

**CITY OF BUFFALO
DEPARTMENT OF AUDIT AND CONTROL**

**AUDIT REPORT ON THE INTERNAL
CONTROLS OVER REVENUE AT THE
BUFFALO ANIMAL SHELTER**

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CITY AUDITOR**

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Preface

The City of Buffalo Animal Shelter (the Shelter) is part of the Department of Public Works and provides temporary housing for animals that are brought in by animal control officers and pet owners. The Shelter is open to the public and adoptable dogs and cats are on display during hours of operation. All associated fees related to adoption, licensure, returning seized pets to owners and surrender fees are mandated by the City Charter.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Objective

The objective of the report is to document and evaluate the internal controls of the Animal Shelter over revenue.

To achieve the objective, the following procedures were performed:

- Interviewing staff regarding the revenue process and the documentation of the revenue cycle.
- Testing of transactions to determine if the revenue process performs as documented.
- Evaluation of the process to determine the strengths and weakness of the internal controls of the revenue cycle.

Description of the Animal Shelter Revenue Cycle

Daily Revenue Transactions

Office/Clerical personnel at the Shelter enter receipts into the cash register. The cash register tape records the type of revenue (surrender fee, adoption fee, etc.). At the end of each day the register is closed out and a daily summary tape is run. The daily summary tape shows a breakdown of total receipts between cash and checks and by type of revenue. All funds (cash and checks) are placed into a bank bag with the daily summary tape and stored in a locked safe. Five employees have access to the combination safe.

The Account Clerk Typist enters the individual sales into MUNIS (the City of Buffalo's financial accounting software) to create a batch deposit report. Receipts are not entered into MUNIS on a daily basis. The batch deposit report and corresponding cash and checks are placed in a bank bag and are brought to the Department of Treasury approximately twice per month. The Account Clerk Typist restrictively endorses all checks stored in the safe at the time of batch deposit preparation. The Treasury teller verifies the total funds brought for deposit agree to the batch deposit report total and then accepts and posts the deposit.

Donations

Cash donations are not recorded in the cash register or MUNIS. Cash donations are logged into an excel spreadsheet and stored in the safe. Receipts for cash donations are only provided upon request, copies of receipts are not retained by the Shelter. The cash donations are held in a petty cash type fund and used by the Shelter to make purchases. Any purchases made are logged into the spreadsheet and the receipt is retained.

Check donations are not recorded in the cash register but are entered in MUNIS. Receipts are sent to anyone who mails in a check donation but copies of these receipts are not retained by the Shelter.

Inventory Control

The Shelter utilizes Petpoint, a free web-based data management system that tracks animal intake, animal health care data, adoption etc. Each animal is assigned a number within Petpoint upon arrival at the Shelter. This number is not linked to the cash register or MUNIS records.

Audit Findings - Cash Donations - Internal Controls

- 1. Cash Donations are not recorded in Cash Register or MUNIS and are not deposited with the Treasury** - The donated cash is held at the Shelter and used as a petty cash type fund to make purchases. Cash donations and purchases made with the cash are logged into an excel spreadsheet. It is unknown if all donations are recorded. Cash donations are not deposited with the Treasury as required by City Charter Chapter 16 Section 15 - *Failure to report receipt of or pay over money or property*. It states: “Whenever it shall appear that the head or an employee of a City agency ... has neglected or failed to report the receipt of or to pay over money ... it shall be the duty of the Comptroller to notify the head or the employee of the City agency or other person forthwith of such default and, in case the notice is disregarded, to notify the Council of that fact without delay.”
- 2. Change for the Register** - Per review of the donated cash spreadsheet we noted reductions labeled “change for drawer”. Shelter personnel take donated cash to the credit union to get coin change for the cash register. Replenishing the donated cash after getting change is not accounted for or tracked by the Shelter. Amounts are placed back in the donation cash at a later time and recorded as “donation” within the donated cash spreadsheet. Therefore donations recorded are not accurate and there is no way to determine if amounts recorded as “change for drawer” are returned to the donated cash fund.
- 3. No Receipts for Donations** - Receipts for donations are not provided to donors unless requested. There is no supporting documentation related to the donations received.

4. **Donated Gift Cards not Recorded** - Donated gift cards totaling \$135 were noted within the donated funds folder. However, these gift cards were not recorded on the donation cash spreadsheet.

