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CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS & FINANCIAL ADVISORS



Internal Audit

Animal Care Services Fee Collection and Licensing

April 2011

Bernalillo County Internal Audit Animal Care Services Fee Collection and Licensing

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit of the Bernalillo County Animal Care Services (ACS) Department. Our internal audit focused on determining whether the ACS policies and procedures over cash receipts and animal licensing reflect sound internal controls and best practices, and are being properly applied in accordance with Administrative Instruction No. 57 (AI 57).

We performed a variety of procedures, including:

- Obtaining an understanding of inventory controls surrounding pet license tags, the re-registration process for expired animal licenses, and fee collection.
- Testing a sample of customers to ensure accurate billing, timely posting of sales, timely depositing of cash receipts, and accurate reconciliation between sales, cash deposits and the SAP cash desk postings.
- Testing a sample of monthly reconciliations to determine that monthly cash receipts agreed to monthly sales and SAP cash desk postings, and that any variances or discrepancies of \$5 or greater were communicated to the Accounting Director as required by AI 57.
- Testing a sample of Spay and Neuter Assistance Program (SNAP) voucher recipients to determine that eligibility requirements were met, adequately documented, and documentation was retained to support the issuance of the SNAP voucher.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

In some areas during the course of the audit we found controls were functioning properly and procedures were being followed. We found that the daily KIVA System Balance Sheets and deposit slips are being well maintained. All files requested were very organized and readily available. We also noted that signs were clearly posted informing customers to call the County hotline in the event of no receipt.

Significant medium or high risk observations are presented below:

- **Cash Handling and Compliance with AI 57**—We noted several instances of noncompliance with AI 57 and other deficiencies with the cash handling and the cash reconciliation processes. The observations include sales not posted upon collection of payment, deposits not made within 24 hours from the time of receipt, daily sales not always

reconciled to the deposit slip, variances of \$5 or greater not always reported to the Accounting Director, system-generated receipts not utilized, lack of segregation of duties over cash receipts received by mail, and the untimely canceling of checks. ACS should consider consulting with County Finance to create and establish a daily cash handling process that provides specific guidance and ensures compliance with AI 57.

- **Inventory Controls**—ACS does not periodically count its physical inventory of animal license tags. The department should perform regular inventories of the animal license tags and establish a process for reconciling the count of the tags to the accounting records.
- **Customer Billings**—Four out of 58 customers tested were mischarged according to the established fee schedule. The ACS department should consider creating a detailed sales process that includes a review of the customer’s application prior to acceptance of payment to ensure the customer is charged accurately according to fee schedules.

Other lower risk observations are included in the attached detailed report.

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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

July 14, 2011

Bernalillo County Internal Audit Animal Care Services Fee Collection and Licensing

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Bernalillo County Internal Audit Animal Care Services Fee Collection and Licensing Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating and testing compliance with policies and procedures over fee collections and animal licensing. Additionally, we performed procedures to determine if proper cash receipts controls were in place within the Animal Care Services (ACS) Department. 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 policies and procedures over the cash receipts and animal licensing processes within the ACS Department. We determined if the internal controls over these processes were adequate and effective.

SCOPE AND PROCEDURES PERFORMED

Interviews—In order to gain an understanding of the processes and operations of the Animal Care Services department, we interviewed the following personnel:

- Manuel Ruiz, Interim Director of Animal Care Services
- Diane Beserra, Administrative Officer III
- Nicole Rivera, Administrative Assistant

Policies and procedures—In order to understand ACS policies and procedures, we did the following:

- Read Administrative Instruction No. 57, “Collection of Monies and Handling Requirements”;

- Read Animal Care Ordinance Bernalillo County Code Chapter Six; and,
- Gained an understanding through inquiry of department personnel of the internal controls surrounding the inventory of pet license tags and the re-registration process for expired animal licenses and fee collection.

Testwork—We performed the following testwork:

- Obtained the daily cash receipt logs for calendar year 2010, and selected a statistical sample based on a 95% confidence level and 5% tolerable deviation. This resulted in a sample size of 58 customers. For each customer in the sample we tested that:
 - The license/permit fees charged to the customer agreed to the application and license fee schedule and all of the applicant data was entered into the KIVA system accurately;
 - The sale was posted to KIVA immediately upon collection of payment from the customer;
 - The customer was issued a receipt upon submission of payment and application;
 - The customer’s payment agreed to the KIVA daily balance sheet, cash receipts log, and manual receipt book;
 - Cash collected from customers was deposited at the bank within 24 hours; and,
 - The daily KIVA balance sheet agreed to the deposit slip and SAP cash desk posting for the day.
- Obtained all of the monthly cash summary sheets for calendar year 2010 and tested each month to determine if the monthly KIVA balance sheet agreed to the SAP cash desk posting and the deposit slips. We also tested that any variances or discrepancies identified by ACS personnel were handled in accordance with AI 57 (i.e., cash shortages of \$5 and greater were formally reported to the Accounting Director).
- Obtained a listing of all of the SNAP voucher recipients and selected a statistical sample based on a 90% confidence level and 10% tolerable deviation which resulted in a sample size of 21 recipients. For each recipient in the sample we performed the following:
 - Tested that the SNAP application was complete including the Verification of Income and Financial Need section;
 - Verified that proof of income and residency were on file for the recipient; and,
 - Recalculated the recipient’s income eligibility based on the application and proof of income provided.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County ACS department.

