value of transactions processed by the Sheriff's Office. The risks discussed above will remain elevated if the automated solution we recommend is not implemented. Some of these risks are delays in invoice processing, potential overpayments, negative vendor relationships, missed opportunities for taking advantage of available discounts and potential theft.

Finding #2: Risk Classification C: Control Finding: Encumbrances are not set up at the time purchase requisitions are approved.

Encumbrances represent an estimated value of goods or services for which purchase orders, contracts, or other commitments have been signed, but have not yet been received. The primary purpose of recording encumbrances is to ensure expenditures do not exceed approved appropriations.

We noted that often an existing encumbrance is increased after an invoice is received and not at the time orders are projected and placed. As a result, invoice processing is held up pending additional encumbrance set up. Additionally, not processing encumbrances timely understates total encumbrances in the Sheriff's books.

Recommendation #2:

Encumbrances should be checked and updated if necessary, at the point when purchase commitments are made.

Management Response #2:

The Sheriff's Office concurs. The Sheriff's Department Analysts are responsible for monitoring encumbrances and submitting information to the Purchasing Unit. Prior to the audit, Analysts implemented a new encumbrance tracking methodology, which seemed to have improved this process.

Results

County Purchasing requires encumbrance adjustments to be submitted through an EFS requisition. During the period covered by this audit, County Purchasing was taking 3-6 weeks to approve requisitions.

Finding #3: Risk Classification C: Control Finding: Purchasing Unit staffing inadequate to cover increased workload. Staff need to be cross trained.

As a result of increased workload, too few staff in the Purchasing Unit and staff not being cross trained, transaction processing is halted when employees are away, delaying vendor payments.

Recommendation #3:

The Sheriff's Office should adequately staff the Purchasing Unit. Sheriff's Office staff should be cross trained and reassigned as necessary to ensure payment processing continues during employee absences.

Management Response #3:

The Sheriff's Office agrees with this recommendation. To remedy work being delayed by employee absences, the Sheriff's Office believes additional employees, in the appropriate job class, are needed in the Purchasing Unit.

Finding #4: Risk Classification C: Control Finding: There are no policies and procedures addressing who should be reviewing and approving the invoices, timelines for approvals and documentation based on which approvals are to be made.

We reviewed 37 invoices covering \$2.8 million; of this amount approximately \$20,000 in goods, made up of 3 invoices paid by the Purchasing Unit, did not have supporting documentation confirming that the goods were received.

There are no written procedures in place over the receiving process including matching of receiving logs/packing slips before routing invoices for approval. Also, as discussed above, the current manual system makes it difficult for accounts payable to keep track of various supporting documents and follow up on invoices pending approval.

Recommendation #4:

The following procedures should be implemented and documented:

- a) Request vendors to include receiving documentation such as packing slips, for all goods and equipment shipped and received at the warehouse.
- b) Require the employee at the receiving dock to acknowledge receipt of items via signing the packing slip or entering in the receiving log. These documents should be scanned and uploaded to EFS.
- c) Require matching of the invoices with the receiving documentation and approved purchase orders before processing payment.

Results

d) Assign responsibility for the various parts of the procurement and payment cycle.

Management Response #4:

The Sheriff's Office concurs. Implementation is not feasible because:

- a) The Senior Storekeeper does sign packing slips; however, some vendors are opting not to send packing slips and there are times that other staff may accept deliveries when the Senior Storekeeper is off work or not in the Unit at the time of delivery. In addition, with specialized equipment, Purchasing staff may not be able to verify the contents because they do not have enough familiarity with the items. We do ask that the Sheriff's Office employees who requested the goods verify the contents of deliveries and let Purchasing know if there are any discrepancies. Sheriff's Office managers will evaluate this recommendation further to determine if a procedure addressing shipments without a packing slip is needed.
- b) The Sheriff's Office predominately follows this process when possible. A County policy or procedure addressing best practices in accounts payable would benefit departments since accounts payable transactions are subject to approval by the County Auditor-Controller Treasurer-Tax Collector.
- c) The recommendation is not feasible with only three positions and three separate job classes for the reasons described in Management Response #3.

Internal Audit Position #4:

Internal Audit recommends that management fully implement this recommendation since the Sheriff's purchases and receives high valued goods and equipment such as ammunition, police equipment and supplies. Section 21-1 of the County's Policy on Procurement of Goods and Equipment (2022) states that it is the responsibility of each department to establish and maintain a receiving policy and procedure.

Not implementing this recommendation means risks such as items being delivered are not as ordered, over or duplicate payments, potential theft, and inadequate inventory management will remain elevated.

Finding #5: Risk Classification C: Control Finding: Under the current procedures, a sole employee transports large amounts of physical cash (currency) to the Treasurer's Office.

Although we did not identify any instances of theft or note any staff safety compromised, conditions are present that could jeopardize staff safety and/or increase the risk of theft of physical cash. A sole staff is responsible for transporting cash, sometimes large, to the County Treasurer's Office using a personal vehicle. It is a best practice to have dual custody when handling or transporting cash. This increases staff safety and reduces the risk of theft. This practice of staff transporting large amounts of cash alone is a weakness in security controls.

Recommendation #5:

The Sheriff's Office should establish procedures for safely transporting cash around the County campus. A second employee should accompany the staff assigned to transport cash.

Results

Management Response #5:

The Sheriff's Office concurs with the recommendation and will develop procedures once staffing in the Unit is adequate and stabilized.

Finding #6: Risk Classification C: Control Finding: The department policy does not require periodic changing of the safe combination.

The safe combination was last changed over four years ago. During this period, one staff left employment. In accordance with best practices, combinations of safes where cash is stored should be changed at least once a year or more often, depending on the amount of cash being held, or when employees with access to the safe leave employment.