Audit Findings - Cash Donations - Transactions

1. **Purchases made with Donated Cash** - During our review of the cash donation ledger for fiscal years 2012-2015 the following was noted: Total donations received were \$5,193.61 and total expenditures were \$4,885.15.

Summary of Expenditures per Cash Donation Ledger

Description	Total	Expenditures with Receipts	Expenditures without Receipts
Supplies	\$ 2,020.19	\$ 1,316.81	\$ 703.38
Employee Meals	972.50	421.06	551.44
Unknown	941.12	-	941.12
Refunds	667.07	44.07	623.00
Sales Tax	143.82	143.82	-
Personal Items	140.45	140.45	-
Total	\$ 4,885.15	\$ 2,066.21	\$ 2,818.94
Number of Items	126	74	52

Receipts not recorded in Cash Donation Ledger

Value of Receipts	\$ 1,927.87
Number of Receipts	86

2. **Unsubstantiated Expenditures** - \$4,885.15 was expended by the Shelter per their cash donation ledger. \$2,066.21 was supported by receipts; \$2,818.94 was not supported by receipts. The accuracy and validity of the unsubstantiated expenditures cannot be confirmed.

The Shelter provided the Department of Audit and Control 160 receipts totaling \$3,994.08. As noted above, 74 receipts totaling \$2,066.21 were traced directly to the cash donation ledger. Receipts totaling \$1,927.87 were not recorded in the cash donation ledger and did not

match any dollar amounts or descriptions recorded on the cash donation ledger. It is unknown how these receipts were paid.

3. **Sales Tax Paid** - Sales tax of \$143.82 was improperly paid on purchases where receipts were provided. It could not be determined how much additional sales tax was paid on unsubstantiated transactions. All purchases of the City of Buffalo Animal Shelter are tax exempt.
4. **Inappropriate Use of Public Funds** - Receipts of \$140.45 appear to be for personal items, including, lighters, reading glasses, pharmaceutical products and a parking ticket. Additionally \$972.50 was used for employee meals. These expenditures appear to be a misuse of public funds.

Audit Findings – Daily Revenue Process – Internal Controls

1. **Completeness of Revenue** - The most significant deficiency with the Shelter revenue process is the inability for an audit to verify the completeness of revenue, due to a lack of supporting documentation maintained by the Shelter. As the system currently operates, there is no way to verify if all revenue received at the Shelter is recorded.
2. **Segregation of Duties** - The employee who enters transactions on MUNIS also works on the cash register. An employee who works on the cash register also takes the deposit to the Treasury.
3. **Management Review** - There is no reconciliation performed between the cash register and MUNIS deposit records. There is no supervisory review of batch deposits or cash register transactions including voids, discounts and no sale transactions.
4. **Timeliness of Recording Transactions** - Funds are stored at the Shelter in the safe for weeks at a time prior to deposit with Treasury. There is no standard frequency of recording receipts or making deposits. Deposits are made twice per month on average. Checks are not immediately restrictively endorsed and instead done at the time a deposit is being prepared. Not all donation checks are recorded in the cash register, thus MUNIS and the cash register do not agree.
5. **Security Cameras** - Security cameras are in various locations throughout the interior and exterior of the Shelter. However, no cameras are on the cash register or safe.

- 6. Animal Inventory Control System doesn't reconcile to MUNIS** - Petpoint animal control numbers are not linked to the cash register or MUNIS input. The Petpoint system as currently utilized is not useful to the revenue aspect of Shelter operations.

On 5/14/15, Department of Audit and Control staff counted the animals at the Shelter and compared to the Petpoint inventory report as of that date. Based on testing performed, the count noted that 5 dogs and 2 cats were included on the inventory report but were not present at the Shelter. There were also 3 dogs observed at the Shelter which were not included on the inventory report.

