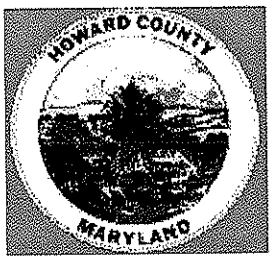
Internal Audit Report

ANIMAL CONTROL DIVISION
CASH AND DONATIONS
COLLECTION REVIEW
MARCH 2009

Office of the County Auditor



March 2009

The County Council and County Executive
of Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted a review of selected activities of the

ANIMAL CONTROL DIVISION
CASH AND DONATIONS COLLECTION REVIEW

and our report is submitted herewith. The scope of our examination related specifically to a review of cash and donation collections and the related internal controls and monetary policies of the Animal Control Division of the Department of Police. The body of our report presents our findings and recommendations.

The contents of this report have been reviewed with the Animal Control Administrator and the Chief Administrative Officer. We wish to express our gratitude to the Animal Control Division for the cooperation and assistance extended to us during the course of this engagement.

Haskell N. Arnold, C.P.A.
County Auditor

Leo Oken, C.P.A.
Auditor-in-Charge

SUMMARY

We performed a review of cash collections and donations and the related internal controls and monetary policies of the Animal Control Division of the Department of Police. In conjunction with our review, we performed a surprise cash count, audited a sample of daily cash receipts and donations, and reviewed the controls and procedures related to cash receipts and donations. For fiscal year 2008, the Animal Control Division collected $95,587 for services and $22,844 in fines.

At the conclusion of our surprise cash count, we found that the currency and checks counted agreed with the total dollar value of check-out receipts issued and cash retained in the drawers as a change fund. Also, we found that cash receipt and donation records were complete and maintained in a manner that allowed for easy identification of receipts and deposits. Additionally, we found that procedures and controls regarding both the cash receipt and donation processes were adequate, effectively minimizing the risk of theft. However, we did note one instance where one of the standard practices included in the Department of Police's cash control procedures (SOP AC-01) was not being followed. We made a recommendation for the Animal Control Division concerning conformity with this procedure.

Additional procedures performed included a review of the current fees charged by the Howard County Animal Control Division. In comparison to surrounding counties, Montgomery, Prince George's and Baltimore, fees appear to be set at an appropriate level.

SCOPE

The Office of the County Auditor has performed a review of the Animal Control Division of the Howard County Police Department. This audit included a review of donations and cash collections of fees for services. We performed a surprise cash count, audited a sample of daily cash receipts and donations, and reviewed the controls and procedures related to cash receipts and donations.

BACKGROUND

The Animal Control Division is part of the Howard County Police Department and is responsible for enforcing animal control laws and operating the animal control facility located in Ellicott City. Additional responsibilities include controlling domestic and wild animal populations, responding to emergency situations involving animals, providing compensation to owners of livestock killed or injured by dogs, providing care for stray and abandoned animals, investigating animal cruelty cases, and rescuing endangered animals. Animal Control collects revenues primarily from adoptions, redemptions, animal euthanasia and trap rentals. In addition, Animal Control receives donations from private citizens which are used to help offset the cost of veterinary services provided to low-income pet owners. The Animal Control Division has 16 employees and approved budgets for FY 2008 and FY 2009, of $1,367,739 and $1,513,840, respectively.

FINDINGS AND RECOMMENDATIONS

Our review of the cash collection and donation processes for the Animal Control Division of the Department of Police consisted of a risk and control review of the processes and testing of cash receipts and deposits. Based upon our observations and testing, we feel that the cash collection and donation processes have adequate internal controls, but that they could be improved through a recommendation that is contained in a related section of this report.

Cash Count

We performed a surprise cash count of the Animal Control Facility on the morning of January 10, 2009. The first register opened was the "auxiliary" register that is used primarily when a pet owner brings in an animal for euthanasia. The register is used less often than the "main" cash register due to the comparatively infrequent nature of this service. The register contained a total of $100 in cash, $80 of which had been received from customers for the euthanasia and disposal of two animals. The register also contained copies of check-out receipts for these two transactions that had taken place the previous day. The remaining $20 is kept in the register as a change fund. Next, we counted the main register located in the lobby where customers pay for adoption services, medications, vaccinations, trap rentals, and other items. The register contained $642 in checks that had been remitted for services and $110 in cash used to make change for customers. In addition, there were copies of seven check-out receipts for services rendered that totaled $642.

