

# Office of the City Auditor

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## Audit Report **Animal Care Services Revenue**

March 2011



### **Audit Staff**

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## Executive Summary

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We recently completed our audit of revenues received by the Animal Care Services Bureau of the Department of Health and Human Services. Management requested this audit after the discovery of a significant discrepancy on August 31, 2010 between revenues recorded and deposited for the month of August 2010.

We conducted our audit to determine the existence of a possible misappropriation of monies collected at Animal Care Services (ACS) during the period of October 1, 2009 through August 31, 2010. Due to a lack of adequate documentation, we were unable to review receipts prior to October 1, 2009. Our procedures included reconciling all sequential customer payment receipts recorded in the Chameleon system<sup>1</sup> to deposit records, reviewing bank deposit records to identify the amount of cash and checks deposited, conducting tests of the system to confirm the reliability of the data, and gaining an understanding of the internal controls and system controls related to cash handling.

In fiscal year (FY) 2010, Animal Care Services collected and deposited more than \$2,021,000 in revenue of which just under \$275,000 was in cash. Revenue is collected by Cashiers at the front counter and also by Cashiers handling mail-in licenses and phone inquiries. In addition, Canvassers going door-to-door also collect license fees.

Of the 11 months reviewed, it was determined that \$253,150 in revenue was missing. Our review of bank deposits revealed that cash was consistently missing from deposits throughout the period. The lack of an adequate reconciliation process, segregation of duties, and supervisory review provided the opportunity for misappropriation of funds to occur during various stages of the revenue collection process. Listed below are the three main weaknesses in the cash collection process where several employees could have misappropriated cash without detection:

1. The reconciliation process of daily receipts was insufficient and lacked supervisory review creating the highest area of risk. Specifically:
  - One employee, the Clerk Typist III, was solely responsible for the reconciliation, but elected not to balance against the Department's point-of-sale Chameleon software where all transactions were recorded.
  - The Clerk Typist III did not retain the Cashiers' documentation (calculator tape and receipts) with the reconciliation, so it could not be determined what amounts the Cashiers had reported.
  - The Clerk Typist III also prepared the bank deposits, which did not match the Chameleon reports.

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<sup>1</sup> In October 2009, Management implemented Chameleon, and integrated shelter software case management system, to consolidate all transactions occurring throughout ACS. Chameleon replaced the Basic Animal Regulation and Kennel System used for dog licensing as well as the cashiering system.

- There was no supervisory review of the reconciliations or deposits, nor did any other staff ever prepare the reconciliation or deposit. Instead, cash receipts were held in the safe until the Clerk Typist III returned to work.
2. At the end of their shifts, the Cashiers' produced a calculator tape total of duplicate customer receipts generated from the system and placed the tape and receipts along with the money collected into an envelope. Since amounts placed in the envelope were never reconciled to the system, Cashiers had the ability to omit receipts and the corresponding cash. However, due to the amount of money missing, it is unlikely a Cashier, acting alone, could take over \$253,000 during the audit period.
  3. The Cashiers' envelopes were provided to the Officer-in-Charge who placed them into the department safe, but did not verify the amount enclosed. The Cashiers did not consistently witness the Officer-in-Charge placing monies inside the safe. After the money was placed in the safe, there were nine employees with access to the safe where daily cash receipts were stored.

Additional details of the above issues, information concerning software system testing, and recommendations to strengthen internal controls may be found in the body of the report.

While conducting the audit, we communicated high-risk issues to Management as they were identified, enabling Management to begin implementing corrective procedures immediately. Management initiated a police investigation upon discovery of the cash shortage. Management has since developed and disseminated formal cash handling policies and procedures and implemented supervisory review processes to ensure that all revenues received are deposited.

We commend Management for requesting our immediate assistance in performing this audit and their remarkable level of cooperation. We also appreciate Management's efforts to correct internal control weaknesses in order to safeguard the City's assets and operate more efficiently and effectively.

## **Background**

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ACS is a Bureau within the Department of Health and Human Services. The vision of ACS is to become California's safest large city for people and animals, through a proactive strategy of community engagement and proactive enforcement activities. ACS provides services to Long Beach and four contract cities, including Cerritos, Seal Beach, Signal Hill and Los Alamitos.

