

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR



An Audit of the Key Controls of
Animal Services

April 26, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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April 26, 2013

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of the Key Controls of Animal Services

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Animal Services in compliance with Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that we have identified as key to good financial management. We also sought to identify areas of material risk to determine whether we should commit more of our limited resources in further auditing or investigation. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at Animal Services and the cooperation from April Harris, Division Director, Gabe Anguiano, Fiscal Manager, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Animal Services during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By Roger Larsen
Sr. Deputy Auditor

cc: Patrick Leary, Public Works Director
April Harris, Division Director
Gabe Anguiano, Fiscal Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Animal Services. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that are key to good financial management. We also sought to identify areas of material risk.

Conclusion

Animal Services' daily operational procedures that we reviewed met or exceeded Salt Lake County requirements as defined by the Countywide policies evaluated in the scope of our review. Our findings concentrated mainly on monthly and annual closeout and review procedures. Implementation of our recommendations will result in improved internal controls, protection of County assets, and safeguarding employees from time and asset misappropriation.

A common concern voiced by Agency Management and staff is the lack of an operational security system. Animal Services is accessed 24 hours a day, every day of the year. In addition, cashiers and front office employees are not separated from patrons. An operational security system would protect both County assets and Agency employees by detection and quick response enhancement.

Findings, Recommendations, and Management Responses

Finding # 1 - The Imprest Checking Account was reconciled by the Custodian.

Risk Level: Moderate

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 5.1.3 states:

"In the case of Imprest Checking/Operating Accounts, the account's bank statement balance shall be reconciled at least monthly by an employee designated by Agency Management, who is not the Custodian."

The Imprest Fund Custodian performed the Imprest Fund Checking Account bank reconciliations without management review.

The designated independent employee failed to reconcile the account. Therefore, the Custodian conducted the reconciliations until a different independent party was designated.

Funds are at a greater risk of misuse and error when bank reconciliations are not performed by an independent party.

Recommendation

We recommend that the Imprest Checking Account be reconciled at least monthly by an employee designated by Agency Management, who is not the Custodian.

Management Response

We have addressed this finding by designating separate staff who will reconcile our imprest checking account on a monthly basis. This procedure has now been in place since December 2012 and is operating smoothly.

Finding # 2 - The Imprest Checking Account exceeded its authorized limit.

Risk Level: Moderate

Countywide Policy #1203, "Management of Public Funds," Section 5.1.1 states:

"Prior to submission of a reimbursement request from the Custodian to the Auditor's Office, the applicable...Imprest Fund Account shall be reconciled by the Custodian. The reconciliation...shall reflect the actual Checking Account balance at the date of reconciliation, attested by the reconciling employee's signature. [This] balance...plus the total of the outstanding Imprest/Operating Account checks, should equal the authorized imprest amount."

The authorized limit of the the Imprest Checking Account was \$3,500. The actual balance was \$4,683.33, an overage of \$1,183.33.

An Imprest Account in excess of its authorized limit restricts County cash flow and is more likely to result in funds being stolen and the theft easily concealed.

Recommendation

We recommend that Animal Services reduce the balance of the Imprest Checking Account to the \$3,500 authorized limit.

Management Response

We will be submitting our stale-dated checks to the State of Utah as unclaimed property which will take care of the overage identified in this finding and have the affect of reducing our Imprest Checking account to our authorized limit of \$3,500.

Finding # 3 - An MPF Form 6 was not signed by the Fiscal Manager or Agency Management.

Risk Level: Moderate

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 5.1.1 states:

"Prior to submission of a reimbursement request from the Custodian to the [Mayor's Office],...The reconciliation, documented on MPF Form 6 'Reimbursement Request and Control Listing' or similar form...shall be reviewed and signed by the Fiscal Manager or Agency Management."

We found that the 13 January 2012 Reimbursement Request and Control Listing, MPF Form 6, was not signed by management. The initials of the Division Director were on the transmitting document for this form.

When the reimbursement request is not reviewed and signed by management, there is an increased risk of inappropriate expenditures and excess funds not being detected.

Recommendation

We recommend that Animal Services Management review and sign all MPF Form 6 forms before they are submitted for reimbursement.

Management Response

We are using a separate form that the custodian and Agency Management sign prior to submitting request to Mayor's Operations Finance & Accounting for reimbursement. By addressing our stale-dated checks and turning them over to the State of Utah we will ensure we only request reimbursement up to our current limit of \$3,500.

Finding # 4 - The accounts receivables were not being reconciled monthly.

Risk Level: Moderate

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Section 5.4.3 states:

"The ledger of accounts receivable shall be reconciled to invoices and payments at least monthly."

