

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



ITEM: 2.4
(ID # 12057)

MEETING DATE:
Tuesday, March 17, 2020

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2019-010: Riverside County Department of Animal Services Audit, District: All. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2019-010: Riverside County Department of Animal Services Audit.

ACTION:Consent


Paul A. Angulo, County Auditor-Controller 2/27/2020

MINUTES OF THE BOARD OF SUPERVISORS

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

BACKGROUND:

Summary

In accordance with Board of Supervisors Resolution 83-338, we completed an audit of the Riverside County Department of Animal Services to provide management and the Board of Supervisors with an independent assessment of internal controls over controlled substance inventory management and cash controls at animal shelters.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
SOURCE OF FUNDS: N/A			Budget Adjustment:	No
			For Fiscal Year:	n/a

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

Summary(continued)

Based upon the results of our audit, we determined:

- 1) Internal controls over controlled substance inventory management are not operating effectively to provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, expired controlled substances have not been properly discarded and controlled substances transferred between shelter locations were not properly monitored at one point during our audit period.
- 2) Internal controls over cash management at animal shelters are not operating effectively to provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, a documented process to manage the use of donations is not in place. In addition, mail is not opened by someone different than the cashier or accounts receivable bookkeeper and a detailed log of checks received by mail is not kept at one of the animal shelters.

We will follow-up to determine if actions were taken to correct the findings noted.

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENT A.

Riverside County Auditor-Controller - Internal Audit Report 2019-010: Riverside County Department of Animal Services Audit



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OFFICE OF THE
AUDITOR-CONTROLLER**

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CONTROLLER
COUNTY OF RIVERSIDE**

**Paul Angulo, CPA, MA
Riverside County Auditor-Controller**

**Oscar Valdez
Assistant Auditor-Controller**

February 25, 2020

Riverside County Board of Supervisors,

RE: Animal Services - Recurring Operational Problems

Upon review of the last five audits 2010-2017 a pattern emerges causing the auditor-controller concern of Animal Services operational procedures and I am compelled to elevate these matters to the Board.

The auditor-controller's job, under statute, is to audit county departments and report our findings to the Board of Supervisors, executive office, and the Grand Jury. Findings are deemed very serious when it involves money and/or Class-1 controlled substances (pharmaceuticals). Mismanagement of Class-1 controlled substances can lead to the loss of licensing and is, therefore, extremely serious.

The last five audits show a pattern of poor management of Class-1 controlled substances, poor internal controls and failure to follow Board policies.

Class-1 Controlled Substances

- Expired Medications (Audit Report 2019-010)
- Transference of Controlled Substances (Audit Report 2019-010)
- Disposal of Controlled Substances (Audit Report 2019-010)

Board Policies

- Conduct Employee Exit Interviews (Audit Report 2017-007)
- Rates are to be submitted and reviewed by the auditor controller for appropriate methodology (Audit Report 2015-010)

Internal Controls

- Cash and Checks handling procedures – Cash controls at animal shelters (Audit Report 2019-010)
- Submitting annual and official inventory list without conducting the necessary inventory audit (Audit Report 2015-010).

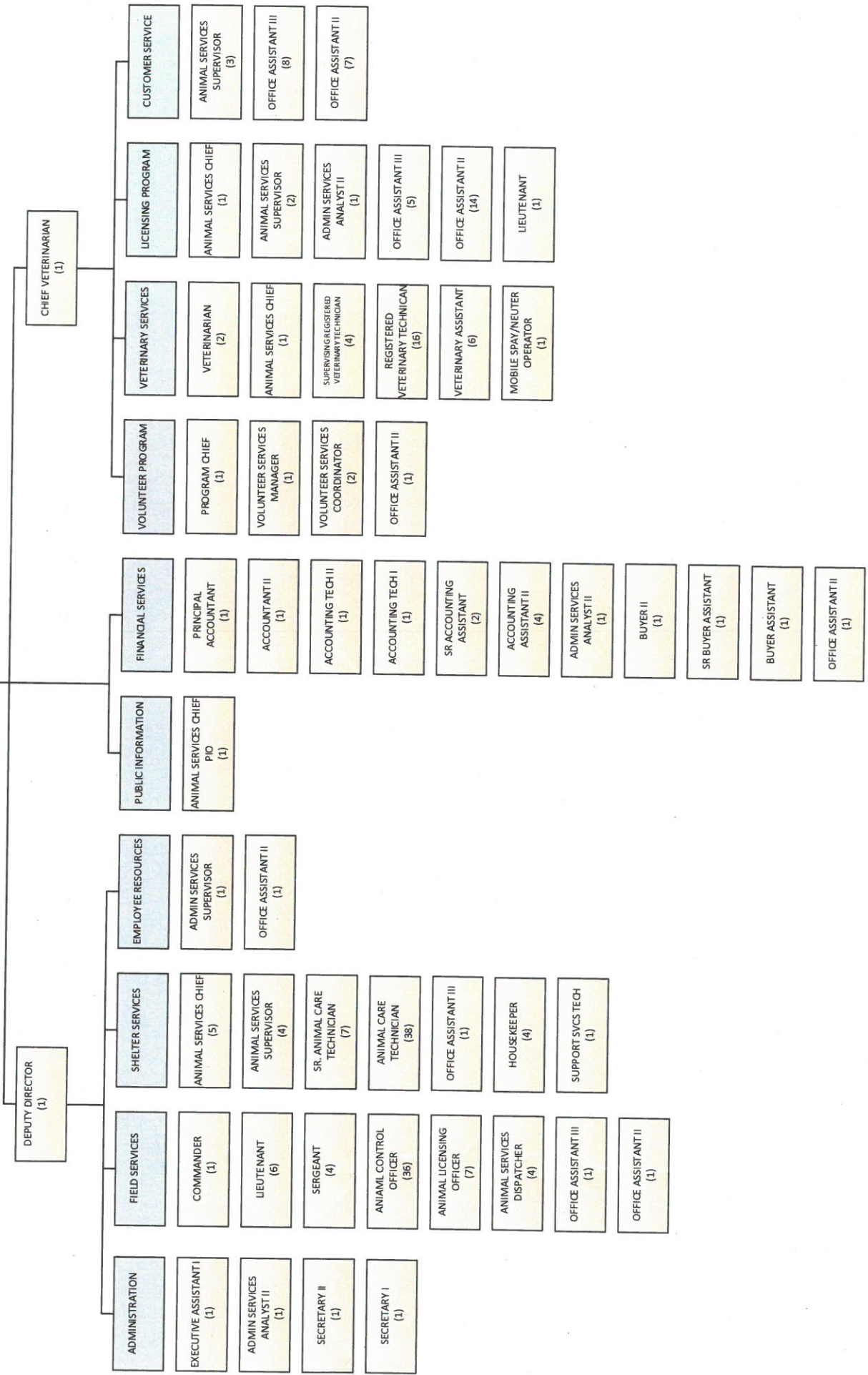
Attached are five audit reports for your review. I also include an organizational chart showing there is no shortage of staff and a budgetary analysis for your review. I applaud Animal Services for its care of animals; however, its business operations needs to improve. We can and must do better.

Respectfully,

Paul Angulo, CPA, M.A.
Riverside County Auditor-Controller

cc: George Johnson, CEO
Grand Jury
EO Department Analyst

DIRECTOR
Animal Services
(1)



Internal Audit Report 2019-010

**Riverside County
Department of Animal Services Audit**

Report Date: February 26, 2020



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COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Oscar Valdez
Assistant Auditor-Controller

February 26, 2020

Dr. Allan Drusys
Director
Riverside County Department of Animal Services
6851 Van Buren Blvd
Jurupa Valley, CA 92509

Subject: Internal Audit Report 2019-010: Riverside County Department of Animal Services Audit

Dear Dr. Drusys:

In accordance with Board of Supervisors Resolution 83-338, we completed an audit of the Riverside County Department of Animal Services to provide management and the Board of Supervisors with an independent assessment of internal controls over controlled substance inventory management and cash controls at animal shelters.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we determined:

- 1) Internal controls over controlled substance inventory management are not operating effectively to provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, expired controlled substances have not been properly discarded and controlled substances transferred between shelter locations were not properly monitored at one point during our audit period.
- 2) Internal controls over cash management at animal shelters are not operating effectively to provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, a documented process to manage the use of donations is not in place. In

Internal Audit Report 2019-010: Riverside County Department of Animal Services Audit

addition, mail is not opened by someone different than the cashier or accounts receivable bookkeeper and a detailed log of checks received by mail is not kept at one of the animal shelters.

