December 5, 2013

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Mayor

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Councilman, District 1

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Councilwoman, District 2

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Councilwoman, District 3

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Councilman, District 8

Joe Krier
Councilman, District 9

Carlton Soules
Councilman, District 10

SUBJECT: Audit Report of the Follow-up Audit of Animal Care Services Accounting for Revenues and Donations

Mayor and Council Members:

We are pleased to send you the final report of the Follow-up Audit of Animal Care Services Accounting for Revenues and Donations. This audit began in June 2013 and concluded with an exit meeting with department management in September 2013. Management’s verbatim response is included in Appendix B of the report. The Animal Care Services management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio
Distribution:
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Erik Walsh, Deputy City Manager
Ben Gorzell, Chief Financial Officer
Kathy Davis, Animal Care Services Director
Michael D. Bernard, City Attorney
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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR

Follow-up Audit of Animal Care Services
Accounting for Revenues and Donations
Project No. AU13-F02
December 5, 2013

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
Follow-up Audit of Animal Care Services - Accounting for Revenues and Donations

Executive Summary

As part of our annual Audit Plan, we conducted a follow-up audit of Animal Care Services (ACS) Accounting for Revenues and Donations. The initial report was dated May 10, 2012. Our audit objective follows:

**Has Animal Care Services effectively implemented action plans in response to the recommendations made in the initial audit?**

We determined that Animal Care Services has made progress to implement adequate controls to address the recommendations; however, some improvement is still needed.

In total, there were 8 recommendations made to Animal Care Services. From these recommendations, management developed 11 action plans to address the control weaknesses. As illustrated in the following table, 1 action plan was not implemented and 2 control deficiencies still exist:

<table>
<thead>
<tr>
<th># of Recommendations</th>
<th>Total # of Action Plans</th>
<th># of Action Plans Implemented</th>
<th># of Control Deficiencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>11</td>
<td>10</td>
<td>2</td>
</tr>
</tbody>
</table>

Areas that still require improvement are as follows:

**D. Improperly Accounted for Transactions**
ACS identified and trained employees that are authorized to approve refund transactions, as stated in their action plan. However, as identified in the initial audit report, the issue regarding improper accounting of refunds still exists. ACS is not always debiting refunds to the proper ledger accounts. This practice misrepresents the amount of revenue obtained from each particular revenue source.

**J. Bexar County Receivables Not Properly Monitored**
An action plan for implementing a formal and consistent process for invoicing Bexar County and following up on payments was not implemented as specified in the initial audit report. Consequently, ACS is not in compliance with the interlocal agreement with Bexar County which states that invoices shall be submitted to the County on the 10th day of each month. ACS did not invoice Bexar County for March through May until June 2013. As a result, there is an outstanding balance of $238,000 due to the City.

Management concurs with our conclusions and has developed a positive action plan to address the issues noted. Management responses are in **Appendix B** on page 8.
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Background

In May of 2012, the Office of the City Auditor completed an audit of Animal Care Services (ACS). The objective of that audit was:

Is Animal Care Services adequately managing and accounting for the revenues and donations it receives?

The Office of the City Auditor issued a report that found the controls for managing and accounting for donations received and for revenues earned were not in place or were not working as intended.

Audit Scope and Methodology

The audit scope was generally limited to the recommendations made in the original report and the corresponding action plans implemented between June 2012 and May 2013.

We interviewed ACS staff members to gain an understanding of the department’s processes. We reviewed documentation and observed processes to determine whether action plans had been implemented in response to the recommendations made.

Additionally, we performed testing to determine the accuracy of the programming in Chameleon; whether revenues, donations, and refunds are accurately recorded in SAP; and whether staff complies with internal policies and procedures and Citywide directives.

Lastly, we tested to determine whether ACS is sending invoices and receiving payments from Bexar County timely.

We conducted this follow-up performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Prior Audit Recommendations and Status\(^1\)

**C. Improvements Needed for General Cash Controls**

The Director of ACS should update policies and procedures in accordance with Administrative Directive 8.1 and train staff accordingly. Policies and procedures should be reviewed on an annual basis and staff training performed when changes are made. In addition, ACS management should perform periodic quality assurance reviews to determine staff compliance.

**Cash Handling Policies and Procedures in Accordance with AD 8.1**

Status: Implemented\(^*\)

While ACS did correct issues noted in the original audit report, an issue regarding separation of duties was noted during this follow-up audit. Per AD 8.1, "Efforts shall be made for the physical separation of duties and responsibilities between the cash custodian and that of the individual or individuals that perform the accounting and recordkeeping functions pertaining to cash." It was noted that a single Administrative Assistant is responsible for counting the cash receipts, accounting for the receipts in SAP, and filling in the deposit slip.

