



# Orange County Auditor-Controller Internal Audit



Cash Compliance Audit:  
OC Community Resources/OC Animal Care  
For Fiscal Year 2015-16

Audit Number 1578  
Report Date: June 8, 2016



O R A N G E C O U N T Y  
**AUDITOR-CONTROLLER**  
I N T E R N A L A U D I T

**Eric H. Woolery, CPA**  
**Orange County Auditor-Controller**

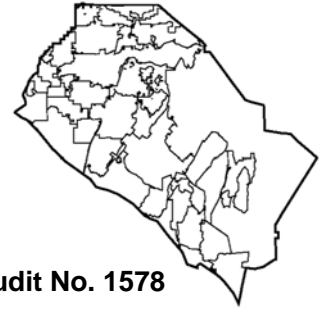
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AUDITOR-CONTROLLER



**Transmittal Letter**

**Audit No. 1578**

**June 8, 2016**

**TO:** Steve Franks, Director  
OC Community Resources

**SUBJECT:** Cash Compliance Audit:  
OC Community Resources/OC Animal Care for FY 2015-16

We have completed our audit of internal controls over OCCR/OC Animal Care's cashing funds. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly report to the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division

**Attachments**

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Eric Woolery, Auditor-Controller
- Frank Kim, County Executive Officer
- Mark Denny, Chief Operating Officer
- Lilly Simmering, Deputy Chief Operating Officer
- Dr. Jennifer Hawkins, OC Animal Care Director
- Connie Chang, Manager, Budget and Financial Management, OCCR
- Brian Rayburn, Manager, Business Practices, OCCR
- Fue Tuiteleapaga, Purchasing Manager, OCCR
- Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
- Win Swe, Accounting Manager III, Auditor-Controller/OCCR Accounting
- Susan Long, Accounting Manager II, Auditor-Controller/OCCR Accounting
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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OC Community Resources/OC Animal Care  
Fiscal Year 2015-16  
Audit No. 1578*

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# Internal Auditor's Report

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**Audit No. 1578**

**June 8, 2016**

TO: Steve Franks, Director  
OC Community Resources

FROM: Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division

SUBJECT: Cash Compliance Audit:  
OC Community Resources/OC Animal Care for FY 2015-16

## OBJECTIVES

We completed our audit of OCCR/OC Animal Care's cashiering fund internal controls. Our audit was to determine whether internal controls are in place to ensure OC Animal Care is performing cash handling duties in accordance with Auditor-Controller (A-C) County Accounting Manual (CAM) C-4 *Depositing*, A-C County Accounting Manual C-5 *Handwritten Cash Receipts*, A-C County Accounting Manual C-7 *Revolving Cash Fund*, A-C County Accounting Manual S-2 *Internal Control Systems*, and OC Animal Care policies and procedures.

We also followed-up on seven (7) cashiering findings and two (2) observations from our prior cash handling review for FY 2012-13. Our audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* prescribed by the Institute of Internal Auditors.

## RESULTS

Our audit found that OCCR/OC Animal Care has internal controls in place to ensure cash handling duties are in accordance with A-C CAM requirements and OC Animal Care policies and procedures. We identified **one (1) Control Finding** for performing inventories of handwritten cash receipt forms and disposing of unused receipt books. See the *Detailed Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for Report Item Classifications.

We also found that OCCR/OC Animal Care took satisfactory corrective actions to implement the seven (7) findings, recommendations, and two (2) observations from the prior cash handling review, and made significant improvements to their cash handling processes and controls. See *Attachment C* OCCR/OC Animal Care Prior Review Findings and Observations. **This report represents the close-out of the prior cash handling review's findings and observations.**

## BACKGROUND

OCCR/OC Animal Care is located at 561 The City Dr. S, Orange, CA 92868. OC Animal Care has change funds totaling \$1,499.05 and a cash difference fund totaling \$230. Cash receipts are collected from in-house (over-the-counter) payments, online payments, and lockbox payments received from field officers and mobile adoptions.