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our report. Management's responses are included in the report. We will follow-up to verify that management implemented the corrective actions.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
George Johnson, County Executive Officer
Grand Jury

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Executive Summary

Overview

The Riverside County Department of Animal Services (Animal Services) serves 18 contract cities and the unincorporated areas of the county. It provides shelter services at four county animal shelters, which includes Riverside, Coachella Valley Animal Campus, San Jacinto, and Blythe. Animal Services licensing staff patrols unincorporated areas and contract cities to ensure animals are registered and licensed in accordance with state and local requirements. Animal Services offers multiple services such as, veterinary services, treatment of impounded animals, spay and neuter services, public safety issues, community education, and referral of abuse/neglect cases to the District Attorney for prosecution.

Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over controlled substance inventory management and cash controls at animal shelters. Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial information.

Audit Scope and Methodology

We conducted the audit from March 6, 2019, through June 12, 2019, for operations from July 1, 2016, through April 30, 2019. Following a risk based approach, our scope included controlled substance inventory management and cash controls at animal shelters.

Audit Highlights

Existing Conditions

The risks areas the current processes are unable to mitigate are the following:

- Each of the four animal shelter locations does not properly discard expired controlled substances.
- Controlled substances were transferred from the Coachella Valley shelter to the Blythe shelter without proper control. However, this process has changed and all controlled substances are delivered directly by the vendor to each shelter as needed.
- Animal Services does not have a documented process in place to manage the use of donations.

Internal Audit Report 2019-010: Riverside County Department of Animal Services Audit

- The San Jacinto shelter lacks proper segregation of duties and adequate recording regarding the process of receiving payments via mail.

Improvement Opportunities

The major improvement opportunities are in the following areas:

- Implement a process to properly discard expired controlled substances.
- Ensure the arrival of all controlled substances are consistently maintained in an inventory log at all shelters and usage is reconciled to inventory logs.
- Develop policies and procedures to address the process and controls needed to manage the use of donations.
- Ensure proper segregation of duties and record-keeping is in place for opening and recording cash and checks received by mail.

Audit Conclusion

Based upon the results of our audit, we determined:

- 1) Internal controls over controlled substance inventory management are not operating effectively to provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, expired controlled substances have not been properly discarded and controlled substances transferred between shelter locations were not appropriately monitored at one point during our audit period.
- 2) Internal controls over cash management at animal shelters are not operating effectively to provide reasonable assurance that its objectives relating to these areas will be achieved. Specifically, a documented process to manage the use of donations is not in place. In addition, mail is not opened by someone different than the cashier or accounts receivable bookkeeper and a detailed log of checks received by mail is not kept at one of the animal shelters.

Controlled Substance Inventory Management

Background

Animal Services stores medicine and controlled substances in a dispensary. Within the dispensary, controlled substances are locked in a safe with limited access. The department keeps track of controlled substances through the use of a log kept inside the safe. Whenever a specific controlled substance has been removed from the safe or a new shipment has been received, the quantity of bottles and the assigned serial numbers are written down in the log and signed by the staff member who made the changes. Management on occasion performs a safe log audit by reconciling the information in the log to the actual amount of controlled substances located in the safe.

The Veterinary Medical Board periodically audits Animal Services. These audits occur on a random basis or when a complaint is filed against the department. The Veterinary Medical Board audits focus on the following aspects related to the operations of the department: general operations, facilities, surgery, dangerous and controlled substances, and veterinarian practice management. With regards to controlled substances, one of the processes the Veterinary Medical Board reviews is the department's handling and disposal of expired drugs. Per the Veterinary Medical Board's inspection report, a shelter must safeguard, remove, and properly dispose of expired medications and controlled substances. In addition, Business and Professions Code 4169, *Pharmacy*, states, "A person or entity shall not purchase, trade, sell, or transfer dangerous drugs or dangerous devices after the beyond use date on the label."

Objective

To verify the existence and adequacy of controls over controlled substance inventory management.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board policies, department policies and procedures, applicable standards, and state laws.
- Conducted interviews with department management and staff.
- Reviewed best practices for controlled substance inventory.
- Reviewed prior inspection reports from the Veterinary Medical Board.
- Conducted surprise controlled substance inventory counts at all four Animal Services locations.

Finding 1: Expired Medication

Expired controlled substances at each animal shelter location have not been properly discarded. Animal Services policy and procedure, *Protocol for Handling Expired Drugs, Including Controlled Substances*, require staff to, "remove or segregate expired drugs or pharmaceuticals and notify the distributor or manufacturer to arrange pick-up." This was previously identified as an issue by the Veterinary Medical Board. An inspection report dated November 1, 2016, by the Veterinary Medical Board identified a deficiency over expired drugs under the category Dangerous and Controlled Drugs. The report stated, "Expired medications must be removed from inventory and properly disposed of." A letter from the Veterinary Medical Board dated November 13, 2017, further stated, "All expired controlled substances must be disposed of through a reverse distributor." Animal Services policies and procedures do not contain a detailed protocol for monitoring, removing, and disposing of expired controlled substances. In addition, Animal Services does not have a licensed reverse distributor on contract that can dispose of the expired controlled substances. By not disposing of expired controlled substances, Animal Services increases the risks of accidentally using expired controlled substances on an animal. In addition, the risk for theft of expired controlled substances is increased when not discarded properly. Both risks expose the County of Riverside to significant liabilities.

Recommendation 1.1

Revise policy and procedure, *Protocol for Handling Expired Drugs, Including Controlled Substances*, to contain a detailed protocol for monitoring, removing, and disposing of expired controlled substances.

Management's Response:

"**Concur.** The department agrees with the finding that the policy and procedure "Protocol for Handling Expired Drugs, Including Controlled Substances" needs to be updated and the department is engaged in that effort."

Actual/estimated Date of Corrective Action: **November 29, 2019**

Recommendation 1.2

Identify and establish a contract with licensed reserve distributor in order to dispose of all expired controlled substances.

Management's Response:

"**Concur.** We have, for some time, used the services of Steri-Cycle as the reverse distributor for all non-scheduled drugs. Our ability to utilize reverse distribution for the controlled drugs has been stymied by the unavailability of vendors. Our intent has been, to use Form DEA-41 (attached) to dispose of the limited amount of expired controlled substances."

Actual/estimated Date of Corrective Action: **November 29, 2019**

Finding 2: Transferring Controlled Substances

The Blythe shelter was not monitoring its controlled substance inventory by transferring these substances from the Coachella Valley shelter. An employee from the Blythe shelter would transport the controlled substance as needed by signing out of the inventory log at the Coachella Valley shelter, but not accounting for in the Blythe shelter inventory log. Standard Practice Manual 1001, *Internal Controls* (Formerly referred as SPM 104), states, "County departments and agencies shall establish, document, and maintain an effective system of internal control." It further states that internal controls should provide reasonable assurance that assets are safeguarded and promote adherence to policies, procedures, regulations, and laws. Employees at the location stated they did not use an inventory log since the controlled substances were already logged in and out at the Coachella Valley shelter. Without a log to track the arrival and usage of controlled substances transferred between locations, the risk of misappropriation and theft of controlled substances increases. Furthermore, Animal Services risks being non-compliant with laws and regulations relating to controlled substances.

Auditor Update

Animal Services has changed its processes to ensure delivery of controlled substances are shipped directly to its shelters as needed. This was implemented to address the risks associated with the old process.

Recommendation 2.1

Ensure the arrival of all controlled substances are consistently maintained in an inventory log at all shelters and usage is reconciled to inventory logs.

Management's Response:

"**Concur.** The Auditor's note accurately reflects the department's Policy and Procedure that controlled substances are not transferred between any of the animal shelters. Additionally the Policy and Procedure governing the ordering, delivery, and usage of controlled substances is also under review and will be amended to reflect current law and regulations."