*A control was put into place during the course of our fieldwork to mitigate the risk of inappropriate separation of duties. ACS has implemented a reconciliation between ACS' point-of-sale system and the cash deposit. The reconciliation verifies that the amount of cash received at the point of sale equals the amount of the bank deposit and ultimately the amount reported in SAP. The reconciliation is reviewed and approved by ACS management.

**Staff Training on AD 8.1**

Status: Implemented

Of ACS' 47 cash handlers, 46 were found to have successfully completed the City’s cash handling training. Although 1 exception was found, it was determined to be an isolated incident and the issue was communicated to management.

**Performance of Periodic Quality Assurance Reviews**

Status: Implemented\(^**\)

There is no documented support of Periodic Quality Assurance Reviews being performed. Per management’s action plan, quality assurance reviews are to be conducted on a periodic basis. Per ACS management, the reviews are to include cash counts and verification that all checks are endorsed upon receipt. Adequate

\(^1\) There were no recommendations on review items A and B listed on the original report; therefore, they are not included.
documentation of quality assurance reviews being conducted could not be provided. Periodic quality assurance reviews create a sense of oversight. A lack of oversight can increase the risk for noncompliant procedures and fraud.

**ACS remediated this issue during the audit by implementing a log to record when periodic reviews are performed. The log is signed by both the supervisor and the cashier being reviewed.**

### D. Improperly Accounted for Transactions

The Director of ACS should train staff to comply with Administrative Directive 8.1 - *Cash Handling* and internal ACS policies and procedures. Additionally, the Director of ACS should create and maintain a list of authorized approvers for refund transactions.

**List of Authorized Approvers for Refund Transactions**

**Status: Implemented**

A list of authorized approvers for refund transactions has been created. A sample of 25 refund requests tested showed that all refund requests were approved by an authorized approver.

**Training for Authorized Approvers of Refund Transactions**

**Status: Implemented**

Training for authorized approvers consists of acknowledging the internal policy regarding processing refund requests. All authorized approvers have completed training.

**Compliance with AD 8.1 and Internal Policies and Procedures**

**Status: Not Implemented**

While refunds are properly supported and approved, refunds are not always accounted for correctly in SAP. We reviewed a sample of 25 refunds for a 6 month period (Dec. 2012 – May 2013) and noted that 8% of the samples tested were accounted for incorrectly. Refunds are sometimes debited against a revenue account other than the one originally credited with the revenue. While the net effect on the reporting of revenue is null, this does result in an inaccurate representation of the amount of revenue obtained from a particular source. This practice is not in line with accounting standards, ACS internal policies, or AD 8.1. AD 8.1 states, “refunds shall be completed by charging the revenue General Ledger account that was originally credited.”

**Updated Recommendation:**

The Director of ACS should consider implementing an account reconciliation to ensure the accuracy of general ledger accounts used for accounting of refunds. The reconciliation should be reviewed and approved by someone other than the preparer.
**E. Friends of ACS Agreement Not Formalized**

The Director of ACS should evaluate and formalize an operational agreement with FACS. The agreement should include, but not be limited to the following:

- Custody (fiduciary) of funds
- Timely reporting on expenditures and use of funds
- Fundraising procedures and use of the City’s name and resources
- Formal procedures that define purpose of funds and a process to request donated funds
- Cash handling procedures

**Status: Implemented**

Rather than a formal operational agreement, ACS sent a memo to the President of FACS and City Management explaining that ACS and FACS would now maintain a fiscally independent partnership.

**F. Donated Fund Expenditures Not Consistently Managed**

The Director of ACS should develop and implement policies and procedures for expenditures of donated funds that address but are not limited to:

- Process to request use of donated funds
- Approval authority
- Required supporting documentation and retention

**Status: Implemented***

While ACS developed a policy that speaks to each of the areas noted and all donated fund expenditures were properly approved, testing revealed that not all procedures for requesting donation expenditures are covered in the policy. Incomplete policies and procedures can cause inconsistent documentation of donated fund expenditures.

***ACS remediated this issue during the audit by updating their policies and procedures. The new policy includes additional guidance for documenting of donation expenditures.
G. Chameleon Does Not Interface with SAP

The Director of ACS should, in coordination with ITSD, determine the feasibility of an automatic interface between Chameleon and SAP and implement such if feasible.

**Status: Implemented**

ACS has coordinated with ITSD to determine the feasibility of an automatic interface between Chameleon and SAP. A project to create an interface between the two systems is currently in-process.

H. Chameleon Fee Tables Not Accurate

The Director of ACS should correctly update all fees in Chameleon tables and properly maintain going forward.

**Status: Implemented**

The Chameleon fee tables have been updated and ACS has established a process to maintain the fee tables going forward.

