

Internal Audit Department

O R A N G E C O U N T Y

COMPLIANCE AUDIT OF SHERIFF-CORONER ADMINISTRATION PURCHASING CARD (CAL CARD) EXPENDITURES

For the Fiscal Year Ending June 30, 2007

We audited 100% of Sheriff-Coroner Administration's Cal Card expenditures for the fiscal year ending June 30, 2007 and found that the expenditures totaling \$30,523 were made in overall compliance with requirements of the County of Orange Cal Card Policies and Procedures.

AUDIT NO: 2766-2

REPORT DATE: APRIL 29, 2008

An Audit Oversight Committee Directed Audit
Meeting Date: November 7, 2007

Audit Director: [Peter Hughes, Ph.D., MBA, CPA](#)
Deputy Director: [Eli Littner, CPA, CIA](#)
Sr. Audit Manager: [Michael Goodwin, CPA, CIA](#)
Audit Manager: [Michael Dean, CPA, CIA](#)
Senior Auditor: [Lisette Free, CPA](#)



Internal Audit Department

Serving the OC Board of Supervisors since 1995

*2005 Recipient of the Institute of Internal Auditor's
Award for Recognition of Commitment to
Professional Excellence, Quality & Outreach*



Internal Audit Department

Providing Facts and Perspectives Countywide

Dr. Peter Hughes Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE
Office of The Director Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
E-mail: peter.hughes@iad.ocgov.com

Eli Littner CPA, CIA, CFE, CFS, CISA
Deputy Director Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael J. Goodwin CPA, CIA
Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE
Senior Audit Manager

Autumn McKinney CPA, CIA, CISA, CGFM
Senior Audit Manager Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the
OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Director Peter Hughes



Transmittal Letter



AUDIT NO. 2766-2 APRIL 29, 2008

TO: Members, Audit Oversight Committee
Jack Anderson, Assistant Sheriff
Acting As The Sheriff-Coroner

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Compliance Audit of Sheriff-Coroner
Administration Purchasing Card
(Cal Card) Expenditures

At the request of the Audit Oversight Committee on November 7, 2007, we have completed an audit of **purchasing card (Cal Card) expenditures** incurred on behalf of Sheriff-Coroner Administration (Sheriff Administration) for the fiscal year ending June 30, 2007. The purpose of our audit was to determine if Sheriff Administration's Cal Card expenditures were made in compliance with requirements of the *County of Orange Cal Card Policies and Procedures* and other related County Accounting Manual procedures. Our final report is attached for your review.

This report is one in a series of reports on expenditures incurred by Sheriff Administration. We issued a report on Sheriff Administration's revolving fund expenditures and travel expenditures reimbursed through payroll (Audit #2766-1), and will issue another report on our audit of selected areas of procurement and contracting pertaining to Sheriff Administration.

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 now begin at six months from the release of the first Follow-Up Audit 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.

Letter from Director Peter Hughes



We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendation is 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 that 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 are listed on the Internal Auditor's Report on page 7.

Table of Contents



***Compliance Audit of Sheriff-Coroner Administration
Purchasing Card (Cal Card) Expenditures
Audit No. 2766-2***

For the Fiscal Year Ending
June 30, 2007

Transmittal Letter	i
INTERNAL AUDITOR'S REPORT	1
Introduction	1
Background	1
Audit Scope and Objectives	2
Summary of Audit Results	3
DETAILED OBSERVATION, RECOMMENDATION AND MANAGEMENT RESPONSE	5
Cardholders Exceeded 30-Day Purchase Limit	5
ATTACHMENT A: Report Item Classifications	8
ATTACHMENT B: Sheriff-Coroner Management Response	9



INTERNAL AUDITOR'S REPORT

AUDIT No. 2766-2

APRIL 29, 2008

TO: Members, Audit Oversight Committee
Jack Anderson, Assistant Sheriff
Acting As The Sheriff-Coroner

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Compliance Audit of Sheriff-Coroner Administration
Purchasing Card (Cal Card) Expenditures

Audit Highlights

We audited 100% of Sheriff-Coroner Administration's Cal Card expenditures for the fiscal year ending June 30, 2007 and found that the expenditures totaling \$30,523 were made in overall compliance with requirements of the County of Orange Cal Card Policies and Procedures.