Actual/estimated Date of Corrective Action: **March 31, 2020**

Recommendation 2.2

Update policies and procedures to reflect current processes for the handling of controlled substances, and ensure they are compliant with current laws and regulations.

Management's Response:

"**Concur.** The Auditor's note accurately reflects the department's Policy and Procedure that controlled substances are not transferred between any of the animal shelters. Additionally the

Internal Audit Report 2019-010: Riverside County Department of Animal Services Audit

Policy and Procedure governing the ordering, delivery, and usage of controlled substances is also under review and will be amended to reflect current law and regulations."

Actual/estimated Date of Corrective Action: **March 31, 2020**

Recommendation 2.3

Ensure Animal Services shelters continue to receive controlled substances directly from the vendor.

Management's Response:

"**Concur.** The Auditor's note accurately reflects the department's Policy and Procedure that controlled substances are not transferred between any of the animal shelters. Additionally the Policy and Procedure governing the ordering, delivery, and usage of controlled substances is also under review and will be amended to reflect current law and regulations."

Actual/estimated Date of Corrective Action: **March 31, 2020**

Cash Controls at Animal Shelters

Background

Animal Services has various sources of income: shelter and veterinary services (96% of income), collections from the Franchise Tax Board (3% of income), and field services (1% of income). Payments to Animal Services can be made at the front counter of each location, through mail, or on the department's main website. The average daily deposit for the Western Riverside shelter is \$17,000 to \$20,000. The San Jacinto and Thousand Palms shelters average \$2,000 to \$3,000, and the Blythe shelter averages \$200 to \$300 per deposit.

Additional financial support is received through donations. Members of the public can make cash donations via front counter or through the department's main website. When donations are received, they are assigned a project code that explains which function or operation the donation will go towards. These project codes include education, greatest need, Best Friend Animal Society, spay and neuter, and volunteers.

Objective

Determine the adequacy of the department's internal controls for cash and receipts to safeguard cash from loss, errors, and irregularities.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board policies and applicable standards.
- Conducted interviews with department management and staff.
- Completed internal control questionnaires and analyzed cash segregation of duties.
- Completed surprise cash counts at each of the four Animal Service locations.
- Reviewed donation account records and reports.

Finding 3: *Donations*

While reviewing donations for Animal Services, we noted the following:

- Animal Services has policies and procedures which detail how to accept donations. However, these policies and procedures do not clearly state how the donations are to be expended and what efforts are needed to ensure donations are spent in accordance with the function or operation designated by the donors when received.

Internal Audit Report 2019-010: Riverside County Department of Animal Services Audit

- The department does not conduct monthly reconciliations that trace purchases to the correct project code.
- Animal Services does not have documents that support how donated money was used in accordance with their intended purposes.
- Internal controls to ensure the accuracy of recording and reporting of donations are inadequate. As a result, the account in which donations are recorded does not accurately reflect the amount of donations currently held by Animal Services.

Standard Practice Manual 1001, *Internal Controls* (Formerly referred as SPM 104), requires all county departments and agencies to establish, document, and maintain an effective system of internal control in order to safeguard assets and ensure the accuracy, reliability, and timeliness of financial records and reports. Animal Services does not have policies and procedures that address how to manage donations once received. By not having a clearly designed process with adequate procedures in place on how to manage donations, the risk of misappropriation and loss of public trust is increased. Additionally, donations are not accurately reflected on Animal Services' financial records.

Recommendation 3.1

Develop policies and procedures that address how to manage donations that include controls on how to ensure donations are spent for their intended purpose, how to perform monthly reconciliations, and how to document any expenditures from the donation account.

Management's Response:

"**Concur.** Animal Services is in the process of developing policies and procedures to ensure proper internal controls are in place to ensure all donation funding is used for the intended purpose. All expenditures shall be documented either in a form 11 to the Board or a quarterly budget report that will document the purpose for the expenditure and the amount of the expenditure. No expenses will post to the outside of the general fund and all funds will be moved to the general fund to cover any documented expenditure. With current funding and staffing issues monthly reconciliations are not realistic for the fiscal staff."

Actual/estimated Date of Corrective Action: **March 31, 2020**

Recommendation 3.2

Ensure the processes developed in the policies and procedures are implemented and followed.

Management's Response:

"**Concur.** Animal Services concurs that all policies and procedures should be implemented to the best of our ability."

Internal Audit Report 2019-010: Riverside County Department of Animal Services Audit

Actual/estimated Date of Corrective Action: **March 31, 2020**

Finding 4: Incoming Mail Controls

Internal controls over payments received via mail are not in place at the San Jacinto shelter. The person who opens the mail does not make a detailed log of the cash and checks received. In addition, incoming mail is opened by someone with cashier responsibilities with the ability to record transactions. Per Standard Practice Manual 1001, *Internal Controls* (Formerly referred as SPM 104), "segregation of duties should be divided or segregated so that no one person has complete control over a key function or activity." Further, Animal Services Policy 000-28, *Donation Processing*, states the following regarding mail delivery, "The mail is opened by the appointed Office Assistant and all mail containing cash or checks is logged on the Incoming Mail Cash Handling Log." The San Jacinto shelter was not in compliance with this procedure. By not segregating the responsibilities of opening the mail and cashiering, as well as maintaining a mail log, the risk to recording inaccurate payments is greater and the potential for misappropriation is increased.

Recommendation 4.1

Ensure segregation of duties are present when opening the mail.

Management's Response:

"Concur. Mail processing will be limited to the Jurupa Valley facility. Correspondence from Animal Services will direct all constituents to send all mail to the Jurupa Valley Animal Shelter. Any mail that is sent to any of the other locations will be forwarded to the Jurupa Valley location unopened for proper processing."

Actual/estimated Date of Corrective Action: **October 31, 2019**

Recommendation 4.2

Make a detailed listing of cash and checks received through the mail.

Management's Response:

"Concur. A detailed listing of all cash and checks are required by policy and is already in place."

Actual/estimated Date of Corrective Action: **October 31, 2019**

Internal Audit Report 2018-301

**Riverside County Animal Services,
Follow-up Audit**

Report Date: September 26, 2018



**Office of Paul Angulo, CPA, MA
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COUNTY OF RIVERSIDE**

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

September 26, 2018

Robert Miller
Director
Riverside County Animal Services
6851 Van Buren Blvd
Riverside, CA 92509

Subject: Internal Audit Report 2018-301: Riverside County Animal Services, Follow-up Audit

Dear Mr. Miller,

We have completed the follow-up audit of Riverside County Animal Services. Our audit was limited to reviewing actions taken as of July 24, 2018, to help correct the findings noted in our original audit report 2015-010 dated September 15, 2015.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that our objective, as described in the preceding paragraph, is achieved. Additionally, the standards require that we conduct the audit to provide sufficient, reliable, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusion.

The original audit report contained three recommendations, all of which required implementation to help correct the reported findings. Based on the results of our audit, we found that of the three recommendations:

- Two of the recommendations were implemented
- One of the recommendations was not implemented

Details of the findings from the original audit and the status of the implementation of the recommendations are provided in this report. For an in-depth understanding of the original audit, please refer to Internal Audit Report 2015-010 at www.auditorcontroller.org/Divisions/AuditsandSpecializedAccounting/InternalAuditReports.

Internal Audit Report 2018-301: Riverside County Animal Services, Follow-up Audit

We appreciate the cooperation and assistance provided by the staff of the Riverside County Animal Services during this follow-up audit. Their assistance contributed significantly to the successful completion of the audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Contract Revenue

Finding 1: Review of Contract Rates

"The Animal Services department did not submit their city contract rates for shelter and field services to the Riverside County Auditor-Controller's Office for annual review as required under Board of Supervisors Policy B-3, *Contract Services to Cities*. The department's current city contract rates were submitted for review in 2011 and were based on fiscal year 2010 actual expenditures and staffing levels. Per the department, billable rates were not updated and submitted for yearly review after 2011 due to limited staffing resources. By not annually submitting their rates for review, the department is not in compliance with Board Policy B-3."