1) Cash Handling and Compliance with AI 57

We found the following with regards to the ACS department’s cash handling processes and compliance with AI 57 guidelines:

- a. Untimely recording of sales as none of the 58 payments tested were recorded at the point of sale or prior to the bank deposit. It can be several days after a customer has submitted payment and received a license before a sale is posted. Because the sale has not been recorded at the time of sale there is the risk that cash could be misappropriated due to error or fraud and the misplaced funds could go undetected;
- b. Cash collected on Fridays and the day before a holiday is not deposited at the bank until the next business day. This can be anywhere from two to four days after the cash has been collected. Additionally, we noted one instance out of 58 when cash was deposited at the bank 13 days after an officer collected it;
- c. Twenty-seven of the 58 daily sales tested were not reconciled to the deposit slip and SAP cash desk postings;
- d. Variances of \$5 and greater are not always reported to the Accounting Director as required by AI 57. We noted a \$5 variance for the month of September, and found no evidence that the Accounting Director was notified of this variance;
- e. All receipts issued are manual and the KIVA system's ability to generate receipts is not utilized by ACS. System-generated receipts should be utilized as they ensure sales are posted in the system immediately and allow for more efficient and reliable record keeping;
- f. The individual responsible for posting sales to KIVA and SAP is also responsible for retrieving and opening the mail. There is the risk that payments received in the mail could be misappropriated and go undetected since the person receiving the payment in the mail is also recording the sale; and,
- g. Immediate cancellation of checks is not occurring as required by AI 57. We noted checks are not stamped "for deposit only" until the next day when the checks are prepared for deposit. Checks should be immediately endorsed by the County to prevent cashing by an unauthorized party.

Recommendation

ACS should collaborate with County Finance to create tailored daily cash handling procedures to ensure that ACS is complying with AI 57. The procedures should include processes for recording transactions immediately, reconciling daily cash receipts to the sales recorded in the KIVA system, immediate cancellation of checks, depositing cash and checks within 24 hours of receipt, segregation of duties, issuance of system generated receipts, and reporting of variances or shortages to the Accounting Director. Creating, training, and enforcing detailed daily cash handling procedures will allow for more accurate reporting of sales, establish better safeguards over cash, and streamline the cash reconciliation process.

Management Response

- a & b. Animal Care Services will record all payments at the time of the sale. Payments will be reconciled each day at 2:30 p.m. as deposits cannot be made after 3:00 p.m.; therefore, any monies received after 2:30 p.m. will be deposited the next business day. The Administrative Assistant Senior and Communications Specialist will be responsible for daily deposits and reconciliations. The Clerical Specialist will serve as back up for this function. The Director will be responsible for ensuring the accuracy of the deposits.

- c. Animal Care Services Department will reconcile all sales to the deposit slip and SAP cash desk postings on a daily basis. The Administrative Assistant Senior and Communications Specialist will be responsible for daily reconciliation.
- d. Animal Care Services Department will report any variance of greater than \$5 to the Accounting Director. The ACS Department Director will be responsible for reporting any discrepancies.
- e. The Animal Care Services Department will utilize the KIVA system to generate receipts for every payment received and hand written receipts will no longer be used. The Communications Specialist and the Administrative Assistant Senior will be responsible for receiving all payments received at ACS. Department Director will be responsible for ensuring every customer receives a receipt.
- f. Duties surrounding cash receipts will be segregated as follows: The Administrative Assistant Senior will be responsible for retrieving and opening the mail and entering into “Cash Desk” in SAP. The Communications Specialist will be responsible for entering any animal license information into KIVA and *does not* retrieve the mail. The Clerical Specialist will serve as a back-up for this function. Two people will be present when the mail is opened. A calculator tape will be run and attached with the signature and/or initials of each person acknowledging reconciliation matches to bank deposit receipt. Duties will be *clearly* segregated to ensure payments are not misappropriated.
- g. Effective immediately the department stamp “for deposit only” will be used on all checks.

