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County Auditor

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# Sheriff's Office Expenditures

June 2013

*Internal Audit Report Authorized by the  
Maricopa County Board of Supervisors*

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| <b>Report Highlights</b>  | <b>Page</b> |
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| <u>Accounts Payable Processing</u>  | 1           |
| The Sheriff's Office (MCSO) is improving accounts payable controls by updating its internal procedures in conjunction with hiring and training staff. |             |
| <u>Purchasing and Receiving</u>   | 2           |
| MCSO is strengthening its controls over ordering, receiving, and payment approval processes.  |             |
| <u>Contract Expenditures</u>  | 3           |
| MCSO is improving controls over contract monitoring and development.  |             |
| <u>Food Factory Purchases</u>   | 4           |
| MCSO Food Factory is strengthening controls over inventory management and receiving.  |             |
| <u>Used Ammunition Credit</u>   | 5           |
| MCSO is working with the County Office of Procurement Services to implement controls for the disposal of used ammunition casings.                     |             |

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**Objectives** Determine if MCSO's accounts payable (AP) process controls are adequate, and promote compliance with policies, accounting standards, and applicable contract terms.

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**Scope** This audit primarily focused on AP processing, including order receipt, invoice approval, and invoice payment. The testing period was July 2012 to March 2013. We interviewed MCSO management and employees and toured the MCSO Food Factory, Canteen, and Warehouse facilities. We also performed the following:

- Selected a judgmental sample of 180 invoices (totaling over \$3 million) for various audit tests.
- Compared invoice prices to authorized contract prices.
- Reviewed inventory management at the Food Factory, Canteen, and Warehouse facilities.

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**Standards** This audit was approved by the Board of Supervisors and conforms to International Standards for the Professional Practice of Internal Auditing. The specific areas reviewed were selected through a formal risk-assessment process.

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This report is intended primarily for the information and use of the County Board of Supervisors, County leadership, and other County stakeholders. However, this report is a matter of public record, and its distribution is not limited.

We have reviewed this information with Sheriff's Office management. The Action Plan was approved by Jerry Sheridan, Chief Deputy, on June 21, 2013.

If you have any questions about this report, please contact Eve Murillo, Deputy County Auditor, at 602-506-7245.

## Audit Results

### Issue #1: Accounts Payable Processing

**Observation:** To assess the effectiveness of the Accounts Payable (AP) function, we reviewed a sample of 180 invoice payments and found that the MCSO AP Division processed payments accurately and maintained required supporting documentation. We found compliance rates of 96% and above for (1) attaining available discounts, (2) paying invoices within purchase order limits, (3) coding transactions to the correct account, and (4) registering capital assets in the appropriate system. The four instances where invoices exceeded purchase order limits were all due to tax payments. County Department of Finance informal policy and County financial system programming allow purchase order amounts to be exceeded by up to 10% for reasons such as tax payments.

We found one unauthorized purchase, which had already been detected by MCSO AP. During the course of the audit, MCSO corrected the situation and received the appropriate credit.

AP training materials appear to be adequate; however, MCSO AP procedures are not up-to-date, and are not included in management-approved formal policies.

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| <b>Conclusion #1A:</b> AP Division processing controls appear to be adequate.                  |  |
| <b>Recommendation</b>  | <b>MCSO Action Plan</b>  |
| None   | N/A  |
| <b>Conclusion #1B:</b> Policies and procedures need strengthening.                             |  |
| <b>Recommendations</b>   | <b>MCSO Action Plan</b>  |
| <b>1B-1</b> Establish formal AP policies and procedures, including roles and responsibilities. | Concur<br>MCSO AP is updating its internal procedures. This will allow for hiring and training of staff in conjunction with new procedures.<br>Target Date: 06/30/2014 |
| <b>1B-2</b> Work with the Department of Finance to establish a purchase order limit policy.    | Concur<br>Department of Finance should finalize the policy. MCSO will work to assist in any way needed.  |

## Issue #2: Segregation of Purchasing and Receiving Duties

**Observation:** We reviewed MCSO's controls over ordering, receiving, approving, and paying for goods and services. Basic accounting standards, including those issued by the US Government Accountability Office, state that purchasing and receiving functions should be segregated to increase assurance over payment accuracy and integrity. Our review of 180 invoices showed that, in general, the same person orders, receives, and approves payment of most purchases. In addition, the receiving process is occurring at multiple field locations, resulting in inconsistencies.

| <b>Conclusion #2A:</b> Ordering, receiving, and payment approval functions should be segregated for adequate control. |  |
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| <b>Recommendations</b>  | <b>MCSO Action Plan</b>  |
| <b>2A-1</b> Restrict ordering capabilities to the central purchasing office and Certified Agency Procurement Aides.   | Concur<br>This will be piloted in FY14 in the Food Factory and then re-evaluated in FY15 for wider use.<br>Target Date: 09/30/2013 |
| <b>2A-2</b> Segregate ordering and receiving operations and ensure approvals are obtained for both prior to payment.  | Concur<br>We will be hiring staff in early FY14 to assume these duties in the Food Factory.<br>Target Date: 09/30/2013             |
| <b>2A-3</b> Provide receiving and order inspection training to ensure items are received and orders are complete.     | Concur<br>Same as above (2A-2)<br>Target Date: 09/30/2013  |

### Issue #3: Contract Expenditures

**Observation:** To determine that expenditures were in compliance with contract terms and posted to the correct contract, we reviewed 180 invoices. We found that MCSO extended contract oversight responsibilities to end-users who were inadequately trained in procurement.