We noticed at the start of the cash count that the cash drawers were already in the cash registers, and we confirmed with Animal Control staff that the drawers are customarily left there overnight. Although the registers are locked, this practice is contrary to Howard County Department of Police SOP AC-01 Section III.C. that states that "all monies shall be locked in the Animal Control safe until such time as they are transported to the bank for deposit." Therefore, our report contains a recommendation that cash drawers be removed from the registers and stored in the Animal Control facility safe after the close of business each day.

Cash Receipt Testing

The cash receipts process for the Animal Control Division begins with customers who pay for services rendered and flows through to the bank deposit and notification by the Department of Finance that the deposits have been recorded. When a customer pays for goods or services provided by the facility, the cashier fills out a check-out receipt that includes the customer's name, address, phone number, date, time, driver's license number, and the amount remitted either in form of cash or a personal check. At the end of the business day, the cashier completes a count of bills and coins in the register and reconciles all cash and checks to the cash register tape and the check-out receipts. A staff member designated by the administrator fills out the Daily Deposit Receipt Procedure spreadsheet, and completes a bank deposit slip. When these documents have been completed, the Animal Control Administrator verifies all counts, checks the bank deposit and the reconciliation and initials the documents. The deposits are secured in a sealed envelope until a bank deposit can be made by an Animal Control Officer. After the deposit is made, a copy of the validated deposit slip is provided to the staff member designated to be attached to the daily cash receipt documents. On a weekly basis, a copy of the Animal Control Deposit/Revenue Report that has been reviewed by the administrator is sent to the Department of Finance to substantiate that deposits have been made. A Department of Finance cashier verifies the deposit totals and sends Animal Control a corresponding cash receipt tape showing that the receipts have been recorded.

We tested a sample of cash receipts from two different weekly periods. The dates were judgmentally selected from two different months in the current fiscal year. Our cash receipts testing was supplemented by quarterly audits conducted by the Police Quality Assurance Section. The scope of these audits included a review of compliance with written procedures and tests of daily transactions, including verifying that amounts deposited in the bank and credited by Finance match the amount received for the day. In addition, a selection of random days during the quarter was made to verify the accuracy of computations and to ensure that receipts matched entries on the daily deposit sheets. Our testing consisted of vouching bank deposit slips, Department of Finance notifications, Daily Deposit Receipt Procedure spreadsheets, and Check-Out Receipts to the monthly Animal Control Deposit/Revenue Report. Also, we traced the weekly Check-Out Receipts provided to monthly revenue reports to ensure completeness. No exceptions were noted in any of the transactions reviewed during the period of our audit tests.

Donations Testing

The Animal Control Division maintains two locked donation boxes that are located in the main and auxiliary lobbies of the building. On a periodic basis, depending upon the volume of donations, cash and checks are collected from the donation box by the Animal Control Administrator and a staff member. Joint custody of the funds is maintained until the donations are counted, recorded in a donation ledger and sealed in a bank deposit bag. Once the bank deposit has been made, the Animal Control Officer making the deposit obtains a validated deposit slip from the bank and gives it to the Animal Control Administrator for reconciliation with the ledger totals. On a weekly basis, the Animal Control Administrator completes a Donation Deposit report that is sent to the Department of Finance to verify that a deposit has been made. A Department of Finance cashier verifies the deposit and sends Animal Control a corresponding cash receipt to acknowledge that the donation amounts have been recorded.

We tested the documentation of all donations made in the current fiscal year. For the period July 1, 2008 through December 18, 2008, the donations ledger contained eighteen entries, all of which had been initialed by the Animal Control Administrator and the person entering the donation data. We verified all ledger donation entries against the donation deposit report and validated deposit slips. In addition, donation amounts were substantiated by cashier's receipts from the Finance Department. Two of the transactions in the ledger were for monies paid out of the donation fund to cover "charity" care of animals whose owners were financially unable to do so. These entries were supported by an invoice approved by the Animal Control Administrator. No exceptions were noted.

Risk and Control Review

We performed a risk and control review on the cash collection and donation processes that included analyzing the flow of documents from start to finish. To determine the risks and controls present in the process, we first determined the actual processes. The procedures followed are thoroughly detailed in the Department of Police issued standard operating procedures. We further verified them through discussions with various Animal Control Division personnel and observation of daily activities of the facility.

