



**COUNTY OF SAN LUIS OBISPO
BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector		(2) MEETING DATE 5/9/2017	(3) CONTACT/PHONE Kerry Bailey 788-2979 Suzanne DeWitt 781-4846	
(4) SUBJECT Submittal of a cash procedures and internal control review of Animal Services conducted on January 18, 2017. All Districts.				
(5) RECOMMENDED ACTION It is recommended that the Board receive, review, and file the attached Animal Services cash procedures and internal controls review report. Our report also includes Animal Service's response to the findings.				
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes	
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. _____) <input type="checkbox"/> Board Business (Time Est. _____)				
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A				
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A		
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date <u>6/3/2014</u>		
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>				
(18) SUPERVISOR DISTRICT(S) All Districts				



COUNTY OF SAN LUIS OBISPO

TO: Board of Supervisors

FROM: James P. Erb, CPA, Auditor - Controller - Treasurer - Tax Collector

DATE: 5/9/2017

SUBJECT: Submittal of a cash procedures and internal control review of Animal Services conducted on January 18, 2017. All Districts.

RECOMMENDATION

It is recommended that the Board receive, review, and file the attached Animal Services Cash Procedures and Internal Controls Review report. Our report also includes Animal Service's response to our findings.

DISCUSSION

Cash handling can be an area vulnerable to mistakes or misappropriation. The Auditor-Controller-Treasurer-Tax Collector (ACTTC) has developed policies to minimize the risk associated with use of change funds and petty cash as well as cash receipts.

Additionally, County computers are vulnerable to abuse. County Information Technology has developed policies to minimize the risk associated with misuse of County computing assets.

The objectives of our review were to determine compliance with the ACTTC's Cash Handling Policy, to establish accountability for cash on hand and trust accounts, to assess the controls over purchasing cards, and to determine compliance with the County IT Acceptable Use Policy Acknowledgement signature requirements.

We determined the cash funds, and cash receipts on hand, in all material respects, to be in balance at the time of our count and employees signed the IT Acceptable Use Policy Acknowledgment form in a timely manner.

However, Animal Services' internal control system displayed serious weaknesses, and the department was not in compliance with the ACTTC's Cash Handling Policy or the Purchasing Card Program Policies in the areas of segregation of duties, petty cash, and the Cal-Card purchasing program. Animal Services also owes a minimum of \$163 to the State Board of Equalization for under-accrued sales tax. Our findings and suggested improvements are detailed in the attached Animal Services Cash Procedures and Internal Controls Review report.

OTHER AGENCY INVOLVEMENT/IMPACT

Healthy Agency – Animal Services

FINANCIAL CONSIDERATIONS

There is no additional cost to the County for conducting unannounced cash and internal control reviews. Periodic unannounced cash and internal control reviews are part of the ACTTC’s compliance with Government Code 26881 and 26883.

RESULTS

The ACTTC’s program of periodic unannounced reviews of cash procedures and other internal controls helps maintain and improve internal controls and procedures for cash handling by County staff and contributes to the County’s vision of a well-governed community.

ATTACHMENTS

1. Animal Services Cash and Internal Control Review Report FY 2016-17
2. Animal Services Response



COUNTY OF SAN LUIS OBISPO
AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

San Luis Obispo County Animal Services Cash Procedures & Internal Controls Review

April 2017

JAMES P. ERB, CPA
Auditor-Controller • Treasurer-Tax Collector



COUNTY OF SAN LUIS OBISPO

AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

James P. Erb, CPA Auditor-Controller • Treasurer-Tax Collector

James W. Hamilton, CPA Assistant Auditor-Controller • Treasurer-Tax Collector

TO: JEFF HAMM, HEALTH AGENCY DIRECTOR

FROM: JAMES P. ERB, CPA, AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR

A handwritten signature in blue ink, appearing to be "J.P. Erb", located to the right of the "FROM:" line.

