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Animal Control Transition Audit

Background

Animal Control (AC) moved to its new facility in 2007. In conjunction with the move, the scope of AC was expanded including the ability to house domestic animals. The facility is now on its sixth Administrator, often with periods of no Administrator over the past seven years. Over this period, procedures have been adopted, discarded and/or modified.

A transition audit is not required by current Illinois state statute. A transition audit is, however, a generally recognized component of best practice financial policies.

AC is currently undergoing other reviews by external consultants for (1) the Cost of Service Study ("User Fee Study") and (2) potential cost reductions. With revenue maximization and cost minimization addressed through the other projects, this transition audit focuses on the safeguarding of assets (cash, accounts receivable, inventory, and proper expenses) of the organization.

Scope and Testing

Receipts

- Review deposit procedures – from front desk intake and veterinarian submissions to deposit with the Treasurer.

- Review bank reconciliations.

- Review accounts receivable – AC does not have "accounts receivable" on the financial statements; however, they do track timing of payments received from veterinarians as well as potential over/under payments.

- Review municipality contracts and billing.

  Inventory – AC does not have "inventory" on the financial statements as supplies are expensed when purchased; however, they do have inventoriable items such as controlled substances, rabies registration tags, microchips and other over the counter drugs such as antibiotics and flee/tick medicine. Review procedures for inventoriable items.

  Expenses - Review invoices for approval, supporting documentation, proper g/l coding and proper accounting period.

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<p style="text-align:center">Findings/Recommendations</p>

<u>Receipts</u>

The existing procedures are heavily manual due to limitations in the shelter software regarding financial information and reporting functionality. The following recommendations are suggested to strengthen the current procedures. If new shelter software is procured and/or POS software is utilized, procedures will need to be revisited.

Recommendation 1

The opportunity exists for an employee to sell a rabies registration tag or other AC service for cash and for the cash to be misappropriated. Likewise, there are no guidelines or authorization for discounted services. Possible solutions or mitigating controls include:

- Purchasing new shelter software which would provide daily revenues and discounts given. Daily revenue would be agreed to cash received. Discounts given would be reviewed to ensure that the reduction was approved. Such fees might be waived if the cost of boarding and maintaining an animal outweigh the lost revenue. There is also an element of community goodwill.

- Installing video surveillance of the cash register.

- Manually reconciling KPASS fees and tags sold at the register with cash receipts for reasonableness. This would only serve as an indicator of a potential problem.

Recommendation 2

Credit card payments are not reconciled to credit card deposits to ensure that payment was received. Credit card payments are taken at the front register. All credit card payments are deposited into a separate bank account. One vendor, Banfield, makes payments electronically, and this electronic payment is also deposited into this account. Monthly, the deposits in this account are transferred to the Treasurer; however, no reconciliation is performed to ensure that the credit card company properly processed all of the payments or that Banfield submitted the correct payment. The credit card receipts should be batched and tied to the bank statement monthly as part of the bank account reconciliation. The electronic vendor deposit should be agreed to submitted rabies registration sheets to ensure completeness of payment.

Recommendation 3

Nobody at AC receives a copy of the credit card bank account statement. A bank reconciliation of the credit card account was only performed at year end and is misstated. Management should receive a copy of the bank statement, the account should be reconciled monthly and approved by the Administrator.

Recommendation 4

At the end of the day, the cash drawer is counted and a "Cash Register-Daily Report" is manually filled out indicating total receipts (cash, check or credit card) and type of revenue (e.g., tags, microchip, donations, etc.) by type of receipt. The Cash Register-Daily Report is signed by the front office staff employee performing the count. Verification of the receipts and the amount left in the drawer is not performed. Once the Cash Register-Daily Report is complete, the Administrative Officer responsible for the deposit should recount the deposit, count the drawer and initial the log. The Cash Register-Daily Report should have an additional line added for the drawer count remaining.

Recommendation 5

The "Cash Register-Daily Report" currently records revenue for Tags, Boarding, Microchip, Pick-up, *Fines*, Specimens, Adoption, Donation, Surrender and *Euthanasia*. The deposit form records revenue for Tags, Boarding, Microchip, Pick-up, Specimens, Adoption, Donation, Surrender and *Service Reimbursements*. Management should identify revenue sources (i.e., lines of business) to track and report against. This may streamline the revenue types.