Introduction

At the request of the Audit Oversight Committee, the Internal Audit Department completed an audit of purchasing card (Cal Card) expenditures incurred on behalf of the Sheriff-Coroner, Undersheriff and Assistant Sheriffs, and their administrative support staff (which we refer to in this report as Sheriff Administration) for the fiscal year ending June 30, 2007.

During this audit period, **\$30,523 in Cal Card expenditures** were incurred on behalf of Sheriff Administration, which was approximately 4.4% of the Sheriff-Coroner Department's total Cal Card expenditures of \$692,166 during Fiscal Year 2006-07.

This report is one in a series of reports on Sheriff Administration. Other reports address revolving fund expenditures and travel expenditures reimbursed through payroll, and selected areas of procurement and contracting pertaining to Sheriff Administration.

Background

On November 7, 2007, the County of Orange Audit Oversight Committee (AOC) directed the Internal Audit Department to conduct an audit of expenditures incurred by the Sheriff Administration. This directive was in response to a recent federal indictment concerning allegations of public corruption charges against the elected Sheriff-Coroner, Michael Carona. The AOC expressed a desire to check the integrity of key accounts, funds and expenditures under the direction of Sheriff Administration.

The Sheriff-Coroner Department is comprised of approximately 4,000 sworn and professional staff members, has an annual budget exceeding \$440 million, and consists of four organizational functions (Patrol Operations; Investigations/Communications/Court Operations; Special Services; and Jail Operations) that are divided into 21 divisions.



Sheriff-Coroner Administration (Sheriff Administration) oversees the operation of the department and is where the elected Sheriff-Coroner, the Undersheriff, and Assistant Sheriffs carry out their responsibilities. Sheriff Administration is identified as **Organization 491** and is comprised of the following **16 positions**:

- | | |
|---------------------------|----------------------------------|
| (1) Sheriff-Coroner | (1) Information Processing Tech. |
| (1) Undersheriff | (1) Office Technician |
| (5) Assistant Sheriffs | (1) Office Trainee |
| (2) Executive Secretaries | |
| (3) Secretaries | |
| (1) Executive Assistant | |

Sheriff-Coroner Cal Card Process

The *County of Orange Cal Card Policies and Procedures*, established by County Executive Office/Purchasing (CEO/Purchasing), provide guidelines and requirements on the issuance and usage of Cal Cards by departments and agencies. Per the policy, each department/agency designates a Billing Official, Approving Official and the assigned cardholders.

The Sheriff-Coroner Department's administration and processing of Cal Card expenditures is done in the Financial/Administrative Services Division. The Sheriff-Coroner Department has **22 designated cardholders** that purchase items on behalf of Sheriff Administration and the outlying divisions. There are 14 cardholders within the Financial/Administrative Services Division, and 8 cardholders are sworn Sheriff-Coroner staff at the outlying Superior Court locations. Each cardholder is assigned a limit on the amount that can be expended on a both single purchases and a 30-day period using the Cal Card.

For Fiscal Year 2006-07, the Sheriff-Coroner Department incurred \$692,166 in Cal Card expenditures. In Sheriff Administration, \$30,523 in Cal Card expenditures was incurred during that period, which is 4.4% of the total expenditures. **It should be noted that neither the Sheriff-Coroner, Undersheriff, nor the Assistant Sheriffs were cardholders.**

Audit Scope and Objectives

We conducted an audit of purchasing card (Cal Card) expenditures incurred on behalf of Sheriff Administration for the fiscal year ending June 30, 2007. The primary objective of our audit was to determine if Sheriff-Administration's Cal Card expenditures were made in compliance with requirements of the *County of Orange Cal Card Policies and Procedures* and other related County Accounting Manual procedures. In addition, we audited certain "internal controls" related to maintaining compliance with established policies; however we did not conduct a detailed Internal Control Review of these processes.



Because some expenses for Sheriff Administration were recorded to General Administration (Organization 900), we also audited expenditures under that organization pertaining to Sheriff Administration. Our audit was limited to Sheriff Administration expenditures recorded in Organizations 491 and 900, and did not include expenditures in other Sheriff organizations and divisions.

