Internal Audit Division

Auditor-Controller-Treasurer-Tax Collector

Contract Payment Process Audit

Sonoma Public Infrastructure

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Executive Summary

As part of the 2025-2026 Audit Plan, the Internal Audit Division (IA) of the Auditor-Controller-Treasurer-Tax Collector (ACTTC) audited the design of internal controls over invoice review and contract payment processes within Sonoma Public Infrastructure's (SPI) Airport and Roads Divisions.

SPI's Airport and Roads Divisions have generally designed appropriate controls for reviewing invoices and processing contract payments. However, the Divisions have not formally documented their procedures for performing these control activities or monitoring that established procedures are consistently followed.

IA recommends that SPI develop and maintain written procedures that identify key control activities, roles, and responsibilities for invoice review and contract payments. Documented procedures will promote consistent application of controls, facilitate training and continuity during staff transitions, and provide management with a basis for monitoring compliance with established processes.

This finding and recommendation is categorized as Priority 3 (Low Priority) and should be implemented within 12 months of this report's issuance. Additional detail is provided in the Finding, Recommendation & Management Response section beginning on page 5. Priority Ratings and Definitions are provided on page 6.

We would like to thank SPI management and staff for their cooperation, time, and assistance throughout the audit.

Introduction

As part of its risk assessment process, Internal Audit (IA) identified invoice review and payment processing related to federal funding as areas of significant risk to the County. Based on this assessment, an audit to evaluate the design of internal controls over invoice review and contract payment processes was included in the 2025-2026 Audit Plan.

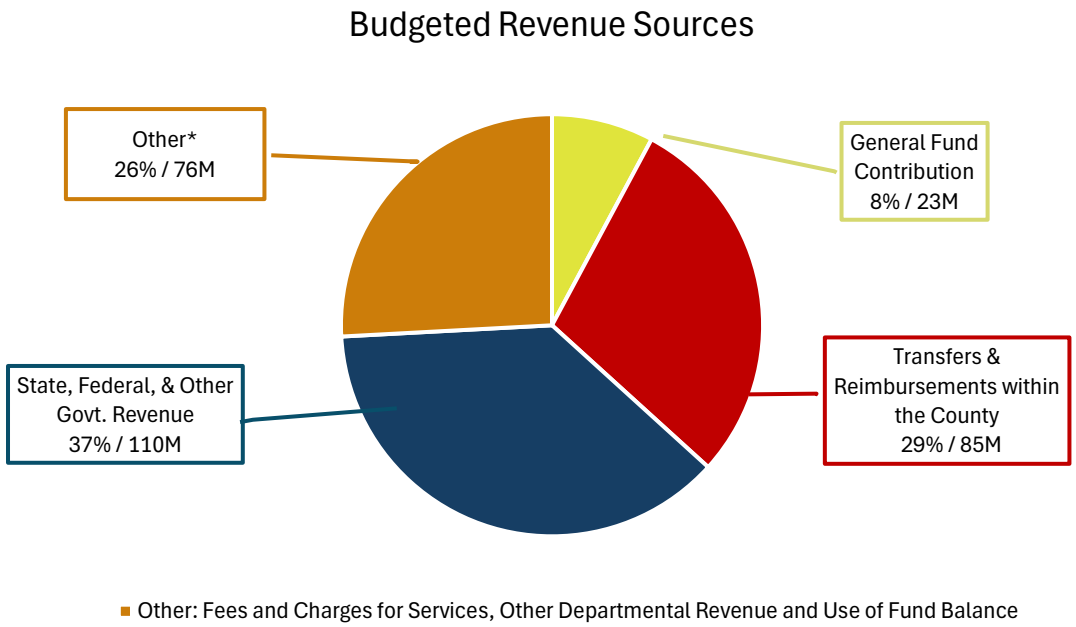
To identify departments for review, IA considered the level of federal expenditures across County departments. In fiscal year 2023-2024, County federal expenditures totaled approximately $184 million. The Human Services Department accounted for approximately 61 percent ($113 million), Sonoma Public Infrastructure (SPI) accounted for approximately 15 percent ($28 million), and the Department of Health Services accounted for approximately 10 percent ($19 million). Together, these departments accounted for approximately 86 percent of the County's federal expenditures. IA selected these three departments for review, with a separate audit conducted for each department.

This audit addresses SPI's invoice review and contract payment processes. We conducted our audit in accordance with the Institute of Internal Auditors' Global Internal Audit Standards (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 provides a reasonable basis for the results contained in our report.

Background

SPI plans, builds, manages and maintains County infrastructure and oversees a broad range of public services, including roads, airport operations, public buildings, capital projects, transit operations, water systems and waste disposal sites. SPI employs just under 300 staff and in fiscal year 2025-2026 the annual budget exceeded $290 million.

