

**Internal Audit Report 17-04**  
**Sioux Falls Area Humane Society-Cash Handling**  
**June 2017**



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## **SIoux FALLS AREA HUMANE SOCIETY CASH HANDLING INTERNAL AUDIT REPORT 17-04**

### **INTRODUCTION**

An Animal Sheltering Services Agreement exists between the City of Sioux Falls (City) and the Sioux Falls Area Humane Society (SFAHS). As part of this contract, the SFAHS is authorized to collect all animal license fees and impounding and boarding fees for animals under the City's authority and revert these collections back to the City. This audit was performed to analyze the cash handling controls at the SFAHS as requested by management of the Animal Control Unit.

### **BACKGROUND**

The Sioux Falls Animal Control Unit provides public safety and pet safety by upholding the ordinances of the City. Animal Control responds to calls concerning pet licenses, barking dogs, stray cats or dogs, leash law violations, dog fights, animal bites, animal abuse and neglect, injured and deceased animals, and wildlife. The City has contracted with the SFAHS since 2009 to provide shelter services, veterinary care, and disposal of all animals brought in by the Animal Control Unit. The Sioux Falls Area Humane Society is an open admission facility that takes in abandoned, abused, homeless and unwanted animals.

The agreement provides that the SFAHS is to collect animal license fees, impounding fees, and boarding fees as set by the City Code of Ordinances. All fees that are collected by the SFAHS are to be reverted back to the City. Any animal held or impounded by the SFAHS shall be released to the owner upon payment of the daily boarding costs and impoundment fees listed below. The SFAHS accepts cash payments only.

#### **BOARDING FEE**

Daily Fee	\$8
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#### **IMPOUNDMENT FEES**

First violation	\$30
Second violation within a 12 month period	\$50
Third and subsequent violations within a 12 month period	\$75

Each owner or keeper of a dog or cat of the age of six months or older must license their animal with the City within 30 days of acquisition of the animal or within 30 days of the time the animal becomes six months old. The SFAHS charges a convenience fee of up to \$5 for each new or renewal license in order to defray the costs of providing the licensing service and record keeping expenses. The software system, PetPoint, is used by the SFAHS to track impounded animals, animal ownership information, animals released and returned to their owners, fees charged and collected, etc.

LICENSE FEE SCHEDULE

	<u>1 Year License</u>	<u>3 Year License</u>
Neutered or Spayed Dog or Cat	\$5	\$15
Unneutered or Unspayed Dog or Cat	\$25	\$75

The SFAHS has remitted the following collections to the City during the last three years.

<b>Year</b>	<b>Boarding</b>	<b>Impounding</b>	<b>License</b>	<b>Total</b>
<b>2014</b>	\$4,532	\$16,410	\$220	\$21,162
<b>2015</b>	\$3,696	\$16,785	\$250	\$20,731
<b>2016</b>	\$4,112	\$19,765	\$250	\$24,127

**OBJECTIVES**

The objectives of this audit were to:

1. Determine if cash handling policies and procedures are current, properly documented and being adhered to.
2. Determine if cash is collected, secured, transported, deposited, recorded, and reconciled in an adequate and accurate manner.
3. Determine if management oversight mitigates the risk of weak internal controls over cash receipts.

**SCOPE AND METHODOLOGY**

The scope of this audit focused on the review of cash handling controls at the Sioux Falls Area Humane Society. The testing of controls covered transactions for the twelve month period of April 1, 2016 to March 31, 2017. Our audit work included the following:

- Interviews with Animal Control and the SFAHS management and staff.
- Review of written policies and procedures over cash receipts and deposits.
- Observation of the beginning and end of day cash collection procedures and monthly deposit process.
- Detailed testing of a sample of impounding and boarding fee transactions.
- Review of license, impounding, and boarding fee deposits.
- Analytical review of the last three years of license, impounding, and boarding fee revenue data.

## **RESULTS**

### **Policies and Procedures**

We reviewed the cash handling policies and procedures from the SFAHS and Animal Control. We also performed an observation of the daily opening and closing process and the month end deposit process. We determined that policies and procedures are current and are properly followed by staff.