As such, we **conducted nineteen (19) interviews** of staff and management in Sheriff-Coroner Financial/Administrative Services involved in processing Cal Card expenditures and we **tested 100% of the Cal Card expenditures** incurred by Sheriff Administration for compliance with established County policies and procedures. In addition to determining compliance with established County policies, our audit of Cal Card expenditures included the following:

- Verified and agreed the list of cardholders maintained by both CEO/Purchasing and the Sheriff-Coroner Department and determined that all cardholders were current Sheriff-Coroner employees. The lists of cardholders were in agreement between the two departments with no exceptions noted, and all Sheriff cardholders were current employees.
- Verified that neither the Sheriff-Coroner, Undersheriff, nor the Assistant Sheriffs were holders of Cal Cards and did not directly make purchases using the Cal Cards themselves.
- Determined all Cal Card expenditures made on behalf of Sheriff Administration were allowable uses made for County-related business, per the description noted on the review of supporting documents. No exceptions were noted.
- Tested expenditures to determine purchases were made within the established cardholder limits (e.g., single purchase limit, 30-day limit); cardholders made the purchases and signed the receipts; purchases were not "split" to circumvent purchasing policies; and management reviewed and approved Cal-Card expenditures. (See Report Item #1)
- Inquired of CEO/Purchasing any concerns about the Sheriff Department's use of Cal Cards. No concerns were noted.

Summary of Audit Results

We audited 100% of Sheriff-Coroner Administration's Cal Card expenditures for the fiscal year ending June 30, 2007 and found that the expenditures totaling \$30,523 were made in overall compliance with requirements of the County of Orange Cal Card Policies and Procedures. **No material weaknesses or significant issues were noted.** The expenditures we audited contained proper authorization appropriate supporting documentation, and were allowable expenditures per County policy.



We did identify the following compliance issue where we believe existing Cal Card processes need to be enhanced:

1. **Cardholders Exceeded 30-Day Purchase Limit**

Each Cal Card is established with a single purchase limit and a 30-day purchase limit determined by the cardholder's department/agency. Per the *County of Orange Cal Card Policies and Procedures*, the 30-day purchase limit may not exceed \$15,000 for any County cardholder. We noted six (6) instances in which Sheriff-Coroner cardholders exceeded the \$15,000 30-day purchase limit. The overages in the six instances ranged between \$267 and \$3,299.

According to Cal Card policy, there are safeguards in place by the issuing bank to block spending on the cards when purchase limits are exceeded. Therefore, we will address this issue with CEO/Purchasing. We believe the Sheriff-Coroner should establish a process to ensure 30-day purchase limits are not exceeded, and to notify and counsel cardholders if it does occur.

This item is a **Compliance Issue** and discussed in detail in the next section of this report. See *Attachment A* for a description of Report Item Classifications.



DETAILED OBSERVATION, RECOMMENDATION AND MANAGEMENT RESPONSE

The purchasing card (Cal Card) program was initiated by the County to streamline the purchasing process. The Cal Card eliminates the need to create Purchase Orders for small dollar purchases and streamlines the accounts payable process by requiring only one monthly payment to the bank that issues the cards to the County. The *County of Orange Cal Card Policies and Procedures*, established by County Executive Office/Purchasing (CEO/Purchasing), provide guidelines and requirements on the issuance and use of Cal Cards by departments and agencies.

In Fiscal Year 2006-07, Sheriff Administration had **86 purchasing card (Cal Card) transactions totaling \$30,523**, which was 4.4% of total department Cal Card transactions (\$629,166). Our audit tested **100%** of the Sheriff Administration transactions for compliance with County Cal Card policies and procedures. Based on our testing of transactions, we noted the following audit observation:

1. Cardholders Exceeded 30-Day Purchase Limit (Compliance Issue)

Each Cal Card is established with a single purchase limit and a 30-day purchase limit determined by the cardholder's department/agency. Per the *County of Orange Cal Card Policies and Procedures*, the 30-day purchase limit may not exceed \$15,000 for any County cardholder. We noted six (6) instances in which Sheriff-Coroner cardholders exceeded the \$15,000 30-day purchase limit. The overages in the six instances ranged between \$267 and \$3,299.