In fiscal year (FY) 2010, ACS collected and deposited more than \$2,021,000 in revenue in the form of cash, check and credit cards. Just under \$275,000 of the revenue was in cash. Revenue is collected by Cashiers at the front counter and also by Cashiers handling mail-in licenses and phone inquiries. In addition, Canvassers going door-to-door also collect license fees.

### *Chameleon System*

Management has long recognized the need for an integrated shelter management system; however, the purchase of a new system was deferred pending the identification of funding. In January 2009, ACS Management received approval to replace the dog licensing mainframe database (BARKS) and the cashiering system with Chameleon, an integrated information management system that would consolidate all transactions throughout the ACS Bureau. Funding for the purchase and implementation cost of approximately \$57,000 was provided by the Derrickson Trust grant fund.

The Chameleon system went live on October 1, 2009, offering the functionalities of consolidating systems to capture all revenues collected, eliminating manual receipts, and providing enhanced reporting features. The use of the system continues to evolve as employees are trained and policies and procedures are developed.

## **Audit Objectives, Scope, and Methodology**

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On September 2, 2010, the Director of Health and Human Services Department notified the City Auditor that ACS Management identified a significant discrepancy on August 31, 2010 between the Cash Box Closing Report<sup>2</sup> and the Deposit Receipts<sup>3</sup> for the month of August 2010. Prior to October 2009 there was no system that would capture all revenues collected, as such there was no report to reconcile daily revenues received. Therefore, the purpose of our audit was to determine the existence of a possible misappropriation of monies received at ACS during the period of October 1, 2009 through August 31, 2010.

While conducting the audit, we performed the following procedures:

- Obtained and reviewed the most recent audit/review reports on ACS for issues pertaining to our audit objective;
- Conducted interviews with ACS management to gain an understanding of their involvement with the process;

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<sup>2</sup> Cash Box Closing Reports are Chameleon system reports that list the daily cash, check, and credit card payments received by date and in sequential Customer Receipt number order.

<sup>3</sup> Deposit Receipts (DR) are internal City forms used to record bank deposits and revenues to appropriate charge points in FAMIS. DRs are input into FAMIS and generate a unique DR number.

- Conducted interviews with appropriate employees and observed the following processes to gain an understanding of controls in place:
  - Cashiers' daily balancing procedures; and
  - Canvassers' daily balancing procedures;
- Obtained a Cash Box Closing Report summarizing the daily revenues received during the period of October 1, 2009 through August 31, 2010;
- Scheduled DRs for the period of October 1, 2009 through August 31, 2010;
- Reconciled the Cash Box Closing Report to DRs to determine if monies received during October 1, 2009 through August 31, 2010 were deposited at the bank;
- Traced customers' checks, cash and credit card payments to bank documents, on a sample basis;
- Obtained and reviewed Administrative Regulation 21-1: *Procedure for Deposition Monies with the Financial Services Division, Central Cashiering Section*;
- Identified whether monies collected during October 1, 2009 through August 31, 2010 were deposited timely at the bank;
- Observed use of the Chameleon system and interviewed appropriated employees to gain an understanding of computer controls; and
- Analyzed the Chameleon database for data integrity, including review of users' access capacities, missing receipts and voided receipts.

We conducted this 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We noted certain internal control matters not significant to the objective of the audit that we communicated to ACS Management in a separate correspondence dated March 28, 2011.

## Issues and Recommendations

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### A. Misappropriation of Revenue

Our audit revealed that \$253,150 was misappropriated over the 11 month audit period. Our review of bank deposits confirmed that cash was consistently missing from deposits. One employee, the Clerk Typist III, was responsible for verifying daily Cashier receipts to the point-of-sale transactions shown on Chameleon's Cash Box Closing Report. However, the Clerk Typist III elected not to use the information from Chameleon, instead preparing reconciliations without any supporting documentation. As a result, control weaknesses identified in the revenue collection and reconciliation process provided the opportunity for the misappropriation to occur.

#### 1. The Reconciliation Process of Daily Receipts was Insufficient and Lacked Segregation of Duties Creating the Highest Area of Risk.