We also determined that policies and procedures are properly documented with the exception that they do not include any written guidance for the waiver of fees. The Animal Services Sheltering Agreement states that the SFAHS “has no authority to cancel any board or impoundment fee, unless approved by an Animal Control Supervisor.” Proper approval and support should be documented in order to justify the circumstances leading to the waiver of fees due to the City. **See audit recommendation 1 below.**

### **Cash Handling**

Based on the observations performed, we determined that segregation of duties over the cash handling process is adequate. Our detailed testing and review of cash transactions and deposits revealed that the SFAHS is charging and collecting the proper amounts for impounding, boarding, and license fees. The amounts remitted to the City are proper, in accordance with the agreement, and accurately recorded in the City’s financial system.

However, we identified some internal control weaknesses that exist in regards to the cash handling process. **Audit recommendations 2 through 6** were included below to address each of the weaknesses noted.

- Deposits are not made in accordance with contract requirements.
- Cash receipts are not issued in sequential order.
- Physical security over cash is inadequate.
- Reconciliations are not consistently dated and initialed by the individual verifying the reconciliation.
- Voided receipts are not properly supported and approved by management.

### **Management Oversight**

Based on our interviews and observations, management oversight exists, but does not mitigate the risk that internal controls over cash receipts are inadequate. However, our testing and analytical reviews have indicated no misappropriation of cash assets or fraud. We have identified the following opportunity for improvement to help mitigate the risks of the current cash handling process.

### **Opportunity for Improvement**

City management should consider an alternative means to collect impounding, boarding, and license fees and implement these changes when the current contract expires on December 31, 2019. This could include the City collecting the cash payments instead of the SFAHS and also accepting credit card payments in order to eliminate the potential risk of fraud and misappropriation of cash assets. Additionally, this would help to eliminate some of the expense of overtime hours for the SFAHS.

## **RECOMMENDATIONS**

We made the following recommendations to address the above referenced results.

### **City Animal Control Unit**

- 1) Policies and procedures should include specific criteria for the waiver of fees. Fee waivers should be properly documented, approved, and retained on file.

*Management's Response: We concur with the recommendation and will move forward to implement it.*

*Management Representative Responding: Richard Miller, Police Captain*

*Date of expected implementation: August 1, 2017*

- 2) Deposits should be made in accordance with the Animal Sheltering Services Agreement.

*Management's Response: We agree with the recommendation.*

*Management Representative Responding: Richard Miller, Police Captain*

*Date of expected implementation: July 1, 2017*

### **Sioux Falls Area Humane Society**

- 3) Cash receipts should be issued in sequential order.

*Management's Response: Agree. However, software limitations prohibit sequential ordering of receipt numbers.*

*Management Representative Responding: Kori Baade, SFAHS Executive Director*

*Date of expected implementation: Not applicable.*

- 4) Internal controls over the physical security of cash should be enhanced.

*Management's Response: The SFAHS agrees to implement an appropriate system to better secure the limited amount of cash on hand.*

*Management Representative Responding: Kori Baade, SFAHS Executive Director*

*Date of expected implementation: July 1, 2017*

- 5) All reconciliations should be dated and initialed to demonstrate they were completed, reviewed, and approved. Any reconciling items, shortages, or overages should be investigated, resolved, and documentation should be retained.

*Management's Response: Agree. We will initial and date going forward.*

*Management Representative Responding: Kori Baade, SFAHS Executive Director*

*Date of expected implementation: Already implemented.*

- 6) Voided receipts should be properly supported, approved by management, and retained on file. The individual voiding a receipt should properly document the reason for the void and management should date and initial the receipt to demonstrate their approval.

*Management's Response: Agree. Voided transactions will be documented in PetPoint, reviewed by management, and documentation will be maintained. Copies will kept of all voided transactions.*

*Management Representative Responding: Kori Baade, SFAHS Executive Director*

*Date of expected implementation: Already implemented.*

## **CONCLUSION**

Based on our review, we believe there are opportunities for improvement to address the weaknesses noted in regards to the cash handling process. The implementation of the above recommendations will strengthen controls around cash and reduce the risk of fraud and misappropriation.

We would like to thank the management and staff of the Animal Control Unit and the Sioux Falls Area Humane Society for their cooperation and assistance during this audit.

## **AUTHORIZATION**

The Sioux Falls City Council approved this audit by resolution in April 2017 as part of the 2017 Annual Audit Program. The Internal Audit Division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

## **AUDIT STANDARDS**

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

## **STATEMENT OF INDEPENDENCE**

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

## **DISTRIBUTION OF REPORT**

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

## **PERFORMED BY**

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