Mecklenburg County
Department of Internal Audit

Mecklenburg County Sheriff's Office
Accounts Payable and Inventory Audit Report 1262
December 7, 2012

MECKLENBURG COUNTY
Department of Internal Audit

To: Daniel Bailey, Mecklenburg County Sheriff's Office

From: Joanne Whitmore, Director of Internal Audit

Date: December 7, 2012

Subject: Accounts Payable and Inventory Audit Report 1262

The Department of Internal Audit has completed its audit of the Sheriff's Office to determine whether internal controls over accounts payable and inventory management effectively manage key business risks inherent to those activities. Inventory reviewed was specific to weapons, fleet, armored vests, radios and badges. The audit period covered July 1, 2008 through June 30, 2011. Internal Audit interviewed key personnel, evaluated policies and procedures and observed and documented the above mentioned processes.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

Overall, risks inherent to accounts payable and inventory management were managed to an acceptable level. There were no significant exceptions noted for accounts payable activity reviewed. There were, however, some exceptions noted with inventory management. The Agency does not have formal, documented policies and procedures for inventory management processes and assets such as armored vests, deputy badges, seized weapons and facility weapons are not annually inventoried. Further, some asset inventory records were incomplete, inaccurate or lacked adequate supporting documentation. The inventory management process has inadequate separation of duties and inadequate physical security at some inventory storage locations. Last, there was insufficient control over system access management.

The issues listed below, as well as recommendations and management's responses, are discussed in detail in the attached document. Internal Audit will conduct a follow-up review at a later date to verify that recommendations are implemented and working as expected.

ISSUES

1. The Agency does not have formal, documented inventory management policies and procedures.
2. Some Agency assets are not annually inventoried.
3. Some inventory records were incomplete, inaccurate or lacked adequate supporting documentation.
4. The inventory management process for some assets lacks adequate separation of duties.
5. The Agency does not have adequate physical security at some inventory storage locations.
6. The Agency has insufficient eRIMS2 system access management controls.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 704-336-2575 if you have any questions or concerns.

c: Harry Jones, County Manager
     Michelle Lancaster, General Manager
     John McGillicuddy, General Manager
     Bobbie Shields, General Manager
     Leslie Johnson, Associate General Manager
     Dena Diorio, Finance Director
     Tyrone Wade, Deputy County Attorney
     Robert Thomas, Senior County Attorney
     Board of County Commissioners
     Audit Review Committee

BACKGROUND

The Mecklenburg County Sheriff's Office (the "Agency") mission is to "protect the citizens of Mecklenburg County by providing secure and professional rehabilitative detention facilities, enforcing civil and criminal laws, providing outstanding public service with integrity and upholding the constitutionality of the Sheriff's Office."

The Agency is responsible for all County-funded detention facility operations within Mecklenburg County. Detention services include jail-based rehabilitation programs like the Work Release and Restitution Center and the Vocational Center, which offers horticulture, carpentry and culinary education. Other programs, such as the General Education Diploma, high school for youthful offenders and substance abuse classes, also serve to reduce recidivism. In addition, the deputy sheriffs provide security for judges, jurors, defendants and witnesses and carry out court orders by serving criminal and civil process.

Accreditation

In 2003 the Mecklenburg County Sheriff's Office became the first nationally accredited local jail system in North Carolina. To achieve accreditation, the jail undergoes a comprehensive audit of its operations to ensure compliance with national standards. According to the American Correctional Association (ACA), the national standards serve as benchmarks in the operation of corrections facilities. These standards are necessary to ensure facilities are operated professionally. The accreditation process examines the services, programs and operations essential to correctional management. Accreditation is effective for a three-year period and requires annual audits of supporting documentation in order to maintain the accreditation.

Business Management Unit

The Agency's Business Management unit is responsible for the accounts payable and asset and inventory management activities. Business Management receives invoices directly from vendors and processes payments through Advantage, the County's financial management system. The table below summarizes invoice processing activity for fiscal years 2009 through 2011.

Accounts Payable			
Activity Description	**FY09**	**FY10**	**FY11**
Invoices Processed	9,004	6,969	7,108
Vendor Payments	$27.9M	$27.2M	$27.1M
Invoices Paid 30 Days or Less	61%	86%	91%

Source: Advantage Financial System data, unaudited

Business Management also manages the procurement, receipt, storage, assignment and disposition of certain agency assets. The table below summarizes inventories managed by Business Management included in this audit review.

