



OFFICE OF
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May 27, 2008

The Honorable Antonio Villaraigosa
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council

The mission of the Department of Animal Services is “to provide quality service, enhance responsible, safe and life oriented animal-human interactions, resulting in the prevention of animal cruelty, promotion of animal welfare, and the protection of the residents and animals of the City of Los Angeles.”

My audit of the fiscal operations has uncovered a Department which is struggling to move forward. The largest source of revenue for Animal Services is from the dog license fee. The City of Los Angeles has anywhere from 400,000 to 800,000 dogs, however, my audit found that the Department has registered only 123,000. Increasing this number of licensed dogs would not only boost revenues, it would also help the Department achieve its mission.

Especially since 75-80% of Los Angeles’ dog population is unlicensed, it behooves the Department to take advantage of all opportunities to identify these unlicensed pets. How can we be reimbursing veterinarians for spay and neuter services and not even bother to ask if these dogs are licensed, much less to follow-up with a bill to the owner?

In addition, the Department, to say the least, is inactive in its collection of monies owed it, to the tune of at least \$2 million over the last two and a half years. Delinquent accounts are not transferred to the City Attorney as they should be. Inexplicably, the Department ceases collection efforts after sending out one delinquency notice.

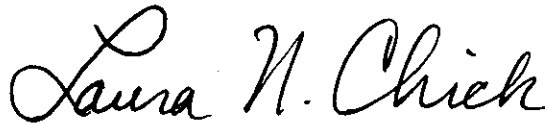
The Honorable Antonio Villaraigosa
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My report also revealed that the Department's spending and contracting operations are haphazard and lack needed oversight. Thousands of dollars of charges made on purchasing cards had no requisite support information as to why the expenditures were made. Contracts were awarded with little transparency, lacking crucial documentation, and at times were executed without the required signatures of the City Attorney or City Clerk.

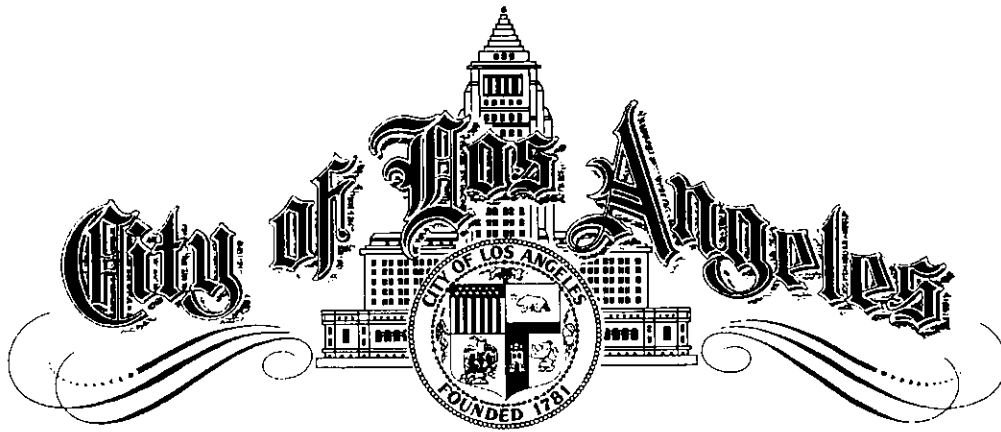
In February, the City Council passed a mandatory spay and neuter ordinance which takes effect this October. This is a crucial time for Animal Services as it prepares for this new and significant responsibility. It is critical that it get its financial house in order and maximize every revenue generating opportunity available.

I will be bringing forward additional information regarding the Department's Spay and Neuter Program in a performance audit to be released this summer.

Sincerely,

A handwritten signature in black ink that reads "Laura N. Chick". The signature is written in a cursive, flowing style.

LAURA N. CHICK
City Controller



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May 27, 2008

Edward A. Boks, General Manager
Animal Services Department
221 N. Figueroa Street, 5th floor
Los Angeles, CA 90012

Dear Mr. Boks:

Enclosed is a report entitled "Audit of Revenues and Expenses at the Department of Animal Services." A draft of this report was provided to your office on May 12, 2008, and an exit conference was held on May 19, 2008. We considered your comments provided at the exit conference prior to finalizing this report.

Please review the final report and advise the Controller's Office by June 27, 2008 on planned actions you will take to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

Farid Saffar, CPA
Director of Auditing

Enclosure

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Karen L. Sisson, City Administrative Officer
Karen E. Kalfayan, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Jim Bickhart, Office Lead Liaison, Office of the Mayor
Tariq Khero, President, Board of Animal Services Commissioners



City of Los Angeles Office of the Controller

Audit of Revenues and Expenses at The Department of Animal Services

May 27, 2008

Laura N. Chick
City Controller

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AUDIT OF REVENUES AND EXPENSES AT THE DEPARTMENT OF ANIMAL SERVICES

EXECUTIVE SUMMARY

The Auditing Division has completed an audit of revenues and expenses at the Animal Services Department. The primary objective of the audit was to evaluate controls over revenue and expenditure transactions.

The Department of Animal Services (the Department or LAAS) enforces laws regulating the care, custody, control and prevention of cruelty to animals in the City. It operates six animal shelters or care centers, issues permits and conducts inspections of animal establishments. The Department issues dog and equine licenses, offers pet adoptions, runs pet sterilization programs and holds educational events.

The Department's fiscal year (FY) 2007-08 revenue budget for the General Fund is \$3.7 million. The largest revenue source is \$2.7 million for dog licenses. The other largest sources of revenue are veterinary medical fees and dog pound fees. The Department's FY 2007-08 expenditure budget for the General Fund is \$21.1 million. Of this amount, \$19.5 million (92%) is for salaries.

SCOPE

The audit was performed in accordance with Generally Accepted Government Auditing Standards and covered revenue and expense transactions from fiscal year 2005-06 to March 2008. Fieldwork was conducted between February and April 2008.

SUMMARY OF AUDIT RESULTS

We noted that Animal Services charges approved and authorized fees for its services and that collections are being deposited into correct funds. However, the Department needs to increase its efforts to license dogs. Estimates of the number of dogs that live in the City range anywhere from 400,000 to 800,000. With the Department having registered only 123,000 dogs, there is a high number of unlicensed dogs in the City. Increasing the number of licensed dogs would not only increase revenues, it would also help the Department promote the health, welfare and safety of all animals and people in the City.

In addition, the Department does not aggressively attempt to collect additional renewal fees. 70% of the 123,000 registered dogs have had their renewal fees paid. As a result, the Department has lost an estimated \$2 million in potential revenue over the last 2 ½ years.

It should be noted that in February 2008, Council passed an ordinance to require all dogs and cats within the City of Los Angeles to be spayed or neutered with certain exemptions. This new ordinance may impact license revenue. This is because the City currently charges \$100 annually for license renewals for an unaltered dog compared to \$15 for a spayed or neutered dog. Based on current licensing and collection rates, we estimate that the new law may result in a revenue loss of approximately \$1 million a year, if the number of licensed animals does not increase. In light of this, the Department needs to aggressively pursue increasing the number of licensed animals.

We also noted weaknesses in controls over waived fees and voided transactions; purchases of equipment and emergency items; contracts for spay and neuter services and for consultant services; and several areas where functions were not properly segregated.

Current management has recognized the need for improvements and has established some procedures that would help address some of the deficiencies identified in this report. For example, to strengthen controls over P-Card transactions, the Department issued a memo to all card holders reminding them of P-Card policies and the Department cancelled cards for employees who consistently violated procedures. Relative to contract documentation, the Department now has in place a centralized filing system where all pertinent documents are maintained. The management also recently submitted a report to its Board where it recognized the need to pursue a cost recovery fee schedule to increase revenue. The following are the audit's key findings:

KEY FINDINGS

- **The Department waived \$925,000 in fees over the last two and one-half years. In addition, void transactions totaled \$470,000 over the same period. Neither waivers nor voided transactions are documented and there is no evidence of supervisory approval.**

City policies require that any fees waived be properly approved and the reasons documented. The Los Angeles Municipal Code grants the Department's General Manager the power to waive all or any portion of fees, on as many as three separate days in any calendar year in order to encourage and promote pet adoptions. Under the Department's New Hope program, some entities such as humane and rescue organizations are exempt from paying certain fees. The Department waived approximately \$926,000 in fees over the last two and one-half years, with over \$556,000 related to exempt organizations. LAAS has approved policies relating to the eligibility requirements of exempt organizations. However, the Department was not able to provide any evidence on a transactional basis of

proper approval or documentation to support the reasons for waiving the fees. In addition, the Department's database system is not programmed to require supervisory approval to waive fees. Because of the lax controls, there is a risk that fees could be improperly waived without management detection.