I. Chameleon General Ledger Account Mapping Not Correct

The Director of ACS should properly assign the general ledger accounts to all item codes in Chameleon and delete unused item codes.

**Status: Implemented**

General ledger accounts have been properly assigned to item codes in Chameleon. All unused item codes in Chameleon have been deleted or are in the process of being deleted.

J. Bexar County Receivables Not Properly Monitored

The Director of ACS should monitor account receivables and collection efforts for Bexar County payments.

**Status: Not Implemented**

ACS is not effectively monitoring Bexar County account receivables. Per ACS’ contract with Bexar County, ACS is to send an invoice within the first 10 days of each month to Bexar County and Bexar County is to remit payment within 30 days of receiving the invoice. We reviewed 12 months and found that ACS does not consistently send invoices to Bexar County timely. For instance, ACS did not send the invoices for March through May of 2013 until June 2013. As a result, there is an outstanding balance of $238,000 from Bexar County. Administrative Directive 8.4, *Financial Management of Accounts Receivable*, states that City departments are to
“invoice/bill customers within one business day of the establishment of the receivable or no later than the end of the month when goods or services are provided.”

ACS lacks a formal and consistent process for invoicing Bexar County and following up on payments not yet received. This delays the receipt of the approximately $79,167 due from Bexar County each month.

**Updated Recommendation:**

The Director should monitor accounts receivables and collection efforts to ensure compliance with the City’s AD 8.4. A standard procedure for invoicing should be followed, including sending invoices by the 10th of the month. A standard process for monitoring outstanding receivables should be established and active efforts to collect payment within 30 days of Bexar County’s receipt of the invoice should be made.
Appendix A – Staff Acknowledgement

Sandra Paiz, CFE, Audit Manager
Christopher Moreno, MPA, Auditor in Charge
Christina Liguori, MACY, Auditor
Appendix B – Management Response

October 3, 2013

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Acknowledgment (and Corrective Action Plan) for the Follow-up Audit of Animal Care Services Revenues and Donations

☐ Fully Agree (provide detailed comments)

☐ Agree Except For (provide detailed comments)

☐ Do Not Agree (provide detailed comments)

Animal Care Services has reviewed the audit report and has developed the Corrective Action Plans below.

<table>
<thead>
<tr>
<th>#</th>
<th>Description</th>
<th>Audit Report Page</th>
<th>Accept, Decline</th>
<th>Responsible Person's Name/Title</th>
<th>Completion Date</th>
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<tbody>
<tr>
<td>1</td>
<td>D. Improperly Accounted for Transactions</td>
<td>3</td>
<td>Accept</td>
<td>Pamela Roberson, Department Fiscal Administrator</td>
<td>08/01/2013</td>
</tr>
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The Director of ACS should consider implementing an account reconciliation to ensure the accuracy of general ledger accounts used for accounting of refunds. The reconciliation should be reviewed and approved by someone other than the preparer.
Follow-up Audit of Animal Care Services - Accounting for Revenues and Donations

<table>
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<tr>
<th>Recommendation</th>
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<tr>
<td>1</td>
</tr>
</tbody>
</table>

| 2             | J. Bexar County Receivables Not Properly Monitored |
|               | The Director should monitor accounts receivables and collection efforts to ensure compliance with the City's AD 8.4. A standard procedure for invoicing should be followed, including sending invoices by the 10th of the month. A standard process for monitoring outstanding receivables should be established and active efforts to collect payment within 30 days of Bexar County's receipt of the invoice should be made. |
|               | Audit Report Page | Accept, Decline | Responsible Person's Name/Title | Completion Date |
|               | 5 | Accept | Pamela Roberson, Department Fiscal Administrator | November 10, 2013 |

| Action plan: All invoices to Bexar County have been mailed and payment has been received for those invoices that were sent out prior to October 2013. Based on the Auditor's recommendations, ACS has modified its Invoicing procedure to ensure the Bexar County invoices are sent by the 10th of each month. Since July 2013, a recurring and automatic task was created in Outlook for the Department's Fiscal Administrator as well as the Senior Admin Assistant on the 7th of each month to remind them to send out an invoice to Bexar County. Both individuals are now responsible for assisting each other and for ensuring that the invoices are sent by the 10th. This process change took place in July 2013 and since then ACS has mailed the invoices on time. ACS is currently working with the Fiscal Department to determine if the invoices can be automated. If possible, it is anticipated that the automation will take place in time for the November 10th billing. |

City of San Antonio, Office of the City Auditor
We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Kathy Davis  
Director  
Animal Care Services

Erik Walsh  
Deputy City Manager  
City Manager's Office

10/30/13  
Date

11/8/13  
Date