Management is not reviewing or reconciling monthly accounts receivable aging reports.

Animal Services reports revenues on a cash basis, when received. Therefore, there isn't an Accounts Receivables balance sheet account in AFIN. Animal Services internally controls revenues on the accrual basis, when earned. Unpaid services are appropriately managed through dunning letters, but are never reconciled.

When accounts receivables are not reconciled monthly, balances cannot be confirmed, system accuracy cannot be verified, and unauthorized adjustments cannot be detected.

Recommendation

We recommend that Animal Services Management review a monthly Current Balances Due report and reconcile the balance.

Management Response

We will be developing a process that allows us to identify beginning balances on a monthly basis and add or subtract subsequent balance dues or payments in order to reconcile our ending monthly receivables. We have kept very detailed records of our account receivables and will implement a monthly reconciliation process.

Finding # 5 - Controlled Assets were not inventoried annually.

Risk Level: Moderate

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.11 states:

“At least annually, conduct a physical inventory of fixed assets and controlled assets, to ensure complete accountability for all property owned by, or assigned to the organization.”

Section 2.3.4 states:

"...at least annually, employees assigned fixed or controlled assets shall review the list of assigned assets and provide verification by his/her signature to the Property Manager as to the accuracy and completeness of the list."

Animal Services had not conducted a comprehensive annual review of controlled assets.

Controlled assets are more susceptible to loss and theft when inventories are not conducted on a timely basis.

Recommendation

We recommend that Animal Services annually conduct a comprehensive controlled asset inventory and that employees verify their assigned assets at least annually.

Management Response

We will begin to have each employee sign annually for the controlled assets assigned to them and maintain copies at each individuals workstation.

We currently maintain a division workbook that tracks this detail for us but we have not obtained signatures from staff on an annual basis for their assigned control asset list.

Finding # 6 - The bank reconciliation did not include verifying the check endorsement to the payee.

Risk Level: Low

Standard business practices dictate that check endorsements should regularly be compared to payees to ensure the propriety of disbursements.

We found that the endorsement of payees for checks clearing the bank could not be verified. Checks were not returned with the bank statement. Management was not able to get access to electronic banking to view cleared checks on line.

The lack of review of endorsement to payee can lead to misappropriated checks, false names, and unauthorized payees.

Recommendation

We recommend that Animal Services and the Treasurer's Office work together to get on-line banking access for the Imprest Checking Account to ensure that endorsements can be compared to payees.

Management Response

We have been working with the treasurers office and recently obtained online banking access. The risk level for this finding is minimal compared to the resources we would have to dedicate to comparing each check endorsement by our patrons. Once we become more familiar with our online banking reports and statements we will look into the possibility of performing a random check on payee endorsements.

Finding # 7 - There was no sequential review of receipts.

Risk Level: Low

Countywide Policy 1062, "Management of Public Funds," Section 3.5.6 states:

"The online cashiering system shall produce receipts in a sequentially numbered order." Standard business practice is to verify and account for all sequential receipts.

We found that sequential receipts were not verified. Daily and monthly sales reports showed missing receipt numbers due to concurrent use by multiple cashiers, post dating receipts, or voiding receipts. We found that all receipts were accounted for when a sales report was run by receipt number instead of by cashier.

The failure to verify all sequential receipts can reduce the ability to isolate problems with accounting, cash collection, daily deposits, voided receipts and refunded receipts. Irregularities can, therefore, go undetected.

Recommendation

We recommend that Animal Services verify all sequential receipts by initiating daily and monthly reports that are sorted and reported sequentially.

Management Response

We addressed this finding while our audit was still being performed. We have altered our daily cash summary reports so that they now include a sequential list of receipts for transactions done on that day.

Finding # 8 - The Imprest Checking Account's authorized limit exceeded Animal Services' needs.

Risk Level: Low

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 3.1.4 states:

"The requested imprest amount should be sufficient to provide adequate operating funds for 2 months."

Animal Services Imprest Checking Account required reimbursement only once during the one-year period we examined. Policy would dictate that up to six reimbursements would have been warranted for the same time period.

The Imprest Checking Account was not used for several months during our audit period. Refunds that were normally issued through this account were taken directly from daily cash receipts. This practice was properly documented.

When replenishment requests are submitted infrequently, there is increased risk of inappropriate use without timely detection. In addition, excess funds restrict County cash flow.

Recommendation

We recommend that Animal Services reduce their Imprest Checking Account to an appropriate amount.

Management Response

We believe doing the request for monies on our Imprest checking account is more than sufficient at once or twice per year. We are no longer using this account as often as in prior years and quite possibly would not have any reason to request reimbursement every two months. We will also be lowering our limit and are doing an analysis to come up with a more accurate amount according to how we currently do business.