Audit Findings - Daily Revenue Process - Transactions

- 1. Cash and Check Totals within Batch Deposits** - 7 of 8 batch deposits tested contained differences between the cash and check totals listed on the register tape compared to cash and check totals that were entered into MUNIS. The deposits agreed in total.
- 2. No Sales** - There were a significant number of times the "no sale" key was used (cash register opened with no sales transaction). 196 sales transactions were reviewed, the register was opened with "no sale" 73 times, 37% of all transactions. It was represented that the only time the register should be opened with "no sale" is first thing in the morning when \$50 cash is taken from the safe and added to the register for change. There were multiple instances noted where no sales occurred one after the other with no transaction in between, and no sales in the middle of the day. Animal Shelter personnel noted the register is opened to provide change for employees and certain other times due to errors. There is no management approval required to open the drawer. No sale transactions potentially put assets at risk for theft.
- 3. No Support for Waived and Reduced Fees** - The Shelter on occasion offers reduced or waived fees for adoptions, return to owner fees and senior discounts. No supporting documentation is created or retained by the Shelter when fees are waived or reduced. The validity of the discounts are unknown.
- 4. No Supporting Documentation for Donations by Check** - There is no supporting documentation retained by the Shelter for donations received by check. The checks are not entered into the cash register. There is no way to test the completeness and accuracy of donations received by check.
- 5. Voided Transactions** - 6 of 8 batch deposits tested contained voided transactions or customer refunds. There is no supporting documentation retained related to the voids or

refunds to customers. There is no way to test if the voids and refunds are valid reductions to revenue.

Recommendations to Improve Internal Controls over Revenue at the Animal Shelter

- 1. Use of Pre-Numbered Receipts** - For all transactions (revenue generating and non-revenue generating), two copies of a pre-numbered receipt should be printed. One copy should be given to the customer. The second copy should be signed by the customer, verifying that the payment on the receipt is the amount paid by the customer. The signed copy should be scanned and saved with other documentation provided by customer. This would decrease the ability to have unrecorded transactions.

Receipts for Donations - All donations received (cash, check and gift card) should be recorded on a pre-numbered receipt. One copy should be provided to the donor and one retained by the Shelter. A sign should be posted at the Shelter that a receipt must be provided for all transactions. Per IRS Publication 1771, A donor cannot claim a tax deduction for any contribution of cash, a check or other monetary gift unless the donor maintains a record of the contribution in the form of either a bank record (such as a cancelled check) or a written communication from the charity (such as a receipt or letter) showing the name of the charity, the date of the contribution, and the amount of the contribution.

Gift Card Donations - There should be a process developed for recording donated gift cards. It should include giving donors a pre-numbered receipt.

- 2. Standard Treatment, Supporting Documentation and Recording for All Receipts (including Cash Donations)** - All receipts should be treated in the same manner. All cash and checks received should be recorded at the time of receipt in the cash register, MUNIS and Petpoint. Checks should be immediately restrictively endorsed. A copy of each day's receipts, appropriate supporting documentation and Petpoint report should be retained by the Shelter. This will help align the systems and keep Petpoint up to date on a daily basis.
- 3. Management Review** - Management should review the cash register daily summary tape for excessive "no sales" or "voids" occurring during the shift, additionally management should count the daily receipts at the close of each day and reconcile amounts to the daily summary tape. Management approval should be necessary for any waived/reduced fees, voided transactions or returns. Only management should place and remove cash from the register.
- 4. Segregation of Duties** - An individual not responsible for preparing the batch deposit or entering receipts into the register should review the daily batch deposit for accuracy and

completeness. An individual not responsible for preparing the batch deposit or entering receipts into the register should physically bring the deposits to Treasury.

- 5. Timeliness of Recording Transactions** - Deposits should be made daily. Each day the Shelter is open should represent one deposit. If the Shelter staff is unable to have a runner bring the deposit to Treasury each day, then the Shelter should prepare a deposit for each day of the week and bring multiple deposits to Treasury at the end of the week.
- 6. Treasury Count of Batch** - Treasury should verify that the amount of cash and checks delivered match to the cash and check totals on the MUNIS Batch report.
- 7. Security Cameras** - As there are numerous security cameras already in place, one should be pointed at the cash register and one pointed on the safe. This could help in the event there is ever a discrepancy related to revenue.
- 8. Non-allowable Purchases** - The Shelter should make all purchases using the City of Buffalo standard requisition process.
- 9. Expenditure Receipts** - All expenditures should have a receipt. Supervisor approval should be noted on receipt.
- 10. Sales Tax** – The Shelter should not reimburse employees for sales tax paid on purchases. Per NYS Department of Taxation and Finance Publication 843, New York Governmental Entities (including the City of Buffalo) are exempt from payment of sales tax on their purchases.
- 11. Refunds to Customers** - The Shelter should not refund license fees to customers.



