

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY
BEN McADAMS, MAYOR



An Audit of the Key Controls of
Animal Services

December 31, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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December 31, 2014

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 Talia Butler, Operations Manager, Rebecca McDermott, Purchasing Coordinator, Donald Porter, Management Support, Rachel Hopper, Records and Property Coordinator, Mari Hershey, Office Coordinator, 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 Anita C. Kasal
Deputy Auditor

cc: Mike Reberg, Division Director
Michelle Roach, Fiscal and Administrative 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

The Animal Services Division has put into place several key internal controls for managing public funds and safeguarding public assets. Most risks identified were minor and would not be expected to result in the material loss of County property. The last audit covered the purchasing card and inventory accounting records exclusively. Our scope included a retest of the findings from two prior audit reports. The prior reports were released to the public in April and December of 2013. There were substantial improvements in the controls over purchasing cards. However, we found deficiencies in the internal controls over the accounts receivable and retail inventory, which have a higher likelihood of leading to a loss of County property.

Findings and Recommendations

Finding # 1 - Past due balances sent to the District Attorney's Office were not written-off from accounts receivable.

Risk Level: High

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection." Sections 6.1 and 6.1.1 state:

"While the goal is to reduce accounts receivable by collecting the revenues due, circumstances may dictate reducing accounts receivable by writing-off certain debts that are deemed uncollectible. After all collection efforts are completed at the agency level, uncollected accounts are considered problem accounts and are transferred to the District Attorney's Office. Departments and agencies may transfer problem accounts, but no sooner than 90 days after the account becomes past due unless legal circumstances require more immediate action. For accounting purposes, accounts receivable should be written-off at the point the accounts are transferred to the District Attorney's Office. ... In determining whether to transfer an account, consideration should be given to whether collection costs are greater than the amount to be collected. Therefore amounts of less than \$50 should be written-off at the agency level"

Past due balances totaling \$131,923 dated between May 18, 2006 and August 30, 2012 had not been written-off of the accounts receivable accounting system. Over \$77,000 of the past due balances were turned over to the District Attorney.

When the past due balances that have been transferred to the District Attorney are not written-off in the point-of-sale system, asset values are overstated.

Recommendation

We recommend that accounts receivables that have been turned over to the District Attorney are written-off the point-of-sale system.

We also recommend that accounts receivables that are less than \$50, and where all collection efforts have been completed by Animal Services, be written off the point-of-sale system.

Finding # 2 - Management had not invoiced or collected on the consignment inventory obligation that was due at the end of 2013.

Risk Level: Moderate

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collections," Sections 2.1.1 and 2.1.5 state:

"While initial collection procedures will vary from agency to agency, general guidelines must assure the following: Revenue collection procedures are carried out promptly, professionally, and equitably. ... Collection policies and procedures adopted by an office or agency of the County must be reasonable and ensure fairness to all debtors."

In a previous audit conducted in 2013, we found that retail inventory was given to a third party on consignment and that no records of the consignment inventory were kept. In a retest we found that the retail inventory consignment had been discontinued. In letters dated November 19, 2013, and December 2, 2013, the obligation due from the third party was outlined; however, no invoice was made in the point-of-sale system and no payment had been received as of November 2014.

On December 10, 2014, the auditor received additional documentation regarding the third party obligation. The documentation verified that the consignment obligation totaled \$8,819.

When management does not pursue collections promptly, professionally, and equitably, funds are at a greater risk of being lost and becoming uncollectible.

Recommendation

We recommend that management promptly, professionally, and equitably pursue the collection of this debt.

We recommend that management enter the obligation as an invoice in the point-of-sale system.

Finding # 3 - Animal Services did not maintain an inventory management system.

Risk Level: Moderate

U.S. General Accounting Office, "Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property," states in the background:

"Managing the acquisition, production, storage, and distribution of inventory is critical to controlling cost, operational efficiency, and mission readiness. Proper inventory accountability requires that detailed records of produced or acquired inventory be maintained, and that this inventory be properly reported in the entity's financial management records and reports."