One employee, the Clerk Typist III, was solely and consistently responsible for the revenue receipt reconciliations and preparing and depositing bank deposits. The employee also served on occasion as a back-up cashier, receiving payments from customers and recording payments into Chameleon.

While the Clerk Typist III was trained on the Chameleon system and familiar with the system's reports, she elected not to use the information to reconcile receipts. The reconciliations that were prepared did not include any documentation provided in the Cashiers' envelopes and did not balance to the Chameleon system. The daily bank deposit amounts did not agree to the previous day's cash receipts reported by Chameleon. In addition, daily check payments received and recorded in Chameleon were not deposited daily according to payment receipt date. Checks received one business day were often deposited on several different days. Our review of deposits confirmed that this practice was consistent throughout the audit period.

There was no supervisory review of reconciliation documents prepared by the Clerk Typist III. As such, Management was unaware that the employee was not reconciling the totals in Chameleon to daily bank deposits. There was also no assigned back-up to perform the reconciliation and deposit duties in the Clerk Typist III's absence.

The ability to perform the reconciliation and deposit the money without supervisor review provided the employee the opportunity to misappropriate unlimited funds without detection.

***Recommendation: Implement policies and procedures to establish proper reconciliations, segregation of duties and adequate review.***

Management should ensure proper segregation of duties in the cash receipting, recording and depositing process. Specifically, the employees assigned to reconcile cash receipts and prepare bank deposits should not have input and update access in the Chameleon system that is used to record customer transactions. The ability to gain custody of cash receipts and then record the receipts increases the risk of undetected fraud and errors. In addition, the daily cash receipt reconciliation and preparation of the bank deposit slip should be separated from making the bank deposit to further segregate the custody of cash from the recording of transactions.

Supervisory employees independent of the cash handling, receipting and recording process should review reconciliations of the Chameleon Daily Cash Box Reports to the Deposit Receipt and bank deposits as a critical detective control to identify discrepancies due to error or fraud. Reconciliations must ensure that (1) customer receipts agree with the DR and bank deposits, (2) there is a corresponding DR that agrees to Chameleon cash receipts reports for each business day, and (3) deposits are made daily in accordance with Administrative Regulation 21-1. The review should be documented (e.g. initial and date the verified amounts on each document).

## **2. Cashiers' Drop Envelope Information was Never Verified**

Cashiers and Canvassers prepared end-of-shift envelopes containing revenue collected and system-generated duplicate customer receipts. The Cashier prepared a calculator tape total and attached to the receipts. Since the Clerk Typist III responsible for reconciling daily drops was not verifying the amount in the envelopes against Chameleon's Cash Box Closing Report, the Cashiers could have eliminated receipts, changed tape totals, and misappropriated cash without detection.

It is highly unlikely a single Cashier could have taken over \$250,000 during the audit period. Collusion amongst the Cashiers would likely be required to misappropriate this amount of money.

***Recommendation: Cashiers should be performing blind drops.***

Each Cashier is provided an envelope containing \$30 in change at the beginning of their shift. At the end of their shift, they should leave the \$30 in the change envelope and place the remainder of the cash, checks, and credit card receipts into the drop envelope. Each Cashier should record the amount of the cash, checks and credit card receipts on the drop envelope before depositing the envelope into the drop safe. The employee, independent of the cashiering process, assigned to perform the reconciliations should compare the Cashiers' deposits to the Chameleon system reports

to ensure all receipts are properly included. Management should review the reconciliations and bank deposits daily to verify that all receipts are deposited intact.

The Cashier should not have access to daily transactional reports from Chameleon or print and retain duplicate customer receipts. Access to this data allows Cashiers the ability to determine the exact amount of money that should be in the envelope creating an opportunity to take any cash drawer overages that may have occurred or omit receipts and the corresponding cash.

**3. There was a Lack of Accountability for Transferring Daily Cash Receipts from Cashiers to the Safe. In Addition, the Number of Employees with Access to the Safe was Excessive.**

Envelopes were given to the Officer-in-Charge or personnel responsible for placing cash receipts into the safe. The Officer-in-Charge does not verify or document the amount of monies received. In addition, the Cashiers and Canvassers do not consistently observe the Officer-in-Charge placing monies inside the safe. This provides the opportunity for the Officer-in-Charge to have access to multiple envelopes without dual custody.