The *County of Orange Cal Card Policies and Procedures* Section V. – *Purchase Authorization* states that the issuing bank (U.S. Bank) established a "purchase authorization process" which ensures that the purchase is within the monthly purchase limit and single purchase limit established for that card. The policy states "If the purchase exceeds the monthly or single transaction limit...the purchase will be declined." However, in the six instances where the monthly limits were exceeded, the purchases were not declined, which may be indicative of a Cal Card program administration weakness beyond the Sheriff-Coroner Department's control.

Because the current Cal Card policy states there is a "purchase authorization process" by the issuing bank to decline purchases exceeding single and 30-day purchase limits, we will address this issue in a separate letter to CEO/Purchasing. However, we believe the Sheriff-Coroner should have a process in place to ensure 30-day limits are not exceeded, and to notify and counsel cardholders if it does occur.



Recommendation No. 1

Sheriff-Coroner Department establish a process to track 30-day purchase limits of cardholders, and to notify cardholders that exceed the purchase limits for appropriate remediation.

Sheriff-Coroner Management Response:

Concur. We concur with the recommendation that there be a process in place to ensure that each cardholder does not exceed the 30-day purchase limit. Currently, each cardholder has two methods of tracking the monthly limit on their assigned card.

In the first method of tracking, each cardholder has an Order Log form, much like a check register, to record their Cal-Card transactions. As the amount of purchases nears the \$15,000 monthly limit, their supervisor is notified and purchasing is stopped until the next billing cycle.

Starting in August 2007, an additional method of tracking was implemented that requires each cardholder to access the online banking information toward the end of the billing cycle to verify the balance remaining on their card. The cardholder is required to perform periodic reconciliations of the Order Log form to the bank's balance using the online access capability.

The cardholder does a final reconciliation of the Order Log form to the monthly invoice when the invoice is received from the bank. Any outstanding items on the Order Log for a closed month will be recorded on the current month's Order Log. By updating the Order Log to include outstanding charges from prior months, the cardholder is able to have better control and stay within established limits.

Reconciliation of the Order Logs also helps cardholders ensure that duplicate charges do not occur, that credit adjustments are processed, and that the available balance is accurate.

It was observed in this audit that where the monthly limits were exceeded, the purchases were not declined. CEO-Purchasing needs to address this problem with the issuing bank, U.S. Bank.

Acknowledgment

We appreciate the courtesy and cooperation extended to us during the audit by the personnel of Sheriff-Coroner Administration and Financial/Administrative Services. 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.



Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1

Members, Board of Supervisors

Rick Dostal, Executive Director, S-C Special Services

Jane Reyes, Director, S-C Financial/Administrative Services

Tricia Bello, Assistant Director, S-C Financial/Administrative Services

Nicole Macias, Financial Officer, S-C Financial/Administrative Services

Jeff Franzen, Manager, S-C Financial Operations

Paula Kielich, Manager, S-C Purchasing

Norma M. Crook-Williams, Manager, S-C Revenue/Audit

Ron Vienna, Manager, County Executive Office/Purchasing

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will 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, Compliance and/or Efficiency/Effectiveness Issues:**

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



ATTACHMENT B: Sheriff-Coroner Management Response



550 N. FLOWER STREET
P.O. BOX 449
SANTA ANA, CA 92702-0499
(714) 647-7000

SHERIFF-CORONER DEPARTMENT COUNTY OF ORANGE CALIFORNIA

OFFICE OF SHERIFF-CORONER

JACK ANDERSON
ACTING AS THE
SHERIFF-CORONER

EXECUTIVE COMMAND STAFF
J. B. DAVIS
RICK DOSTAL
CHARLES WALTERS

April 23, 2008

Peter Hughes, Ph.D., CPA, Audit Director
Orange County Internal Audit Department
400 Civic Center Drive West
Santa Ana, CA 92701

Dear Mr. Hughes:

Attached is our response to the Draft Audit Report #2766-2 related to the Sheriff Administration. Purchasing Card (CAL CARD) Expenditures for the Fiscal Year Ending June 30, 2007.

