

Office of the City Auditor

CONSENT CALENDAR  
October 9, 2007

To: Honorable Mayor and  
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Audit: Animal Shelter Surprise Cash Count - Controls Need Improvement

RECOMMENDATION

Request the City Manager to report back on or before January 2008, and every three months thereafter, regarding the implementation status of the audit recommendations in the attached audit report until each recommendation is fully implemented.

SUMMARY

The purpose of our surprise cash count was to verify that the Berkeley Animal Shelter's established change fund and receipts from the day's sales of services were present and accounted for at the time of our visit on July 12, 2007. We did not conduct a comprehensive evaluation of internal controls over cash or compliance with the City's cash handling policies. However, we asked basic questions about cash handling and accountability practices, and noted weak controls and non-compliance with the City's cash handling policies. The Animal Shelter's change fund and daily receipts were present and accounted for at the time of our visit. However, we noted:

- There was inadequate segregation of duties since the Shelter Manager had capability of performing too many aspects of a transaction from collection of service fees to recording revenue in FUND\$.
- Physical Security over currency and checks was not adequate. Most Shelter staff had a key to the lock box used to secure the change fund. In addition, currency received during the day was not sufficiently secured during business hours, and a check received on the date of our visit had not been restrictively endorsed.
- The Shelter did not deposit receipts timely.

In addition to the internal control issues, the Shelter kept a change fund that was \$50 in excess of the amount authorized by the City Council.

FISCAL IMPACT OF RECOMMENDATION

The direct fiscal impact of a misappropriation of funds at the Animal Shelter would be minimal given the amount of annual Shelter revenue. However, if inadequate internal controls allow a theft to occur without the means to establish accountability, damage to the reputation of innocent people as well as the erosion of the public's confidence in government cannot be quantified.

RATIONALE FOR RECOMMENDATION

Implementation of our recommendations will strengthen internal controls over the Animal Shelter's change fund and daily collections, and thus reduce the risk of theft or fraud.

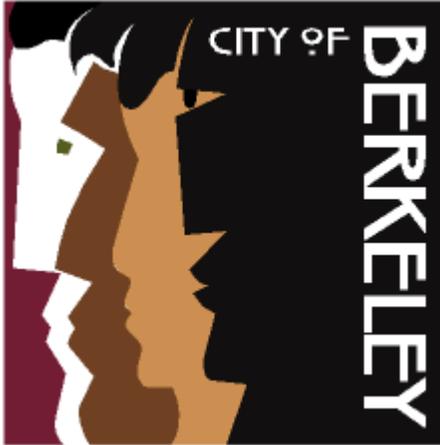
CONTACT PERSON

Ann-Marie Hogan, City Auditor, 981-6750

Attachment:

1. Animal Shelter Surprise Cash Count - Controls Need Improvement

# *City of Berkeley*



## Animal Shelter Surprise Cash Count Audit: Controls Need Improvement

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Presented to Council October 9, 2007

**Animal Shelter Surprise Cash Count Audit:**

**Controls Need Improvement**

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**I. OBJECTIVE**

The objective of our audit was to verify that the Berkeley Animal Shelter’s (Shelter) established change fund and receipts from the day’s sales of services were present and accounted for at the time of our visit on July 12, 2007.

The Auditor’s Office scheduled a series of surprise cash count audits as part of our fiscal year 2008 audit plan. The 2008 audit plan was presented to City Council on June 26, 2007.

**II. SCOPE AND METHODOLOGY**

We conducted a surprise cash count audit at the Shelter on July 12, 2007. We also asked basic questions about cash<sup>1</sup> handling and accountability practices, and noted practices that came to our attention that resulted in weak controls or non-compliance with the City’s cash handling policies. We did not conduct a comprehensive evaluation of internal controls over cash handling or perform detailed tests of compliance with the City’s cash handling policies. Our review was conducted in accordance with Generally Accepted Government Auditing Standards and was limited to those areas specified above.

**III. RESULTS**

**Internal controls help safeguard assets, and promote compliance with the City’s policies and management’s intent.**

The Shelter’s change fund and daily receipts were present and accounted for at the time of our visit. However, we noted several areas where internal controls needed improvement:

- There was inadequate segregation of duties since the Shelter Manager could perform too many aspects of a transaction from collection of service fees to recording revenue in FUNDS.<sup>2</sup>

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<sup>1</sup> In addition to currency and coin, the term “cash” also refers to cash equivalents, such as checks, money orders, and vouchers issued for service.