Once the money was in the safe, there were nine employees that had access to all of the safe's contents.

Since the Clerk Typist III responsible for reconciling daily drops was not verifying the receipts against Chameleon's Cash Box Closing Report, those with access to the envelopes had the ability to eliminate receipts, change tape totals, and misappropriate cash without detection.

***Recommendation: Purchase a safe with drop slots to reduce the transfer of money between multiple employees.***

The Department needs a safe with drop slots to allow Cashiers and Canvassers to deposit funds directly into the safe, reducing the transfer of money between multiple employees. Access to the drop safe compartments should be limited to the employees performing the daily reconciliation and upper Management. Until the drop safe is installed, Cashiers/Canvassers and Officers should deposit funds into the safe in dual-custody and document evidence of the amount placed into the safe. In addition, Management should evaluate current safe access levels and reduce safe access to the minimum number of employees necessary for operations.

## **B. Information Technology Tests Conducted for Chameleon System Reliance**

Our findings, in part, are based on the transactional revenue information recorded in the Chameleon system. We performed three system tests to verify the reliability of data recorded:

### **1. Receipt Gap Testing**

The Chameleon system automatically generates receipt numbers. Users are not able to override this field. We obtained a sequential receipt report from ACS Management for the period from September 1, 2009 through October 31, 2010 to verify the completeness of sequential receipt records. Utilizing ACL audit software, we performed a "Look for Gaps" test and a "Count Records" test and identified 5 missing receipts out of 36,663. These missing receipts appear to be related to the conversion of data in the previous BARKS system into Chameleon. Errors occurred on some identification fields where the conversion was not populated correctly. The System Administrator has the ability to delete the receipt errors. ACS Management is currently working with the City's Technology Services Department to eliminate the ability of the System Administrator to delete records. The number of missing receipts found during the audit period represents an error rate of only 0.01% of the total records tested. Therefore, we concluded the receipt records were reliable.

### **2. Modification of Amounts on Existing Receipts**

Computer controls represent varied levels of access within the computer system to alter and delete records. The purpose of these controls is to restrict the ability to alter computer records without supervisory approval to as few individuals as possible. On January 14, 2011, we asked ACS personnel with general user and system administrator access levels to attempt the following:

1. Print a customer receipt prior to posting a transaction;
2. Modify payment amounts after a receipt has been posted; and
3. Modify fee amounts after a receipt has been posted.

Users were unable to perform the three requested changes noted above, receiving an error message on each attempt. Based on the test performed, we determined that Chameleon System Users are unable to print a receipt prior to posting the receipt or modify monetary amounts on existing receipts. Management confirmed there had been no system changes during or following the audit period.

### **3. Voided Receipts Testing**

We obtained from ACS Management a sequential receipt report listing all receipts issued in Chameleon from the system inception date of September 28, 2009 through January 11, 2011. Using this report, we identified 781 voided receipts totaling \$66,678. We selected a sample of 51% of the total amount of voids and reviewed the electronic notepad in Chameleon documenting the reason for the void or obtained explanations from ACS Management. We noted that the majority of the receipts appear to be the result of clerical errors. Additionally, we identified that a corrected receipt was generated, if applicable, for each voided receipt selected. As a result of the procedures performed, we determined the voided receipts appear to be appropriate.

Based on the tests performed, we concluded that the data generated in the Chameleon system could be relied on during the audit period.

# **Appendix A**

## **Management's Response**

### **Health and Human Services Department**



# CITY OF LONG BEACH

DEPARTMENT OF HEALTH AND HUMAN SERVICES

2525 GRAND AVENUE • LONG BEACH, CALIFORNIA 90815 • (562) 570-4000 • FAX: (562) 570-4049

May 20, 2011

Laura Doud, CPA  
City Auditor  
City of Long Beach  
333 West Ocean Blvd., 8<sup>th</sup> Floor  
Long Beach, CA 90802

Dear Ms. Doud,

I would like to take this opportunity to thank you and your staff for your assistance in conducting the review of revenues at the Animal Care Services (ACS) Bureau. The positive impacts of the audit team's findings and recommendations have already been implemented as a result of new policies, procedures, and processes for the reconciliation and deposit of City revenues.

