

**CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT**

**BOARD OF COUNTY COMMISSIONERS'
ANIMAL SERVICES DIVISION
CASH TRANSACTION CYCLE CONSULTING PROJECT**

NOVEMBER 22, 2004

HERNANDO COUNTY CLERK OF CIRCUIT COURT

AUDIT SERVICES DEPARTMENT

MEMORANDUM

TO: Frank McDowell, Code Enforcement Director
Liana Teague, Animal Services Manager

VIA: Karen Nicolai, CPA, Clerk of Circuit Court
Gary Adams, County Administrator

FROM: Peggy Prentice, CIA, CISA, Audit Services Director

DATE: November 22, 2004

SUBJECT: Animal Services Division, Cash Transaction Cycle, Consulting Project Report

Per management's request, the Audit Services Department's (ASD) Audit Projects Schedule included a consulting project of the Animal Services Division's cash transaction cycle. Based on testing, observations, and communications with key personnel, the ASD has produced the attached report for your review. The report includes the ASD's opinion of the Division's current cash transaction cycle internal control environment and a corrective action plan.

The purpose of this report is to furnish management with independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

Although the ASD did not identify employee fraud or abuse during its review, it should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of employee fraud or abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that unreported noncompliance or irregularities will be detected.

A copy of the Report has been forwarded to the Board of County Commissioners as an agenda "correspondence to note" item.

I would like to take this opportunity to extend my appreciation to the Animal Services' staff and to Frank McDowell for the courteous treatment extended to the ASD during this process. I would also like to thank Technology Services and Finance personnel for their assistance.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352) 540-6235, or just stop by my office.

ATTACHMENT

copy: CLERK OF CIRCUIT COURT:

Amy Gillis, CPA, Finance Director

BOARD OF COUNTY COMMISSION:

Commissioner Christopher "Chris" Kingsley

Commissioner Hannah "Nancy" M. Robinson

Commissioner Diane Rowden

Commissioner Robert C. Schenck

Commissioner Jeff Stabins

Kurt Hitzemann, Senior Assistant County Attorney

George Zoettlein, Office of Management and Budget Director

OTHER:

Chip Jones, Partner, KPMG

Hernando Today

St. Petersburg Times - Hernando Edition

WWJB Radio Station

Hernando County Public Library

ANIMAL SERVICES DIVISION CASH TRANSACTION CYCLE CONSULTING PROJECT

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ACKNOWLEDGMENT

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ACKNOWLEDGMENT

Other minor findings, not included in this report, have been communicated to management and/or corrected during the consulting process. We thank Animal Services' personnel for their cooperation throughout the project.

Fieldwork was performed by:

Peggy Prentice, CIA, CISA, Audit Services Director

Barbara Fichter, Internal Auditor

This report was reviewed and authorized by Karen Nicolai, CPA, Clerk of Circuit Court, on November 22, 2004.

PURPOSE AND SCOPE

PURPOSE AND SCOPE

PURPOSE:

The purpose of this consulting project was to provide management with some level of assurance that Animal Services' cash transaction cycle internal control environment is adequate. For deficiencies identified, the ASD assisted, informed, and counseled management, as needed, to improve operations.

SCOPE:

The ASD addressed the Animal Services Division's cash transaction cycle. The cash transaction cycle was evaluated under current conditions and an assessment was made as to what corrective actions, if any, are needed. The ASD performed interviews with key personnel, observed actual work performance, site visits, and traced cash transactions from daily work to bank deposits and financial records. The ASD considered the following:

1. Policies, procedures and written instructions;
2. Internal cash control environment;
3. Cash transaction processing;
4. Automation utilized to manage cash receipts, and financial and inventory recordkeeping and reporting;
5. Preparation for a credit card acceptance program; and
6. Long-term improvement strategies.

ANIMAL SERVICES DIVISION CASH TRANSACTION CYCLE CONSULTING PROJECT

BACKGROUND

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BACKGROUND

Animal Services is a Division of the Board of County Commissioners' (BCC's) Code Enforcement Department. The Division operates and maintains an animal shelter, responds to citizens' requests related to animal issues, and enforces County ordinances and state laws that protect the health, safety and welfare of the citizens and animals of Hernando County. Animal licensing and adoption are the primary programs coordinated by the Division. The collection of animal license fees is split between the Division and a third-party contract provider, PetData. When an animal is adopted, a nominal fee is charged to cover the cost of vaccinations, spaying/neutering, deworming, and ear cleaning. For FY 2004/05, \$151,060 in fee revenue is budgeted.