We noted the same lack of proper approval or documentation to support \$470,000 in voided transactions. The Department should attempt to automate as many controls as feasible. However, if the Department is not able to enhance its database system to more tightly control the waiver/void process, it should ensure proper manual controls are in place to minimize the risk of misappropriation and/or fraudulent activities.

- **The Department does not aggressively pursue collection of delinquent accounts, resulting in potential lost revenue of approximately \$2 million since July 2005. Also, the Department does not assess a \$500 penalty prescribed by the Los Angeles Municipal Code resulting in additional lost revenue.**

City guidelines require departments to provide timely notices of delinquency. If payment is not received within 30 days, the account is considered delinquent and a delinquency notice should be sent within three days. If payment still has not been received within 10 days, a final delinquency notice should be sent on City Attorney letterhead. The Los Angeles Municipal Code also requires that a \$500 civil penalty be imposed on pet owners that fail to renew their licenses within 45 days after the license expires.

The Department sends out an initial notice 45 days before the license expiration date. It also sends one delinquency notice. If payment still has not been received after the delinquency notice, no further action is taken. The \$500 penalty is not assessed and the accounts are not referred to the City Attorney for further collection efforts. The collection/renewal rate for dog licenses continued to decline from 72% in FY 2005-06 to 64% this fiscal year, resulting in potential lost revenue of over \$2 million since July 2005 (excluding the potential revenue loss from not assessing the \$500 penalty). The actual amount of lost revenue would be lower by an unknown amount because the Department's database of dogs includes a certain number of dogs who have died or moved from the city. This number cannot be quantified.

- **The estimated percentage of unlicensed dogs in the City ranges from 70% to 85%. The Department is not taking advantage of several methods at its disposal to increase the percentage of licensed dogs.**

According to various professional studies, the estimated number of dogs in the City of Los Angeles ranges from 400,000 to 800,000. Since the Department only has 123,000 dogs registered, the Department is only capturing 15% to 30% of the dog population. While we noted that the problem with licensing dogs is not unique

to the City of Los Angeles, LAAS is not taking advantage of several available methods at its disposal to increase the percentage of licensed dogs.

For example, the Los Angeles Municipal Code requires each owner or operator of any dog hospital, pet shop or breeder to notify the Department in writing of any transfer or sale of dogs and the person to whom such dog has been sold or transferred. This requirement is rarely followed. During the first three months of 2008, the Department has not received any referrals from pet shops, dog hospitals, or breeders and the Department has made limited attempts to remind them of their responsibility to notify LAAS.

Also, under the Department's Spay and Neuter programs, veterinarians submit various coupons and certificates to be reimbursed for performing spay or neuter services. This provides a good opportunity to identify additional dogs that may not currently have licenses so that the Department could bill for them. The Department should take advantage of this program to increase the number of dogs licensed.

□ **The Department lacks adequate oversight over expenditure transactions and contracting activities.**

In reviewing the Department's expenditure transactions we noted the following:

- In November 2006, the Department purchased two X-ray machines costing \$150,000 that are still in storage in unopened boxes. The parts and labor warranty expired in January 2008, and the Department will incur an additional \$7,000 in installation charges when the machines are eventually placed in service. The Department also paid \$3,200 in shipping insurance that should have been paid by the vendor.
- The Department did not have adequate documentation to support several Purchasing Card (P-Card) purchases. For example, for 18 of 30 transactions reviewed, totaling \$13,785 there was no documented business purpose.
- The Department does not consistently review open encumbrances on the Supply Management System to determine whether any can be canceled. In February 2008, the Department requested GSD to cancel \$192,029 in open encumbrances on the Supply Management System (SMS). The Department acknowledged that many of the encumbrances should have been cancelled at least a year earlier.
- The Department has not always maintained adequate documentation for its contracts to demonstrate compliance with City contracting requirements. For example, for several current contracts, the Department could not show how the Request for Proposal (RFP) was advertised, who

the RFP was sent to, and who responded to the RFP. Additionally, for one contract, the consultant began performing services on January 12, 2007. However, the contract was not signed by the City Attorney and City Clerk until over five months later. The signed contract contained a clause, which ratified the services that had been performed before the contract was signed.

- **The Department's use of special revenue funds creates additional complexity. Some special revenue funds could be eliminated or combined.**

Special revenue funds are used to account for the proceeds of special revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. Having unnecessary funds could lead to inflexibility and complexity of administration. Accounting guidelines encourage governmental entities to establish only a minimum number of funds consistent with legal and operating requirements to minimize undue complexity and inefficient financial administration.

The Department has four special revenue funds and one trust fund. Based on our analysis of these funds, there is a potential to consolidate or eliminate some of the funds to simplify accounting operations. Three of the funds are used to account for the Spay and Neuter program. At a minimum, these three funds should be combined since they are used for the same purpose of providing sterilization services. In addition, two of the funds already derive a large portion of their revenue from transfers from the General Fund which indicates that their activities could probably be accounted for within the General Fund. In addition to reducing the number of transactions, by eliminating the special revenue funds, the Department will no longer need to decide what fund a particular expense should be paid from.

The details of these and other findings are discussed in the findings and recommendations section of this report.

REVIEW OF REPORT

A draft report was provided to LAAS on May 12, 2008. We discussed the contents of the report with LAAS management on May 19, 2008 who generally concurred with the findings and observations. The Department believes great strides have been made over the last two years to strengthen its financial operations and controls. We considered the Department's comments before finalizing this report. We would like to thank LAAS management and staff for their cooperation and assistance during the audit.

TABLE of RECOMMENDATIONS

RECOMMENDATIONS	PAGE REFERENCE
<p>Department Management should:</p> <p>1. (a) Except for the New Hope Program, establish policies and procedures for waivers and voided transactions. The policies/procedures should, at a minimum, address documentation and approval requirements, including the type(s) of documentation that customers must provide to show they meet the eligibility criteria for free services. (b) Ensure that established policies, including policies related to the New Hope Program are enforced.</p>	15
<p>2. Explore the feasibility of asking the vendor to modify the Chameleon system to require supervisory approval and reason codes for waivers and voids. If the Department is not able to enhance Chameleon to more tightly control the wavier/void process, it should ensure proper manual controls are in place.</p>	15
<p>3. Develop regular management reports that show the amount of waived and voided transactions, broken down by facility and/or cashier. If feasible, the reports should also show the amount of waivers and voided transactions broken down by reason code.</p>	15
<p>4. Work with the Office of Finance to establish a penalty amount that encourages animal owners to pay for a license while ensuring that the penalty is not too excessive.</p>	16
<p>5. Seek City Attorney and Council approval to modify the City's Municipal Code to reflect the penalty amount determined from recommendation #4.</p>	17
<p>6. Ensure compliance with City policies with respect to collecting on delinquent accounts by:</p> <p>a) Sending the second delinquent notice which includes the penalty amount to customers on City Attorney letterhead.</p> <p>b) Referring unpaid accounts to the City Attorney's Office.</p> <p>c) Submitting write-off requests to the Board of Review for accounts returned as uncollectible by the City Attorney.</p>	17
<p>7. Ensure that the Department bills for prior year fees that have not been paid.</p>	17
<p>8. Ensure staff complies with City policies regarding the collection of non-sufficient fund checks by sending letters requesting payment and referring the accounts to the Office of Finance or a collection agency when payment is not received.</p>	18
<p>9. Provide cashiers with a listing of bad check writers that the cashiers can use to collect on bad checks when a customer attempts to pay for another service.</p>	18