Inventory	
Type	**Population**
Armored Vests	522
Deputy Badges	2,391
Fleet Vehicles	200
Radios	1,256
Seized Weapons	278
Deputy Weapons	1,345

Source: Sheriff's Office inventory data,
September 2011 through December 2011, unaudited

Inventory Management Systems

The Agency uses eRIMS2, a risk management software product, to manage armored vest, radio and weapon inventory. Blackington, a law enforcement badge inventory control system, is used to manage the deputy badge inventory. Management authorizes access to the eRIMS2 and Blackington systems. Authorized users are provided unique user identifications and establish their own unique passwords.

ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

County Manager's Overall Response to the Recommendations

The Internal Audit Department identified six issues within the Sheriff's Office for which it provided findings and recommendations. For five of these six, the Sheriff's Office agreed with the recommendations. In one instance (Issue 4), the Sheriff's Office disagreed with the Internal Audit Department's recommendations. In addition, for one of the five issues (Issue 3) where the Sheriff's Office agreed with the Internal Audit Department, the Sheriff provided additional information he deemed "necessary for the reader to understand the findings." Despite agreeing in context with the Internal Audit Department's recommendations, the additional information provided by the Sheriff's Office indicates a fundamental disagreement with some of the findings supporting the Internal Audit Department's recommendations.

In short, where the Sheriff's Office has disagreed with the Internal Audit Department, particularly with the recommendations for issue 4, the Sheriff has expressed confidence in its internal control processes and assumes the risks associated with not implementing Internal Audit Department's recommendations.

The Mecklenburg County Sheriff is elected by and accountable directly to Mecklenburg County voters and residents. As such, the Sheriff does not report to the County Manager or to the Board of County Commissioners. However, the Sheriff's Office receives funding appropriated by the Board and therefore has a responsibility to the Board for proper stewardship of these funds. As a result, if the Board or Audit Review Committee is not satisfied with the Sheriff's Office response to the Internal Audit Department's report, I will schedule an agenda item to allow the Board or the Audit Review Committee to discuss this report with the Sheriff and the Internal Audit Department.

> **Issue 1:** The Agency does not have formal, documented inventory management policies and procedures.

Risk Observation

The Agency does not have formal, documented policies and procedures for its inventory management processes. Yet, policies and procedures are important control activities to help ensure management's directives are carried out while mitigating risks that may prevent the organization from achieving its objectives. Policies and procedures include a range of activities, such as approvals, authorizations, verifications, reconciliations, operational reviews, asset security and separation of duties.

Recommendation

Internal Audit recommends the Agency develop and implement formal, documented policies and procedures for its inventory management processes, which establish, at a minimum:
   a. adoption of any applicable County-wide policies and procedures
   b. staff roles and responsibilities
   c. staff training requirements
   d. communication requirements for internal and external stakeholders
   e. frequency of policy and procedure review and update

Management Response

Agree. One exception is the Policies and Procedures for Seized Weapons that was formalized in October 2010. I recognize the importance of formal policies and procedures to document our current processes which serve to safeguard the assets of the Agency. In recent years more emphasis has been placed on the segregation of duties and ensuring documentation is maintained. By December 31, 2012 formal policies and procedures will be documented taking into consideration the Internal Audit recommendations.

> **Issue 2:** Some Agency assets are not annually inventoried.

Risk Observation

The Agency performs an annual inventory of assigned weapons each year during the deputies' annual firearms qualification process and performs an annual inventory of fleet vehicles and radios. The Agency does not, however, conduct a formal annual inventory of armored vests, badges and seized weapons. Moreover, while detention facilities document at each shift the existence of all facility weapons to account for the weapons they maintain there, those weapons are not routinely agreed to inventory records. Without a formal, routine inventory process to ensure records are accurate and up-to-date, assets could be lost or stolen without timely identification. Also, County policy requires an annual inventory for non-capital assets with a high resale value and/or potential risk of theft.