2) *Inventory Controls*

ACS does not conduct a periodic physical inventory count of the animal license tags. Periodic physical inventories provide a basis for updating inventory balances and aid in detecting variances.

Recommendation

The ACS department should perform a periodic inventory of the animal license tags and establish a process for reconciling the physical count of the tags. The regular inventory counts should be compared and reconciled to the issuances of license tags recorded in the KIVA system. Reconciling the physical count of the tags to the system will help to ensure that all tags are accurately recorded and accounted for. Reconciling the physical count to the system can also be a useful tool for detecting fraud and other errors.

Management Response

Animal Care Services Department will conduct a monthly count and reconciliation of license tags. Note: up to 6 tags can be entered under 1 ACPL number. Additionally, ACS will request assistance from the Information Technology Department to create a custom report generated from KIVA showing reconciliation to the physical count. The Communications Specialist and Field Supervisor will be responsible for conducting a monthly inventory of the license tags.

3) *Customer Billings*

We noted four out of 58 customer billings where the customer was mischarged according to the established fee schedule. The net mischarges in our sample totaled \$57 in under billing to the

customers and lost revenue for the ACS Department. Extrapolated out to the entire population of customers for calendar year 2010 this equates to approximately \$1,897 or one half of a month's revenue for the ACS Department.

Recommendation

The ACS department should create a detailed sales process that includes a review of the customer's application prior to acceptance of payment to ensure the customer is charged accurately according to fee schedules. Review of the customer's application will also help protect the integrity of the data entered into the KIVA system.

Management Response

Animal Care Services Department gives a discounted price to Senior Citizens. Many of these citizens mail in their applications with the check amount they believe is correct. Upon receipt and review, occasionally birth dates have been omitted from the application. These are then reconciled to information already contained in the KIVA system which occasionally reveals different information resulting in smaller fees for the license. BCACS has a form in which these discrepancies can be clarified for the owner, along with information regarding the correct fees associated with that owner. This form is then mailed back to the citizen asking them to return the form along with the correct fee amount. The Administrative Assistant Senior personalizes the form with her contact information to help clarify issues.

The Communications Specialist and Administrative Assistant Senior will be responsible for receiving and receipting all payments received at ACS and the Director will be responsible for ensuring every customer receives two receipts and is billed correctly.

4) *Unpaid Licensing Fees*

Only one reminder notice for re-registration is sent out upon the expiration of a pet license and apparently no follow-up occurs beyond that point. This has contributed to numerous pet licenses not being renewed and in lost revenues for the County. Unfortunately, because ACS currently does not have a process for tracking the success of renewal notices we were unable to quantify the amount of outstanding licenses that have been renewed and those that are still outstanding.

Recommendation

ACS should consider the cost/benefits of instituting a process that allows for multiple renewal notices, including the use of communication methods other than mail. Additionally, ACS should create a process for tracking outstanding renewals so that adequate follow-up can be monitored and the success of re-registration efforts can be analyzed.

Management Response

Animal Care Services Department will reinstitute a formal letter the department once used. At the end of each month, ACS will conduct an audit of all licenses set to expire the next month. ACS officers will be notified by email as to which citizens have not complied by the second month so the officer may conduct a home visit in order to ensure compliance. The Communications Specialist and Administrative Assistant Senior will be responsible for conducting a monthly audit and the ACS officers will be responsible for follow-up to ensure compliance.

5) *Incomplete Applications*

The “Verification of Income and Financial Need” portion of the application was not completed by ACS personnel in any of the 21 applications tested. As a result we were unable to verify income eligibility according to the household guidelines. Additionally, we noted two instances where proof of residency was not included in the applicant’s file and as such we were unable to verify the residency requirement for the SNAP voucher program.

Recommendation

The verification of income should be documented on the SNAP voucher application and all documents used in determining an individual’s eligibility should be retained. This will help to ensure that only individuals who meet the eligibility requirements are being issued a SNAP voucher and that all documentation used to support the issuance of the voucher is on file. The SNAP voucher program is designed to assist truly low income county residents in spaying/neutering and obtaining shots for their pets, and due to a very limited budget it is important that only those individuals who meet the eligibility requirements are issued a SNAP voucher.

Management Response

Animal Care Services Department will begin documenting verification of income on the SNAP Voucher. Citizens are asked verbally when they call for information about SNAP about their demographics income, household occupancy, and previous applications in order to prevent citizens from coming to the office who will not qualify for the SNAP program. Copies of individuals’ eligibility information is currently copied and kept in each citizen’s file containing a SNAP Certificate number. The Administrative Assistant Senior will be responsible for receiving all SNAP certificates and verifying income. The Communications Specialist will serve as a backup for this function.

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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

July 14, 2011