RECOMMENDATIONS	PAGE REFERENCE
10. Ensure that proper signage is posted at each facility which addresses the acceptance of checks and informs customers of the consequences of writing a bad check.	18
11. Increase its efforts to ensure that pet shops and breeders notify the Department of dog sales. These efforts should include regularly sending letters to these groups and other outreach efforts.	20
12. Establish procedures that ensure information on spay/neuter coupons and certificates are entered into Chameleon for annual license billing.	20
13. At City and Department-sponsored events, make available forms for pet owners to voluntarily submit their names, addresses and pet information. This information should be entered into Chameleon.	20
14. Reconsider re-instituting its program whereby veterinarians are reimbursed \$2 for each application processed and license issued. If application error rates continue to be high, the Department should determine the reason. If the Department believes this section of the Municipal Code is impractical, management should work with the City Attorney to amend the Code.	20
15. Require that payment for permits be mailed to lockboxes.	21
16. Provide a separate cash drawer for each clerk at each facility to ensure accountability.	21
17. Remind purchasing card holders and their supervisors of the Purchasing Card Program Cardholder Manual requirements and require these individuals to sign a statement that they have read and understood the requirements.	24
18. Continue to monitor P-Card purchases to ensure card holders complete a Purchasing Card Payment Record to show a description of the items purchased and their business purpose and to ensure evidence of supervisory approval. Supervisory approval should be obtained before the items are purchased or as soon as practicable after the item has been purchased.	24
19. Establish procedures which ensure that open encumbrances in the Supply Management System are reviewed on a regular basis and that unneeded funds are disencumbered in a timely manner.	25
20. Maintain appropriate documentation to clearly demonstrate compliance with City's contracting requirements. Documents maintained should include those relating to RFP advertisements, proposals evaluation and the selection and monitoring of contracts.	27
21. Ensure all contracts and agreements are properly executed before services are provided to avoid having to ratify services retroactively.	27
22. Provide for a proper separation of duties of the coupon/certificate issuance, redemption, and payment process.	28
23. Establish procedures which ensure that equipment purchases are not made until the items are ready to be used.	28

RECOMMENDATIONS	PAGE REFERENCE
24. Request a \$3,200 refund from the vendor for shipping insurance paid by Animal Services.	28
25. At a minimum, consolidate the Veterinary Medical Trust Fund, Animal Sterilization Fund, and Animal Spay and Neuter Trust Fund.	31
26. Explore the feasibility of eliminating all special revenue funds and accounting for their activities in the General Fund. If management decides to keep a fund, controls should be established to ensure funds do not accumulate large balances in the fund without a plan for spending the monies.	31

BACKGROUND AND METHODOLOGY

BACKGROUND

The Department of Animal Services (the Department) enforces laws regulating the care, custody, control and prevention of cruelty to animals in the City. It operates six animal shelters, or care centers, issues permits and conducts inspections of animal establishments. The Department issues dog and equine licenses, offers pet adoptions, runs pet sterilization programs and holds educational events. The Department's mission is "to promote and protect the health, safety and welfare of animals and people in the City of Los Angeles." For fiscal year (FY) 2007-08, the Department estimates it will perform 18,800 field investigations, issue 22,625 enforcement notices, treat 170,000 animals, impound 52,000 animals, immunize 80,000 animals, hold 115 adoption events, issue 137,000 licenses, and perform 44,484 pet sterilization surgeries.

Currently prices for most services are set by the City Council and specified in the Los Angeles Municipal Code (LAMC). Last year, the Department proposed amending the Municipal Code to delegate authority to the Department's Board to set fees and charges relating to impounds, adoptions, or redemptions, based on a cost recovery model and subject to review by the City Administrative Officer (CAO), and to delete or modify specific fees and charges in LAMC, Section 53.00. The cost recovery model would bring fees charged more in line with the cost of providing the various animal care services and should increase revenues. The proposal is currently being reviewed by the CAO. If approved, the Department's fee structure would also be simplified. LAAS believes that this would help reduce the number of voided transactions.

In February 2008, Council passed an ordinance amending Section 53.15.2 of the LAMC to require all dogs and cats within the City of Los Angeles to be spayed or neutered with certain exemptions. The animal license fee charge is \$15 for a spayed/neutered dog and \$100 for an unaltered dog. Based on current licensing and collection rates, we estimate that the new law will result in a revenue loss of approximately \$1 million a year, if the number of licensed animals does not increase.

The Department's FY 2007-08 budgeted General Fund revenues are \$3.7 million, of which \$2.7 million (73%) is from dog license fees. The expense budget is \$21.1 million of which \$19.5 million (92%) is for salaries. The Revenue and Expense sections of the audit report contain a breakdown of revenues and expenses by category.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to determine whether revenues were collected and expenses were incurred in accordance with City Codes and Department policies.

The audit sought to answer the following questions:

- Are current fees set in accordance with City policies, procedures and ordinances, and does the Department charge the approved fees and bill for all services provided?
- Are revenues billed and collected in a timely manner?
- Are other controls in place to properly account for, record, report and manage revenues?
- Are special revenue/trust funds being accounted for properly? For example are expenditures for allowable items, as described in the ordinances establishing the funds?
- Are expenditure payments (excluding salaries), properly authorized, made in accordance with City policies, properly supported by documentation, and for valid business purposes.
- Are outstanding encumbrances monitored so that unneeded encumbrances are cancelled in a timely manner?

The audit was performed in accordance with Generally Accepted Government Auditing Standards and covered the period from July 1, 2005 through March 31, 2008. Fieldwork was conducted between January 2008 and April 2008.

In conducting our audit, we interviewed management and staff and reviewed applicable laws, regulations, and Departmental procedures to obtain an understanding of the Department's revenue and expenditure operations. We then selected sample transactions to determine whether the Department is complying with prescribed laws and policies.

The remainder of this report details our findings, comments and recommendations.

AUDIT FINDINGS AND RECOMMENDATIONS

SECTION I: REVENUES

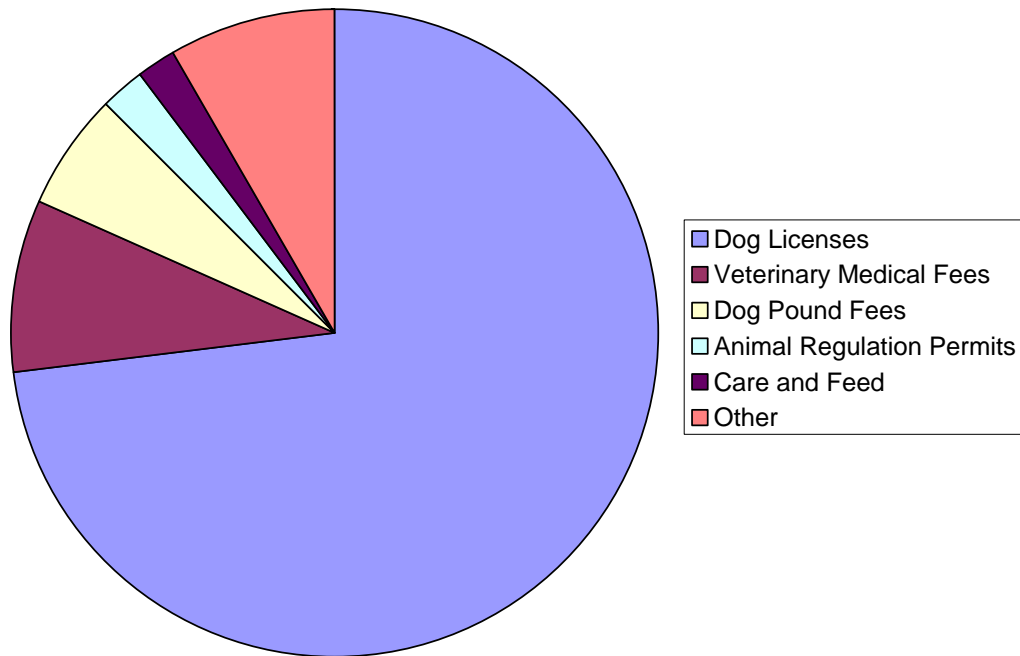
The Department generates its revenues primarily from fees collected for dog licenses. The FY 2007-08 General Fund revenue budget is \$3.7 million, of which \$2.7 million (73%) is from dog license fees. Table 1 shows a breakdown of the Department's General Fund revenues:

Table 1

General Fund Receipts FY 2007-08		
Revenue Source	Budget 07-08	%
Dog Licenses	\$2,700,000	73.13%
Veterinary Medical Fees	319,000	8.64%
Dog Pound Fees	209,000	5.66%
Animal Regulation Permits	80,000	2.17%
Care and Feed	71,500	1.94%
Other	312,500	8.46%
Totals	\$3,692,000	

Source: City Budget

Revenue Sources per Budget 07-08



Revenue is received via walk-ins at the six care centers and from notices or bills mailed to pet owners. Annual notices for licenses and notifications for vaccinations and citations are mailed to owners. These notices are generated bimonthly using the Department's Chameleon database prior to the licenses' expiration dates.¹

Pet owners can mail their payment to a lockbox administered by Bank of America on behalf of the City. Bank of America sends copies of checks, invoices and certificates to Department Accounting, and the payment dates are recorded in Chameleon.