DATE: APRIL 3, 2017

SUBJECT: CASH PROCEDURES AND INTERNAL CONTROL REVIEW OF ANIMAL SERVICES
CONDUCTED ON JANUARY 18, 2017

Our office has completed a cash procedures and internal control review of Animal Services that took place on January 18, 2017. Our review resulted in three areas with findings and two suggested improvements. Please respond to the Findings and Recommendations within 10 business days of receiving this report. The response should include the corrective actions Animal Services will take to correct the findings.

Purpose

The purpose of our review was to determine compliance with the County Auditor-Controller-Treasurer-Tax Collector's Cash Handling Policy, to establish accountability for cash on hand and trust accounts, to assess the controls over purchasing cards, and to determine compliance with the County Information Technology (IT) Acceptable Use Policy Acknowledgement signature requirements.

Scope

The scope of our review included cash, cash equivalents and receipts on hand on January 18, 2017 as well as deposits for the prior three months. Additionally, we reviewed the department's depository account, trust funds, and Cal-Card activity. County IT Acceptable Use Policy Acknowledgements signed in the past calendar year were also sampled and examined.

Methodology

We conducted our review in conformance with the International Standards for the Professional Practice of Internal Auditing. The International Standards for the Professional Practice of Internal Auditing require that the internal audit activity be independent and internal auditors be objective in performing their work. The Standards also require that internal auditors perform their



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engagements with proficiency and due professional care; that the internal audit function be subject to a program of quality assurance; and that the results of engagements are communicated.

Our review included physically counting all cash on hand for January 18, 2017 and reconciling the amount to the department's accountability figures. We examined cash receipts and compared the amounts to the corresponding receipts total and to the subsequent deposit. Our review also included an evaluation of internal controls over cash receipts, cash equivalents, depository and trust accounts, and Cal-Card activity. Our evaluation of internal controls was limited to inquiries of departmental staff and direct observations.

Additionally, we tested for compliance with the County of San Luis Obispo Information Security Program's requirement that employees annually sign the Acceptable Use Policy Acknowledgement form.

Results

We determined all cash funds and cash receipts on hand, in all material respects, to be adequately safeguarded and in balance at the time of our count, and employees signed the IT Acceptable Use Policy Acknowledgement form in a timely manner.

However, Animal Services' internal control system displays serious weaknesses, and Animal Services is not in compliance with the Cash Handling Policy or the Purchasing Card Program Policies in the areas of segregation of duties, petty cash, and the Cal-Card purchasing program. Animal Services also owes a minimum of \$163 to the State for under accrued sales tax. Our findings are detailed in the Findings and Recommendations section of this report below. Findings are issues which present a serious enough risk to require consideration by management and a written department response.

Additionally, during fieldwork we identified some areas where improvements could be made, and we immediately provided Animal Services with suggestions for making these improvements. Suggestions for Improvement are made for issues that the auditor considers not to be of an immediate serious nature and/or for issues which the department is able to correct at the time of the audit. Unlike formal audit findings, written departmental responses are not required for these issues. Our suggestions are detailed in the Suggested Improvements section below.



Findings & Recommendations

1. Lack of Segregation of Duties for the Cash Cycle

The same Animal Services' staff reconciles daily deposits and trust accounts, writes checks out of the bank checking account, and transfers funds via journal entries without secondary review or authorization. The County Cash Handling Policy requires adequate separations of cash handling and recording duties to ensure that no one individual controls more than one key aspect of a cash transaction. Staff were unaware that the person who reconciles accounts and transfers funds should not have control over the disbursement of funds. Segregation of the duties in the cash cycle significantly reduces the risk of error and misappropriation.

Recommendation

Animal Services management should ensure that an adequate separation of duties exists over the cash handling processes. The same staff person should not be signing disbursement checks performing reconciliations, and transferring funds.

2. Poor Oversight of Petty Cash Fund

The Petty Cash fund was not adequately managed. Violations of the County's Cash Handling Policy occurred in the following areas:

- Petty cash was used to make change.
- Petty cash was not reconciled.
- No petty cash log was kept.
- Petty cash vouchers were not approved by a supervisor.
- Petty cash receipts were not marked as paid.
- The petty cash fund was not replenished in a timely manner.