<sup>2</sup> FUNDS is the City’s automated financial system, based on software provided and supported by Sungard HTE.

- Physical security over currency and checks was not adequate. Too many Shelter staff had a key to the lock box used to secure the change fund. In addition, currency received during the day was not sufficiently secured during business hours, and a check received on the date of our visit had not been restrictively endorsed.
- The Shelter did not deposit receipts timely.

In addition, the Shelter kept a change fund that was \$50 more than the amount authorized by the City Council.

#### IV. BACKGROUND

The Berkeley Animal Shelter is a unit of the City Manager's office. The Shelter provides a variety of services to support pet ownership and mitigate problems caused by stray and feral animals. These services include pet adoption, a low cost spay and neuter program, and miscellaneous field services, such as removal of wild life from traps and investigating dog bites. The Shelter charges fees for various services, including pet adoption and spay or neuter vouchers.<sup>3</sup> The Shelter uses software known as Chameleon to record revenue from services provided.

Council Resolution Number 62,286-N.S., dated November 18, 2003, established the current authorized limits for petty cash and change funds. The Shelter is authorized to maintain a change fund of \$50. In fiscal year 2007 the Shelter collected almost \$36,000 in pet adoption fees, and over \$6,600 from the sale of spay/neuter vouchers.

#### V. FINDINGS AND RECOMMENDATIONS

##### **Finding 1 Incompatible Duties**

The Shelter did not have adequate segregation of duties. The Shelter manager had the ability to perform incompatible duties involving most aspects of revenue transactions, including: collect payments from customers, record sales using Chameleon software, generate sales receipts, enter sales into the FUND\$ cash receipts module, co-sign deposit slips, and place deposits and supporting documentation into a locked bag for delivery to Finance. In addition, she had a key to the cash lock box used to secure the change fund during the workday, and the combination to the safe used to secure deposits prior to delivery to Finance.

**Incompatible duties are when one person has control over too many aspects of a transaction.**

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<sup>3</sup> Customers use the vouchers to compensate participating veterinarians for spay and neuter service.

Segregation of duties, where no one person has control over all aspects of a transaction, is a basic tenet of internal control. Segregation of duties facilitates monitoring transactions and helps prevent improper activities. Apparently, Shelter management was not aware of the need to segregate duties. We have no reason to believe that improper activities occurred in the sale of Shelter services, but the lack of segregation of duties increases the risk that improper activities could occur.

**Recommendation for the City Manager**

- 1 Direct the Animal Services Manager and Finance to work together to develop written policies and procedures to segregate tasks related to the collection of service fees.

**City Manager's Response:**

*Animal Shelter staff concurs with the finding and recommendation. As of September 1, 2007 the Animal Services Manager no longer has the authority to enter cash receipts into FUND\$ except in the absence of the Office Specialist III. The Animal Services Manager will try to train another staff member to make FUND\$ entries.*

**City Auditor's Comment:**

We realize that staff size and skill sets may limit the Shelter's options for segregating duties. However, the City Manager should recognize that there are inherent risks when one employee is allowed to collect payments, generate sales receipts, record sales in the units sales module (Chameleon), and also has access to FUND\$.

**Finding 2 Physical Security Over Currency and Checks Was Not Adequate**

The Shelter did not adequately safeguard either the change fund or monies received as service fees. The Animal Services Manager, an Office Specialist III, and all Animal Control Officers had a key to the locked box used to secure the change fund. Also, at the time of our visit, a check received in payment of a pet adoption fee was kept in an unlocked drawer at the reception counter and had not been restrictively endorsed.

The City's *Cash Handling Training Manual* states that only a limited number of authorized employees should be able to gain access to cash and that cash should be kept in lockable metal drawers during the day. It also states that checks should be restrictively endorsed immediately upon receipt. Also, all Shelter employees were authorized to collect payments but they did not have their own separate cash drawers or change funds. As a result, the Shelter could not attribute a cash shortage or overage, should one occur, to the responsible employee. The Office Specialist III stated that she has not received training in cash handling procedures from the City, and the Animal Services Manager was not sure whether she herself had received such training.