Recommendation 1

"To be in compliance with Board of Supervisors Policy B-3, update and submit city contract rates to the Riverside County Auditor-Controller's Office annually for review."

Current Status 1: Not Implemented

Animal Services continues to be non-compliant with Board Policy B-3, *Contract City Rates*. It continues to bill for services from rates developed based on fiscal year 2010 actual expenditures. With outdated rates, Animal Services is unable to determine if the rates they use to bill for services is fully recovering the cost of providing services or overcharging for services.

Capital Assets

Finding 2: Physical Verification of Capital Assets

"The Animal Services department submitted the *Inventory of County Property For Capital Assets*, Standard Practice Manual Form AM-1, to the Auditor-Controller's Office in a timely manner for fiscal year 2014. However, based upon our review, the department did not verify physical existence of the assets listed on the submitted asset certification. During the fiscal year 2015 asset certification process, the department discovered three assets valued at \$36,904 that were not in their physical possession. Upon further department investigation, the department discovered one asset was disposed of in 2012. The department was of the opinion that the other assets were destroyed in 2008, and sent to surplus a decade ago. As a result of not taking a physical inventory of assets, the value had been overstated for several fiscal years. Per department, they did not verify the physical existence of the assets due to limited staffing resources."

Recommendation 2

"Prior to submitting the department's year end capital asset certification to the Auditor-Controller's Office, assign an employee to verify the physical existence of all assets listed."

Current Status 2: Implemented

We confirmed Animal Services physically verifies the existence of the capital assets listed in the Riverside County Financial System. The assets are verified by a supervisor of the unit where the capital assets are assigned.

Finding 3: Capital Asset Retirements

"Five assets valued at \$79,950 were retired by the Animal Services department without timely reporting to the Auditor-Controller's Office. Standard Practice Manual 514 (Formerly known as SPM 922), *Asset Retirements*, requires departments to report the retirement of capital assets due to theft, loss, sale, or surplus, when there is no operational need to retain. The *Capital Asset Disposition*, Standard Practice Manual Form AM-7, must be completed and submitted to the Auditor-Controller's Office within 30 days of an asset retirement. By not submitting Form AM-7 on a timely basis, the department loses accountability for assets in their possession and the capital asset value may be overstated at year end. Per the department, they did not submit the forms in a timely manner due to limited staffing resources."

Recommendation 3

"Assign an employee the responsibility to complete and submit Form AM-7 to the Auditor-Controller's Office within 30 days of asset retirement."

Current Status 3: Implemented

We confirmed Animal Services has assigned an employee to complete and submit Standard Practice Manual Form AM-7, *Capital Asset Disposition* to the Auditor-Controller's Office within 30 days of asset retirement.

Internal Audit Report 2017-007

**Riverside County Department of Animal
Services, Control Environment Audit**

Report Date: October 20, 2017



**Office of Paul Angulo, CPA, MA
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Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

October 20, 2017

Robert Miller
Director
Riverside County Department of Animal Services
6851 Van Buren Blvd
Riverside, CA 92509

**Subject: Internal Audit Report 2017-007: Riverside County Department of Animal Services,
Control Environment Audit**

Dear Mr. Miller:

We have completed an audit of the Riverside County Department of Animal Services to provide management and the Board of Supervisors with an independent assessment of adequacy and effectiveness of the control environment and internal controls over expenditure transactions. We conducted the audit from November 21, 2016, through May 25, 2017, for operations from July 1, 2014, through May 19, 2017.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant, and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we identified areas of improvement to help department management optimize control environment and improve the internal controls over departmental expenditures. Specifically:

1. Lack of employee exit interviews
2. Practices permitting personal expenditures using county resources



**Internal Audit Report 2017-007: Riverside County Department of Animal Services, Control
Environment Audit**

We thank the Riverside County Department of Animal Services management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

By: René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

The Riverside County Department of Animal Services (Animal Services) serves 16 contract cities and the unincorporated areas of the county. It provides shelter services at four county animal shelters, which includes Riverside, Coachella Valley Animal Campus, San Jacinto, and Blythe. Animal Services licensing staff patrols unincorporated areas and contract cities to ensure animals are registered and licensed in accordance with state and local requirements.

Animal Services offers multiple services, such as, veterinary services, treatment of impounded animals, spay and neuter services, public safety issues, community education, and referral of abuse/neglect cases to the District Attorney for prosecution.

Animal Services has a budget of \$22.8 million which is funded through fees for services, contracts with cities, and general fund allocated funds of \$11.7 million.

Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy and effectiveness of the Riverside County Department of Animal Services' control environment and its internal controls over expenditure transactions.

Audit Conclusion

Based upon the results of our audit, we identified areas of improvement to help department management optimize the control environment and improve the internal controls over departmental expenditures. Specifically:

1. Lack of employee exit interviews
2. Practices permitting personal expenditures using county resources

Control Environment

Background

Internal controls are a coordination of policies and procedures established to provide reasonable assurance regarding the achievement of respective organization objectives related to the effectiveness and efficiency of operations, compliance with applicable laws and regulations, reliability of reporting, and the safeguarding of assets. Every member in an organization affects internal controls, but it is the ultimate responsibility of management to implement them and to ensure the controls are functioning as designed. Doing so allows management to stay focused on its pursuit of an organization's strategic objectives.

In support of management efforts to achieve the objectives of the organization, management should consider the following five internal control components:

- Control Environment: Sets the tone to the organization and is the foundation of all other internal control components
- Risk Assessments: Identifies and analyzes the risk associated with the achievement of the entity's objectives
- Control Activities: Actions established by policies and procedures to help ensure that management's directives are carried out
- Information and Communication: Actions to carry out the responsibilities in support of the achievement of the objectives
- Monitoring Activities: Ongoing or separate evaluations to ascertain whether each of the components of internal controls is present and functioning

For an organization to have an effective control environment, management should consistently demonstrate and communicate its commitment to integrity and ethical values, establish adequate governance oversight processes, implement an organizational structure with adequate authority and responsibility. Furthermore, an organization should also demonstrate a commitment to attract, develop and retain a competent workforce, and have strong workforce accountability measures for the achievement of the organizational objectives.

Our audit focused on the control environment component since it is the foundation of an effective system of internal controls. It provides discipline and structure to the achievement of the primary objectives of an entity and establishes the tone from the top-down of organizations. As such, when management, at every level of the organization views internal controls as essential to the successful achievement of its objectives, it is expected that the same view will be conveyed to everyone within the organization and as a result, internal controls will work as designed. The opposite effect will occur when management view the internal controls as obstacles and/or unrelated to the achievement of the entity's objectives.

Internal Audit Report 2017-007: Riverside County Department of Animal Services, Control Environment Audit

The scope included the following areas:

- Code of ethics – implementation, training, and communication
- Employee developmental training
- Evaluations – completion and goal setting
- Organizational and reporting structure – effectively structured to facilitate effective reporting and communication about internal controls among various positions of management, establishing roles and reporting responsibilities
- Succession planning – development for business continuity
- Communication of mission and other pertinent matters
- Employee exit interviews – organizational improvement opportunities as viewed from department employees
- Policies and Procedures – development, implementation and communication

Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy and effectiveness of the Riverside County Department of Animal Services' control environment.

Audit Methodology

To accomplish these objectives, we:

- Identified and reviewed applicable policies and county ordinances
- Conducted interviews and performed walk-throughs with department management and staff
- Reviewed the organizational and reporting structure
- Selected a sample of employees and reviewed files for completion of employee evaluations, development training programs, and goal setting
- Selected a sample of separated employee to determine if exit interviews were conducted
- Reviewed Animal Services' written succession plan

Finding 1: Employees Exit Interviews

Riverside County Board Policy, C-22, Exit Interviews, states, "Upon separation, prior to leaving the county, the department will offer the employee an exit interview with the department head or a designee." Our review of 10 personnel files of separated employee disclosed that zero (none) had an exit interview performed by management. Here, Animal Services did not have a process in place to ensure departing employees had an exit interview with management. By performing

**Internal Audit Report 2017-007: Riverside County Department of Animal Services, Control
Environment Audit**

interviews, management can determine and document the reasons employees leave the department, provide an opportunity for the airing of unresolved issues, and solicit constructive feedback to improve the department. By not collecting feedback from employees, the department does not obtain information that can help improve the county's employee hiring and retention practices, as well as operational activities.