The Cash Handling Policy requires separation of petty cash and change funds along with proper authorization, record-keeping, reconciliation, and replenishment of petty cash. Staff were



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unaware of the Cash Handling Policy's requirements relating to petty cash funds. Appropriate oversight of petty cash funds decreases the County's risk of loss due to misappropriation, misuse of funds and inappropriate purchases.

Recommendations

A number of actions should be taken by Animal Services staff to strengthen internal controls over Petty Cash:

- 1) Immediately cease using the petty cash fund to make change. If needed, a request to increase the change fund amounts should be submitted to the Auditor-Controller-Treasurer-Tax Collector.
- 2) Create a petty cash log and perform reconciliations to the petty cash fund at least weekly.
- 3) Petty cash vouchers must be reviewed and approved by a supervisor and the petty cash custodian.
- 4) Supporting receipts must be marked "paid" immediately upon disbursement of the cash.
- 5) Replenish the petty cash fund in a timely manner and prior to year-end.

3. No Review and Approval of Cal-Card Purchases

The Cal-Card purchasing process contained multiple internal control weaknesses. Lack of compliance with the County's Purchasing Card Program Policies included:

- Of the three Cal-Card statements sampled, none had been signed by the Approving Official to indicate a required pre-audit of invoices had occurred.
- Staff had incorrectly calculated the sales tax due on each of the statements we sampled resulting in underpayment to the State of \$162.88 and a non-refundable overpayment of \$112.58.
- Each of the three statements sampled had supporting logs that were unsigned by the Approving Official and appeared not to have been reviewed for completeness or accuracy.



COUNTY OF SAN LUIS OBISPO

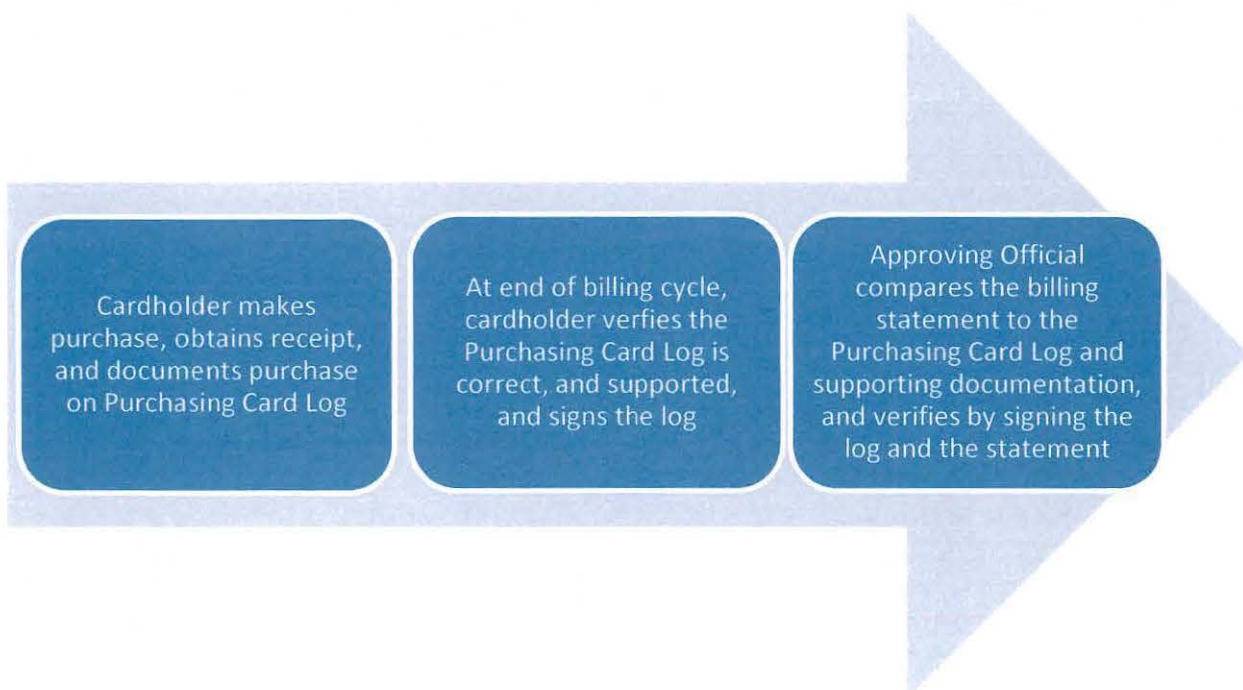
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- Staff used the Cal-Cards to charge recurring monthly expenses with two vendors and for one purchase of professional services. The recurring monthly expenses were not supported by receipts.
- The Senior Account Clerk completed every Cal-Card holder's Purchasing Card Log after purchases had been made by the cardholder.
- Staff neglected to notify the Central Services Cal-Card Program Manager of the transfer of one of the Approving Officials to another County department.