In a previous audit conducted in 2013, Animal Services did not maintain an inventory management system for retail inventory. In our current audit, we found that Animal Services still had not established an inventory management system to track their merchandise inventory. The physical merchandise inventory had been reduced to approximately 115 items; however, the point-of-sale system had not been updated to reflect the changes in merchandise cost or volume.

When the point-of-sale system's inventory records are not maintained, assets are at an increase risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that Animal Services establish an inventory management system to properly account for the retail store inventory.

We recommend that Animal Services record the individual costs of all inventory items in their accounting system to enable accurate financial reporting on the Retail Revenue Report.

Finding # 4 - Aging reports were not prepared monthly for management review.

Risk Level: Moderate

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Sections 5.5 and 5.6 state:

"Aging information must be collected, maintained, reported, and acted upon in a standard and consistent manner. An aged analysis of accounts receivable ledger balances (aging schedule) shall be prepared each month. ... The aged listing of individual receivable balances will reflect the results of billing and collection follow-up activity. Management above the level responsible for supervising the billing and collection follow-up function will review old dated balances."

Aging reports detailing the duration of outstanding balances were not prepared and were not available for management review.

Without aging reports, management is not fully aware of delinquent accounts and collection steps taken.

Recommendation

We recommend that monthly aging reports be prepared and provided for management review.

Finding # 5 - Retail merchandise inventory amounts were not reconciled and shrinkage was not calculated.

Risk Level: Moderate

United States General Accounting Office, Executive Guide, "Best Practices in Achieving Consistent, Accurate, Physical Counts of Inventory and Related Property," Page 21, states:

"Internal controls over the inventory system and processes should be effective in providing reliable information for conducting the physical count. Controls must exist to provide reasonable assurance that all transactions affecting the inventory balances are properly executed and recorded in the inventory system."

In a previous audit conducted in 2013, we found that retail inventory amounts were not reconciled, that there were no inventory controls in place for receipt of retail merchandise ordered, and that the physical inventory of retail merchandise confirmed a shortage. In our recent audit we found that the quantity of retail inventory was reduced, but the smaller quantity was still not reconciled (beginning+purchases-sales=ending). We also found that internal controls over updating inventory records and calculating shrinkage were missing.

When inventory records are not adequately maintained and reconciled, unexpected shortages of critical items, and unnecessary purchases of items already on hand may occur.

Recommendation

We recommend that management reconcile inventory records, update inventory records, and calculate shrinkage.

Finding # 6 - A segregation of duties was missing from inventory internal controls.

Risk Level: Moderate

United States General Accounting Office, Executive Guide, "Best Practices in Achieving Consistent, Accurate, Physical Counts of Inventory and Related Property," Page 28, states:

"Segregation of duties, a commonly used and widely accepted internal control and business practice, entails dividing or segregating key duties and responsibilities among different people. Implemented effectively, this type of control reduces risk of error and fraud so that no single individual can adversely affect the accuracy and integrity of the count."

In a previous audit conducted in 2013, we found that there was no segregation of duties for the responsibilities of ordering and receiving merchandise purchased for resale. In our recent audit, we found that one person was assigned to: perform the physical count of inventory, requisition merchandise, order merchandise, pay for the merchandise, and was given rights to adjust the point-of-sale system for the physical count of merchandise.

When there is no segregation over inventory control duties, merchandise is at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that management segregate the internal control duties over merchandise inventory.

Finding # 7 - A tamper-proof deposit bag was not being used.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 4.3.1 states:

"Agencies will submit their daily deposits in a sealed, plastic, tamper-proof deposit bag."

The deposit reviewer returned the deposit and documents to the deposit preparer without securing the funds in a tamper-proof deposit bag.

When a deposit is not secured in a tamper-proof bag, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the employee verifying the deposit, secure it in a tamper-proof bag before it is transported to the bank.

Finding # 8 - The imprest checking account exceeded its authorized limit.

Risk Level: Low

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 [Mayor's Finance], the applicable Petty Cash or other Imprest Fund Account shall be reconciled by the Custodian. The reconciliation ... shall reflect the actual count of Petty Cash on hand, or the Checking Account balance at the date of reconciliation, attested by the reconciling employee's signature. These balances, plus the total of the outstanding ... Imprest/Operating Account checks, should equal the authorized imprest amount."