The Division operates a facility at 19450 Oliver Street, Brooksville, which was completed in December 2001. This location contains both the shelter and administrative office. In July 2004, the Division's manager retired and Liana Teague was promoted to fill the vacant position. The Division has 13 full-time and two part-time staff, five of which are Animal Services Officers. A Customer Service Technician oversees the administrative functions for the Division, including four customer service personnel who assist customers, perform light clerical duties, and process fee and fine collections.

Animal Services records and reports cash transactions manually. Monies are collected on- and off-site. These cash receipts are then compiled and processed at the main facility and eventually forwarded to Finance for financial recordkeeping.

Management cited that its current software, PetWare, does not meet their financial and non-financial recordkeeping needs. The Division anticipates implementing another software application during FY 2004/05.

OBSERVATIONS AND COMMENTS

ANIMAL SERVICES DIVISION CASH TRANSACTION CYCLE CONSULTING PROJECT

TRANSITIONAL CHANGES

The Division is going through a management transition period. The recently appointed Animal Services Manager is considering the following:

- financial recordkeeping enhancements which include financial and inventory processing changes;
- implementation of a new software application to better suit the Division's recording and recordkeeping and reporting needs; and
- implementation of a credit card acceptance program for the convenience of their customers.

Management was aware that certain control weaknesses existed and that implementation of needed processing and recordkeeping changes could be a challenge. As such, management asked the ASD to help identify areas for improvement, review their software considerations, and to provide assistance and guidance with implementing a credit card acceptance program.

ASSESSMENT OF CURRENT OPERATIONS

Customer service staff appear to work as a team to accomplish common goals and objectives. Based on observations, incoming phone calls are answered and walk-in customers are assisted in a timely manner. Communications between management and staff appear to be good. In observed instances when staff identified a need for management assistance, they were able to contact the Animal Services Manager who made herself immediately available.

A cash transaction cycle, when viewed as a whole, should provide complete and reliable recordkeeping based on efficiency, effectiveness and performance. An effective internal control structure minimizes the potential for, and covers up of, errors, omissions, fraud or abuse. It also provides a historical record of what transpired, which can be used to identify exceptions and trace them to their originator. The Division's cash transaction cycle is not meeting these objectives due to relaxed recordkeeping, segregation of incompatible duties, preventative, and monitoring controls.

The ASD consulted management regarding the implementation of a credit card acceptance program. Based upon the maturity of the Division's internal control environment and plans to implement a new software application, management decided to delay implementation until late FY 2004/05.

CORRECTIVE ACTION PLAN

Identified control weaknesses and areas that could be fine-tuned were brought to management's attention. As a result of these communications, the ASD and management created a corrective action plan that included implementation. This plan is designed to strengthen the internal control environment which will improve efficiency and effectiveness. Management determined the time line for implementing the plan. Because partial implementation is ineffective, management is encouraged to implement the entire plan. During the implementation stage, per management's request, the ASD will meet with management on a regular basis to provide any needed guidance or assistance. This will ensure that best practices are carried out. These meetings will continue until such time that either management or Audit Services deems it unnecessary to continue assistance.

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CORRECTIVE ACTION PLAN

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CORRECTIVE ACTION PLAN

Item No.	Comment	Recommended Corrective Action	Time Table	See Exhibit
1	Per management, in recent months the Division sold approximately \$500 of taxable tangible items to the general public (collars, leashes, flea products and heartworm products). However, contrary to Florida sales tax laws, the Division neither collected nor remitted sales tax on these items when they were sold. It should be noted that the tax amount is not material.	<p>Consideration should be given to working with Finance to remit any unpaid back taxes to the Florida Department of Revenue (FDOR).</p> <p>A financial record should be created for any tangible items sold to the general public. This record should include the amount of sales tax charged, collected and remitted to the FDOR. The Division should work with Finance to ensure compliance with procedural and recordkeeping requirements.</p> <p>If/when another software application is implemented, consideration should also be given to setting up the sales tax recordkeeping and reporting function in the system.</p>	<p>Management began working with Finance during fieldwork.</p> <p>1/1/05</p> <p>12/31/05</p>	
2	Customer service personnel use one cash drawer simultaneously. The Division has only one change fund.	Consideration should be given to establishing two cash drawers and securing them at all times under lock and key. Cash drawers should not be used by more than one employee at any one time.	Corrective action was taken during fieldwork, but not enough time has passed to ensure that the concern has been alleviated.	
3	Some job duties conflict with segregation of duties principles. The basic concept is that no one employee or group of employees is in a position to commit and/or conceal errors or omissions. Incompatible duties that should be segregated are: authorization, custody of assets, recording transactions, and reconciliation.	To enhance the internal control structure, consideration should be given to segregating incompatible duties and responsibilities so that errors and irregularities are identified during the normal course of business by employees performing their job functions.	<p>Management began corrective action during fieldwork</p> <p>Manual Automated</p> <p>3/31/05 12/31/05</p>	See recommended segregation of duties matrix at Exhibit 1