As demonstrated in the illustration below, the Purchasing Card Program Policies require the cardholder to enter each order on the Purchasing Card Log at the time the order is made. Once the cardholder's billing statement is received, the Approving Official must review all payment documents and supporting receipts to ensure items being purchased match by item and amount to what is shown on the monthly cardholder's billing statement and Purchasing Card Log. Additionally, the Approving Official must determine the purchases are in accordance with County policies and verify the cardholder has reconciled the supporting documentation and Purchasing Card Log to the monthly billing statement and has authorized the charges. Lastly, the Approving Official must sign and date the bottom of the log and the billing statement.





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The Purchasing Card Program Policies state the card should be used for one-time purchases that are not repeated during the fiscal year. Use of the card for professional services is prohibited.

Staff had not been trained in proper use of the Cal-Card and lacked the knowledge to use the program appropriately. As a result, the County has underpaid sales tax to the State and greatly increased the risk of errors and misuse of the cards.

Recommendations

We recommend staff perform the following tasks to improve internal controls for the Cal-Card purchasing program:

- 1) Seek training on how to complete the Purchasing Card Log and correctly calculate sales tax.
- 2) Recalculate all accrued sales tax on Cal-Card purchases for the 2016 calendar year and submit any underpayments to the State.
- 3) Ensure all Cal-Card purchases are documented by the cardholder on the Purchasing Card Log at the time of purchase and supported by receipts.
- 4) Ensure the Approving Official reconciles the Purchasing Card Log and supporting documentation to the monthly billing statement and verifies the reconciliation by signing both documents.
- 5) Review the County's Purchasing Card Program Policies regarding allowable purchases then work with Central Services Purchasing to set-up purchase orders for prohibited items and for reoccurring expenses.

Suggested Improvements

1. Lack of Staff Certification of the Cash Handling Policy

Not all cash handlers had certified in writing they had read the County Auditor-Controller-Treasurer-Tax Collector's Cash Handling Policy. The Policy is required reading for all cash handlers, custodians and managers; however, management neglected to have all cash handlers sign the acknowledgement. Written acknowledgement by employees stating they have read the Policy helps ensure consistent Countywide procedures for cash handling. Subsequent to our fieldwork



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we received verification that all employees with cash handling responsibilities had certified in writing they had read the Cash Handling Policy.

2. Authorized Bank Account Signatories and Cal-Card Approving Officials Should be Involved in Animal Services Operations

A staff member in the Behavioral Health Department is a signatory on Animal Services' bank account as well as an Approving Official for the Animal Services Cal-Card without being directly involved in Animal Services operations or chain of command. Best business practices require that staff who authorize purchases have some knowledge and authority in the areas where the money is spent. The ASM was left on the accounts after transferring to Behavioral Health from another Health Agency department to add depth to the small number of Animal Services fiscal staff. Limiting expenditure authority for operations within employees' lines of authority decreases the risk of funds being disbursed for unauthorized purchases. We recommend the Health Agency director consider someone in the Animal Services direct chain of command for a back-up bank account signatory and Cal-Card Approving Official.

We very much appreciate the courteous attitude of your staff and the cooperation we received during the course of our review.