There are multiple risks associated with the cash collection and donation processes. The most obvious risk is that employee theft/misappropriation will occur. The timing of possible occurrences includes point of contact with the citizen, handling of funds during the reconciliation process, and completing the bank deposit. Specifically, the potential risks are that employees might destroy, change, or incorrectly fill out check-out receipts, give excessive or inappropriate refunds, remove cash from the donation boxes, incorrectly reconcile daily receipts to the register totals, incorrectly total deposits made, or fail to make bank deposits as assigned.

In order to reduce the likelihood of these types of occurrences, Animal Control has established multiple controls. The main controls are strict observance of standard operating procedures (SOP) that govern the cash collection and donation recordation processes. Both the cash collection and donation processes are detailed in these SOPs and broken down into sections outlining the general policy, personnel affected, authority, use and restrictions, procedures, expenditures (donations), audit requirements and cancellation. Fundamental controls contained in the SOPs for both cash collections and donations include:

- Under no circumstance shall these monies be used for personal purchases or as any type of "loan".
- The Animal Control Division does not have the authority to disburse or refund cash from this fund for any purpose.
- Quarterly audits of the Animal Control Division's cash accounts are performed by the Quality Assurance Section of the Department of the Police.

Prohibiting disbursements diminishes the level of risk since cash is handled only at the time a customer pays for services and never returned to an individual or used by an employee for personal purchases. Quarterly audits by the Police Department ensure that timely monitoring is done at a level beyond the actual process level. Various other controls over cash collections also include:

- Fees for services are established by the County Administration and adopted by the County Council. The fees are published annually by the County Administration in the User Fees and Charges Book.

- A Howard County Animal Control Check-Out Receipt is completed at the time of the transaction with all appropriate information completed.
- Daily reconciliation of cash, checks and money orders to the register journal tape by someone other than the cashier.
- Supervisory review of reconciliation and handling of bank deposits with signatures or initials denoting a review has been completed.
- Notification to Budget/Finance of deposit and affirmation by Finance of receipt of same.

By providing established fees for fines and services, Animal Control increases the likelihood that employees handling cash will charge the correct amount. In addition, a sign at the cash register detail fees charged for services and allows the customer and the cashier to quickly assess that the correct fees are paid. Supervisory review and notification to the Finance Department provide additional assurance that transactions are processed correctly, and any errors or inconsistencies in the process are discovered. Controls over the processing of donations include:

- Monies placed in the locked donation boxes are collected by two people (a supervisor and staff member). Joint custody of the donation funds is maintained until they are placed in a sealed envelope for deposit.
- The deposit is recorded in a ledger that is initialed by the both the supervisor and a staff person.
- Finance receives official notification of the donation deposit and affirms receipt of same.

In addition to the written standard operating procedures; the Animal Control Division incorporates other preventive controls designed to minimize the theft or misappropriation of cash. These include the use of pre-numbered, carbon-copied check-out receipts, limited access to cash receipts records, pre-determined cash register change funds, and a facility alarm.

Findings and Recommendations

When we conducted the surprise cash count, we found that the cash drawers including cash, checks, and check-out receipts had remained in the cash registers overnight. Although the cash registers were locked, this practice could result in an unnecessary loss and is contrary to the procedures spelled out in SOP AC-01 Section III. C. which states that "all monies shall be locked in the Animal Control safe until such time as they are transported to the bank for deposit." We recommend that:

1. ***The Animal Control facility comply with the provisions of Standard Operating Procedure AC-01. Cash drawers and their contents should be locked in the Animal Control safe at the close of business each day and not be removed until the facility reopens the following morning.***

Administration's Response:

The Police Department has acquired an automated animal control records management system called "Chameleon" and will be adopting the following cash control procedures:

- All financial transactions, including invoices and payment will take place in the computerized system, thus avoiding the need for any manual ledgers or journals.
- The two existing cash registers will be replaced with a steel cash box (Steelmaster Lit-Ning Recycled Cash Box). The cash boxes are equipped with a locking mechanism and key.
- At the close of business, the cash boxes shall be locked and secured in the Animal Control safe until the next business day.
- Only authorized staff shall have access to the Animal Control safe.

The new equipment and procedures outlined above will ensure the security of cash in the facility during non-business hours.