The budgeted revenue sources for SPI for fiscal year 2025-2026 are as follows:



Objective & Scope

The objective of the audit was to evaluate the design of internal controls over SPI's invoice review and contract payment processes. Fieldwork was conducted from February through April 2026.

The audit evaluated whether SPI had processes designed to ensure that:

- Goods and services invoiced were received;
- Amounts and rates charged were consistent with contract terms;
- Invoices were adequately supported by appropriate documentation and complied with applicable contract and grant requirements;
- Cumulative payments did not exceed contractual limits; and
- Key control procedures were appropriately documented and management had processes to monitor whether established procedures were consistently followed.

Methodology

To accomplish the audit objective, audit steps included but were not limited to:

1) Interviewed Airport and Roads Division staff and performed process walkthroughs to understand invoice review and contract payments processes, and
2) Reviewed examples of relevant contracts, invoices, supporting documentation and databases used to review, approve, track, and process contract payment processes

Results

SPI's Airport and Roads Divisions do not have documented internal controls for invoice review and contract payment processes. However, the Divisions appear to have adequately designed practices for verifying that goods and services were received, invoiced amounts and rates are consistent with contract terms, invoices are supported by appropriate documentation and comply with applicable contract and grant requirements, and cumulative payments do not exceed contractual limits.

Division staff reported that they rely on Countywide policies and procedures established by the Enterprise Financial System (EFS) support organization and the Auditor-Controller-Treasurer-Tax Collector (ACTTC) rather than maintaining department-specific written procedures. While Countywide guidance establishes general procurement and payment requirements, it does not document the department-specific processes, responsibilities and control activities used to review invoices and contract payments.

The absence of documented procedures increases the risk that controls may be applied inconsistently, particularly when responsibilities change or new staff assume these functions. It also limits management's ability to monitor whether established control procedures are consistently followed.

Additional details are provided in the Finding, Recommendation, and Management Response section beginning on page 5.

Finding, Recommendation & Management Response

No.	Criteria	Finding & Recommendation	Management Response
1	Industry standard internal control frameworks, such as COSO, require organizations to establish and maintain documented policies and procedures to ensure consistency, accountability, and effective internal controls. Best practices for operational management also emphasize that documented procedures are essential for training, continuity, compliance, and risk mitigation.	**Finding:** The department does not have formally documented policies and procedures for internal controls related to contract payment processes. Current practices rely on informal knowledge, verbal instructions, and staff experience. No centralized or approved documentation exists to guide staff in performing these tasks. **Recommendation: Low / Priority 3** The department should develop, formalize, and maintain comprehensive written policies and procedures for contract payment processes. Documentation should: • Clearly define roles, responsibilities, workflows, and control activities. • Be reviewed and approved by management. • Be stored in a centralized, accessible location. • Include a process for periodic review and updates (e.g., annually or when processes change). • Be incorporated into staff training and onboarding programs to ensure consistent application.	SPI agrees with the finding and recommendation. SPI will develop and implement department specific procedures outlining roles, responsibilities, workflows, controls, and applicable contract and grant requirements. They will be centrally maintained, incorporated into training and onboarding, reviewed and updated as needed, and supported by a management process to monitor consistent application. These procedures will be completed within twelve months of the final audit report,

Priority Ratings and Definitions

Priority Ratings	Definition of Priority Ratings and Suggested Implementation Timeframe
High / Priority 1	Priority 1 recommendations are assigned to the highest assessed level of risk. For these recommendations, internal controls are considered poor or insufficient, and there is a high likelihood of significant financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority 1 recommendations also include significant issues related to non-compliance with laws, regulations or policies and procedures. Management should urgently implement these recommendations within 3 months after issuance of the final audit report to avoid risk exposure.
Medium / Priority 2	Priority 2 recommendations are assigned to the moderately assessed level of risk. For these recommendations, internal controls are considered poor or insufficient, and there is a moderate likelihood of financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority 2 recommendations also include moderately severe issues related to non-compliance with laws, regulations or policies and procedures. Management should promptly implement these recommendations within 6 months after issuance of the final audit report to improve internal control processes.
Low / Priority 3	Priority 3 recommendations are assigned to the lowest assessed level of risk. For these recommendations, there are opportunities to improve the design and or operation of internal controls and there is a potential of financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority 3 recommendations may include minor issues related to non-compliance with laws, regulations or policies and procedures. These recommendations are desired actions to enhance current practices. Management should implement these recommendations within 12 months after issuance of the final audit report to provide additional confidence in the internal control system.
Opportunity for improvement/ Priority 4	Priority 4 recommendations are assigned to matters which do not involve internal controls, they typically involve opportunities for improvement or efficiency/effectiveness issues that require management's consideration to implement or enhance processes.