¹ Chameleon is a relational database used by animal control agencies, humane societies and other organizations to track animals in shelters, animal registrations and other records. The software and updates are provided by HLP, Inc., a privately held corporation, that provides systems analysis and design, project management, custom software development and support, hardware installation, and training programs.

Finding #1: The Department waived \$925,000 in fees over the last two and one-half years. In addition, voided transactions totaled \$470,000 over the same period. Neither waivers nor voided transactions are documented and there is no evidence of supervisory approval.

Waivers

Section 53.11 of the City’s Municipal Code grants the Department’s General Manager the power to waive all or any portion of fees, on as many as three separate days in any calendar year in order to encourage and promote pet adoptions. Under the Department’s New Hope program, some entities such as other municipalities, non-profit organizations, humane or rescue organizations are exempt from paying certain fees. The Controller’s User Departmental Manual, Section 1.8.2, requires that waived fees be properly approved and the reasons documented.

As shown in Table 2 below, the Department waived approximately \$926,000 in fees over the last two and one-half years.

Table 2

Waived Fees from FY 2005-06 to March 2008

FY	Total Waived Fees
2005-06	\$ 260,331
2006-07	\$ 399,004
2007-08 (As of 3/8/08)	\$ 266,412
Total	\$ 925,747

Source: LAAS Chameleon Database

The Department was not able to provide any documentation on a transactional basis to support the reasons for waiving the fees and Chameleon is not programmed to require supervisory approval to waive fees. Of the \$926,000 in waived fees, approximately \$555,000 is related to exempt organizations. LAAS has approved policies relating to the eligibility requirements of exempt organizations. However, since supervisory approval is not documented, there are no assurances that these waivers for exempt organizations are valid.

The cashiers we interviewed stated that they obtain verbal approval from supervisors to waive fees. However, the Department’s policies and procedures do not address the type of documentation required to support waivers or the approval process. Additionally, there are no management reports of amounts waived, broken down by facility and/or cashier which could be used to identify unusual patterns and activity.

The cashiers also stated that some waivers are granted to low income customers. Sections 53.12 and 53.15 of the LAMC do provide for certain free services to low income individuals who are disabled or over age 62. However, the Department’s

policies and procedures do not indicate the type(s) of documentation that customers must provide to show they meet the eligibility criteria.

Voided Transactions

VOIDS occur when a transaction has been “finalized” but the transaction needs to be reversed. For example, a void could occur if the customer makes a payment but decides s(he) no longer wants the service or if a cashier makes a mistake. Section 1.7.2 of the Controller’s User Department Manual requires supervisory approval for voided transactions. Lax controls over voided transactions could result in misappropriation of funds occurring and remaining undetected. For example, cashiers could collect money from a customer, void the transaction, and then misappropriate the collection.

Over the past two and one-half years, voided transactions totaled \$469,000, as shown in Table 3. Based on the amount of revenue the Department collects, the amount of voided transactions seems high. As with waivers, there is no documentation explaining the reasons for the voids, supervisory approval is not required, and there are no management reports showing the amount of voids broken down by facility and/or cashier.

Table 3

Voided Transactions From Fy 2005-06 to April 2008

Fiscal Year	# of Voids	Amount
2005-06	9,782	\$134,318
2006-07	13,335	\$199,941
2007-08 (As Of 4/6/08)	9,319	\$135,129

Source: LAAS Chameleon Database

Department management agreed that the waiver and void process needs to be more tightly controlled. However, they indicated that although Chameleon is a system used by many animal control organizations, it is not designed to require supervisory approval for waivers or voids or to generate management reports of these transactions. Department management stated that it may be possible for the vendor to enhance Chameleon to more tightly control the waiver/void process. In addition, management stated that it should be able to generate management reports of waiver/void activity using other software.

Ideally, the Department should attempt to automate as many controls as feasible. However, if the Department is not able to enhance Chameleon to more tightly control the wavier/void process, it will need to ensure proper manual controls are in place.

Recommendations

Department management should:

1. (a) Except for New Hope Program, establish policies and procedures for waivers and voided transactions. The policies/procedures should, at a minimum, address documentation and approval requirements, including the type(s) of documentation that customers must provide to show they meet the eligibility criteria for free services.

(b) Ensure that established policies, including policies related to the New Hope Program are enforced.
2. Explore the feasibility of asking the vendor to modify the Chameleon system to require supervisory approval and reason codes for waivers and voids. If the Department is not able to enhance Chameleon to more tightly control the waiver/void process, it should ensure proper manual controls are in place.
3. Develop regular management reports that show the amount of waived and voided transactions, broken down by facility and/or cashier. If feasible, the reports should also show the amount of waivers and voided transactions broken down by reason code.

Finding #2: The Department does not pursue collection of delinquent accounts, resulting in potential lost revenue of \$800,000 a year. Also, the Department does not assess a \$500 penalty prescribed by the Los Angeles Municipal Code resulting in additional lost revenue.

City guidelines require departments to provide timely notices of delinquency. If payment is not received within 30 days, the account is considered delinquent and a delinquency notice should be sent within three days with a 10-day period afforded for payment. If payment still has not been received, a final delinquency notice should be sent on City Attorney letterhead. The City's Municipal Code, Sec. 53.15.3 requires the Department to impose a \$500 civil penalty on pet owners that fail to renew the license within 45 days after the license expires.

The Department sends out an initial notice and one delinquency notice. The billings only include the amount owed for the current year and do not include any amounts owed for prior years. Since the Department does not send a second delinquency notice, the customer never receives a delinquency notice on City Attorney letterhead.

If payment still has not been received after the delinquency notice, no further action is taken. The accounts are not referred to the City Attorney for further collection efforts and the Department has never assessed a dog owner the \$500 penalty. In addition, uncollected accounts have never been sent to the Board of Review for write-off. The

Department indicated that referrals have not been made and write-off requests have not been submitted because it has not been clear to them whether the accounts should be treated as receivables since the Department does not know whether the owner still has the dog. However, it should be noted, that all license renewal notices have a reply form that customers should use to inform the Department that the dog died or is no longer at that residence.

Chameleon shows 123,000 dogs in the database. As shown in Table 4 below, over 30% of expired licenses are not being renewed. Since about 90% of license fee collections have typically been for spayed/neutered animals and 10% for unaltered animals, the Department has potentially lost over \$800,000 in revenue a year as a result of non-renewal. This translates to potential lost revenue of \$2 million for licenses due since July 1, 2005.

Table 4

Dog License Expirations and Renewal - Estimate of \$ Lost Due to Non-Renewal

FY	Lic. Expired	# of Lic. Re-new	% of Lic. Re-new	Lic. Not Re-new	S/N Lic. Not Re-new	Non-S/N Lic. Not Re-new	\$ S/N Lic. Fee Avg.	\$ Non-S/N Lic. Fee Avg.	\$ S/N License Fee Not Collected	\$ Non-S/N Lic. Fee Not Collected	\$ Total Not Collected
05-06	129,391	92,696	72%	36,695	33,026	3,670	10	100	330,255	366,950	\$697,205
06-07	120,830	82,015	68%	38,815	34,934	3,882	12.5	100	436,669	388,150	824,819
07-08 (1)	58,930	37,969	64%	20,961	18,865	2,096	15	100	282,974	209,610	492,584
Total											\$2,014,608

(1) As of December 2007

Computed from data obtained from the Department's Chameleon Database

In addition to potential lost revenue from non-renewed licenses, the Department loses potential revenue by not assessing the \$500 penalty. Assessing the penalty would result in additional billings of approximately \$18 million (\$500 multiplied by 36,000) a year. However, the Department should consider lowering the penalty. Many people may view a \$500 penalty for a \$15 delinquent bill as excessive. Lowering the penalty may also encourage more compliance with licensing requirements and result in increased revenue. The actual amount of lost revenue would be lower by an unknown amount because the Department's database of dogs includes a certain number of dogs who have died or moved from the city. This number cannot be quantified.