ANIMAL SERVICES DIVISION CASH TRANSACTION CYCLE CONSULTING PROJECT

Item No.	Comment	Recommended Corrective Action	Time Table	See Exhibit
4	Finance cited concern that some bank deposits are not accurately recorded.	Consideration should be given to tightening up monitoring controls to ensure that bank deposits and daily reports are accurate before they are forwarded to the bank or Finance. If deemed necessary, consideration should be given to additional staff training.	Corrective action began during fieldwork but not enough time has passed to ensure that the concern has been alleviated.	
5	Per management, PetWare does not meet the Division's automated recordkeeping and reporting objectives, and management is planning to replace it. During fieldwork, the ASD and Technology Services observed a demonstration of Chameleon software. Based strictly on this observation, the software appears to have automated controls and it may meet the Division's financial and inventory recordkeeping and reporting objectives. Finance was advised that the Division is considering the purchase of this software. The Division sent Finance information about the software (i.e., screen printouts).	<p>Prior to the purchase of Chameleon or similar software, consideration should be given to: 1.) Allowing Finance the opportunity to observe the software and automated financial reports to ensure that it meets the Division's financial and inventory recordkeeping and reporting goals and objectives; 2.) Communicating with another local government that utilizes the software. This may provide insight of the software's strengths and weaknesses which will help during the decision-making and planning stages; and 3.) Exploring the software's ability to provide an audit trail of all transactions (added, changed, or deleted items).</p> <p>If/when software is purchased, consideration should be given to implementing a manual control for any automated internal control weaknesses. For example, a management monitoring control could be implemented if the software allows a user to change an automated cash receipt amount. The report could list a comparison of scheduled fines and fees to actual fines and fees collected.</p>	<p>12/31/04</p> <p>12/31/05</p>	
6	Some receipt books are shared by employees.	Consideration should be given to assigning a receipt book to any employee who accepts cash receipts. Receipt books should not be shared by employees.	Corrective action was taken during fieldwork, but not enough time has passed to ensure that the concern has been alleviated.	

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Item No.	Comment	Recommended Corrective Action	Time Table	See Exhibit
7	<p>The receipt book log does not meet the Division's internal control objectives.</p>	<p>Consideration should be given to improving the receipt book inventory log to record any receipt book checked in or out of inventory, i.e., the beginning and ending receipt numbers in the book, the date the book is signed in or out, and to whom the receipt book is issued to. The receipt book inventory and log should be maintained and secured by a person who does not handle cash.</p>	<p>Corrective action was taken during fieldwork but not enough time has passed to ensure that the concern has been alleviated.</p>	
8	<p>The safe's security controls are lacking making the safe's contents insecure.</p> <p>It should be noted that management recently learned that the safe manufacturer's master combination was erroneously disbursed to staff.</p> <p>The ASD contacted the safe's manufacturer. The manufacturer confirmed that the master combination cannot be reset.</p>	<p>Consideration should be given to segregating the safe's key from the safe's combinations ("user" and "master"). If segregation in this manner is not feasible, as an alternative, consideration should be given to either: 1.) replacing the safe's electronic component, or 2.) establishing a dual control whereby personnel who have a key to the closet where the safe is stored do not have the key and combination to the safe.</p> <p>If the electronic component is replaced, consideration should be given to safeguarding the manufacture's master combination (not disbursing it), setting and disbursing a "user" combination to authorized personnel, and disbursing the key(s) to personnel who do not know the master or user combinations.</p> <p>The user combination should be reset if there is a security breach or if an employee who had the combination is assigned a key.</p>	<p>Corrective action was taken during fieldwork, but not enough time has passed to ensure that the concern has been alleviated.</p>	

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Item No.	Comment	Recommended Corrective Action	Time Table	See Exhibit
9	Although monies are collected infrequently by (off-site) Animal Service Officers, there is a lack of internal controls in this area.	Consideration should be given to implementing internal controls which secure any monies collected off-site. To accomplish this goal, office personnel should prepare, in advance, a cash collection ticket for any monies scheduled to be collected by field personnel. At the end of the day, field personnel's cash receipts should be reconciled to the cash collection tickets. If the appropriate level of management waives or reduces a fee or fine, per the Board's authorization, the manager waiving or reducing the fee or fine should communicate with the customer directly not through field staff.	Corrective action began during fieldwork but not enough time has passed to ensure that the concern has been alleviated.	