The authorized limit of the imprest checking account was \$3,500. The fund balance exceeded this level by \$1,665.23.

An imprest account in excess of its authorized limit restricts County cash flow, decreases investment income, and increases risk of funds being stolen.

Recommendation

We recommend that Animal Services maintain the balance of the imprest checking account at the \$3,500 authorized limit.

Action Taken: As a result of our audit, Animal Services returned the excess portion of the change fund to Mayor's Finance.

Finding # 9 - Internal controls over payments received through the mail were not adequate.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.1.5 states:

"Agency Management and Fiscal Managers shall establish internal control procedures tailored to their operational requirements. These controls should be designed to prevent payments by check through the mail from being lost, stolen, or diverted to personal use."

Management stated during an interview that their procedure was to have the mail opened by two people.

The auditor observed that only one employee was opening the mail.

When checks received by mail are not properly safeguarded and documented, they are at a greater risk of being lost, stolen, or diverted to personal use.

Recommendation

We recommend that the mail be opened by two people.

Finding # 10 - Accountability for some controlled assets was not properly established.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Sections 2.2.3 and 2.2.8 state that property managers are required to:

"Maintain records as to current physical location of all fixed assets and controlled assets within the organization's operational and/or physical custody. ... Coordinate with the organization's Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established."

In a previous audit conducted in 2013, we found that there was no procedure in place to notify the property manager when a controlled asset was purchased with a purchasing card. In a retest of this finding, we found there was still no procedure in place to notify the property manager.

When controlled asset records are not properly maintained, assets are at a greater risk of being lost, stolen, or diverted for personal use without agency detection.

Recommendation

We recommend that the controlled assets list is properly maintained and that the purchasing coordinator report newly purchased controlled assets to the property manager.

Finding # 11 - Management had no written inventory policies and procedures to maintain effective and reliable inventory records.

Risk Level: Low

United States General Accounting Office, Executive Guide, "Best Practices in Achieving Consistent, Accurate, Physical Counts of Inventory and Related Property," Page 16 states:

"Establishing and documenting policies and procedures are essential to an effective and reliable physical count. Policies and procedures demonstrate management's commitment to the inventory physical count process and provide to all personnel clear communication and comprehensive instructions and guidelines for the count."

In a previous audit conducted in 2013, we found that there was no documentation to verify changes affecting the amount of retail inventory. We recommended at that time that Animal Services adopt written policies that specifically establish internal controls over retail merchandise. In our recent audit we found that Animal Services management still had not established written policy for retail inventory.

When policies and procedures are not established in a written format, inventory items are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that management establish written policy and procedures to maintain effective and reliable inventory records.

Finding # 12 - A comprehensive controlled assets inventory had not been completed since June 2013.

Risk Level: Low

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

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

The prior property manager retired and the new manager had no signed and dated documentation on file that showed an annual physical inventory of controlled assets had been completed since June 2013.

When accountability for assets is not fully established by conducting an annual inventory, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that a comprehensive controlled assets inventory be conducted and completed, at least annually.

Finding # 13 - The authorized imprest checking account balance was excessive.

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."

The last MPF 6 Form submitted was dated December 27, 2013 and included twelve months of activity totaling \$1,080 (an average of \$90 per month). There were no reimbursement requests made during the first nine months of 2014.

When excess funds are retained, administrative review is less frequent, County cash flow is restricted, and funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that management reduce the change fund to a level sufficient to provide operating funds for 2 months.

Finding # 14 - The "Controlled Assets Inventory Form - Employee" was not current.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.3.4 states that employees will:

"Upon termination, transfer, or 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."

The last time the "Controlled Assets Inventory Form–Employee" was completed and verified was in June 2013.

When accountability for assets is not verified annually, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that employees verify their list of assets annually using the "Controlled Asset Inventory Form-Employee."

Finding # 15 - A Self-Assessment Questionnaire (SAQ) had not been completed since December 2012.

Risk Level: Low

Countywide Policy #1400-7, "Payment Card Industry Data Security Standard Policy," Section 3.0 states under the Policy Statement that:

"Any County agency that accepts, processes, transmits or stores cardholder data using any County IT Resource or system shall comply with the Payment Card Industry Data Security Standard (PCI-DSS) in its entirety."