Finding # 9 - Stale-dated checks were not submitted to the Treasurer's Office.

Risk Level: Low

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 5.1.4 states:

"Copies of Stale-Dated Checks issued from an Imprest Checking/Operating Account, shall be submitted by the Custodian to the Treasurer's Office."

We found that stale-dated checks from December 2007 through December 2011, totaling \$981.35, were included in the October 2012 Imprest Checking Account bank reconciliation.

When stale-dated checks are kept on the books, the Imprest Checking Account's true balance is understated.

Recommendation

We recommend that Animal Services submit stale-dated checks to the Treasurer's Office.

Management Response

Our agency has obtained the information needed to turn in our stale-dated checks to State of Utah as unclaimed property. We have already started discussions on when we want this clean-up of stale-dated checks to occur, Our Custodian will be entering the information into the State website and the Fiscal Manager will review and sign off on the work.

Finding # 10 - A second signature was occasionally missing on the Daily Deposit Summary Reports.

Risk Level: Low

Countywide Policy 1062, "Management of Public Funds," Section 4.2.2 states:

"The 'master' balance sheet shall be reviewed and reconciled to the bank deposit slip, and signed by another employee designated by Agency Management; and if possible, by an individual with equal or higher authority than the individual who prepared the deposit."

Two of the twenty-eight Daily Deposit Summary Reports reviewed in our audit were not signed by two employees.

The fiscal manager and other supervisory personnel were out of the office on the two days that the Daily Deposit Summary Report was not signed by two people.

Not reviewing daily deposits by two people can result in a greater probability of error, misappropriated funds, and weak internal controls.

Recommendation

We recommend that Animal Services Management ensures that each Daily Deposit Summary Report is signed by the preparer and reviewed and signed by another employee of equal or higher authority.

Management Response

We now have more personnel trained and able to assist with the reviews and preparing of the daily cash summary reports. In the past, and during our 2012 audit, we only had three individuals who could perform these tasks. We should not have another situation where signatures are missing due to staff being out of the office.

Finding # 11 - An SAQ representing Animal Services' compliance with PCI had not been completed and was not on file.

Risk Level: Low

Countywide Policy #1400-7, "Payment Card Industry Data Security Standard Policy", Sections 3.1.1 and 3.1.4 state that County agencies that accept, process, transmit, or store cardholder data shall: "Complete the appropriate annual SAQ and AOC for their merchant category...Maintain County records relating to PCI-DSS compliance and supporting documentation...".

An SAQ representing Animal Services' compliance with PCI had not been completed and was not on file.

Not completing this self-evaluating questionnaire for PCI-DSS increases the risk of fines and an inability of accepting credit cards as payments.

Recommendation

We recommend that Animal Services' management complete and sign an annual SAQ and keep a copy of the SAQ on file to show that they are aware of and compliant with PCI requirements.

Management Response

We do have an SAQ on file that we have completed annually to the best of our ability. The last two were submitted in February of 2011 and in December of 2012. Those sections we are not able to complete are sections that can be more accurately addressed by the county's IT/IS department.

Also refer to Appendix A.

Additional Information

Background

Animal Services provides for the support, education, protection, and advocacy for all animals and citizens in Salt Lake County, Herriman, Holladay, Midvale, Riverton, and Salt Lake City. Agency goals include developing means to increase live releases of animals and increase adoptions, improving internal and external customer service, and improving employee satisfaction to reduce turnover.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Change fund
- Petty Cash and Imprest Accounts
- Cash Receipting
- Cash Depositing
- Credit / Debit Card
- Capital and Controlled Assets and Software Inventory
- Financial Computer Controls
- Purchasing Card Use
- Payroll Practices

Our examination period covered up to twelve months ending October 31, 2012. In addition to reviewing financial records, we reviewed and examined current practices through observation. Sampling of daily cash deposits, where applicable, was performed to assess compliance with Countywide policy and standard business and internal control practices.

Agency Management Closing Comments

We want to thank you for your report dated April 08, 2013 and the work performed by your staff, specifically Roger Larsen.

We are pleased that your audit findings are moderate to low risk in nature. Nonetheless, we take all risk levels seriously and will increase our efforts to address your findings as quickly as possible. Resource permitting, we hope to have fully implemented recommended safeguards by the third quarter in 2013.

I want to further thank Roger Larsen on behalf of Animal Services staff who appreciated his approach to our agency's audit and his willingness to explain his findings in a matter that could easily be interpreted by agency staff. Which in turn, facilitated solutions to his findings.