Recommendations

Department management should:

4. **Work with the Office of Finance to establish a penalty amount that encourages animal owners to pay for a license while ensuring that the penalty is not too excessive.**

5. **Seek City Attorney and Council approval to modify the City's Municipal Code to reflect the penalty amount determined from recommendation #4.**
6. **Ensure compliance with City policies with respect to collecting on delinquent accounts by:**
 - a) **Sending the second delinquent notice which includes the penalty amount to customers on City Attorney letterhead.**
 - b) **Referring unpaid accounts to the City Attorney's Office.**
 - c) **Submitting write-off requests to the Board of Review for accounts returned as uncollectible by the City Attorney.**
7. **Ensure that the Department bills for prior year fees that have not been paid.**

Finding #3: The Department does not pursue collection of non-sufficient fund checks.

Section 1.7.6 of the Controller's User Department Manual and Section 1719 of the California Civil Code requires that a \$25 service charge be assessed for the first check returned for insufficient funds with a \$35 service charge for each subsequent returned check. If payment is not received, departments are required to refer the account to the Office of Finance or a collection agency. The manual also requires that signs be posted informing customers that charges will be added to amounts owed to the City for any checks returned by the bank.

Between February 1, 2006 and March 25, 2008, the Department received 522 non-sufficient fund (NSF) checks, totaling \$63,244 that have not been collected. Up until April 2007, the Department stated that it sent initial letters to the payors requesting payment. However, no follow-up was conducted and unpaid accounts were not referred to the Office of Finance or a collection agency. Since April 2007, the Department stated that no attempts to collect on NSF checks have been made because of a lack of staffing resources.

We also noted the following:

- We visited two facilities and noted that neither had signage to inform customers of the consequences for writing a bad check. One facility had a sign stating, "No out of City checks accepted", instead of "No out of State checks accepted."
- A listing of bad check writers is not made available to cashiers. Providing such a listing would reduce the likelihood of accepting a check from an individual with an outstanding NSF check. Also, the cashiers could attempt to collect on outstanding NSF checks when a customer wants to pay for another service.

Recommendations

Department management:

8. **Ensure staff complies with City policies regarding the collection of non-sufficient fund checks by sending letters requesting payment and referring the accounts to the Office of Finance or a collection agency when payment is not received.**
9. **Provide cashiers with a listing of bad check writers that the cashiers can use to collect on bad checks when a customer attempts to pay for another service.**
10. **Ensure that proper signage is posted at each facility which addresses the acceptance of checks and informs customers of the consequences of writing a bad check.**

Finding #4: The estimated percentage of unlicensed dogs in the City ranges from 70% to 85%. The Department is not taking advantage of several methods at its disposal to increase the percentage of licensed dogs.

According to various studies, the estimated number of dogs in the City of Los Angeles ranges from 400,000 to 800,000. Chameleon has 123,000 dogs registered in its database, meaning that the Department's system is capturing only 15% to 30% of the dog population.² The problem with licensing dogs is not unique to the City of Los Angeles.

Department management has told us that, given their resources, licensing is not a top priority; rather, the Department's emphasis is on spay and neuter, and adoptions. A few years ago, the Department had a total of 28 employees in its Licensing Unit and Canvassing Unit. Currently, there is a total of 17 employees in these units.

The Department also stated that increasing the number of licensed dogs is not in line with its mission "to promote and protect the health, safety and welfare of animals and people in the City of Los Angeles." However, we believe there is a connection since licensing dogs ensures they are properly vaccinated, thereby helping ensure the health, safety and welfare of animals and the public.

With respect to staffing resources, the Department may be able to reallocate staff, reprioritize functions or assign staff other duties. For example, clerks at shelters could be given data entry tasks (such as entering spay/neuter certificates, as discussed below) during slow periods. Another example is that members of the Permit section who are in regular contact with animal establishments could use their contacts to

² 123,000 represent the number of dogs registered in Chameleon. Only 92,696 have a current dog license.

encourage these businesses to comply with the law and refer information regarding new animals and their owners.

We noted that there are several available methods at LAAS's disposal to increase the percentage of licensed dogs.

Dog Sales

Section 53.27 of the LAMC states, "Each owner or operator of any dog hospital or pet shop, and any person engaged in the business of breeding dogs or as a veterinarian who sells, gives away or in any manner causes the ownership or permanent possession of any dog, whether over four months of age or not, to be transferred to any person, shall notify in writing the Department of that fact within five days after the date of such sale or transfer. Such notice shall state the kind of dog, the name of such dog, if any, and the person to whom such dog has been sold or transferred." During the first three months of 2008, the Department has not received any referrals from pet shops, veterinarians, or breeders. Management told us that because of staffing shortages the Department has not been able to send letters to these groups or conducted outreach to remind them of their responsibility to notify LAAS of any sold or transferred animals.

Spay and Neuter Certificates

Veterinarians submit certificates in order to get reimbursed for providing spay and neuter services. We sampled ten certificates submitted by veterinarians and found that nine animals were not entered into Chameleon, indicating they do not have a current license. The Department stated that it used to enter information from certificates into Chameleon but stopped this practice because of staffing limitations.

Department Sponsored Events

Periodically, the City or Department sponsors various events. Generally, there is no attempt to collect information about the animals, such as whether the animal is licensed. For instance, the Department occasionally holds low cost spay and neuter clinics. At these events, the owner is not required to show that the animal is licensed in order to receive services. In addition, the Department does not collect information about the animal and owner so that the owner can be billed.

Management stated that they have been told by some Council members and animal organizations not to have uniformed canvassers or animal control officers at these events because it would discourage participation. However, we believe that at least forms for registration should be displayed at the events, and the opportunity for citizens to register or fill out information forms be made available, even if it is voluntary.

Distribution of Applications by Veterinarians

According to LAMC, Section 53.15.4, “The Department may authorize a duly licensed veterinarian to distribute dog license applications. The veterinarian may be paid for such services a sum as agreed, not to exceed \$2.00 for each application processed and license issued by the Department.”

The Department stopped allowing veterinarians to submit applications and paying the \$2 reimbursements because it said the application error rate was high which required staff time to correct. However the high error rate could have been due to a lack of clear instructions for completing the applications.

Recommendations

Department management should:

- 11. Increase its efforts to ensure that pet shops and breeders notify the Department of dog sales. These efforts should include regularly sending letters to these groups and other outreach efforts.**
- 12. Establish procedures that ensure information on spay/neuter coupons and certificates are entered into Chameleon for annual license billing.**
- 13. At City and Department-sponsored events, make available forms for pet owners to voluntarily submit their names, addresses and pet information. This information should be entered into Chameleon.**
- 14. Reconsider re-instituting its program whereby veterinarians are reimbursed \$2 for each application processed and license issued. If application error rates continue to be high, the Department should determine the reason. If the Department believes this section of the Municipal Code is impractical, management should work with the City Attorney to amend the Code.**

Finding #5: Permit processing functions are not properly separated and cashiers share the same drawers.

The Department issues permits for various animal-related businesses and activities. For example, permits are required for pet shops, kennels, groom parlors and rodeos. Permit fee payments are not mailed directly to a lockbox, as is done with license fees. Instead, payments are made to the Permit section. Chameleon records for the current fiscal year show 880 permits issued and \$99,460 in collections.

The Controller’s User Departmental Manual, Section 1.8.2, requires that the functions of receiving payments, updating individual accounts and performing collections on delinquent accounts be separated to ensure that no one individual performs more than

one of the functions. Currently one employee within the Permit section can create and send reminder notices of annual fees as well as update accounts when payments are received.

We made site visits to the North Central and South Los Angeles care centers to observe the cash collection process. We noted that cashiers at North Central share the same cash drawer. This would make it difficult to determine responsibility for cash shortages. It should be noted that at the South Los Angeles facility, each cashier had his/her own cash drawer.