If you have any questions please contact Jane Reyes, Director Financial/Administrative Services at (714) 834-6680.

Sincerely,

Jack Anderson,
Assistant Sheriff
Acting as the Sheriff-Coroner

Enclosures

cc: Rick Dostal, Executive Director, Special Services
Jane Reyes, Director, Financial/Administrative Services
Tricia Bello, Assistant Director, Financial/Administrative Services
Noma M. Crook-Williams, Revenue/Audit Manager

RECEIVED
INTERNAL AUDIT DEPARTMENT
2008 APR 28 PM 3:30

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
OC PARKS • DANA POINT HARBOR • JOHN WAYNE AIRPORT • OCTA • SUPERIOR COURT





ATTACHMENT B: Sheriff-Coroner Management Response (continued)

Date: April 21, 2008
To: Jane Reyes, Director
Financial/Administrative Services
From: Michael J. Goodwin, CPA, CIA
Orange County Internal Audit
Re: Potential Compliance Enhancement
Sheriff Administration Purchase (CAL CARD) Expenditures
For the Fiscal Year Ending June 30, 2007

We did note the following compliance observation where we believe existing Cal Card processes need to be enhanced:

Condition:

Cardholders exceeded 30-Day Purchase Limit (Compliance Issue) - Each Cal Card is established with a single purchase limit and a 30-day purchase limit determined by the cardholder's department/agency. Per the County of Orange Cal Card Policies and Procedures, the 30-day purchase limit may not exceed \$15,000 for any County cardholder. We noted six (6) instances in which Sheriff-Coroner cardholders exceeded the \$15,000 30-day purchase limit. The overages in the six instances ranged between \$267 and \$3,299.

The County of Orange Cal Card Policies and Procedures Section V. - Purchase Authorization states that the issuing bank (U.S. Bank) established a "purchase authorization process" which ensures that the purchase is within the monthly purchase limit and single purchase limit established for that card. The policy states "If the purchase exceeds the monthly or single transaction limit...the purchase will be declined." However, in the six instances where the monthly limits were exceeded, the purchases were not declined, which may be indicative of a Cal Card program administration weakness beyond the Sheriff-Coroner Department's control.

Recommendation:

Sheriff-Coroner Department establish a process to track 30-day purchase limits of cardholders, and to notify cardholders that exceed the purchase limits for appropriate remediation.



ATTACHMENT B: Sheriff-Coroner Management Response (continued)

Internal Audit Potential Compliance Enhancement
Sheriff Administration Purchase (Cal Card) Expenditures
Page 2

Sheriff-Coroner Management Response:

We concur with the recommendation that there be a process in place to ensure that each cardholder does not exceed the 30-day purchase limit. Currently, each cardholder has two methods of tracking the monthly limit on their assigned card.

In the first method of tracking, each cardholder has an Order Log form, much like a check register, to record their Cal-Card transactions. As the amount of purchases nears the \$15,000 monthly limit, their supervisor is notified and purchasing is stopped until the next billing cycle.

Starting in August 2007, an additional method of tracking was implemented that requires each cardholder to access the online banking information toward the end of the billing cycle to verify the balance remaining on their card. The cardholder is required to perform periodic reconciliations of the Order Log form to the bank's balance using the online access capability.

The cardholder does a final reconciliation of the Order Log form to the monthly invoice when the invoice is received from the bank. Any outstanding items on the Order Log for a closed month will be recorded on the current month's Order Log. By updating the Order Log to include outstanding charges from prior months, the cardholder is able to have better control and stay within established limits.

Reconciliation of the Order Logs also helps cardholders ensure that duplicate charges do not occur, that credit adjustments are processed, and that the available balance is accurate.

It was observed in this audit that where the monthly limits were exceeded, the purchases were not declined. CEO-Purchasing needs to address this problem with the issuing bank, U.S. Bank.

SIGNATURE

Assistant Sheriff Jack Anderson, Acting as the Sheriff

Date

4-22-08

Rick Dostal, Executive Director, Special Services

Date

4-21-08

Jane Reyes, Director Financial/Administrative Services

Date

4-21-08