CITY OF BUFFALO
DEPARTMENT OF
PUBLIC WORKS, PARKS & STREETS



BYRON W. BROWN
MAYOR

October 13, 2015

STEVEN J. STEPNIAK
COMMISSIONER

MICHAEL J. FINN, P.E.
CITY ENGINEER

City of Buffalo
Department of Audit and Control
1225 City Hall
Buffalo, NY 14202

Attention: Kevin J. Kaufman, CPA, City Auditor

Re: Audit Report - Internal Controls over Revenues at the Animal Shelter

Dear Mr. Kaufman:

Thank you for sharing your office's recent audit of the internal controls over revenues at the Buffalo City Animal Shelter.

Our response to the specific determinations stated in the Audit is set forth below, but as an initial matter, we acknowledge that improvement in the internal controls over revenues at the Buffalo City Animal Shelter was warranted and can report that corrections and improvements have been made since the date of the Audit. The need for clearly established policy and procedure to ensure safeguards are in place and the retraining of personnel were key factors contributing to the nonappearance of internal controls and corresponding findings stated in the Audit.

This Department seeks to sustain our operations at the highest standard and continually endeavor to improve our operations wherever possible. Since the date of the Audit, the Department has taken swift action to rectify any discrepancies and have either created or reconvened many corrective policies and procedures to solidify internal controls over revenue transactions at the Shelter. Those corrections and improvements have been implemented and successfully tested by the Department of Audit and Control to date and the Shelter is now making significant progress through the implementation of recommendations provided by this Audit.

The Department is in the process of identifying measures to promote efficiencies within the Shelter operations, including evaluating a Point of Service (POS) register system that will streamline corrective action taken and promote the accuracy and validity of all transactions in the future. Through discussions with staff and the Administrator of Public Works, exploration has already begun to further identify benefits and barriers associated with such a system and its integration with other systems used at the shelter. The Department will continue to investigate how to implement such a system. With the implementation of POS system, the department expects to streamline many preventative internal controls and standardize the receipt and recording of all transactions.

The Department is also working to eliminate the acceptance of monetary donations at the Shelter and deferring donations to the "Friends of the Animal Shelter" (Friends). This organization is a 501c-3 non-profit group purposed to promote the health and welfare of animals in the care of City of Buffalo Animal Shelter. Their priorities include funding, providing, and promoting: spay/neuter services surgeries; critical and preventative veterinary care; volunteerism at the animal shelter and off-site locations; adoption; foster care; and community education services. An envelope system is being explored as a mechanism to accomplishing this goal to ensure donations are going directly to the Friends, which would eliminate the need for employees to process them and avoid any further appearance of inappropriate use of funds.

Through the cooperation of staff during interviews and documentation provided by staff to conduct this Audit of the Shelter, the Department is in agreement with the findings below unless otherwise specifically noted. In response to your specific findings and recommendations, we respond as follows:

Audit Findings – Cash Donations – Internal Controls

1. Cash Donations are not recorded in Cash Register or MUNIS and are not deposited with the Treasury

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure on receiving cash donations. Donations made with cash or check are now entered into the register and documented with a receipt that is given to the customer. A copy of said receipt and the transaction receipt from the register are now being kept on file in a network drive folder on the City's server. All donations are included in the daily batch and will be deposited with Treasury twice a week.

2. Change for the Register

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have now created a bank for the register at the Shelter. This bank will be the source of change for the register and will be replenished from Treasury as needed. The implementation of the above mentioned will address the issue of accuracy in the accounting of donations. Further, the register is to be counted down at the close of business and any overages will be batched to be deposited into treasury.

3. No Receipts for Donations

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure on receipts when receiving cash donations. Receipts are given to customers for all donations once they are entered into the register. A copy of said receipt and the transaction receipt from the register are now being kept on file in a network drive folder on the City's server.

4. Donated Gift Cards Are Not Recorded

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we are exploring new policy and procedure on gift cards. We are working to streamline gift card donations to the Friends of the Animal Shelter for their use in lieu of accepting donations at the Shelter.

Audit Findings – Cash Donations - Transactions

1. Purchases made with Donated Cash

The Department is in agreement with Audit's finding for purchases made with donated cash as provided by records retained at the Shelter.

