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CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS & FINANCIAL ADVISORS



Internal Audit

Sheriff's Department Special Audit

April 2011

Bernalillo County Internal Audit

Sheriff's Department Special Audit

Executive Summary

SUMMARY OF PROCEDURES

REDW performed a special internal audit of three Funds maintained by the Bernalillo County Sheriff's Office (BCSO): the Federal Narcotics Fund, Investigative Fund, and Evidence Fund. Our internal audit focused on evaluating whether deposits were made into the proper fund and disbursements were processed in accordance with policies and procedures.

In order to determine whether deposits and disbursements were properly processed, we performed the following:

- Read the Guide to Equitable Sharing for State and Local Law Enforcement Agencies;
- Read the BCSO Currency Evidence Fund Manual; and,
- Interviewed relevant department personnel.

For the Federal Narcotics Fund and the Investigative Fund, we also performed the following:

- Selected all calendar year 2010 and half of 2009 deposits and determined if the amounts deposited agreed to bank statements, quarterly reports, and other applicable supporting documentation.
- Selected all calendar year 2010 and half of 2009 disbursements and determined if the disbursement amount agreed to the bank statement and supporting documentation, the disbursement was properly approved and was allowable based on disbursement requirements, and the disbursement appeared reasonable and proper under the circumstances.

For the Evidence Fund, we also performed the following:

- Selected all cash collections logged into the APD evidence system for calendar years 2010 and 2009 and tested that the cash collected agreed to the bank statement and the quarterly report.
- Selected all disbursements for calendar years 2010 and 2009 and tested to verify the amount and payee agree to what was documented in the police report, amount agreed to the deposit slip and the bank statement, the case number was consistent throughout all documentation, and the disbursement was properly approved.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We noted the following:

- **Federal Narcotics seizure listing was not being reconciled to the bank statement**—We identified 13 discrepancies between the seizure listing and what was deposited into the Federal Narcotics Fund. BCSO Narcotics Unit and Accounting personnel should work together to reconcile the seizure listing on a monthly basis. The listing should be updated as requests are made and funding emails are received.
- **Federal Narcotics Fund-Lack of documented policies and procedures and compliance with guidelines**—Spending requirements were not being identified and additional requirements of the Equitable Sharing Federal Guidelines were not being consistently followed. BCSO should develop a process to ensure that all personnel requesting expenditures from the Federal Narcotics Fund are aware of the Equitable Sharing Federal Guidelines to ensure they are consistently followed and expenditures are properly approved.
- **Federal Narcotics Fund is not properly tracked in the Comprehensive Annual Financial Report (CAFR)**—The Federal Narcotics Equitable Sharing Guide states that these Funds are subject to the Single Audit Act Amendments of 1996 and OMB Circular A-133. Bernalillo County accounts for the Federal Equitable Sharing Funds were within another BCSO Fund on the CAFR. This method of accounting may put the County in violation of the Federal Equitable Sharing Agreement requirements. The County Finance department should separately track the Federal Narcotics Special Revenue Funds. The expenditures of these programs should be included on the Schedule of Expenditures of Federal Awards.
- **Investigative Fund-Lack of documented policies or procedures**—There were no policies and procedures to guide the activities and processes related to the Investigative Fund. Without policies and procedures, we were unable to determine what the Fund spending requirements were or what money is allowed to be deposited. Sixteen transactions were identified where support was not readily available, invoices did not recalculate, or payments were not approved. Policies and procedures should be developed and implemented to ensure all transactions are supported, approved, and properly maintained.
- **In relation to the Evidence Fund we did not have any significant observations.**

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Further detail of our purpose, objectives, scope, procedures, observations, and recommendations is included in the internal audit report. In that report, management describes the corrective action being taken for each observation.

REDW LLC

May 11, 2011

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Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the three Funds maintained by the Bernalillo County Sheriff's Office (BCSO): the Federal Narcotics Fund, Investigative Fund, and Evidence Fund to determine if proper documentation was maintained to support deposits and that disbursements were processed in accordance with related requirements. Our services were conducted in accordance with the *Consulting Standards* issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

Our internal audit focused on evaluating the BCSO Federal Narcotics Fund, Investigative Fund, and Evidence Fund to determine whether deposits were properly supported and were deposited into the correct Fund and whether disbursements were processed in accordance with policies and procedures.

SCOPE AND PROCEDURES PERFORMED

Interviews: In order to gain an understanding of the processes and controls over operations, we interviewed the following personnel:

- Sheriff Dan Houston
- Undersheriff Ron Paiz
- Chief David Linthicum
- Lieutenant Duncan Sanchez

- Lenore Buffington, Budget and Grant Accountant
- Elva Gonzales, Accountant Senior
- Christy Highland, Office Assistant Sr.

