

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

629



**FROM:** County Auditor-Controller

**SUBMITTAL DATE:**  
October 25, 2010

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

**RECOMMENDED MOTION:** Receive and file Internal Audit Report 2010-001: Community Health Agency, Department of Animal Services.

Departmental Concurrence

**BACKGROUND:** The Auditor-Controller's Office has completed an audit of the Community Health Agency, 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. (Continued)

*Bruce Kincaid*  
BRUCE KINCAID - ASST. AUDITOR - CONTR.  
for Robert E. Byrd  
County Auditor-Controller

<b>FINANCIAL DATA</b>	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

<b>SOURCE OF FUNDS:</b> N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

**C.E.O. RECOMMENDATION:**

APPROVE

BY: *K. Johnson*  
Karen L. Johnson

**County Executive Office Signature**

Policy  Policy   
 Consent  Consent   
 Dept't Recomm.: Per Exec. Ofc.:

**MINUTES OF THE BOARD OF SUPERVISORS**

On motion of Supervisor Stone, seconded by Supervisor Benoit and duly carried by unanimous vote, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes: Buster, Tavaglione, Stone, Benoit and Ashley  
 Nays: None  
 Absent: None  
 Date: November 9, 2010  
 xc: Auditor, CHA-Animal Services

Kecia Harper-Ihem  
 Clerk of the Board  
 By: *Kecia Harper-Ihem*  
 Deputy

Prev. Agn. Ref.: District: ALL Agenda Number: **2.2**

ATTACHMENTS FILED WITH THE CLERK OF THE BOARD

**BACKGROUND continued:**

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 will follow-up with the department within one year to determine if the remaining finding has been corrected.



# 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



**COUNTY OF RIVERSIDE**  
OFFICE OF THE  
AUDITOR-CONTROLLER

County Administrative Center  
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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**

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- 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 three 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**

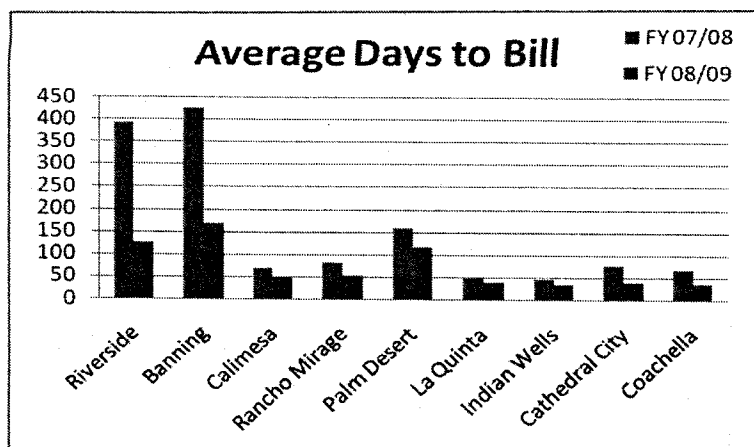
At the end of each month, RCDAS gathers the information necessary to prepare contract billing invoices for services provided during that month. Information used to calculate invoices includes personnel costs, license revenue, and specific field service activities. Invoices are to be prepared and sent 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.

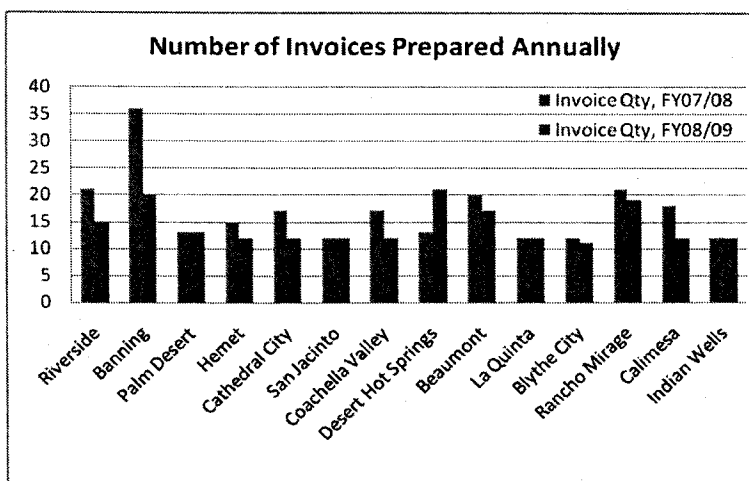
During the audit period of July 1, 2007, through August 31, 2009, RCDAS billed 14 separate contract cities for a total of 364 months of service. We selected a sample of 61 service months for detailed invoice testing; however, audit fieldwork was discontinued after testing of the first 18 invoices as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

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**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.

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**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**

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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.




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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DEPARTMENT OF ANIMAL SERVICES - Administrative Offices  
5950 Wilderness Avenue, Riverside, California 92504  
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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**