Recommendations

Department management should:

- 15. Require that payment for permits be mailed to lockboxes.**
- 16. Provide a separate cash drawer for each clerk at each facility to ensure accountability.**

SECTION II: EXPENSES

Expenses

The Department's FY 2007-08 expenditure budget for the General Fund is \$21.1 million. Of this amount, \$19.5 million (92%) is for salaries.

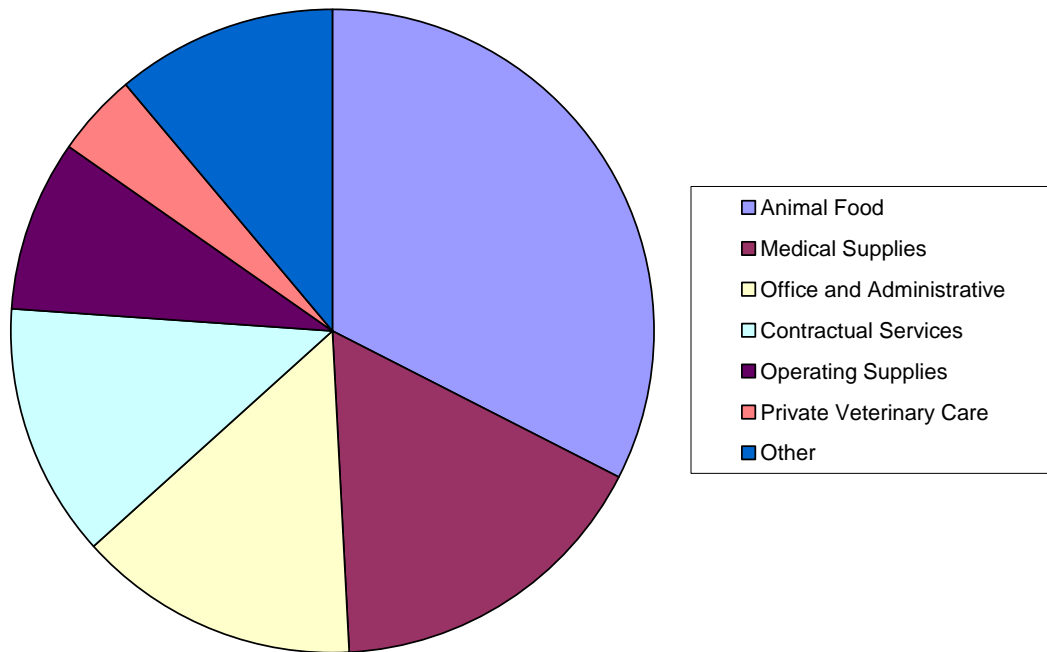
Table 5

General Fund Expenditure Budget - FY 2007-08

General Fund Expense Category	Budget Appropriation 07-08	%
Salaries	\$19,494,996	92.3%
Animal Food	529,160	2.5%
Medical Supplies	269,141	1.3%
Office and Administrative	229,021	1.1%
Contractual Services	207,848	1.0%
Operating Supplies	138,298	0.7%
Private Veterinary Care	67,500	0.3%
Other	181,834	0.9%
Total	\$21,117,798	

Source: City Budget

Expenses (except Salaries) per Budget Appropriation 07-08



Finding #6: The Department did not have documentation such as receipts on file for several P-Card purchases. In addition, several purchases were not approved by supervisors, as required.

The P-Card program is a credit card based system to procure low-value, non-inventory, non-capital, and non-contracted items less than \$1,000. All purchases made using City credit cards must be business related and properly documented. The Purchasing Card Program Cardholder Manual issued by the Controller's Office contains a listing of items that cannot be purchased using P-Cards. Examples of prohibited items include travel related items, alcohol, "Paypal" or other non-descriptive payment services, electronic items and contributions. Cards also cannot be used to split charges. The standard limit for the P-Cards is \$5,000 per monthly cycle and \$1,000 per single transaction.

Since July 2005 the Department has made \$190,000 in P-Card purchases. To determine whether the purchases were properly approved and supported by documentation, we selected 30 transactions totaling \$20,378. Only six of the 30 (20%) purchases were properly approved and supported by documentation. We noted the following problems with the remaining 24 (80%) purchases, as explained below.

- Receipts and approved statements (P-Card statements showing approval by a supervisor) for four of the 30 sample transactions could not be located or were

not turned in. Consequently we were unable to verify whether \$3,059 in purchases were authorized and for business related purposes.

- For 18 purchases totaling \$13,785 there was no business purpose indicated on the receipts or a Purchasing Card Payment Record (PCPR) log. For example, there were two purchases from Best Buy, one for \$406 and one for \$286. Without a description of the items purchased, we were unable to determine whether the purchases were business related. The Purchasing Card Program Cardholder Manual requires that each purchase be recorded in a Purchasing Card Payment Record (PCPR) log, which includes the date of purchase, vendor name, cost, description/purpose, and the date the materials were received. The log must be signed by both the cardholder and the cardholder's supervisor. As a general rule, Animal Services does not utilize the PCPR.
- For two purchases, there were receipts on file, but there was no evidence of required supervisory approval.

The Department indicated that it also has noted purchasing card violations similar to the ones we found. In January 2007, Department management issued a memorandum to remind purchasing card holders of the P-Card requirements. In addition, LAAS management took action during the first half of 2007 to cancel several cards. Management stated that the cancellations were mostly for employees who consistently violated procedures.

Recommendations

Department management should:

- 17. Remind purchasing card holders and their supervisors of the Purchasing Card Program Cardholder Manual requirements and require these individuals to sign a statement that they have read and understood the requirements.**
- 18. Continue to monitor P-Card purchases to ensure card holders complete a Purchasing Card Payment Record to show a description of the items purchased and their business purpose and to ensure evidence of supervisory approval. Supervisory approval should be obtained before the items are purchased or as soon as practicable after the item has been purchased.**

Finding #7: The Department has not regularly reviewed open Supply Management System encumbrances to determine whether they can be cancelled.

An "encumbrance" is a reservation of funds to cover purchase orders, contracts, or other goods and services that are chargeable to an appropriation. It records obligations before goods are received or services are rendered, thereby increasing total obligations

and reducing unobligated account balances. An encumbrance allows the City to ensure that operations are being conducted within the limits of amounts approved.

If unnecessary funds are not disencumbered, they will continue to be regarded as obligated balances, thereby incorrectly reducing the available unobligated account balances. Consequently, disencumbering unneeded funds in a timely manner is important to reflect an accurate and updated status on the availability of funds.

In February 2008, the Department requested GSD to cancel \$192,029 in open encumbrances on the Supply Management System (SMS). The Department acknowledged that many of the encumbrances should have been cancelled at least a year earlier. The Department indicated it is still evaluating whether the remaining encumbrances totaling, \$381,673, most of which were established in FY 2006-07, should be cancelled. This review may identify additional open encumbrances that can be disencumbered.

Table 7
Encumbrance Status - FY 2003-04 to FY 2007-08

	FY 04	FY05	FY 06	FY 07	Total
Cancelled	\$9,141	\$38,698	\$35,216	\$108,975	\$192,029
Pending	\$0	\$0	\$2,266	\$379,408	\$381,673

Source: Department's Records

Recommendation

- 19. Department management should establish procedures which ensure that open encumbrances in the Supply Management System are reviewed on a regular basis and that unneeded funds are disencumbered in a timely manner.**

Finding #8: The Department has not always maintained adequate documentation for its contracts to demonstrate compliance with City contracting requirements.

Division 10 of the City's Administrative Code contains general requirements for contracting that must be followed by departments. This Division addresses departments' authorization to contract, required City Attorney approvals, and guidelines for "Notices Inviting Bids" or "Requesting for Proposals (RFP)" and competitive biddings. Generally, RFP and "Notices Inviting Bids" should be properly advertised. The departments' contract administrators should maintain appropriate documentation for their contracts to demonstrate compliance with City contracting requirements.