Policies and Procedures and Other Documentation: In order to gain an understanding of the processes and controls over these three Funds maintained by the BCSO, we performed the following:

- Read the Guide to Equitable Sharing for State and Local Law Enforcement Agencies as it applies to the Federal Narcotics Fund. The Federal Equitable Sharing Agreement between Bernalillo County and the Federal Government sets forth the requirements for participation in the federal equitable sharing program and the restrictions upon the use of federally forfeited cash, property, proceeds, and any interest earned thereon, which are equitably shared with participating law enforcement agencies.
- Read the BCSO Currency Evidence Fund Manual.
- Interviewed relevant department personnel.
- Obtained the quarterly reports prepared by Accounting Associates for each Fund. These reports are compiled by an accountant who visits the BCSO monthly to perform reconciliations of the bank accounts to the monthly activity. The reports contain all activity from the three Funds discussed herein that is gathered by the accountant each month.

It was management's representation that there were no documented requirements or policies and procedures related to the Investigative Fund.

In relation to the Federal Narcotics Fund, we performed the following audit procedures:

- Selected all deposits for calendar year 2010 (48 items for a total of approximately \$532,000) and selected 50% of the deposits from calendar year 2009 (28 items for a total of approximately \$493,000) from the activity listing maintained by BCSO. For each deposit, we determined if the amount deposited agreed to the bank statement, the Accounting & Associates Quarterly Report, and the listing of seizures maintained by Lieutenant Duncan Sanchez.
- Selected all disbursements for calendar year 2010 (84 items for a total of approximately \$311,000) and selected 50% of all disbursements for calendar year 2009 (40 items for a total of approximately \$358,000) and tested that the:
 - Amount disbursed agreed to the bank statement and supporting documentation;
 - Supporting documentation recalculated;
 - Disbursement was properly approved;
 - Disbursement was allowable based on federal guidelines; and,
 - Disbursement appeared reasonable and proper under the circumstances.

In relation to the Investigative Fund, we performed the following audit procedures:

- Selected all deposits for calendar years 2010 (6 items for a total of approximately \$3,000) and 2009 (11 items for a total of approximately \$81,000) and determined if the deposit

agreed to the bank statement, the Accounting & Associates Quarterly Report, and other supporting documentation including the auction listing from PropertyRoom.com.

- Selected all disbursements for calendar year 2010 (24 items for a total of approximately \$23,000) and selected 50% of disbursements for calendar year 2009 (27 items for a total of approximately \$66,000) and tested that:
 - Amount disbursed agreed to the bank statement and supporting documentation;
 - Supporting documentation recalculated;
 - Disbursement was properly approved;
 - Disbursement was for law enforcement purposes; and,
 - Disbursement appeared reasonable and proper under the circumstances.

In relation to the Evidence Fund, we performed the following audit procedures:

- Selected all cash collections logged into the APD evidence system for calendar years 2010 and 2009 (104 items for a total of approximately \$66,000) and determined if the cash collected agreed to the bank statement and the Accounting & Associates Quarterly Report. The 2009 cash collections that were tested in the November 2010 Sheriff’s Department Currency Evidence Audit were traced to the corresponding bank statement at the time of that audit.
- Selected all disbursements from the evidence Fund for calendar years 2010 and 2009 (30 items for a total of approximately \$40,000) and tested that:
 - Amount disbursed agreed to the cash documented in the police report, and tied to the APD cash log sheet, the deposit slip, and the bank statement;
 - Case number was consistent throughout all documentation;
 - Disbursement was approved by the Chief; and,
 - Payment was addressed to the owner listed in the police report.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We did not note any significant observations related to the Evidence Fund.

In relation to the Federal Narcotics Fund we noted the following:

1. Federal Narcotics seizure listing was not being reconciled to the bank statement

We identified discrepancies between the seizure listing and what was deposited into the Federal Narcotics Fund. During our analysis of the 76 total deposits, we found:

- Six deposits that were not included on the seizure listing;
- Five deposits that were not recorded as “received” on the seizure listing;
- One deposit amount did not agree to the seizure listing; and,

- One item recorded on the seizure listing was not deposited into the Federal Narcotics Fund.

The total discrepancies totaled \$349,000. After discussions with BCSO personnel, it was determined that the listing was not complete and these items have since been investigated and added to the listing.

Recommendation

BCSO Narcotics Unit and Accounting personnel should work together to reconcile the seizure listing on a monthly basis. The listing should be updated as requests are made and funding emails are received. This will ensure that the seizure listing is complete and that all monies are deposited into the proper Fund.

Management Response

During the audit, BCSO personnel were able to locate and update the Auditor's identified discrepancies between the seizure listing and what was deposited into the Federal Narcotics Fund. Due to all the findings and discrepancies, Management has determined that policies and procedures will be implemented including monthly reconciliations between the Seizure listing and what was deposited into the Federal Narcotics Fund. The Administrative Assistant will record new seizures into the listing. The Commander will review the seizure listings. The Accountant Sr. will be in charge of reconciling the seizure listing with the deposits received into the Federal Narcotics Fund. The Administrative Assistant and Commander will follow-up on any discrepancies. At this point, BCSO Management believes that monthly reconciliations of the Federal Narcotics Fund will prevent future discrepancies between the seizure listings and the incoming deposits. Monthly reconciliations will begin in May 2011.