In addition, Section 3.1.1 states:

"PCI-DSS compliance requires among other things that County agencies that accept, process, transmit or store cardholder data shall: Complete the appropriate annual SAQ and AOC for their merchant category."

A current SAQ representing Animal Services compliance with PCI-DSS had not been completed and was not on file. The last SAQ on file was signed and dated on December 11, 2012.

When an agency is not compliant with PCI-DSS, there is an increased risk of cardholder data breaches, fines, and the inability to accept credit cards as payments.

Recommendation

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

Finding # 16 - 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. ... A check issued by the Custodian for the total of the Stale-Dated-Checks shall be included with the above documentation for submission by the Treasurer to the Utah State Unclaimed Property Division."

We found 61 stale-dated checks from December 2007 through June 30, 2011 totaling \$589.45.

In an email from the Fiscal Manager dated November 3, 2014, she stated: "we officially submitted the unclaimed property from our imprest checking account last week and Rebecca mailed payment today."

When stale-dated checks are kept on the books, the County Agency may become liable for penalties from the State Unclaimed Property Division.

Recommendation

We recommend that Animal Services submit payment for stale-dated checks to the Utah State Unclaimed Property Division.

Finding # 17 - Detailed receipts were not on file to support some purchasing card transactions.

Risk Level: Low

Countywide Policy #7035, "Purchasing Cards Authorization and Use," Section 6.1 states:

"Original itemized receipts showing the detail of the goods and/or services purchased shall be retained and maintained for inspection by the Cardholder."

We reviewed 21 purchasing card receipts and found that 2 were not original receipts detailing the goods purchased.

Without original detailed receipts to support purchasing card expenditures, the purpose for these expenditures may be forgotten, and unauthorized transactions could more easily occur.

Recommendation

We recommend that original detailed vendor receipts be maintained on file to support all purchasing card transactions.

Additional Information

Background

Salt Lake County Animal Services Division serves the citizens within the unincorporated area of Salt Lake County, and in the cities of Salt Lake City, Holladay, Herriman, Midvale, and Riverton. The mission of Animal Services is to provide consistent, reliable, and professional solutions for animal related issues. The Division encourages responsible attitudes to allow people and animals to co-exist in a safer environment.

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
- Accounts Receivable
- Accounts Payable
- Third Party Contracts

Our examination period covered up to twelve months ending September 30, 2014. 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. Retesting of prior audit findings was also performed, where applicable.

Management response to findings in this report, when received, will be attached as Appendix A.



Memorandum

To: Anita Kasal, Salt Lake County Auditor's Office

CC: Russ Wall, Mike Reberg

From: Michelle Roach, Administrative and Fiscal Manager

Date: February 18, 2015

Re: Audit of Animal Services Key Controls

ANIMAL SERVICES DIVISION

BEN MCADAMS
SALT LAKE COUNTY MAYOR

RUSS WALL
DIRECTOR
Public Works Department

MIKE REBERG
Division Director

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Thank you for providing the findings of the Animal Services Key Controls Audit. Before finalizing the report, please include our response to the findings below:

Finding # 1 – Past due balances sent to the District Attorney's Office were not written off from accounts receivable.

In September 2014, Animal Services hired a part-time accountant to take over reconciliation of accounts receivable. The management team will implement the Auditors' recommendation of writing off this debt during the first part of 2015, and the accountant will take charge of implementation.

Finding # 2 – Management had not invoiced or collected on the consignment inventory obligation that was due at the end of 2013.

At the end of 2013, Animal Services was seeking to obtain \$41,541 in funds owed from Best Friends Animal Society (BFAS). All funds were received, except for the retail amount of \$8,819. In early 2014, the Executive Director of Best Friends Utah resigned, and this delayed collection efforts. Efforts are currently underway to pursue collection of this debt. This recommendation will be implemented in early 2015.

Finding # 3 – Animal Services did not maintain an inventory management system.

Animal Services has a robust inventory management system; it is managed through Chameleon. Due to a change in assignments, volume counts were not up-to-date at the time of audit. This was completed in November 2014, and the inventory has been updated and accurate since that time. This recommendation has already been implemented.

Finding # 4 – Aging reports were not prepared monthly for management review.