Recommendation #6:

The Sheriff's Office should adopt a policy of changing the safe combination once a year, or when employees who have access to the safe leave employment.

Management Response #6:

The Sheriff's Office concurs. This procedure is in effect but has not been followed. Staff will be reminded, and a more formal process will be documented when staffing in the Unit is adequate and stabilized.

Finding #7: Risk Classification C: Control Finding: Current procedures do not require dual custody when opening safe.

During our walkthrough of the Purchasing Unit's cash handling procedures, we noted that staff did not enforce dual custody when opening the safe.

Recommendation #7:

The Sheriff's Office should enforce dual custody for handling and managing cash by ensuring that at least two staff are present to open the safe. If this is not feasible, the Purchasing Unit could install a security camera to monitor staff opening and closing the safe.

Management Response #7:

The Sheriff's Office concurs with this recommendation. Implementation is not feasible due to current staffing levels. In addition, other things besides cash are kept in the safe, requiring frequent opening. The Sheriff's Office will look at different secure storage options which may create more opportunities for dual custody for handling and managing cash. Adequate staffing of the Purchasing Unit will also make this recommendation more feasible.

Results

Internal Audit Position #7:

We concur with management's decision to explore solutions alternative to our recommendation. While our recommendation or an adequate alternative procedure is implemented, the risks discussed above will remain elevated.

Staff Acknowledgement

We would like to thank the management and staff of the Sheriff's Office for their time, information, and cooperation throughout the review.

Appendix A – Report Item Risk Classification

For purposes of reporting our audit findings and recommendations, we classify audit report items into three distinct categories to identify the perceived risk exposure:

- **Risk Classification A: Critical Control Weakness:**
Serious audit findings or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s), policies, and/or business goals of a department/agency or the County as a whole. Management is expected to address Critical Control Weaknesses brought to their attention immediately.
- **Risk Classification B: Significant Control Weakness:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.
- **Risk Classification C: Control Findings:**
Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues 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.

The current status of implementation of recommendations will be followed up no later than the end of the second fiscal year after the report has been issued. Critical control weakness findings will be followed up between six months and one year of the date of the report.



SONOMA COUNTY SHERIFF'S OFFICE

EDDIE ENGRAM
Sheriff-Coroner

JAMES NAUGLE
Assistant Sheriff
Law Enforcement Division

MICHAEL MERCHEN
Assistant Sheriff
Detention Division

HEIDI KEITH
Chief of Financial and
Administrative Services

February 6, 2023

Kanchan Charan, Audit Manager
Sonoma County Auditor-Controller-Treasurer-Tax Collector
Internal Audit

RE: Sheriff's Office Purchasing Unit Audit for fiscal year ended June 30, 2022

Dear Mr. Charan,

We have received and reviewed your staff's draft audit report of the Sheriff Office Purchasing Unit for the fiscal year ended June 30, 2022. We appreciate ACTTC's work on this. Your draft report outlined a number of recommendations for the Sheriff's Office. Sheriff's staff have discussed these recommendations and provide the responses below, to address the issues raised for each of the recommendations. If there are any changes in the final report, we will submit a supplemental response.

Recommendation #1:

We recommend that the Sheriff's Office replace its manual procurement/account payable workflow system with an automated system. The key features of such a system generally would include:

- a) **Three-way invoice matching** - matching of purchase order, packing slip/receiving report and invoice is automated.
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The Sheriff's Office concurs. The Sheriff's Office agrees that modern software would tremendously assist the Purchasing Unit. However, initial inquiries into procuring or building an internal system have revealed that the Sheriff's Office would need an employee with the job classification that included the job duties of a programmer to support such a system. Currently, this position does not exist in the Sheriff's Adopted Department Allocation List. In addition, funding to procure or build a system, pay for ongoing licenses, pay for ongoing support, and to pay for integration costs would have to be added to the Sheriff's General Fund budget. It is also important to note that invoices from the only Sheriff's Office provider of uniforms are all handwritten. This may limit the capabilities of automated capture and may reduce the value add of a software system if automated capture cannot be used. There are hundreds of uniform invoices processed annually.

Recommendation #2:

Encumbrances should be checked and updated, if necessary, at the point when purchase commitments are made.

Appendix B – Management Response

Management Response #2:

The Sheriff's Office concurs. The Sheriff's Department Analysts are responsible for monitoring encumbrances and submitting information to the Purchasing Unit. Prior to the audit, Analysts implemented a new encumbrance tracking methodology, which seemed to have improved this process. County Purchasing requires encumbrance adjustments to be submitted through an EFS requisition. During the period covered by this audit, County Purchasing was taking 3-6 weeks to approve requisitions.

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Management Response #3:

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The Sheriff's Office concurs. Implementation is not feasible because:

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The Sheriff's Office concurs. This procedure is in effect but has not been followed. Staff will be reminded, and a more formal process will be documented when staffing in the Unit is adequate and stabilized.

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Management Response #7:

The Sheriff's Office concurs with this recommendation. Implementation is not feasible due to current staffing levels. In addition, other things besides cash are kept in the safe, requiring frequent opening. The Sheriff's Office will look at different secure storage options which may create more opportunities for dual custody for handling and managing cash. Adequate staffing of the Purchasing Unit will also make this recommendation more feasible.

The Sheriff's Office would like to thank you for performing the Purchasing Unit audit. We appreciate the independent analysis, the information provided to us through your observations, and recommendations. We can assure you that the Sheriff's Office is aware of issues highlighted in the draft audit report and is taking steps to correct as many issues as practicable.

Sincerely,



Eddie Engram
Sheriff-Coroner

CC: Heidi Keith, CFA
Connie Newton, ASD
Marta Llamas, Acctg Supervisor
Venina Ranadi, ACTTC Sr Internal Auditor