2. Lack of documented policies and procedures and compliance with guidelines

There are no documented policies and procedures for BCSO personnel to follow, which has led to spending requirements not being identified and additional requirements of the Equitable Sharing Federal Guidelines not being followed. BCSO Accounting personnel were not aware of the guidelines in place for this Fund; therefore, they were not ensuring payments were allowable and properly approved. During our analysis of 124 disbursements, we found:

- Eight did not include an approval;
- Twenty-eight were not approved by the proper authority; and,
- One expenditure, totaling \$418, does not appear to meet the allowability requirements of the Equitable Sharing Federal Guidelines.

In addition, there were disbursements in our sample that related to two specific projects in which BCSO was unable to provide the related approved initial agreement. However, we did note that both projects appear to be allowable expenditures.

Recommendation

BCSO should ensure that all personnel requesting expenditures from the Federal Narcotics Fund are aware of the Equitable Sharing Federal Guidelines. Policies and procedures should

be implemented to ensure compliance with these requirements. As new personnel begin working with these Funds, proper training needs to occur to ensure the Guidelines are consistently followed and expenditures are approved.

Management Response

Due to a considerable amount of expenses lacking approval, Management will implement training to ensure awareness of the Equitable Sharing Federal Guidelines. Management will develop and ensure that accounting personnel follow compliance related policies and procedures for all expenses or disbursements. Management will also notify all personnel involved with the Federal Narcotics Fund that, at this point in time, only Sheriff and Undersheriff are authorized to approve disbursements related to the Federal Narcotics Account. Management will also ensure that new personnel involved with the Federal Narcotics Fund are properly trained. This will be completed by July 2011.

BCSO will reimburse the Federal Narcotics Fund to cover the expenditure that did not meet the requirements of the Equitable Sharing Federal Guidelines.

3. *Federal Narcotics Fund is not properly tracked in the Comprehensive Annual Financial Report (CAFR)*

The Federal Narcotics Equitable Sharing Guide states that these Funds are subject to the Single Audit Act Amendments of 1996 and OMB Circular A-133. Bernalillo County accounts for the Federal Narcotics Funds within another BCSO Fund on the CAFR. This method of accounting may put the County in violation of the Federal Equitable Sharing Agreement requirements.

Recommendation

The Finance department should separately track the Federal Narcotics Funds. The expenditures of these programs should be included on the Schedule of Expenditures of Federal Awards.

Management response

The County will include the expenditures of this program on the Schedule of Expenditures of Federal Awards for FY11. The revenue received and expenditures made will be accounted for in a separate revenue and expense account on the general ledger to comply with the requirements.

In relation to the Investigative Fund we noted the following:

4. *Lack of documented policies or procedures for the Investigative Fund*

There were no policies and procedures to guide the activities and processes related to the Investigative Fund. Without policies and procedures, we were unable to determine what the Fund spending requirements were or what money is allowed to be deposited. BCSO personnel informed us that money is received from auctions and can be used for law enforcement purposes. There is no reconciliation performed to ensure that auction proceeds reconcile to the amount ultimately deposited into the bank. Supporting documentation for eight deposits was not readily available and took a significant amount of time to locate.

In addition, from the 51 disbursements tested, there were four instances where the invoice numbers did not recalculate to the total amount disbursed and five instances where a disbursement was not properly approved.

Recommendation

Policies and procedures should be developed and implemented and should address:

- Individuals authorized to approve disbursements;
- Procedures required to ensure all disbursements are approved;
- Reconciliation process to ensure deposits are properly deposited;
- Procedures for maintaining deposit and disbursement support; and,
- Other relevant requirements to guide disbursements and deposits related to the Investigative Fund.

All deposit support should be maintained in a centralized location and should include back-up documents supporting the deposit into the Investigative Fund. This will help ensure money is not mistakenly deposited into this Fund and that all auction payments are deposited. BCSO Accounting personnel should ensure that all disbursements are properly approved and invoices are accurate before payment is processed.

Management Response

Management will establish policies and procedures to ensure the proper use of Investigative Funds. Although policies and procedures were not in place, management considers that the incurred expenses were allowable. Management also agrees that a monthly reconciliation must be performed to ensure that deposits are properly done. The Accountant Sr. will be reconciling this account monthly. All personnel involved with the Investigative Fund will be trained and made aware that all supporting documentation must be properly file and readily available. At this point in time, all personnel involved with the Investigative Fund will be made aware that Sheriff and Undersheriff are the only two persons authorized to approve any disbursement or expense related to the Investigative Fund. This will be completed by July 2011.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

REDW LLC

May 11, 2011