Internal Audit conducted an inventory and identified the following missing assets.
- Eight of 64 armored vests
- One of 71 deputy badges
- One of 69 radios

Recommendation

Internal Audit recommends the Agency conduct a formal annual physical inventory of armored vests, deputy badges, seized weapons and facility weapons. The physical inventory should be documented, reconciled to current inventory records and evidence timely resolution of any discrepancies. Additionally, the physical inventory should be performed by individuals without custodial responsibilities over the assets being inventoried. The annual physical inventory review should be approved by management.

Management Response

Agree that we currently do not perform an annual inventory on some employee assigned assets such as armored vests and badges and facility weapons. Staff inspections occur periodically for armored vests and badges. The General Orders stipulate officers must adhere to the uniform policy as well as be subjected to periodic staff inspections which occur on a more frequent basis than annually. This practice will continue and I will expand that to include an annual inventory of armored vests and badges by year-end. Additionally facility weapons are logged and documented at each shift change. I will implement a policy to include the facility weapons in the annual inventory as well by year-end. Seized weapons will also be included in the annual inventory audit as well.

> **Issue 3:** Some inventory records were incomplete, inaccurate or lacked adequate supporting documentation.

Risk Observation

The inventory management process does not ensure asset acquisition and disposition are accurately, timely and completely recorded in inventory records and that supporting documentation is maintained.

a. The acquisition of 61 armored vests was not recorded in the eRIMS2 inventory system.
b. Inventory records do not include data entry dates to evidence the asset's recordation and receipt into inventory.
c. Three of 14 or 21% of seized weapons returned to the owner were still shown in the inventory records.
d. Descriptions reflected in the inventory records for 11 of 56 or 20% of seized weapons and one of 53 or 2% of fleet vehicles reviewed did not agree to the related assets.
e. Four of 69 or 6% of weapons reviewed had insufficient documentation to evidence the asset's disposition although records showed three sold or traded and one stolen.

The County Capital Asset Policy, however, requires departments to maintain detailed records of high value non-capital assets that have a high resale value and/or a potential risk of theft.

Recommendation

Internal Audit recommends the Agency implement inventory management procedures that ensure asset acquisitions and dispositions are completely and accurately recorded in the inventory records and supporting documentation is properly maintained.

Management Response

Agree in context to the recommendation but believe more information is necessary for the reader to understand the findings. Following is a response to each of the noted Risk Observations provided above.

a. The 61 armored vests were located at the Vendor's site for distribution to each employee to ensure appropriate fit by the manufacturer's representatives. This ensures the body armor covers all the vital points and they provide instruction to each deputy on proper alignment. This constituted a timing issue between when the vests were issued to individuals and entered into the inventory system. Our preference is that the vendor distributes each vest to the individual deputy but this can take some time to get all officers fitted. During this time, we were replacing over 500 vests. Once we receive the signed acknowledgement the Deputy had signed, then the issuance was entered into the inventory system.
b. The Sheriff's Office has chosen to document inventory in an Excel spreadsheet for reference purposes but the source document continues to be the receipt issued by the Deputy and witnessed by the Sergeant in addition to the logbook. The asset's recordation/receipt into inventory is one in the same from our perspective. The Sheriff's obligation begins at the point the Deputy assumes custody of the weapons.
c. Again the Excel spreadsheet we utilize is for internal management purposes and should reflect those transactions but ultimately the logbook and original receipts are evidence of the asset's disposition.
d. Of the 11 records related to the seized weapons, one was related to the lack of documentation to support the firearm was returned to the owner. The remaining 10 were noted as "serial number on physical item does not agree with the inventory report." Appears to be an input error." Again, the

Excel spreadsheet serves as one of our tools for inventory purposes and in each of these 10 examples all other attributes of the weapon was accurate. One example is a transposition. The serial number was listed as "41700" instead of "47100". The one of 53 findings related to fleet vehicles was based on the vehicle model number being listed as "G3500" instead of "G2500". Keep in mind all other identifiers were accurate such as County assigned vehicle number, Make, license number and VIN number,

    e.   The weapon shown as stolen was a Smith & Wesson and has been shown as "stolen" from during the C. W. Kidd administration and unfortunately we don't have documentation to provide. The other three weapons were traded for new Glocks and we were unable to find supporting documentation for two of the three. One of the Glocks was listed in inventory as "CUP870US" and the vendor's documentation of the trade-in listed the serial number as "CUP087US".