Recommendation 6

AC receives payment either at the front desk or in the mail, with the exception of the one vendor making electronic payment for tags issued (discussed above in conjunction with the credit card bank account). The front desk payments are captured on the "Cash Register-Daily Report". Payments in the mail may be payments from veterinarians for rabies registration tags issued, an individual mailing in payment for registration, donation, etc., or municipality payments. Payments from the veterinarians are recorded on the "Rabies Certificate Check-in Sheet" as well as in KPASS. All payments are manually transferred to a 14 column ledger sheet. The ledger sheet serves as the backup for the bank deposit. Money is received by the Administrative Officer and the deposit is prepared by the Administrative Officer. The potential exists for cash to be misappropriated as well as for tracking errors to occur with the manual system. Recommend the following improvements:

- Miscellaneous payments received in the mail should be entered into the cash register allowing the "Cash Register-Daily Report" to serve as supporting documentation.

- The "Rabies Certificate Check –in Sheet" is duplicative of data entered into KPASS. Once the veterinarian data is entered into KPASS, either the screen can be printed or a weekly report could be created to run from KPASS to serve as supporting documentation for the deposit. Occasionally, the vets submit the wrong payment for the number of tags. Once the correct number of tags is entered into KPASS, KPASS calculates and assumes correct payment. The over/(under) payment should be reflected in a new field or noted after the check number in the "Check Number" field.

  If veterinarians pay for tags when received versus as rabies shots are given, this process would be altered.

- Currently the "Rabies Certificate Check-in Sheet" is filed by vet. The Administrative Officer will occasionally flip through the forms looking for vets who are past due in submission. Any over/(under) payments are noted in a journal. To formalize the process, an excel sheet could be created with veterinarian numbers down the side and

weeks across the top. An X would indicate that the vet submitted. If the dollar submission was off, an over/(under) amount could be entered as a way of tracking receivables.

- The 14 column ledger sheet should be replaced by an excel worksheet.

- The deposit sheet should have the supporting documentation ("Cash Register-Daily Report" for each day, Vet payments from KPASS, and summary excel sheet) attached allowing the Administrator to review deposit for completion, and then sign off.

Recommendation 7

No supporting documentation was available for deposits made in the last week of 2013 because the position normally performing the task was out on emergency leave.   The interim Administrator deposited cash/checks with the bank, but no supporting documentation can be found listing out individual checks. This is a perfect example of the need to cross-train employees, especially in critical areas such as cash and controlled substances, and to have documented processes.

Recommendation 8 – Revenue Collection

- Municipalities are supposed to be billed monthly per contract. The data from KPASS supporting the billing requires validation and massaging prior to finalization. As this amounts to $10-15k per year, management may want to consider changing the billing frequency to quarterly when contracts are negotiable.

- When an owner collects an unvaccinated animal from Animal Control, the owner has 10 days to show proof of the rabies vaccination. If the owner doesn't comply, Animal Control sends out a notice of violation. The notice of violation serves as a reminder and gives the owner a few more days to comply. If the owner still doesn't comply, the Warden fills out the necessary paperwork for a notice to appear to be issued from the Circuit Clerk. At the time of the audit, Animal Control was following up on non-compliance for the past year in order to (1) increase compliance with rabies vaccinations and (2) maximize revenue for registrations. Recommend that notice of violations and paperwork for a notice to appear are completed in a timely manner.

Inventory

Recommendation 9

No formal procedure exists for the handling and inventorying of the controlled substances. The receipt of controlled substances is performed by an employee without access to the safe where the drugs are secured. Hard copy log sheets are maintained for each controlled substance. Dr. Davis periodically reviews the log sheets and performs a physical inventory.

In general, procedures should be documented for the ordering, receipt, disposal (if out of date), access (including responsibility for changing the key box code) and key personnel backups. Recommend that receipt of the drugs be performed by someone with access to the safe. The receiver should note on the bill of lading the count, initial receipt, and provide the receipt to accounts payable for validation of the invoice. Any discrepancies between the actual receipt count and the bill of lading should be immediately reported.

The procedures should also formalize the physical inventory. Procedure should include frequency of inventory (recommend not less than monthly), documentation of inventory, and steps performed (e.g., review of completeness of log).

Recommendation 10

AC accepts donations of unused prescriptions, including controlled substances. The opportunity exists for misuse of the donated drugs. These unused prescriptions are not held in a secure area, nor are they inventoried. Recommend that AC publish a listing of accepted unused prescriptions, and that controlled substances are not accepted. An inventory should be maintained of the donated drugs in order to know what is available for use. Procedures should be documented for process to follow in accepting and logging the donated prescriptions.

Recommendation 11

No formal inventory is performed of other drugs (e.g., frontline, vaccines, antibiotics, etc.). Management is considering changing the animal control software to Chameleon. The new Administrator has experience with the software and indicates that it has inventory tracking capabilities. Based on a cost/benefit analysis, management should continue tracking all drugs. This will help provide real time information in order to better manage inventory levels, prevent overages and shortages, and notify when to discard outdated products.