For invoices tested, we found instances where MCSO (1) posted expenditures to incorrect contracts, (2) approved invoices with incorrect pricing, (3) approved payments prior to receiving purchased items (4) made purchases without obtaining competitive bids, (5) purchased products that were not offered on the referenced contract, and (6) used incorrect contracts to purchase IT equipment.

We also found that contracts associated with our invoice sample contained (1) frequent revisions during the contract term, (2) multiple vendors with overlapping product lines, (3) incorrect pricing and item descriptions, and (4) catalog pricing that was not easily accessible and auditable.

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| <b>Conclusion #3A:</b> Controls over contract monitoring and expenditure recording need strengthening.  |  |
| <b>Recommendation</b>   | <b>MCSO Action Plan</b>  |
| <b>3A-1</b> Provide training and information to receiving personnel to ensure compliance with contract specifications.                        | Concur<br>We will be starting a pilot training program with implementation in early FY14.<br>Target Date: 09/30/2013 |
| <b>Conclusion #3B:</b> MCSO controls over contract development need improvement to ensure that purchases are most advantageous to the County. |  |
| <b>Recommendations</b>  | <b>MCSO Action Plan</b>  |
| <b>3B-1</b> Establish procedures to ensure contracts meet MCSO needs.   | Concur – in process<br>Testing is underway.<br>Target Date: 01/31/2014   |
| <b>3B-2</b> Perform and document a review of MCSO contracts; rebid any contracts that do not meet MCSO needs.                                 | Concur – in process<br>Target Date: 01/31/2014   |

## Issue #4: Food Factory Purchases

**Observation:** To determine the adequacy of controls over food purchases, we reviewed MCSO Food Factory inventory management. We found that:

- MCSO does not have formal systems and procedures for managing inventory and applicable data.
- Individuals receiving inventory orders are not fully trained, and are not held accountable for verifying incoming items.
- Food usage is significantly higher than estimates shown in the corresponding contract requests for proposals.

Effective inventory management decreases the likelihood of food waste and spoilage.

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| <b>Conclusion #4A:</b> Controls over Food Factory receiving process need strengthening.  |   |
| <b>Recommendation</b>  | <b>MCSO Action Plan</b>   |
| <b>4A-1</b> Establish policies and procedures for receiving, inspecting, counting, and reporting orders.   | Concur<br>We will be adding staff from MCSO AP to the Food Factory staff to complete these requirements.<br>Target Date: 01/31/2014   |
| <b>Conclusion #4B:</b> Controls over Food Factory inventory management need improvement.   |   |
| <b>Recommendations</b>   | <b>MCSO Action Plan</b>   |
| <b>4B-1</b> Establish policies and procedures for inventory management. Include the monitoring of usage trends, and the alignment of job duties with job descriptions. | Concur – in process<br>Staff is currently building these records, writing procedures, and training with procurement on using inventory control software.<br>Target Date: 01/31/2014 |
| <b>4B-2</b> Establish an inventory management system; limit access to records based on standard practices.   | Concur – in process<br>Same as above (4B-1)<br>Target Date: 01/31/2014  |
| <b>4B-3</b> Train personnel on inventory management policies and procedures.   | Concur – in process<br>Same as above (4B-1)<br>Target Date: 01/31/2014  |

**Issue # 5: Used Ammunition Credit**

**Observation:** MCSO established an informal arrangement with its practice ammunition vendor to dispose of used brass casings. The vendor credited MCSO's account. MCSO used the credit for supplies, vehicle repairs, weapon components, and equipment. The transactions were not formally documented, and were not recorded in the County's financial system. MCSO relied on the ammunition vendor to assess the trade-in value and track account balances. We reviewed the vendor's records and found them to be incomplete and unreliable. Formal controls are needed to ensure accountability of and stewardship over County resources, and to comply with State law and the County procurement code.

The practice ammunition contract includes pricing for reloaded casings. Although the vendor did not offer this alternative after FY 2011, the contract pricing illustrates the value of the used brass casings. The price for reloaded casings is 45% to 61% less than new ammunition. In FY 2013, if reloaded brass prices had been offered, the savings would have been \$150,000.

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| <b>Conclusion #5A:</b> Controls over the disposal of used ammunition casings need to be established.  |   |
| <b>Recommendations</b>  | <b>MCSO Action Plan</b>   |
| <b>5A-1</b> Take steps to obtain a refund for any outstanding credit and ensure that it is accounted for in the County's financial system.                                | Concur – in process<br>First payment from Combat Cartridge in the amount of \$4,555.22 arrived 6/9/13.<br>Target Date: 08/30/2013   |
| <b>5A-2</b> Establish a formal process for disposing, trading, and selling used ammunition brass, that is consistent with State law and with the County procurement code  | Concur – in process<br>MCSO is working with the County Office of Procurement Services to expand recycling capabilities in accordance with procurement rules.<br>Target Date: 09/30/2013   |
| <b>5A-3</b> Establish a formal process for the tracking and recording of used ammunition brass financial transactions in accordance with government accounting standards. | Concur – will implement with modifications<br>Same as above (5A-2). Expansion of recycling contracts should be sufficient to remedy this issue and keep MCSO compliant with procurement regulations.<br>Target Date: 09/30/2013 |