During FY 2014-15, OC Animal Care received approximately **\$8.7 million** in cash receipts. Based on the three months sampled in this audit (November 2014, February 2015, and May 2015), we determined that approximately \$3.4 million was from in-house payments, \$1.5 million was from online payments, and \$3.8 million was from lockbox payments.



# Internal Auditor's Report

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## SCOPE AND METHODOLOGY

Our cash compliance audit included:

1. Unannounced visits to confirm cash drawer amounts on hand at the time of the visit agree to OCCR/OC Animal Care Accounting records.
2. Interviews with the OC Animal Care cashiering staff.
3. Completion of Cash Handling Internal Control Questionnaires.
4. Preparation of Segregation of Duties matrices for cash receipting activities.
5. Review of the status of findings, recommendations and observations made in the prior cash handling review conducted during FY 2012-13.

## FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues appear on the AOC agenda at its next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendation is implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.

## MANAGEMENT'S RESPONSIBILITIES FOR INTERNAL CONTROLS

In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for OCCR/OC Animal Care's continuing emphasis on control activities and self-assessment of control risks.

## Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.



# Internal Auditor's Report

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Accordingly, our audit would not necessarily disclose all weaknesses in OCCR/OC Animal Care's operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

## **ACKNOWLEDGEMENT**

We appreciate the courtesy extended to us by the personnel of OC Community Resources/OC Animal Care during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-5442, or Nancy Ishida, Senior Audit Manager at (714) 796-8067.



# Detailed Findings, Recommendations, and Management Responses

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## Finding No. 1 – Inventories and Disposition of Handwritten Cash Receipts (Control Finding)

### Criteria

County Accounting Manual (CAM) C-5, *Handwritten Cash Receipts*, Section 2.2.2.E states to “Have an inventory of the cash receipt forms performed periodically by an employee with no custodial or cashiering duties.” Our audit found no evidence of a cash receipt inventory having been performed.

### Details

OC Animal Care has an assigned custodian responsible for issuing and safeguarding cash receipt books; however, we were informed that due to a change in custodians, the replacement custodian had no documentation showing the last inventory of cash receipt forms. Without periodic, independent inventories by an employee with no custodial or cashiering duties, there is a risk of theft or misplacement of cash receipt forms. When cash receipt forms are not adequately safeguarded and monitored, they could be misused by employees by providing customers a fake receipt and pocketing the cash.

We also observed there are unused Counter Receipts in storage. These receipts are no longer utilized by OC Animal Care, as all receipts are computer generated for payments received at the shelter. If the computer system is down, the cashiers are not supposed to accept any payments until the system is back online. Disposing of unused Counter Receipts will ensure this policy is followed.

### Recommendation No. 1:

OCCR/OC Animal Care conduct documented, independent inventories of handwritten cash receipts as required by CAM C-5. In addition, take measures to dispose of unused cash receipts that are no longer needed for cash handling operations.

### OCCR/OC Animal Care Management Response:

**Concur:** OC Animal Care and OCCR Accounting will develop a process to conduct documented, independent, and surprise inventories of handwritten cash receipts on a routine basis that will commence within 90 days. Additionally, OC Animal Care disposed of the unused Counter Receipts on May 10, 2016.