2. Unsubstantiated Expenditures

The Department is in agreement with Audit's finding. New policy and procedure on depositing donations, in addition to the implementation of a petty cash account, will rectify this issue and ensure accuracy and validity of expenditures going forward.

3. Sales Tax Paid

The Department is in agreement with Audit's finding. Staff has been advised of this error and given the City's tax exempt letter for future purchases. In addition, the implementation of petty cash will ensure sales tax is not paid as it is not a reimbursable expense.

4. Inappropriate Use of Public Funds

The Department agrees that there was evidence of some inappropriate use of public funds and has admonished staff accordingly. For those expenditures that appeared to be inappropriate, new policy and procedure has been implemented to correct these occurrences. Specifically, the Shelter will no longer accept donations for the purchase of food for volunteers or staff and all pharmaceutical products needed to treat miscellaneous needs of animals will be paid for out of petty cash and documented accordingly.

Audit Findings – Daily Use of Public Funds – Internal Controls

1. Completeness of Revenue

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure for the receipt of all revenue transactions.

2. Segregation of Duties

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure on the segregation of duties of individuals at the Shelter.

3. Management Review

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure on the Director of Animal Control's role in reconciling of batch deposits and cash register transactions.

4. Timeliness of Recording Transactions

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure for recording transactions. Checks will be restrictively endorsed on a daily basis, Daily transactions will be batched separately, and deposits with Treasury will occur twice a week.

5. Security Cameras

The Department is in agreement with Audit's finding and is currently working to identify funds for this initiative.

6. Animal Shelter Inventory Control System Doesn't Reconcile to MUNIS

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure on the daily transaction reconciliation between PetPoint and MUNIS. The Director of Animal Control will run an inventory report at the close of business and reconcile with receipts from the register.

Audit Findings – Daily Revenue Process – Transactions

1. Cash and Check Totals Within Batch Deposits

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure that will ensure the accuracy of the type of tender collected and batched on a daily basis. The department is also exploring a Point of Service register system that would prevent this discrepancy.

2. No Sales

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure on the use of "no sale" transactions. No "no sale" transaction will occur without the approval of a supervisor. The department is also exploring a Point of Service register system that could prompt for a supervisor code to prevent arbitrary transactions.

3. No Support for Waived and Reduced Fees

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure on the waiver and reduction of fees. The Department will work with the Common Council for authorization of fee waivers associated with non-profit adoption programs, return to owner, and other common waivers. In addition, the Shelter will now recognize the City of Buffalo Department of Senior Services' age of 55 for discounting resident seniors and will retain a copy of identification indicating age and address of these benefactors.

4. No Supporting Documentation for Donations by Check

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure on documenting donations by check. All donation checks are now being entered into the register and a receipt is generated, given to the donor and a copy is kept on file in a network drive folder on the City's server.

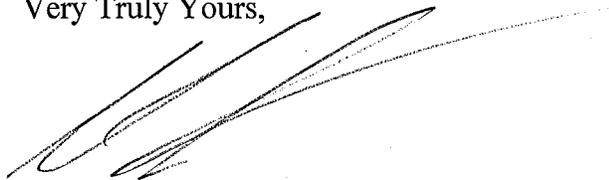
5. Voided Transactions

The Department is in agreement with Audit's finding. Through meetings and discussions with your office, we have vetted and implemented new policy and procedure on voided transactions. Anytime a transaction needs to be voided, a receipt and the reason for the void will be documented and kept on file in a network drive folder on the City's server.

Accompanied by our regular ongoing evaluations, we have used the findings and recommendations from this Audit to bolster accuracy, efficiency, integrity, and to improve internal controls within our operations. In cooperation with your office, corrective actions of policy and procedure, training of personnel, as well as the evaluation of opportunities to promote greater efficiencies (such as the implementing POS and partnering with the Friends of the City of Buffalo Animal Shelter), we believe the Shelter is on the right path to rectify all findings outlined within this Audit.

Thank you for your assistance, and please do not hesitate to contact me at any time should you have any questions or require further clarification on any matter.

Very Truly Yours,



Steven J. Stepniak
Commissioner

Cc: Jason C. Shell, Administrator
Paul Sullivan, Director of Street Sanitation