The Sheriff's Office has been working to implement procedures that allow for more timely and accurate record keeping and have every intention of ensuring 100% accuracy for all inventory transactions which is why we sought software (funded by Special Revenue funds designated for law enforcement purposes) to track non-capitalized assets in order to safeguard the investment since the County does not provide for a means to track*.*

Internal Audit Response

Accurate and complete inventory records are critical for effective inventory management. This risk observation addresses the accuracy of inventory records regardless of how the inaccuracies occurred. Further, inventory records should be updated upon receipt of goods to accurately reflect items for which the Sheriff's Office has paid for and received.

Issue 4: The inventory management process for some assets lacks adequate separation of duties.

Risk Observation

One staff member records armored vests, deputy badges, radios and seized weapons into inventory records, maintains custody of the assets, performs inventory counts and reconciles inventory counts to inventory records. Allowing a single individual to carry out incompatible duties within a process does not provide a proper separation of duties and increases the risk of loss or theft.

Recommendation

Internal Audit recommends the Agency provide adequate separation of duties in its inventory management process for armored vests, deputy badges, radios and seized weapons. If adequate separation of duties is not possible, management should implement appropriate compensating controls.

Management Response

Disagree. The Sheriff's Office has reviewed the current duties and asserts we have the potential to strengthen the process but we disagree that the process "lacks adequate separation of duties". For the destruction of seized weapons additional personnel from the Office of Professional Compliance (OPC) witness the destruction. As mentioned earlier the on-going staff inspections of all assigned and facility assigned equipment serve as another verification point. We will refine the process so that it is transparent the roles and responsibilities of all parties to provide assurance adequate segregation exists.

Internal Audit Response

The concept of separation of duties is to have more than one person completing a task in order to help prevent fraud and error. For example, the person with access to inventory should not also be involved with the related recordation process. Although the Sheriff's Office has onsite inspections for assigned equipment and a process and witness for the destruction of seized weapons that are in inventory, only one staff person receives, records and reconciles the assets until they are reassigned or destroyed.

> **Issue 5:** The Agency does not have adequate physical security at some inventory storage locations.

Risk Observation

One storage location maintains some inventory in a shared storage space separated by a 20-foot aluminum chain link fence. Although the shared space requires a badge to enter, any person with access, including non-County staff, could breach the fenced perimeter and gain access to the inventory. On the same floor, a separate storage location that maintains high risk inventory is inadequate to protect them from theft.

Recommendation

Internal Audit recommends the Agency enhance physical security over the cited inventory storage location to adequately protect assets maintained in its shared storage space or, alternatively, consider an alternate and more secure storage location for those assets.

Management Response

Agree. The agency had already begun the process of relocating seized weapons to a more secure location. Unfortunately real estate for storage is at a premium. My staff believes the security for the fenced area in the secured warehouse section of the leased space at the ABC building is as secure as any other area we have at our disposal. We will monitor the items stored there and ensure higher valued items are not there but unless other more secured space becomes available, we will continue to utilize. We have always had a concern with the separate storage area for seized weapons. Fortunately the area has not been compromised. In response to a growing inventory we are currently planning for the relocation of the seized weapons to a secured area of one of our facilities that provides for a higher level of security and a more secured and larger area. We have invested in a special shelving system which will also allow for better organization of the weapons.

> **Issue 6:** The Agency has insufficient eRIMS2 system access management controls.

Risk Observations

A. The Agency does not consistently document its authorization of users' access to the eRIMS2 system; at times authorization is granted based on a verbal request only.

B. Management does not ensure that staff's continued eRIMS2 system access is appropriate based on their job duties. Rather, management relies on a visual comparison of system records to verify that users are current staff members as a basis to authorize continued access.

Recommendations

Internal Audit recommends the Agency:

A. Document all eRIMS2 system access authorizations.

B. Review, at least on an annual basis, eRIMS2 system user access and recertify in writing access provided to each user is appropriate. In addition, documentation of the review and recertification should be maintained.

Management Response

Agree. The current access required authorization from the Chief Deputy. Although not formal, access was only granted with the Chief's authorization. The Sheriff's Office has already implemented a new form that will document the authorization as well as provide for review annually.