Recommendation 1

Animal Services should conduct exit interviews on employees who conclude their employment with the department.

Management position concerning the recommendation: Concur

Comments: Animal Services is working with Riverside County Human Resources to develop and implement an exit interview form specifically for Animal Services that will be referred to by managers in the department. Currently using a form on the Human Resources website that is referred to as CHA.

Actual/estimated Date of Corrective Action: February 22, 2017

Expenditures

Background

Riverside County Department of Animal Services total expenditures in Fiscal Years 2014-15 and 2015-16 were, \$20.2 million, and \$22.4 million, respectively, with more than 7% attributable to Medical-Dental Services, Pharmaceuticals, Professional Services, and Veterinary Services during fiscal year 2015-16.

The Riverside County Purchasing Policy Manual maintains uniform procedures relating to the purchase of commodities and services needed in the operation of departments and agencies of Riverside County. Section 3, *Purchasing Authority*, states, "Purchasing authority is limited by law and regulations. As we are all accountable to the constituents we serve we must ensure complete compliance with all regulations and follow all procurement requirements. Departments cannot commit County funds without proper approval and adhering to procurement procedures. Under the Purchasing Agent's authority, limitations have been set for delegated authority and department heads are responsible for ensuring their staff follows all purchasing policies and procedures."

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy of Riverside County Department of Animal Services internal controls over expenditure transactions.

Audit Methodology

To accomplish these objectives, we:

- Identified and reviewed policies and board ordinances
- Verified the validity of unusual expenditure transactions
- Ran queries using the Riverside County Simpler Financial system to obtain expenditure information for the department for the period June 30, 2014, through June 30, 2016
- Judgmentally selected a sample of 132 expenditure transactions for review from the following expenditures accounts: Medical-Dental Services, Pharmaceuticals, Professional Services, and Veterinary Services

Finding 2: Inadequate Employee Transactions

Practices by Animal Services permits employees to order pet medication for their personal pets using the county's account to receive the vendor discount. The department pays the vendor's invoice and obtains reimbursement from the employee. California Government Codes 13402 and

**Internal Audit Report 2017-007: Riverside County Department of Animal Services, Control
Environment Audit**

13403 state that agency heads are responsible for the establishment and maintenance of a system or systems of internal controls. This includes implementing a system of policies and procedures adequate to provide compliance with applicable laws, criteria, standards, and other requirements. Internal controls should also be designed to reduce the risk of errors, fraud, waste and abuse. Practices that allow these type of transactions weakens the department's internal controls over expenditures, inappropriately commits county funds to non-county business transactions, and can lead to inadequate use of county resources or gift of public funds.

Recommendation 2

Discontinue this practice and establish policy to disallow these type of transactions.

Management position concerning the recommendation: Concur

Comments: Department Concurs with the suggested action and has taken steps to eliminate the process and policy from our Department.

Actual/estimated Date of Corrective Action: October 5, 2017

Practice has already been removed from Animal Services.

Internal Audit Report 2015-010

**Riverside County
Department of Animal Services**

Report Date: September 15, 2015



**Office of Paul Angulo, CPA, CGMA, MA
Riverside County Auditor-Controller
4080 Lemon Street, 11th Floor
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CONTROLLER
COUNTY OF RIVERSIDE**

**Paul Angulo, CPA, CGMA, MA
County Auditor-Controller**

**Frankie Ezzat, MPA
Assistant Auditor-Controller**

September 15, 2015

Robert Miller, Director
Riverside County Department of Animal Services
6851 Van Buren Blvd
Jurupa Valley, CA 92509

Subject: Internal Audit Report 2015-010: Riverside County Department of Animal Services

Dear Mr. Miller:

We have completed an audit of the Riverside County Department of Animal Services to provide management and the Board of Supervisors with an independent assessment of internal controls over expenditures, contract revenue and capital assets. We conducted the audit from April 1, 2015 through June 30, 2015, for operations for the period of July 1, 2012 through May 31, 2015.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to evaluate the internal controls.

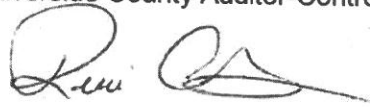
Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to contract revenue and capital assets. We determined the Riverside County Department of Animal Services internal controls relating to expenditures provide reasonable assurance that its objectives will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation in our report. We will follow-up to verify that management implemented the corrective actions.

Internal Audit Report 2015-010: Riverside County Department of Animal Services

We thank the Riverside County Department of Animal Services management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, CGMA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury
District Attorney's Office

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Executive Summary

Overview

The Riverside County Department of Animal Services (Animal Services) became an independent County department separating from the Community Health Agency in July 2012. Animal Services provides animal-related services to the County of Riverside as well as to several cities within the county through service contracts. The department seeks to provide comfortable, humane shelters, and nurturing care to animals. As an alternative to euthanasia, the department employs pet adoption, public education, and veterinary medical programs to reduce pet overpopulation. The Animal Services department operates four animal shelters located in Blythe, Coachella, Jurupa Valley, and San Jacinto. Animal shelter services include: adoptions, surrenders, field services, licensing, micro-chipping, vaccinations, and spay & neuter.

Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over expenditures, contract revenue and capital assets.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to contract revenue and capital assets. We determined the Animal Services department internal controls relating to expenditures provide reasonable assurance that its objectives will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Contract Revenue

Background

Cities within the County of Riverside contract over multiple years (generally five year contract period) with the Animal Services department for various veterinary, field, shelter, public information, and community outreach services depending on their needs.

Veterinary services include, but are not limited to, low cost spay and neuter services, micro-chipping, and health care to prepare animals for adoption. Services such as de-worming, flea, tick and rabies control, vaccinations, and other medical procedures determined necessary by the veterinary staff are performed.

Field services vary based on each city contract. Services could include responding to calls, impoundment, animal bite investigations and prosecution, quarantine of suspected rabid animals that have bitten a person or other animal, nuisance animal complaints from the public, dead animal removal, trapping and removal of domestic and wild animals from public and private property, and license verification.

Shelter services consist of providing food, rabies certificate verification, dog bite investigations, medical care, and shelter to all animals received.

Some cities also contract for the Integrated Licensing Program. This program consists of Animal License Inspectors going home to home in search of dogs without a license. The Riverside County Geographical Information System is integrated with the animal services database to determine if dogs observed at residences are licensed. Revenue generated by the program is given to the city contracting for the service.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the department's internal controls over contract revenue.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed laws, codes, and regulations, Board of Supervisors' ordinances, applicable policies and procedures.
- Conducted interviews and performed walk-throughs with the Animal Services' personnel.
- Obtained and reviewed the latest approved city contract rates for shelter and field services.
- Obtained and reviewed contract city billing policies and procedures.

Internal Audit Report 2015-010: Riverside County Department of Animal Services

- Performed testing to verify that contract cities are billed according to contract terms and conditions.

Finding 1: Review of Contract Rates

The Animal Services department did not submit their city contract rates for shelter and field services to the Riverside County Auditor-Controller's Office for annual review as required under Board of Supervisors Policy B-3, *Contract Services to Cities*. The department's current city contract rates were submitted for review in 2011 and were based on fiscal year 2010 actual expenditures and staffing levels. Per department, billable rates were not updated and submitted for yearly review after 2011 due to limited staffing resources. By not annually submitting their rates for review, the department is not in compliance with Board Policy B-3.

Recommendation 1:

To be in compliance with Board of Supervisors Policy B-3, update and submit city contract rates to the Riverside County Auditor-Controller's Office annually for review.

Management's Response:

"Concur. While we concur with the finding, Animal Services would like to emphasize that staffing shortages since the last time the rates were developed and reviewed have hampered efforts to update the rates. With the past years reduction of more than 40% in staffing and the opening of the San Jacinto facility, everyone has taken on additional tasks to cover mission critical needs."

Actual/ estimated Date of Corrective Action: **July 2016**

Capital Assets

Background

The Riverside County Auditor-Controller's (Auditor-Controller's Office) Standard Practice Manual 501, *Capitalization Thresholds*, defines capital assets as fixed assets and intangible assets of significant value having a utility which extends beyond the current year that are broadly classified as land, infrastructure, buildings and improvements, equipment, livestock, and intangible assets.