Please find attached the Health Department's management response to the findings and recommendations of the Audit of ACS Revenues. Our vision is to become the safest large city in California for people and animals. To achieve this vision, the ACS Bureau will continue to rely on engaged partners like you to improve business operations, promote responsible pet ownership, and ensure humane care citywide. Should you have any additional comments or questions, please feel free to contact me at extension 84016.

Sincerely,

Ronald R. Arias  
Director of Health & Human Services

Attachment

cc: Patrick West, City Manager  
Suzanne Frick, Assistant City Manager  
John Keisler, Animal Care Services Bureau Manager



# CITY OF LONG BEACH

DEPARTMENT OF HEALTH AND HUMAN SERVICES

2525 GRAND AVENUE • LONG BEACH, CALIFORNIA 90815 • (562) 570-4000 • FAX: (562) 570-4049

May 20, 2011

## Management Response to the Audit of Animal Care Service Revenues

The Department of Health and Human Services would like to take this opportunity to thank the City Auditor and staff for their assistance in conducting the requested review of revenues at the Animal Care Services (ACS) Bureau. ACS takes very seriously the responsibility of safeguarding public resources. The positive impact of this collaborative process has already resulted in the implementation of new policies, procedures, and internal controls that improve confidence, transparency, and safe handling of City assets.

The following improvements were implemented prior to the completion of the ACS audit:

- New Chameleon reports for revenue balancing were developed to capture revenues collected across all divisions, eliminate manual receipts, and reconcile amounts received.
- New policies and procedures for cash handling, verification, and deposit were implemented to improve security and controls. Existing positions were re-organized to promote segregation of duties and limit risk of fraud. Dual controls for cash handling, daily deposits, and reconciliation were implemented.

### Response to Identified Issues:

#### Issue A: Misappropriation of Revenues

Management agrees with the Auditor's finding that accounting control weaknesses and insufficient staffing contributed to the misappropriation of cash revenues at ACS. Management also concurs that widespread misappropriation of revenues was unlikely. Rather, accounting control weaknesses allowed a corrupt employee to exploit the reconciliation, reporting, and deposit process undetected.

The Audit recognizes several contributing factors that have been addressed by management. First, the lack of a comprehensive information management system for revenue balancing prior to 2010 limited the amount of supporting documentation available to provide the appropriate checks and balances for daily deposits. Second, the existing process for manual reconciliation was insufficient, and allowed for fraudulent reports to be submitted for review and deposit. Third, one administrative employee had too much control over the reconciliation process of daily receipts.

*Finding One: The Reconciliation Process of Daily Receipts was Insufficient and Lacked Segregation of Duties Creating the Highest Area of Risk*

Response: To address this weakness, management implemented a new enterprise-wide information management system in October 2009, to integrate operational, performance, and financial data across the organization. The new system, Chameleon, streamlined animal identification, investigation, veterinary, and licensing records. Over six months, tens of thousands of historical records were converted and cleaned; and staff was trained to utilize hundreds of new features. Performance improved across the organization as a record number of calls for service and investigations were completed; a record number of licenses were renewed; and, a record number of animals were returned to owners or adopted.

Management agrees with Audit findings that the Clerk Typist III responsible for accounting did not use available Chameleon reports to balance revenues. Further, management agrees that manual reconciliation reports were not sufficient and failed to identify fraudulent activity in the reconciliation process.

Management also agrees with the Audit Report that staffing was insufficient to provide necessary segregation of duties. One employee had too much control of the daily reconciliation and deposit process. To this end, management created separation between customer service and accounting. Daily, supervisory employees independent of the cash handling process reconcile deposit reports against the Chameleon Cash Box Reports, Deposit Records, and Bank Deposit Slips to ensure consistency.

In addition, Sequential Receipt Reports and Sequential Index Code Reports have been created to add additional checks and balances. Positions have been reorganized so that the employee making daily deposits does not prepare the Deposit Record. Since the implementation of this new process every receipt has been reviewed on a daily basis prior to deposit approval. Management believes that new Daily Deposit policies and procedures implemented September 2010 address nearly all of the issues and recommendations presented in this section of the Final Audit Report and ensure the security of public assets.

