



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

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector		(2) MEETING DATE 3/6/2018		(3) CONTACT/PHONE Kerry Bailey 788-2979 Mark Maier 781-4267	
(4) SUBJECT Submittal of a follow-up cash procedures and internal controls audit of Animal Services conducted on November 28, 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 Follow-up audit 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"/> 4/5 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>5/9/2017</u>	
(17) ADMINISTRATIVE OFFICE REVIEW Nikki J. Schmidt					
(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: 3/6/2018

SUBJECT: Submittal of a follow-up cash procedures and internal controls audit of Animal Services conducted on November 28, 2017. All Districts.

RECOMMENDATION

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

DISCUSSION

Our office previously performed a cash procedures and internal control audit and submitted a report for the Board's review on May 9, 2017. Our follow-up audit was initiated to determine whether the department implemented the recommendations identified in our original report.

We determined the department has implemented two of our three recommendations. The remaining recommendation has been partially implemented.

In addition, we made four new recommendations. Recommendations addressing untimely bank account reconciliations and purchasing card payments were implemented by Animal Services during the course of our audit. Two recommendations regarding lack of supporting documentation for financial records and transactions remain outstanding. We will perform a follow-up audit on the outstanding recommendations within 6-12 months.

Detailed audit findings and department responses can be found in the attached audit 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 Follow-up Audit Report FY 2017-18
2. Animal Services' Response to Original Audit Report Findings FY 2016-17



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

**San Luis Obispo County Animal Services
Cash Procedures & Internal Controls Follow-Up
Audit**

February 2018

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

DATE: FEBRUARY 6, 2018

SUBJECT: CASH PROCEDURES AND INTERNAL CONTROLS FOLLOW-UP AUDIT OF ANIMAL SERVICES CONDUCTED ON NOVEMBER 28, 2017

Our office previously performed a cash procedures and internal controls audit of Animal Services on January 18, 2017. We recently performed a follow-up audit on November 28, 2017 to determine whether the recommendations we identified in our initial report were implemented. We determined two of the three recommendations were fully implemented and one recommendation was partially implemented.

In addition, the follow-up audit resulted in four new findings and recommendations; two of which have already been implemented by the department. The results of the follow-up audit are detailed in the report below.

The Internal Audit Division will be performing another follow-up audit within six to twelve months to verify actions have been taken to remedy the findings in this report.

Purpose

The purpose of our audit was to determine whether Animal Services implemented the recommendations provided in our April 3, 2017 audit report.

Scope

The scope of our audit included cash, Cal-Cards and receipts on hand on November 28, 2017 as well as deposits and reconciliations for the prior four months.

Methodology

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



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

Our audit included physically counting petty cash on hand for November 28, 2017 and reconciling the amount to the department's accountability figure. The audit also included an evaluation of internal controls over cash, Cal-Cards, and depository accounts. Our evaluation of internal controls was limited to inquiries of departmental staff and direct observations.

Detail of Previous Findings & Recommendations and Follow-Up Results

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 Auditor-Controller-Treasurer-Tax Collector (ACTTC) 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 entering refunds, signing disbursement checks performing reconciliations, and transferring funds.

Follow-Up Results

The audit recommendation was implemented.

2. Poor Oversight of Petty Cash Fund

The Petty Cash fund was not adequately managed. Violations of the ACTTC'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.



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

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 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.

Follow-Up Results

Recommendations 1, 2, 4, and 5 have been implemented.

Recommendation not Implemented: Three of five petty cash reimbursement vouchers lacked supervisor approval. Animal Services' staff thought supervisor purchases did not need to be overseen by another supervisor. When purchases are not properly authorized and documented the risk of misappropriation, misuse of funds and inappropriate purchases increases.

Department Response

All petty cash vouchers submitted by the Department Head and supervisors for reimbursement will be approved by an appropriate staff member.



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

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.
- 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.



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

Cardholder makes purchase, obtains receipt, and documents purchase on Purchasing Card Log

At end of billing cycle, cardholder verifies the Purchasing Card Log is correct, and supported, and signs the log.

Approving Official compares the billing statement to the Purchasing Card Log and supporting documentation, and verifies by signing the log and the statement

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.

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.

Follow-Up Results

The audit recommendations were implemented.



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

New Findings & Recommendations

1. Lack of Documentation for Account Reconciliation

Approximately \$52,600 of monthly outstanding items were reconciled without documented segregation of duties. To maintain segregation of duties the ACTTC's Cash Handling Policy requires a written bank account reconciliation to be prepared by an employee with no cash handling or check writing responsibilities. The department was unaware of the need to document segregation of duties by identifying the reconciliation preparer. Without proper segregation of duties, the risk of misappropriation and significant errors increases.

Recommendation

We recommend the staff member completing the reconciliation sign or initial the reconciliation form.

Department Response

The reconciliation preparer will initial the Imprest Account Cash Reconciliation form.

2. Cal-Card Purchases Unsupported by Receipts

Two Cal-Card purchases, totaling \$713, out of thirty-one tested were missing a supporting receipt. The Purchasing Card Program Policy requires a Missing Receipt Form be completed by the Cardholder and Approving Official for every missing receipt. The department was unaware of the requirement to submit the form. When supporting documentation is not provided the risk of unallowable purchases being made increases.

Recommendation

We recommend purchasing cardholders complete the Missing Receipt Form in instances where a receipt cannot be obtained or is lost.

Department Response

Cardholders and approving officials have been informed of the requirement to complete a Missing Receipt Form in instances where a receipt is misplaced and unable to be retrieved or reprinted. Copies of the form have been added to our Cal-Card documentation folder.



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

New Findings with Recommendations Implemented

1. Bank Accounts Not Reconciled Timely

Four of the five Animal Services' monthly bank reconciliations reviewed were not submitted to the Auditor-Controller-Treasurer-Tax Collector's office timely. The ACTTC's Cash Handling Policy requires monthly bank account reconciliations be submitted by the 25th of the subsequent month to the Auditor's office. Reconciliations were submitted late due to delays in receiving payment data from a service provider. As the receiving date for the provider's data cannot be modified, we recommended the department request an extension of the required submittal date, and the department made the request. The request was granted. The department now has until the 1st day of the month following the standard submittal date to turn in the reconciliations.

2. Purchasing Card Statement Paid Late

A \$67 fee was assessed for late payment of monthly Cal-Card invoices. The Purchasing Card Program Policy states the Cal-Card invoice must be processed and submitted to the Auditor-Controller-Treasurer-Tax Collector's office by the 20th of the subsequent month. Departmental delays in monthly invoice processing occurred due to non-routine handling of sales tax processing on discounted items. The department received training in September 2017 on the proper accounting procedure for discounted purchases.

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



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