Recommendation 12

Annually, approximately $4,500 is spent to purchase new one year and three year rabies registration tags (70,000 tags). However, if the tags are stolen, lost revenue is an average $14/tag. Assuming that 20% of sales were replaced with stolen tags, the lost revenue impact would be $147k. The tags are in an unsecure storage room. At the end of the year, out of date one year tags are recycled, three year tags are retained and converted to one year tags where possible (e.g., the portion of three year tags purchased in 2013 to cover 2014, 2015 and 2016 which are

unused at the end of 2014 will be converted to one year tags for 2016). No physical inventory is performed. The number of tags should be rolled as follows:

Beginning Inventory + Purchases - Issued + Returns – Out of date disposals = Ending Inventory

The tags should be kept in a secure area. A physical inventory should be performed annually and compared to the calculated "Ending Inventory". Any "Out of date disposals" should be authorized by the Administrator.

Recommendation 13

Currently, veterinarians are provided with approximately 50% of their previous year's tag sales in December to prepare for the new year. These tags are "on loan", and the veterinarians submit payment as tags are purchased by customers. Unused tags are collected from the veterinarians in January. The rabies registration tags are not reconciled by vet to ensure revenue was received. Tags returned by vet should be reconciled to expected returns, and the vet should be held responsible for missing tags/payment.

To further safeguard the tag assets, management may want to consider requiring veterinarians to pay for tags up front. The tags issued, paid and returned would still need to be reconciled by vet.

Expenses

Recommendation 14

Currently, invoices are approved on the hard copy by the Administrator, entered into NWS by the Administrative Officer, and then approved in NWS by the Health Department Finance Manager. Best accounting practice would require a 3-way match of the purchase order, receiving document and invoice prior to paying an invoice. Where purchase orders and receiving documents are available, this 3-way match should be performed prior to payment. When all documents are not available, the most knowledgeable person on the purchase should sign off on the hard copy verifying receipt of goods/service.

To better align responsibilities with invoice approval and automate approvals, recommendation for NWS approvals is for the Administrative Officer to enter the invoices, the AC Administrator to approve invoices up to $5k, and the Department Head to approve invoices greater than $5k.

Recommendation 15

In review of the invoices, noted large spend or repeat spend with vendors where contracts are not in place. According to County policy, Ordinance #09-335,

Contracts for professional services that are less than $5,000 may be awarded by the Department Heads pursuant to rules promulgated by the Director of Purchasing.

Contracts for professional services that are at least $5,000 and less than $30,000 may be awarded by Department Heads and/or the Director of Purchasing where there has been a Competitive Price Quotation process and at least three quotations for the services have been obtained prior to selection.

According to Kane County Financial Policies Resolution,

Only bills of $30,000 or more shall require approval of the County Board.

AC has 8/31/14 YTD spending with a veterinarian of approximately $16k. A contract would clarify roles and responsibilities as well as provide a pricing schedule.

AC has 8/31/14 YTD spending with Animal Care Clinic of $4,400. Animal Care Clinic performs repeat services for AC. Animal Care Clinic is the veterinarian clinic used for all spay/neuter procedures. Annual spend with the clinic will most likely exceed the $5,000 threshold for bidding and a contract would provide a set pricing schedule.

Management Response

Animal Control would like to thank the Auditor's office for all their assistance in reviewing of our assets and procedures. The new Administrator, Brett Youngsteadt, and Barb Jeffers have reviewed all recommendations offered in this audit and will begin to make changes as deemed necessary and appropriate in our current and changing operations. The use of computer software, the Chameleon system, is currently being discussed with the Information Technologies department and based on funding will be brought in when possible to help assist and alleviate a lot of concerns that were found through this audit. This technology will help us better control goods and monies as they move through our facility ensuring better accountability at all levels. Animal Control will look to implement changes to our self-auditing process for more accountability of assets in our facility. We look forward to working with the Auditor's office again in the future to show the changes that have been implemented. We also look forward to any future suggestions that they make to help us grow as a facility and ensure we are properly managing monies and assets at our facility to maximize growth and profitability.

The Auditor's Office would like to express our thanks to all the staff of Animal Control. The new Animal Control Administrator started during the audit. He brings significant knowledge of animal shelters and passion for the program. We look forward to the next audit of Animal Control to see the strides forward that will undoubtedly be made.

Terry Hunt – Kane County Auditor   Andrea Rich – Deputy Auditor