Capital assets include real property such as buildings, land, and land improvements, regardless of value, as well as vehicles, machines, and all equipment with a value of \$5,000 or more. The cost of a capital asset includes all costs necessary to place the asset in service, which may include shipping, set-up, testing, and other ancillary costs.

Standard Practice Manual 934, *Capital Asset Certification*, requires each county officer or person in charge of a county entity to submit on or before July 10 of each year a certified inventory of county property in his or her possession or custody at the close of the preceding June 30 to the Auditor-Controller's Office.

The Animal Services' department capital assets consist of network servers, equipment, and vehicles. Capital assets are located at each of the four Riverside County animal shelters. Currently, the department manages 28 capital assets valued at \$663,605. Animal Services specifically requested the Auditor-Controller to review the capital asset area due to concerns with separating from the Community Health Agency at the beginning of the audit period.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed laws, codes, and regulations, Board of Supervisors' ordinances, applicable policies and procedures.
- Conducted interviews and performed walk-throughs with the Animal Services personnel.
- Utilized PeopleSoft (the county's financial system) queries to identify the quantity and location of capital assets.
- Selected samples of capital asset transactions to perform detail testing.
- Verified the safeguarding and inventory of capital assets.

Internal Audit Report 2015-010: Riverside County Department of Animal Services

Finding 2: Physical Verification of Capital Assets

The Animal Services department submitted the *Inventory of County Property For Capital Assets*, Standard Practice Manual Form AM-1, to the Auditor-Controller's Office in a timely manner for fiscal year 2014. However, based upon our review, the department did not verify physical existence of the assets listed on the submitted asset certification. During the fiscal year 2015 asset certification process, the department discovered three assets valued at \$36,904 that were not in their physical possession. Upon further department investigation, the department discovered one asset was disposed of in 2012. The department was of the opinion that the other assets were destroyed in 2008, and sent to surplus a decade ago. As a result of not taking a physical inventory of assets, the value had been overstated for several fiscal years. Per department, they did not verify the physical existence of the assets due to limited staffing resources.

Recommendation 2:

Prior to submitting the department's year end capital asset certification to the Auditor-Controller's Office, assign an employee to verify the physical existence of all assets listed.

Management's Response:

"Concur. During the entrance interview, Animal Services discussed with the audit team the asset issues and a variety of corrective actions already enacted by the Department. The assessment for FY 2014 was turned in while a full accounting of all assets was being conducted. We were aware of possible issues and had already assigned a staff member to fully audit the asset list and to start to make corrections to it. This was a function the Department did not fully participate in prior to the split of the Community Health Agency in 2012. Even after the split, Animal Services continued to be supported in 2013 for various accounting aspects. When the asset review was being conducted during the FY 2014 assessment, several possible issues were noted and a staff member was assigned the task of removing any missing assets, and monitoring the list in the future. Delay of cleaning up the asset issue was partially staffing as noted in finding one and time needed to find or not find all assets on the list as this was the first time Animal Services finance team was fully responsible for the asset list."

Actual/ estimated Date of Corrective Action: **"Completed.** An asset tracking system has been developed within the Department of Animal Services, prior to the Audit, and is included on the task and expectation list of the person assigned."

Internal Audit Report 2015-010: Riverside County Department of Animal Services

Finding 3: Capital Asset Retirements

Five assets valued at \$79,950 were retired by the Animal Services department without timely reporting to the Auditor-Controller's Office. Standard Practice Manual 922, *Asset Retirements*, requires departments to report the retirement of capital assets due to theft, loss, sale, or surplus, when there is no operational need to retain. The *Capital Asset Disposition*, Standard Practice Manual Form AM-7, must be completed and submitted to the Auditor-Controller's Office within 30 days of an asset retirement. By not submitting Form AM-7 on a timely basis, the department loses accountability for assets in their possession and the capital asset value may be overstated at year end. Per department, they did not submit the forms in a timely manner due to limited staffing resources.

Recommendation 3:

Assign an employee the responsibility to complete and submit Form AM-7 to the Auditor-Controller's Office within 30 days of asset retirement.

Management's Response:

"Concur. We concur that AM-7 was completed after the 30 day limit. Each of the items was identified by finance staff as not found during the physical search of the facilities. After searching supply service property transfer forms, it was discovered asset 14, 15, 40 and 58 had all been sent to Supply Services without the finance staff's knowledge. This issue has been rectified and a process is in place to ensure all Supply Service forms are sent to the Department's Asset processor. The final asset, 38, was sent to auction and not reported back to the Department until several months after the sale was finalized. Delay of cleaning up the asset issue was partially staffing as noted in finding one and time needed to find or not find all assets on the list as this was the first time Animal Services finance team was fully responsible for the asset list."

Actual/ estimated Date of Corrective Action: **"Completed.** An asset tracking system has been developed within the Department of Animal Services, prior to the Audit, and is included on the task and expectation list of the person assigned."



County of Riverside

INTERNAL AUDIT REPORT

2010-001

**Community Health Agency,
Department of Animal Services**

October 26, 2010

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
Riverside, CA 92502-1326



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OFFICE OF THE
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October 26, 2010

Mr. Robert Miller, Director
Department of Animal Services
5950 Wilderness Ave.
Riverside, CA 92504

Subject: Internal Audit Report 2010-001: Community Health Agency, Department of Animal Services

Dear Mr. Miller,

We have completed an audit of the Community Health Agency (CHA), Department of Animal Services. We conducted the audit during the period August 1, 2009, through November 19, 2009, for operations of July 1, 2007, through November 19, 2009. We performed additional audit work in September 2010 for operations of July 1, 2009, through September 30, 2010.

Our objective was to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over billing, collection, and deposit processes for services provided to contract cities.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful evidence to provide reasonable assurance that our objective as described in the preceding paragraph is achieved. An audit includes examining, on a test basis, evidence about the adequacy and effectiveness of internal controls, compliance with applicable government codes and regulations, and performing such other procedures, as we considered necessary. We believe the audit provides a reasonable basis for our conclusion.

Internal control is a process designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial information. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to express a conclusion on the internal controls based upon our audit.

Although CHA's Fiscal Services and Department of Animal Services have been working together to improve contract billing, we identified several internal control deficiencies that are negatively affecting the contract billing and collection processes. The department's internal

controls assure the timely deposit of contract revenue received. As of September 30, 2010, CHA's Fiscal Services and Department of Animal Services have corrected several of the previously identified internal control deficiencies.

We thank CHA's Fiscal Services and Department of Animal Services' management and staff for their cooperation, which contributed significantly to the successful completion of the audit.

Robert E. Byrd, CGFM
County Auditor-Controller



By: Melissa S. Bender, CIA
Audit Manager

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

The Riverside County Department of Animal Services (RCDAS) operates as part of the Community Health Agency (CHA) to provide animal-related services to the County of Riverside as well as to several cities within the county through service contracts. RCDAS operates seven animal shelters throughout the county, each providing services including: adoptions, surrenders, field services, licensing, micro-chipping, vaccinations, and euthanasia.

RCDAS provides services to the following cities on a contract basis: Banning, Beaumont, Blythe, Calimesa, Cathedral City, Coachella, Desert Hot Springs, Hemet, Indian Wells, La Quinta, Menifee, Palm Desert, Rancho Mirage, Riverside, and San Jacinto. Services include dog licensing, field and shelter services, veterinary services, and other services as defined by each city's specific contract. Cities are billed monthly for actual services provided using rates outlined in their contracts.

Audit Objective

Our overall audit objective was to evaluate the department's billing, collection, and deposit processes specific to contract cities.

Conclusion

The department's internal controls assure the timely deposit of contract revenue received. However, though CHA's Fiscal Services and RCDAS have been working together to improve contract billing, we identified several internal control deficiencies that are negatively affecting the contract billing and collection processes:

- CHA Fiscal Services and RCDAS have not clearly defined their respective roles in the contract billing process;
- Invoices are not prepared in a timely manner or accompanied by complete and accurate supporting documentation;
- Invoice calculations are not prepared using Board-approved rates; and
- Revenue and accounts receivable amounts are not properly recorded, supported or reconciled.