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Item No.	Comment	Recommended Corrective Action	Time Table	See Exhibit
10	<p>The customer service area is dysfunctional. Office personnel are constantly in each other's way as they assist customers and perform job duties. Personnel expend an enormous amount of energy working in this dysfunctional work environment which may give a false appearance that additional staff are needed to handle the workload. There is an opportunity to utilize the customer service area to its full potential by making the customer service area's work processes and walking patterns align with the physical layout of the facility.</p>	<p>To align work processes and walking patterns to the physical layout of the facility, the first respondents to assist walk-in customers should be the personnel stationed at the front counter (front-line personnel). One or two of these staff members should be assigned separate cash drawers to handle cash transactions. If the front-line personnel are available to handle telephone and radio communications, then they should respond, if not, then the personnel stationed behind or adjacent to this counter (rear personnel) should respond. The idea is to ensure that all customers (walk-in and telephone) are assisted promptly and that the front-line's highest priorities are walk-in customers and cash handling procedures. Rear personnel should handle telephone and radio communications when the front-line personnel are busy waiting on walk-in customers or performing cash handling procedures. Rear personnel can be assigned tasks that require them to leave their workstations or are time consuming.</p> <p>By implementing this recommendation, the customer service area job duties will better align with the physical layout of the facility. When front-line personnel are handling cash, they can concentrate on the task at hand. In addition, walk-in customers will be waited on immediately and will not be interrupted by telephone or radio communications. Telephone and radio communications will not be cut short or be interrupted. Personnel will not be getting in each others way when waiting on customers or performing other job duties. Each workstation can be set up with the hardware, software, and office supplies needed to support that workstation's primary functions. This should improve efficiency and effectiveness of operations.</p>	<p>Corrective action was taken during fieldwork but not enough time has passed to ensure that the concern has been alleviated.</p>	

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Item No.	Comment	Recommended Corrective Action	Time Table	See Exhibit
11	<p>The Board has approved the primary fee schedules. The Animal Services Manager cited that one of these Resolutions gives her the authority to waive fees and fines. Although the Board granted the authority to establish payment arrangements, as deemed necessary, the ASD found no indication that the Board granted the manager the authority to waive fees and fines. The Board's authorization is required to deviate from the approved fee schedule.</p>	<p>If/when the Board authorizes the Animal Services Manager to waive fees and fines, the basis used to determine the waiver should also be approved by the Board. Management should then document in writing that they approved the waiver and the basis for approving that waiver.</p>	3/31/05	
12	<p>The internal control environment is relaxed which makes tracing individual cash transactions through their life cycle unreliable. As an alternative, 89 batches of daily cash receipts were traced from the Division's Deposit Bag Log to the Division's Daily Work Deposit Form to the validated bank deposit slip and to the Finance record. No material concerns were identified with the bank deposit or Finance records. However, four deposits were identified in the bank and Finance records which were not in the Division's records. Since the purpose of maintaining the Division's Deposit Bag Log is to monitor cash collections, failure to identify exceptions is a concern. It should be noted that during fieldwork the Deposit Bag Log became obsolete when the Division hired Brinks to pick up and deliver bank deposits. The Division replaced the Deposit Bag Log with the Brinks Pick Up Log.</p>	<p>At least monthly, the Brinks Pick Up Log should be reconciled to the Finance record (Pentamation) to ensure accurate and complete financial recordkeeping. Management should be required to review and approve this reconciliation.</p>	<p>Corrective action was taken during fieldwork, but not enough time has passed to ensure that the concern has been alleviated.</p>	

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Item No.	Comment	Recommended Corrective Action	Time Table	See Exhibit
13	Consulting services were provided for a credit card acceptance program. Based upon the maturity of the Division's internal control environment and plans to implement a new software application, management decided to delay implementation until late FY 04/05.	If/when the credit card acceptance program is ready for implementation, consideration should be given to allowing the ASD and/or Finance the opportunity to work with management to set up an adequate internal control environment for the handling, processing, recording and reporting credit card transactions.	12/31/05	See recommended Credit Card Acceptance Process flowchart at Exhibit 2
14	The Standard Operating Procedures (SOP) manual does not address cash handling or cash transaction processing. The Division's policies and procedures will require revisions as processes and controls are added, deleted or changed.	Development and enhancement of policies and procedures are an ongoing opportunity for management to clarify its desired objectives, goals, and directives. Although the ASD provided policy recommendations during fieldwork, not enough time has passed for corrective action. Once the above referenced recommendations are fully implemented, consideration should be given to writing policies and procedures that reflect the changes to the internal control environment. Consideration should be given to including exhibits that assist the user in carrying out their assigned task(s).	12/31/05	