# Detailed Findings, Recommendations, and Management Responses

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## ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

These are Audit Findings or a combination of Audit Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



# Detailed Findings, Recommendations, and Management Responses


## ATTACHMENT B: OCCR/OC Animal Care Prior Review Findings and Observations

Reported Internal Control Issues	Status on Corrective Actions
<p><u>Findings:</u></p> <p>P1. Animal Care Cashiers balance and finalize their own cash drawers and are able to void or make adjustments in the Chameleon cashiering system. Although cashiers are required to note the reason for voids and adjustments, no supervisory review or approval is required.</p> <p>P2. No sign is posted to inform customers to receive a receipt for payment.</p> <p>P3. The Non-Compliance forms and Mobile Adoption receipts issued by Canvassers, Animal Control Officers and the Community Outreach Team are not pre-numbered. As a result, no inventory can be performed on these receipts. We also found that not all receipt books are returned to the Cash Receipt Custodian and recorded on a cash receipt log and reviewed.</p> <p>P4. There is no written record of key and combination holders for safes and canvassing bags.</p> <p>P5. The Canvassers, Animal Control Officers and the Community Outreach Team do not restrictively endorse checks upon receipt. Instead, the Accounting Unit restrictively endorse the checks when received.</p> <p>P6. The donation box used by the Community Outreach Team volunteers is not properly secured. Although a volunteer is always present at the booth during events, the donation box is closed but not locked.</p> <p>P7. The Animal Relinquishment Form used by Shelter staff is not used to record payments, but appears as a receipt. Further, the Animal Relinquishment Forms are not reconciled to the County of Orange receipts to ensure all relinquishments were paid.</p>	<p>Implemented</p> <p>Implemented</p> <p>Implemented</p> <p>Implemented</p> <p>Implemented</p> <p>Implemented</p> <p>Implemented</p>
<p><u>Observations:</u></p> <p>01. OC Animal Care has 13 canvassing bags and one canvassing supervisor bag. The last cash count performed on these bags was in January 2012.</p> <p>02. OC Animal Care utilizes five different manual cash receipt forms. Two sets of receipt forms are not pre-numbered, and are not recorded and inventoried.</p>	<p>Implemented</p> <p>Implemented (with one exception – See <a href="#">Finding No.1</a> in this report)</p>



# Detailed Findings, Recommendations, and Management Responses

## ATTACHMENT C: OCCR/OC Animal Care Management Response



ORANGE COUNTY  
**OC Community Resources**  
*Our Community. Our Commitment.*

May 19, 2016

**STEVE FRANKS**  
DIRECTOR  
OC COMMUNITY RESOURCES

**JENNIFER HAWKINS, DVM**  
DIRECTOR  
OC ANIMAL CARE

**RENEE RAMIREZ**  
INTERIM DIRECTOR  
OC COMMUNITY SERVICES

**JULIA BIDWELL**  
INTERIM DIRECTOR  
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DEVELOPMENT & HOMELESS  
PREVENTION

**STACY BLACKWOOD**  
DIRECTOR  
OC PARKS

**HELEN FRIED**  
COUNTY LIBRARIAN  
OC PUBLIC LIBRARIES

**TO:** Toni Smart, Director  
Auditor-Controller, Internal Audit Division

**FROM:** Steve Franks, Director  
OC Community Resources

**RE: AUDIT NO. 1578 CASH COMPLIANCE AUDIT - OC ANIMAL CARE**


The Auditor-Controller Internal Audit Division completed an audit of OC Community Resources/OC Animal Care Cashiering Funds internal controls for Fiscal Year 2015-16. Below is OC Community Resources' response to the audit finding and recommendation.

**Finding No. 1 – Inventories and Disposition of Handwritten Cash Receipts (Control Finding)**

**Recommendation No. 1:**  
OCCR/OC Animal Care conduct documented, independent inventories of handwritten cash receipts as required by CAM C-5. In addition, take measures to dispose of unused cash receipts that are no longer needed for cash handling operations.


**OCCR/Parks Management Response:**  
**Concur:** OC Animal Care and OCCR Accounting will develop a process to conduct documented, independent, and surprise inventories of handwritten cash receipts on a routine basis that will commence within 90 days. Additionally, OC Animal Care dispose of the unused Counter Receipts on May 10, 2016.

Sincerely,

Signature  \_\_\_\_\_

Date 5/19/16 \_\_\_\_\_

SAF: bwr



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