LAAS currently has six contracts. We noted that appropriate documentation relating to the award of the contracts was not maintained, making it difficult to assess how well the Department complies with contracting requirements. Documentation relating to RFP

advertisements, RFP recipients, and RFP responders was not maintained. In addition, not all contracts have been signed by the City Attorney or City Clerk. We noted the following with respect to the six contracts:

- South Los Angeles Center Contract - This contract allows the contractor to utilize the South Los Angeles Care Center facility to perform spay and neuter procedures. The Department stated it originally sent out RFP notices in October of 2006 for services at this facility but that it only received one proposal. LAAS then contracted with the only responder in April 2007 for a six month period until a new RFP could be finalized. This means the contract should have expired in October 2007. The contract with this provider was not signed by the City Attorney or City Clerk and there is no extension agreement. As of April 2008, LAAS has paid the provider a total of \$208,153 under this agreement. There was no documentation to show the RFP was properly advertised.
- North Central Contract – This is similar to the South Los Angeles contract. LAAS entered into a temporary contract to provide spay and neuter services. LAAS indicated it received no proposals in response to its RFP for these services at this facility. However, the Department was able to find and enter into an agreement with a vendor to provide the service temporarily. This contract was also not signed by the City Attorney or City Clerk. As of April 2008, LAAS has paid a total of \$93,839 under this agreement. There was also no documentation to show proper advertisement of the RFP.
- AVID Identification Systems - The AVID contract is for the purchase of microchips. These microchips are implanted into dogs and cats at the time of adoption. The Department stated that only one proposal was received in response to its RFP for this service. However, there is no documentation to show the RFP was properly advertised.
- Amanda Foundation - This contract is to provide mobile spay and neuter services. There is no documentation to show that the RFP was properly advertised.
- The other two contracts were personal service contracts. We found no exceptions with one of them. However, for the other contract, the Department only has copies of the consultant's report that are stamped as "draft." Per the extension agreement (which was not signed by the City Attorney nor dated by any of the parties), the deadline for the final report was November 30, 2007 and the consultant was paid the final amount of the \$20,000 contract in January 2008. LAAS indicated that the consultant has completed the assignment and that no other report is expected from the consultant. If this is the case, the Department should have requested the consultant to issue the report as a final version.

We also noted that the consultant began performing services over five months before the contract was signed by the City Attorney and City Clerk. The consultant began performing services on January 12, 2007, but the contract was not signed

until June 21, 2007. The consultant performed \$11,400 in services (of the \$20,000 contract amount) before the contract was signed. However, the June 21, 2007 contract contained a clause which ratified these services.

During our fieldwork, we discussed the problem of incomplete files of contracting activities with the Department. LAAS management took immediate action to resolve the problem. The Department has issued three requests for proposals since March 2008 and all activities related to these contracts are filed in a central location.

Recommendations

Department management should:

- 20. Maintain appropriate documentation to clearly demonstrate compliance with City's contracting requirements. Documents maintained should include those relating to RFP advertisements, proposals evaluation and the selection and monitoring of contracts.**
- 21. Ensure all contracts and agreements are properly executed before services are provided to avoid having to ratify services retroactively.**

Finding #9: Controls over spay/neuter program coupons and certificates need to be improved.

The Department has 11 spay/neuter programs, each designed to reach specific types of pet owners or animals. Seniors and low income residents are eligible to receive free sterilizations for pets. If eligible, the Department gives the resident a free pre-numbered, colored certificate.

All residents are eligible to receive a \$30 coupon towards sterilizing their animals. They can take this coupon to a participating veterinarian and receive a \$30 discount towards the service. It is the responsibility of the resident to pay the difference. Veterinarians submit the coupons/certificates to the Department, and the Department reimburses the veterinarian \$70 for each free certificate and \$30 for the discount certificate.

The spay/neuter discount coupons and free certificates are distributed at all six care centers and at a number of partner organizations. Customers receiving the coupons/certificates are provided with a list of participating veterinary hospitals.

One employee is responsible for all aspects of the program. This individual maintains the stock of coupons/certificates, issues the coupons/certificates to care centers and partner organizations, certifies participating veterinary hospitals and clinics, and initiates reimbursement payments to veterinarians. To minimize the risk of improprieties, these functions should be separated.

Recommendation

- 22. Department management should provide for a proper separation of duties of the coupon/certificate issuance, redemption, and payment process.**

Finding #10: The Department purchased two x-ray machines in November 2006 for \$150,000. The equipment still is not in use and the warranty has expired.

In November 2006, the Department purchased three x-ray machines at a total cost of \$228,354 (\$76,118 each), including sales tax, freight, and shipping insurance. The machines were delivered in January 2007, but two are still in storage in un-opened boxes. Based on our review of the purchase order and discussions with the vendor, we noted the following:

- The warranty for parts and labor expired in January 2008.
- The cost of the machines included installation, provided that the machines were installed within 30 days of delivery. The Department will incur an estimated \$7,000 in additional costs once it decides to install the machines.
- The City paid \$3,200 for shipping insurance. Since the terms of the purchase order were Free on Board (FOB) Destination, the vendor was responsible for lost or damaged goods when in transit to Animal Services.

The Department planned to install the two unused machines in facilities that were under construction and anticipated to open in late 2006. One facility is still under construction and not scheduled to open until June 2008. The other facility opened in May 2007, but the building was not designed with a room to house the equipment.

With proper oversight, the Department probably should have known that construction of the two facilities was behind schedule, well in advance, so the purchase of the machines could have been delayed.

Recommendations

Department management should:

- 23. Establish procedures which ensure that equipment purchases are not made until the items are ready to be used.**
- 24. Request a \$3,200 refund from the vendor for shipping insurance paid by Animal Services.**

SECTION III: SPECIAL REVENUE AND TRUST FUNDS

Special revenue funds are used to account for the proceeds of special revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. Trust funds are fiduciary funds used to account for situations in which the government role is custodial.

The Department administers four special revenue funds and one trust fund, as follows:

Veterinary Medical Trust Fund (841)

This trust fund is used to account for the pre-payments related to the spay and neuter program. The Department collects a \$28 spay/neuter fee at the time of adoption or sale. However, if the animal is too sick to be sterilized, the fee is \$40. If the animal is later sterilized, the adopter is entitled to receive a \$12 refund when proof of subsequent sterilization is provided. Funds are primarily used to pay licensed veterinarians for spay and neutering surgeries. As of May 8, 2008, the fund had a balance of \$69,660.

Electronic Animal ID Device Fund (41C)

This special revenue fund is used to account for the transactions related to the AVID Identification System. The AVID system is basically an electronic dog tag which is implanted in the form of a microchip. The fund derives its revenue from microchip sales to citizens. Payments are made to AVID to pay for the microchips. As of May 8, 2008, the fund had a balance of \$ 91,818. Any monies in the fund at year-end revert to the General Fund.

Animal Sterilization Fund (842)

This special revenue fund derives its revenue primarily from a \$25,000 monthly transfer from the General Fund (\$300,000 a year) and from donations received for pet sterilizations. Payments are made to veterinary hospitals and clinics for performing spay and neuter procedures. As of May 8, 2008, the fund had a balance of \$158,303.

Animal Welfare Trust Fund (859)

The purpose of this special revenue fund is to augment established programs and activities of the Department, other than those involving pet sterilizations. The fund may be used for the acquisition, construction, and maintenance of land and capital improvements and the purchase of equipment. As of May 8, 2008, the fund had a balance of \$617,358.

Animal Spay and Neuter Trust Fund (543)

The purpose of this special revenue fund is to account for pet sterilizations. This fund receives \$2.00 for each un-altered dog and \$7.00 for altered dog for paid licenses. The fund also receives \$310,000 from the General Fund every year. As of May 8, 2008, the fund had a balance of \$344,689.

Tables 8 and 9 show revenues and expenses during the past three years for the four special revenue funds. Note that two funds with “trust fund” in their titles are actually accounted for as special revenue funds in the City’s financial statements.