COUNTY OF SAN LUIS OBISPO

Health Agency

Animal Services Division

Jeff Hamm *Health Agency Director*

Eric Anderson, DVM *Animal Services Manager*

April 7, 2017

Jim Erb
Auditor-Controller Office
County Government Center
San Luis Obispo, Ca 93408

Dear Mr. Erb:

I would like to thank Suzanne DeWitt and Desire Harris for the courteous manner in which they conducted the audit on Animal Services, beginning Jan 18th, 2017. My staff and I sincerely appreciate their helpfulness and suggestions for ways to improve our current practices and strengthen internal controls.

In response to your letter of March 2017, Animal Services will be implementing the following:

Lack of Segregation of Duties for the Cash Cycle

Recommendation

Animal Services management should ensure that an adequate separation of duties exists over the cash handling processes. The same staff person should not be, signing disbursement checks, performing reconciliations, and transferring funds.

Response

Animal Services will be training and delegating the Senior Account Clerk (SAC) with the responsibility of fund transfers, as well as account reconciliation. This will ensure proper separation of duties, while also providing greater oversight on the process. Further, disbursement checks will now be signed by two authorized signers on the account.

Poor Oversight of Petty Cash

Recommendation

A number of actions should be taken by Animal Services staff to strengthen internal controls over Petty Cash:

- 1) Immediately cease using the petty cash fund to make change. If needed, a request to increase the change fund amounts should be submitted to the Auditor-Controller-Treasurer-Tax Collector.

- 2) Create a petty cash log and perform reconciliations to the petty cash fund at least weekly.
- 3) Petty cash vouchers must be reviewed and approved by a supervisor and the petty cash custodian.
- 4) Supporting receipts must be marked "paid" immediately upon disbursement of the cash.
- 5) Replenish the petty cash fund in a timely manner and prior to year-end.

Response

All of the above recommendations have been implemented. Animal Services increased their cash fund by \$150, created and is using a log for petty cash transactions, has the appropriate supervisor approve and sign petty cash vouchers, stamp supporting receipts as "paid", and will replenish the petty cash fund as needed but no less than every 6 months.

No Review and Approval of Cal-Card Purchases

Recommendation

We recommend staff perform the following tasks to improve internal controls for the Cal-Card purchasing program:

- 1) Seek training on how to complete the Purchasing Card Log and correctly calculate sales tax.
- 2) Recalculate all accrued sales tax on Cal-Card purchases for the 2016 calendar year and submit any underpayments to the State.
- 3) Ensure all Cal-Card purchases are documented by the cardholder on the Purchasing Card Log at the time of purchase and supported by receipts.
- 4) Ensure the Approving Official reconciles the Purchasing Card Log and supporting documentation to the monthly billing statement and verifies the reconciliation by signing both documents.
- 5) Review the County's Purchasing Card Program Policies regarding allowable purchases then work with Central Services Purchasing to set-up purchase orders for prohibited items and for reoccurring expenses.

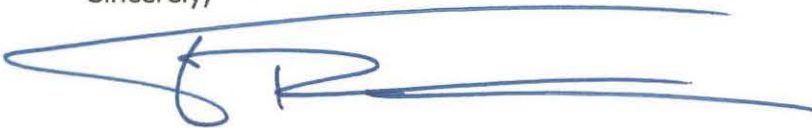
Response

Cal-Card holders will now be responsible for logging their purchases at the time of purchase, while using the SAC to aide in tax calculation as needed. The SAC has been added as a signer, and so will be reconciling the logs to the billing statement and signing the logs. All card holders and approving officials have been given a new copy of the County's Purchasing Card Program

Policies for review. The SAC has begun an audit of the 2016 calendar year logs to ensure all taxes were paid appropriately. All underpayments will be corrected.

Animal Services greatly appreciates your staff's feedback and assistance on these matters. Their insight and suggestions have created awareness and change in Animal Services' processes that may have otherwise gone unseen. These changes have created greater security, oversight, and functionality of the specified cash handling policies and procedures. Thank you again for your assistance.

Sincerely,



Eric Anderson, DVM
Animal Services Manager