As stated above, Animal Services recently hired an accountant to assist with these duties. The new accountant will begin preparing an aging report for management review. This is anticipated to be completed in the first quarter of 2015.



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Finding # 5 – Retail merchandise inventory amounts were not reconciled and shrinkage was not calculated.

As stated above, the inventory has been updated and accurate for some time. However, shrinkage is impossible to calculate. As noted in the audit report dated November 8, 2013, “the Division Director's management of the retail operation was inadequate... inventory records were not properly maintained when merchandise arrived and when items were removed from inventory ... Lack of an inventory control system enhanced the Director's ability to purchase merchandise and remove inventory without detection.” Because those items were not added to the inventory, it is impossible to calculate losses. Although shrinkage cannot be calculated, inventory records are up-to-date, so this has already been implemented.

Finding # 6 – A segregation of duties was missing from inventory internal controls.

Animal Services has changed procedure since the time of audit, and there is currently a segregation of duties. The Customer Care Supervisor conducts inventory counts, the Office Coordinator requisitions and orders merchandise, and the Purchasing Coordinator makes payments. This recommendation has already been implemented.

Finding # 7 – A tamper-proof deposit bag was not being used.

Animal Services has strong internal controls regarding deposits. Two individuals verify the deposit amount separately, and one employee transports the deposit to the bank. The Fiscal Manager subsequently compares the deposit receipt from the bank to the original deposit amount reported. There is no conceivable way for a deposit to be submitted in a different amount without being detected. This recommendation will not be implemented, and we do not foresee any risk as a result of inaction.

Finding # 8 – The imprest checking account exceeded its authorized limit.

Animal Services has submitted paperwork to Mayor Finance to reduce the limit of the checking account; this recommendation has already been implemented.

Finding # 9 – Internal controls over payments received through mail were not adequate.

Our standard procedure is for two employees to open the mail together. All staff have been trained on the proper procedure since the time of the audit. This recommendation has already been implemented.

Finding # 10 – Accountability for some controlled assets was not properly established.

Our standard procedure is for the Purchasing Coordinator to report purchased controlled assets to the Property Coordinator. On our requisition form, there is a box to designate such a purchase. When selected, the asset shall be examined and recorded by the Property Coordinator prior to use. This recommendation has already been implemented.



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Finding # 11 – Management had no written inventory policies and procedures to maintain effective and reliable inventory records.

Animal Services has ceased operation of a retail store. There are strong internal controls that result from a segregation of duties, as well as has lengthy policies and procedures that address property control and asset management. We believe this protocol is sufficient. This recommendation will not be implemented, and we do not foresee any risk as a result of inaction.

Finding # 12 – A comprehensive controlled assets inventory had not been completed since June 2013.

The annual controlled assets inventory was delayed because of a change in staff. It took time for the new Property Coordinator to re-organize past files in order to conduct an inventory. The annual inventory was completed in October 2014, just a few months behind schedule. This recommendation has already been implemented.

Finding # 13 – The authorized imprest checking account balance was excessive.

As stated above, the custodian has already submitted paperwork to reduce the limit of the checking account; this recommendation has already been implemented.

Finding # 14 – The “Controlled Assets Inventory Form – Employee” was not current.

As stated above, the annual controlled assets inventory was completed in October 2014, slightly behind schedule. This recommendation has already been implemented.

Finding # 15 – A Self-Assessment Questionnaire (SAQ) had not been completed since December 2012.

Animal Services disputes this finding. A SAQ for PCI-DSS compliance was completed in November 2013. Due to a miscommunication, the form was not signed, but we documented compliance. In addition, a completed and signed SAQ was filed in November 2014, so this recommendation has already been implemented.

Finding # 16 – Stale-dated checks were not submitted to the Treasurer’s Office.

Although this is listed as a finding, the audit notes that stale-dated checks were submitted to the Treasurer’s Office on November 3, 2014. This has already been implemented.

Finding # 17 – Detailed receipts were not on file to support some purchasing card transactions.

Animal Services has changed procedure since the time of audit to ensure that all documentation from purchasing card transactions is stored in a network drive. This will make it easier for management to ensure that original receipts are secured; This recommendation has already been implemented.