Table 8
Special Revenue/Trust Funds Receipts - FY 2005-06 to FY 2007-08

Fund Number	Fund Name	FY 05-06	FY 06-07	FY 07-08 (1)
543	Animal Spay & Neuter Trust Fund	\$1,019,366	\$1,251,495	\$661,397
842	Animal Sterilization	\$329,373	\$346,835	\$325,120
859	Animal Welfare Trust	\$164,155	\$189,358	\$81,371
41C	Electronic Animal ID	\$237,298	\$220,831	\$121,210

(1) As of 1/23/08

Source: Financial Management Information System

The expenses for these funds are:

Table 9
Special Revenue/Trust Funds Expenditures - FY 2005-06 to FY 2007-08

Fund Number	Fund Name	FY 05-06	FY 06-07	FY 07-08 (1)
543	Animal Spay & Neuter Trust Fund	\$1,324,893	\$1,182,040	\$821,896
842	Animal Sterilization	\$194,521	\$525,296	\$216,080
859	Animal Welfare Trust	\$68,439	\$320,216	\$137,820
41C	Electronic Animal ID	\$200,963	\$197,544	\$117,217

(1) As of 1/23/08

Source: Financial Information Management System

Finding #11: The Department’s use of special revenue funds creates additional complexity. Some special revenue funds could be eliminated or combined.

According to the Government Auditing Standards Board, the use of a special revenue fund is permitted but not required and a government should use the fewest number of individual funds possible. The National Council of Governmental Accounting Statement 1, Governmental Accounting and Financial Reporting Principles, states “Government units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating

requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.”

Typically, special revenue funds receive less scrutiny from auditors, the City Administrative Office, and Council. Often these funds are not budgeted for.

Based on our analysis of LAAS’s funds, there is a potential to consolidate or eliminate some of the special revenue and trust funds. This would result in simplifying the accounting process by reducing the number of transactions. For example, currently none of the funds receive revenue directly. All revenue is first deposited into the General Fund and then transferred to the special revenue funds based on the source of the collection. For example, \$2.00 for each un-altered dog and \$7.00 for altered dog for paid licenses is transferred from the General Fund to the Animal Services Spay and Neuter Trust Fund.

At a minimum, the Department should consolidate the Veterinary Medical Trust Fund, Animal Sterilization Fund, and Animal Spay and Neuter Trust Fund because all three have the same general purpose of providing pet sterilization services. When a payment is made from the Veterinary Medical Trust Fund, a liability is set up in the fund. Funds are then transferred to the Animal Sterilization Fund to record the expenditure in this fund. Also, payments to veterinarians who provide sterilization services are made both from the Animal Sterilization Fund and the Animal Spay and Neuter Trust Fund. The only distinction is the program involved. For example, payments related to the New Hope, Pre-Adoption, and Foster programs are made from the Animal Sterilization Fund, while payments related to the Discount Coupon, Free Certificate, and Seniors for Seniors programs are made from the Animal Spay and Neuter Trust Fund.

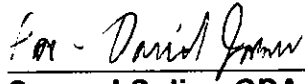
The Department should also consider eliminating the special revenue funds and accounting for the activities in the General Fund. Two of the funds (the Animal Sterilization Fund and the Animal Spay and Neuter Trust Fund) already derive a large portion of their revenue from transfers from the General Fund. In addition to reducing the number of transactions, by eliminating the special revenue funds, the Department will no longer need to decide what fund a particular expense should be paid from.

Recommendations

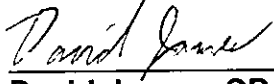
Department management should:

- 25. At a minimum, consolidate the Veterinary Medical Trust Fund, Animal Sterilization Fund, and Animal Spay and Neuter Trust Fund.**
- 26. Explore the feasibility of eliminating all special revenue funds and accounting for their activities in the General Fund. If management decides to keep a fund, controls should be established to ensure funds do not accumulate large balances in the fund without a plan for spending the monies.**

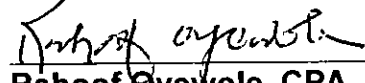
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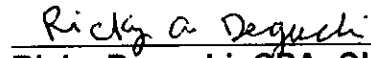
Sameel Salim, CPA
Internal Auditor II




David James, CPA, CIA, CISA
Internal Auditor III



Raheed Oyewole, CPA, CIA, CISA
Internal Auditor IV



Ricky Deguchi, CPA, CIA, CISA
Chief Internal Auditor



Farid Saffar, CPA
Director of Auditing

April 30, 2008

		N	6. Ensure compliance with City policies with respect to collecting on delinquent accounts by: a) Sending the second delinquent notice which includes the penalty amount to customers on City Attorney letterhead. b) Referring unpaid accounts to the City Attorney's Office. c) Submitting write-off requests to the Board of Review for accounts returned as uncollectible by the City Attorney.
		N	7. Ensure that the Department bills for prior year fees that have not been paid.
3	The Department does not pursue collection of non-sufficient fund checks.	N	8. Ensure staff complies with City policies regarding the collection of non-sufficient fund checks by sending letters requesting payment and referring the accounts to the Office of Finance or a collection agency when payment is not received.
		N	9. Provide cashiers with a listing of bad check writers that the cashiers can use to collect on bad checks when a customer attempts to pay for another service.
		D	10. Ensure that proper signage is posted at each facility which addresses the acceptance of checks and informs customers of the consequences of writing a bad check.
4	The estimated percentage of unlicensed dogs in the City ranges from 70% to 85%. The Department is not taking advantage of several methods at its disposal to increase the percentage of licensed dogs.	N	11. Increase its efforts to ensure that pet shops and breeders notify the Department of dog sales. These efforts should include regularly sending letters to these groups and other outreach efforts.
		U	12. Establish procedures that ensure information on spay/neuter coupons and certificates are entered into Chameleon for annual license billing.
		U	13. At City and Department-sponsored events, make available forms for pet owners to voluntarily submit their names, addresses and pet information. This information should be entered into Chameleon.
		N	14. Reconsider re-instituting its program whereby veterinarians are reimbursed \$2 for each application processed and license issued. If application error rates continue to

			be high, the Department should determine the reason. If the Department believes this section of the Municipal Code is impractical, management should work with the City Attorney to amend the Code.
5	Permit processing functions are not properly separated and cashiers share the same drawers.	D N	15. Require that payment for permits be mailed to lockboxes. 16. Provide a separate cash drawer for each clerk at each facility to ensure accountability.
	Section II – Expenses		
6	The Department did not have documentation such as receipts on file for several P-Card purchases. In addition, several purchases were not approved by supervisors, as required.	N N	17. Remind purchasing card holders and their supervisors of the Purchasing Card Program Cardholder Manual requirements and require these individuals to sign a statement that they have read and understood the requirements. 18. Continue to monitor P-Card purchases to ensure card holders complete a Purchasing Card Payment Record to show a description of the items purchased and their business purpose and to ensure evidence of supervisory approval. Supervisory approval should be obtained before the items are purchased or as soon as practicable after the item has been purchased.
7	The Department has not regularly reviewed open Supply Management System encumbrances to determine whether they can be cancelled.	N	19. Establish procedures which ensure that open encumbrances in the Supply Management System are reviewed on a regular basis and that unneeded funds are disencumbered in a timely manner.
8	The Department has not always maintained adequate documentation for its contracts to demonstrate compliance with City contracting requirements.	N N	20. Maintain appropriate documentation to clearly demonstrate compliance with City's contracting requirements. Documents maintained should include those relating to RFP advertisements, proposals evaluation and the selection and monitoring of contracts. 21. Ensure all contracts and agreements are properly executed before services are provided to avoid having to ratify services retroactively.
9	Controls over spay/neuter program coupons and certificates need to be improved.	N	22. Provide for a proper separation of duties of the coupon/certificate issuance, redemption, and payment process.

10	The Department purchased two x-ray machines in November 2006 for \$150,000. The equipment still is not in use and the warranty has expired.	N N	23. Establish procedures which ensure that equipment purchases are not made until the items are ready to be used. 24. Request a \$3,200 refund from the vendor for shipping insurance paid by Animal Services.
	Section III – Special Revenue and Trust Funds		
11	The Department's use of special revenue funds creates additional complexity. Some special revenue funds could be eliminated or combined.	N D	25. At a minimum, consolidate the Veterinary Medical Trust Fund, Animal Sterilization Fund, and Animal Spay and Neuter Trust Fund. 26. Explore the feasibility of eliminating all special revenue funds and accounting for their activities in the General Fund. If management decides to keep a fund, controls should be established to ensure funds do not accumulate large balances in the fund without a plan for spending the monies.

Description of Recommendation Ranking Codes

U- Urgent-The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

N- Necessary- The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

D- Desirable- The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

N/A- Not Applicable