*Finding Two: Cashiers' Drop Envelope was Never Verified*

Response: Management agrees that verification of daily deposits must occur. Management has implemented a new process requiring the elimination of the manual process where there was opportunity for fraudulent reporting during the reconciliation process. Instead, Cashiers and the staff member responsible for reconciling deposits are required to utilize new Cash Box Closing and Sequential Receipt reports generated automatically by the Chameleon system. The Auditor has verified the security of the Chameleon system and the reliability of these reports.

The Audit also recommends that Cashiers utilize a blind drop. There are challenges with this recommendation. Management will work with the Auditor to develop policies and procedures to address this issue.

Next Steps: Management has already implemented new checks and balances for daily deposits, reconciliation, and review. Management will continue ongoing training of all staff responsible for handling or recording revenues, to ensure the strict internal controls and the security of public assets. Management will work with the Auditor to develop policies and procedures related to the blind drop recommendation.

*Finding Three: There was a Lack of Accountability for Transferring Daily Cash Receipts from Cashiers to the Safe. In Addition, the Number of Employees with Access to the Safe was Excessive*

Response: Management agrees that dual controls are important to ensure accountability and the integrity of daily deposits by Cashiers. Prior to the Audit, after balancing, Cashiers submitted their cash envelopes to the Officer-in-Charge to secure in the safe, or self-submitted their cash envelope to the safe under the watch of the Officer-in-Charge. The safe (located in the Dispatch room) was monitored 24-hours a day by digital camera.

To address the issues of accountability cited by the Auditor, new policy requires that the Cashier verifies deposits using the Chameleon Cash Box Report before the end of each shift. Using the Daily Chameleon Cash Box Report, the Senior Officer-in-Charge verifies deposits in the presence of the Cashier and both parties certify the amount submitted to the safe. The Cashier is also required to witness the Officer-in-Charge as they secure the Cash Box envelope in the locked safe at the end of shift. Management implemented this policy of dual certification to ensure that revenues deposited were certified prior to reconciliation the following day.

Management also shares the Auditor's concerns about safe-security. Historically, only a few supervisory staff members were provided access to the safe combination. Given that ACS operates 24-hours a day and 7-days a week, there have always been a limited number of senior supervising officers that are responsible for closing the facility on a rotating basis. Historically, the following (8) staff members had access to the safe: Bureau Manager, Chief of Operations, (4) Officers-In-Charge, Clerk Supervisor and Clerk responsible for reconciliation of daily deposits. To address concerns by the Auditor regarding access, the combination to the safe was changed and access was reduced to just (6) staff members of the leadership and accounting team.

Next Steps: Management has implemented new procedures to improve accountability and further limit the number of employees with access to the safe.

*Issue B: Information Technology Tests Conducted for Chameleon System Reliance*

*Finding One: Receipt Gap Testing*

Response: Management believes that new Sequential Receipt reports provide an accurate and unalterable accounting of transactions, receipts, and revenues collected

by ACS. New policy dictates that gaps in receipt sequence must be identified, investigated, and resolved prior to approval of daily deposits.

*Finding Two: Modification of Amounts on Existing Receipts*

Response: The Auditor provided a valuable service by testing the security of existing receipts. Management is grateful to know that Daily Cash Box and Sequential Receipt reports reflect accurate and reliable supporting documentation for daily deposits.

*Finding Three: Voided Receipts Testing*

Response: Management agrees that all voided receipts must include a detailed description documenting the reason for the void and is grateful that the Auditor reviewed each voided transaction during the audit period. All voided transactions have been updated with comment from the Cashier responsible for the transaction.

**Conclusion**

In conclusion, the Department of Health and Human Services and the Animal Care Services Bureau wish to thank the Office of the City Auditor for this collaborative effort to audit revenues, test existing controls, and make recommendations for improvement. Management agrees with the findings of the Auditor and is confident that nearly every recommendation from this audit has been addressed.

Ensuring the safety and security of assets is an ongoing activity and does not stop with the current effort. Animal Care Services is healthy, strong, and growing. As new services are added and revenues continue to grow, ongoing review of internal controls will be required to ensure security of assets. If new threats to system security are identified, Management will continue to work collaboratively with the City Auditor, Technology Services, and Financial Management to improve and maintain transparency, accountability, and public confidence.