Detailed Objectives

Our detailed audit objectives were to:

- Evaluate the department's process for billing contract cities to ensure billings for products and services provided are valid, amounts billed are accurate, and billings are in compliance with contract agreements; and

- Evaluate the collection and deposit process to ensure payments received reduce accounts receivable balances and are deposited timely.

Methodology

To accomplish our objectives, we:

- Met with department staff to determine how contract cities are billed for products and services;
- Obtained and reviewed policies and procedures regarding contract billing;
- Obtained and reviewed policies and procedures regarding collection and deposit operations;
- Reviewed invoices to ensure a monthly invoice was prepared for each city in a timely manner;
- Analyzed a statistical sample of contract billing invoices to determine validity, accuracy and compliance with specific contracts;
- Traced payment amounts to the appropriate invoice to ensure payments were received for the correct amount;
- Calculated the difference between the payment receipt date and the actual invoice date to ensure payments were received in a timely manner;
- Verified and/or calculated late fees for payments that were not received in a timely manner; and
- Verified payments reduce account receivable balances appropriately.

Details about our audit methodology, results, findings and recommendations are provided in the body of our report.

Results

Billing and Collection Processes

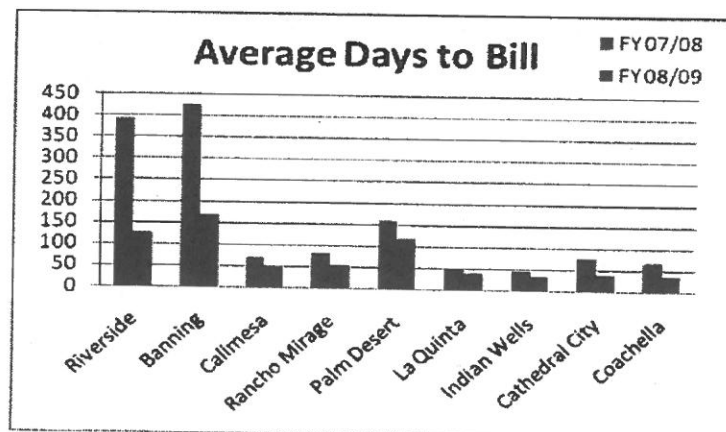
At the end of each month, RCDAS gathers the information necessary to prepare contract billing invoices for services provided during that month. Information used to calculate invoices includes personnel costs, license revenue, and specific field service activities. Invoices are to be prepared and sent to contract cities within 30 days after the month in which services were provided. Billing calculations are prepared by RCDAS and sent to CHA Fiscal Services for review and creation of an official invoice within PeopleSoft. The reviewed calculations and official invoices are sent back to RCDAS for final review and mailing to the cities.

Each city's contract specifies rates for the agreed-upon levels of products and services; however, the rates have not been submitted for approval to the Board of Supervisors in accordance with Board Policy B-4. Each city's contract requires that certain reports be prepared and submitted with each monthly invoice. In addition to billing for actual costs, the current contract with the City of Riverside requires RCDAS to provide documentation about specific performance measures that, when not achieved, result in a penalty assessed against RCDAS and applied as a credit against the invoiced amount.

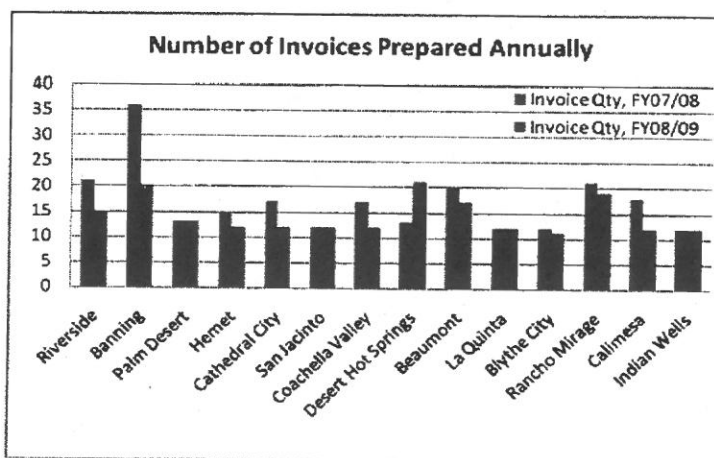
During the audit period of July 1, 2007, through August 31, 2009, RCDAS billed 14 separate contract cities for a total of 364 months of service. We selected a sample of 61 service months for detailed invoice testing; however, audit fieldwork was discontinued after testing of the first 18 invoices as testing yielded the same inconsistencies noted in the findings below.

Finding 1

During FY2007/08, invoices were created between 47 to 426 days after services were provided. In FY2008/09, the range was 33 to 168 days. Invoices for the cities of Riverside and Banning were the least timely, and invoices for Indian Wells were the timeliest.



The individual animal shelters do not provide RCDAS with the information needed to prepare accurate invoices timely. This causes frequent invoice revisions as updated information is received; some invoices are revised up to four times. The delays in invoice preparation result in the untimely billing of services provided to the contract cities, and cities receiving several versions of an invoice for a service month. Since invoices are frequently revised, CHA Fiscal Services no longer utilizes PeopleSoft to create invoices or track accounts receivable amounts; instead they utilize an Excel spreadsheet to track invoices.



A total of 439 invoices were prepared for FY2007/08 and FY2008/09. The average invoice amount was \$39,519.31 and took an average of 121 days to prepare. As a result of untimely billing, RCDAS lost an estimated \$25,756 in interest for the two-year period.

- Recommendation 1.1** CHA and RCDAS management should clearly define and communicate respective roles or responsibilities for contract invoice preparation, distribution, and monitoring.
- Recommendation 1.2** RCDAS management should expand existing written procedures for the preparation of contract city invoices to include such items as: an overview of the contract billing process, definition of responsibility and authority over the process, descriptions and due dates for all the information necessary to complete the invoices, and accurate step-by-step instructions for preparing invoices, recording accounts receivable, and receiving payments.
- Recommendation 1.3** RCDAS management should ensure all shelter locations provide the information required for contract billing in a timely manner.
- Recommendation 1.4** RCDAS management should prepare all contract billing invoices within 30 days after the month in which services were provided.

Recommendation 1.5 RCDAS Management should utilize PeopleSoft to create contract billing invoices and monitor accounts receivable.

Recommendation 1.6 In the interim, RCDAS Management should establish a unique numbering system for contract billing invoices created outside of PeopleSoft.

Management Reply **Concur.** "The Department has reviewed and corrected billing practices during the current fiscal year. Additionally, the department worked closely with the Cities of Banning and Riverside to review and revise billings, causing a delay in the receipt of payments. Although current bills are consistent with contractual agreements for billing methodology, the department determined that the methodology for billing should be revised and is including this revision in contracts as they expire. For cities whose animals are housed at a subcontractor (a non-County owned/operated shelter), there are some challenges with receiving information required for billing; however, the department has worked closely with these organizations to improve processes.

Actual/estimated Date of Corrective Action: Corrective Action has already been taken.

Estimated cost to implement corrective actions if material: \$0.00"

Auditor's Comment During FY2009/10, RCDAS took on average 57 days to bill for services. Invoices for this period were created timely and in PeopleSoft which has eliminated multiple invoice revisions and allows the department to track accounts receivable amounts.

Finding 2

Revenue and accounts receivable amounts are not properly recorded, supported, or reconciled. At the end of FY2007/08, RCDAS recorded \$3,314,731 in revenue for unbilled services provided to the city of Riverside. Because RCDAS did not collect the revenue until the end of FY2009/10, revenue for FY2007/08 was overstated while FY2009/10 was understated. To qualify as revenue under Governmental Accounting Standards Board) GASB 33, collection of funds must be expected within 60 days.

At the end of FY2008/09, RCDAS attempted to accrue a total of \$5,224,286 revenue for unbilled contract services provided to the cities of Banning and Riverside; however, the Office of the Auditor-Controller did not approve the accrual request because RCDAS did not have documentation to support the revenue and the uncollected FY2007/08 accruals.