**Internal control concerns identified:**

- Incompatible duties.
- Inadequate physical safeguards over cash equivalents.
- Lack of accountability.
- Noncompliance with City policy.

**Recommendations for the City Manager**

- 2.1 Direct the Animal Services Manager and Finance to work together to develop a policy to authorize access to the change fund to the minimum number of staff needed to ensure that those collecting service fees have capability to make change as needed, as well as procedures to: 1) safeguard the fund from unauthorized access, and 2) establish individual accountability for any cash overage or shortage that might occur.
  
- 2.2 Direct the Animal Services Manager to establish written procedures that will provide reasonable assurance that staff will restrictively endorse checks immediately upon receipt, and to keep monies collected as service fees under lock and key at all times.
  
- 2.3 Ensure that all Shelter staff that handle cash receive formal cash handling training. City Manager’s Response:

***City Manager’s Response***

*Animal Shelter staff agrees with the finding and recommendations. All cash receipts are now placed in the drop safe as they are received. Further, front office staff has been instructed in writing to endorse all checks immediately upon receipt. Also, the Animal Services Manager and the Office Specialist III no longer have keys to the change fund lock box. However, as the Animal Shelter is open seven days per week, and the staff duties are rotated, the four animal control officers that work the front desk must have access to the change fund. Finally, all Animal Shelter staff that handle cash will receive formal cash handling training by December 1, 2007.*

**City Auditor’s Comment:**

We realize that it may not be practical to further restrict access to the change fund. However, the City Manager should recognize that the Shelter might not be able to identify a cash shortage or overage, should one occur, to the responsible employee.

**Finding 3 Receipts Were Not Deposited Timely**

The Shelter did not deposit collections of service fees timely. Shelter staff stated that they deposit collected fees weekly, though daily receipts can be as high as \$600. Administrative Regulation 3.20, entitled “Cash Handling Policy and Guidelines” requires that receipts be deposited the next workday. However, the Finance Director can approve an exception that receipts averaging \$101 to \$550 per day can be deposited within two business days.

**Important internal control: Timely deposits.**

We observed that the deposits for the two prior days were still in the Shelter's drop safe. We obtained copies of two deposit slips for June 18, 2007, totaling \$1,090.<sup>4</sup> Therefore, for the two days, the Shelter's took in over \$500 per day. The Finance Director had not authorized an exception to the next workday deposit requirement. As a result of not depositing receipts timely, the City was losing interest on deposits and the amount of funds at risk in the event of fire or robbery was increased.

**Recommendation for the City Manager**

- 3 Direct the Animal Services Manager to comply with the requirements of A.R. 3.20 as to timeliness of deposits.

***City Manager's Response:***

*Animal Shelter staff agrees with the finding and the recommendation. In the past Animal Shelter staff have deposited collected fees weekly. Now deposits are made every other day. The Animal Services Manager requested that the Finance Director approve this practice, as provided for by Administrative Regulation 3.20. The Animal Shelter expects to receive the Finance Director's decision by December 1, 2007.*

**Finding 4 Change Fund Exceeded Authorized Amount**

The Shelter maintained a change fund of \$100, although Council Resolution Number 62,286-N.S. only authorized \$50. The Animal Services Manager said that the change fund has been \$100 since she has been in her position, and she was not aware of the circumstances under which it was increased from \$50. She also stated that the Shelter needs a \$100 change fund.

**Recommendation for the City Manager**

- 4 Direct the Animal Services Manager to comply with Resolution Number 62,286-N.S. If the change fund is not adequate, seek Council authorization to increase the fund.

***City Manager's Response:***

*Animal Shelter staff agrees with the finding and the recommendation. The Shelter's daily receipt activity necessitates a change fund of \$100. Therefore, the Animal Services Manager is working with Finance to increase the authorized amount. Our request to authorize an increase in the change fund level will be submitted to Council by December 1, 2007.*

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<sup>4</sup>There was one deposit slip for \$410 in currency and another for \$680 in checks.

**VI. CONCLUSION**

**Internal controls protect the innocent from false accusation, the weak from temptation, and all others from opportunity.**

Though Shelter personnel were able to account for the change fund and the day's receipts, we identified several internal control weaknesses. As a result of our audit, we make several recommendations that, if implemented, should improve controls over the change fund and cash receipts.

We thank the Animal Services Manager and her staff for the courtesy and cooperation extended to us during this surprise cash count audit.