Without complete and accurate supporting documentation, there is no way to verify the reasonableness of amounts billed to contract cities.

Recommendation 2.1 CHA Fiscal should provide complete and accurate supporting documentation for year-end accruals.

Recommendation 2.2 CHA Fiscal should reconcile the current accounts receivable balance to accurately reflect collectable revenue from contract cities.

Management Reply **Partially Concur.** "For the Fiscal Year 08/09, documentation was provided to the ACO upon request, it was not viewed as adequate to support the accruals. The accruals were later allowed by the ACO upon the receipt of the outstanding amounts. All prior year receivables were received by the end of September, 2009. The largest receivable for Fiscal Year 08/09 was with the City of Riverside who at the end of the Fiscal Year was conducting an audit of the invoiced amounts. They did not pay the invoices until completion of the audit.

Part of the confusion in the documentation dealt with complications inherent in the billing process as discussed in response to Finding 1. Improvements have already been made for the City of Riverside Contract for FY 10/11. Complete documentation will be provided with the accruals for FY 09/10 along with the invoices recorded through the billing module in PeopleSoft.

Actual/estimated Date of Corrective Action: Corrective Action has already been taken.

Estimated cost to implement corrective actions if material: \$0.00"

Auditor's Comment Revenue and accounts receivable amounts were recorded, supported and reconciled. At the end of FY2009/10, RCDAS accrued a total of \$435,054 in shelter and field services provided to the contract cities. This amount was supported by invoices and an accounts receivable ledger.

Finding 3

The invoices for contract billings are not prepared utilizing Board approved rates. Although the Board has approved the individual contracts with each city, the Department of Animal Services has not prepared and submitted rates for field services, veterinary services, and license fees in accordance with Board Policy B-4 (Rates Charged For Current Services).

The cities of Riverside, Beaumont, and Calimesa are billed for a percentage of hours worked by RCDAS staff. For these contracts,

RCDAS prepares a monthly summary of hours worked for four service categories: shelter services, veterinary services, community outreach & education services, and field services. Each service category is billed at a different rate per hour. Currently, there is no means in place to accurately capture and verify the time spent in the four service categories.

- Recommendation 3.1** Develop contract service rates that are not reliant upon the number of hours worked.
- Recommendation 3.2** Obtain approval from the Board of Supervisors for all billing rates specified in RCDAS contracts prior to billing for services.

Management Reply **Partially Concur.** "Rates for veterinary services and licensing fees are included in Ordinances. Contract service rates have not been set and included in Board Ordinance. The department agrees with this recommendation and has submitted recommended rates for Field and Shelter services to the Auditor-Controller's Office. Once approval is received, they will be submitted for Board of Supervisors approval.

Actual/estimated Date of Corrective Action: The Department is currently working with the Auditor-Controller to bring these fees forward for Board approval prior to fiscal year end, June 30, 2010.

Estimated cost to implement corrective action(s) (If material): \$ 0.00."

Auditor's Comment As of September 30, 2010, RCDAS is working with the Executive Office to develop rates for all services provided to the contract cities.

Results **Deposit Process**

We utilized the same sample identified in the previous section for testing of the internal controls over the deposit process. The department's internal controls assure the timely deposit of contract revenue received.




**DEPARTMENT OF
ANIMAL SERVICES**

Riverside County Community Health Agency
DATE: April 29, 2010

Department of Animal Services
Robert P. Miller, Director

TO: Auditor-Controller's Office
Audits and Specialized Accounting Division

FROM: Mr. Robert Miller, Director
Department of Animal Services 

SUBJECT: Reply to Draft Audit Report 2010-001: Community Health Agency, Department of
Animal Services

Finding 1:

During FY2007/08, invoices were created between 47 to 426 days after services were provided. In FY2008/09, the range was 33 to 168 days. Invoices for the cities of Riverside and Banning were the least timely, and invoices for Indian Wells were the timeliest.

The individual animal shelters do not provide RCDAS with the information needed to prepare accurate invoices timely. This causes frequent invoice revisions as updated information is received; some invoices are revised up to four times. The delays in invoice preparation result in the untimely billing of services provided to the contract cities, and cities receiving several versions of an invoice for a service month. Since invoices are frequently revised, CHA Fiscal Services no longer utilizes PeopleSoft to create invoices or track accounts receivable amounts; instead they utilize an Excel spreadsheet to track invoices.

A total of 439 invoices were prepared for FY2007/08 and FY2008/09. The average invoice amount was \$39,519.31 and took an average of 121 days to prepare. As a result of untimely billing, RCDAS lost an estimated \$25,756 in interest for the two-year period.

Management position concerning the finding: Concur

Comments:

The Department has reviewed and corrected billing practices during the current fiscal year. Additionally, the department worked closely with the Cities of Banning and Riverside to review and revise billings, causing a delay in the receipt of payments. Although current bills are consistent with contractual agreements for billing methodology, the department determined that the methodology for billing should be revised and is including this revision in contracts as they expire. For cities whose animals are housed at a subcontractor (a non-County owned/operated shelter), there are some challenges with

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receiving information required for billing; however, the department has worked closely with these organizations to improve processes.

Actual/estimated Date of Corrective Action: N/A

Corrective Action has already been taken.

Estimated cost to implement corrective action(s) (If material): \$ 0.00

Finding 2:

Revenue and accounts receivable amounts are not properly recorded, supported, or reconciled. At the end of FY2007/08, RCDAS accrued \$3,314,731 in revenue for unbilled services provided to the city of Riverside. Because RCDAS did not collect the revenue until the end of FY2009/10, revenue for FY2007/08 was overstated while FY2009/10 was understated.

At the end of FY2008/09, RCDAS attempted to accrue a total of \$5,224,286 revenue for unbilled contract services provided to the cities of Banning and Riverside; however, the Office of the Auditor-Controller did not approve the accrual request because RCDAS did not have documentation to support the revenue and the uncollected FY2007/08 accruals.

Without complete and accurate supporting documentation, there is no way to verify the reasonableness of amounts billed to contract cities.

Management position concerning the finding: Partially Concur

Comments:

For the Fiscal Year 08/09, documentation was provided to the ACO upon request, it was not viewed as adequate to support the accruals. The accruals were later allowed by the ACO upon the receipt of the outstanding amounts. All prior year receivables were received by the end of September, 2009. The largest receivable for Fiscal Year 08/09 was with the City of Riverside who at the end of the Fiscal Year was conducting an audit of the invoiced amounts. They did not pay the invoices until completion of the audit.

Part of the confusion in the documentation dealt with complications inherent in the billing process as discussed in response to Finding 1. Improvements have already been made for the City of Riverside Contract for FY 10/11. Complete documentation will be provided with the accruals for FY 09/10 along with the invoices recorded through the billing module in PeopleSoft.

Actual/estimated Date of Corrective Action: N/A

Corrective action has already been taken.

Estimated cost to implement corrective action(s) (If material): \$ 0.00

Finding 3:

The invoices for contract billings are not prepared utilizing Board approved rates. Although the Board has approved the individual contracts with each city, the Department of Animal Services has not prepared and submitted rates for field services, veterinary services, and license fees in accordance with Board Policy B-4 (Rates Charged For Current Services).

The cities of Riverside, Beaumont, and Calimesa are billed for a percentage of actual hours worked by RCDAS staff. For these contracts, RCDAS prepares a monthly summary of hours worked for four service categories: shelter services, veterinary services, community outreach & education services, and field services. Each service category is billed at a different rate per hour. Currently, there is no means in place to accurately capture and verify the time spent in the four service categories.

Management position concerning the finding: Partially Concur

Comments:

Rates for veterinary services and licensing fees are included in Ordinances. Contract service rates have not been set and included in Board Ordinance. The department agrees with this recommendation and has submitted recommended rates for Field and Shelter services to the Auditor-Controller's Office. Once approval is received, they will be submitted for Board of Supervisors approval.

Actual/estimated Date of Corrective Action: N/A

The Department is currently working with the Auditor-Controller to bring these fees forward for Board approval prior to fiscal year end, June 30, 2010.

Estimated cost to implement corrective action(s) (If material): \$ 0.00