

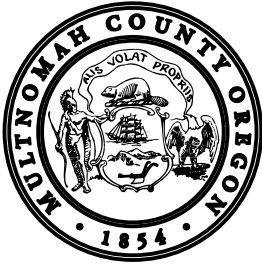
Animal Services Finances
Follow Sound Financial Policies

April 2016



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Animal Services Finances: Follow sound financial policies

Taken together with our March 2016 report, Animal Services Audit: Opportunities for Improvement, the combined audits present a number of recommendations for the new management, some of which management indicates they have already started. This audit covers the three Fiscal Years from 2013 through 2015, most of which were under the previous Director and Client Services Supervisor who had retired before we conducted most of this work, thus in some cases interim management and staff were not able to fully explain the reasoning for some transactions.

As stated previously we last audited Multnomah County Animal Services (MCAS) in 2002 and over the years there appears to have been sort of a benign neglect of MCAS by the County as well as this office. However, MCAS is still required to perform services under state law and follow County Code and Financial Policies. With new leadership and assistance of these audits, they will hopefully be better able to follow sound financial policies and attain operational success going forward.

MCAS has both dedicated staff and volunteers, what is needed is additional management and financial guidance going forward to be a twenty-first century operation. We recognize that MCAS operates out of an obsolete facility and with software that cannot fulfill all the needs of a well run operation; eventually both will need replacing. On a positive note, they are currently reviewing a badly needed new software system.

We look forward to the changes at MCAS based on the recommendations of this and the February audits and hope to return at a later date to follow up. The response to this audit can be found at the end of the report.

Steve March, PhD
Certified Internal Auditor
County Auditor

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Executive Summary

Multnomah County Animal Services (MCAS), located within the Department of Community Services (DCS), carries out both public health and neighborhood livability roles to protect people and animals. Among other duties, MCAS is responsible for dog and cat licensing, lost pet care, animal adoptions, and animal rescues. MCAS also receives donations to promote adoptions, to provide emergency or spay/neuter surgeries and to collect funds for a new animal shelter. This report focuses on whether MCAS properly accounts for and reports pet license revenues and whether donations are spent on their intended purposes.

Licensing

One of MCAS's responsibilities is to license dogs and cats that live in the County. Licensing generates revenue that supports MCAS programs and identifies pets so they can be quickly reunited with their owners if lost. MCAS is also required to issue licenses to ensure that dogs and cats have current rabies vaccinations in accordance with County code.

MCAS did not follow County procedures that lay out processes to properly bill, collect, monitor and age amounts due, collect on delinquent accounts, and obtain proper authorization for write-offs. MCAS stopped pursuing and, in effect, wrote off significant amounts of license fee revenues. In addition, MCAS does not track rabies vaccination compliance.

Lower collections for licenses result in higher use of County general funds to support MCAS programs. Billing and collection practices were inadequate in part because MCAS did not have all the tools in place to properly manage licenses. The MCAS computer system

is obsolete and is not designed to be a billing/collection system or to effectively assist in tracking vaccinations.

The revenue potential of license fees goes far beyond collecting amounts from owners of pets that MCAS is already aware of. We estimate only one in every three dogs in Multnomah County are licensed. A large number of unidentified pets significantly add to the low licensing compliance rate, something that is also common among other municipal shelters. With the prospect of increasing collections from owners of pets already known to MCAS and identifying considerably more unlicensed pets, we believe MCAS should take a comprehensive look at their licensing approach.

Donations

MCAS receives both cash and goods as donations. It was not always clear whether some purchases made with donated funds were charged to the correct donation account or should have been charged to the general fund. Strong controls should be in place to ensure all donations are spent only for their intended purpose, are properly receipted and are properly recorded in the County's financial statements. MCAS will need to do better in all of these areas.

We found general funds were charged approximately \$89,000 in FY2014 for labor that should have been charged to donation accounts. These labor errors should have been detected by DCS or MCAS through routine monitoring.

Background Licensing

Multnomah County Code requires that "Dogs and cats shall be licensed within 30 days of obtaining the age of six months or within 30 days of obtaining residency in the county or acquisition by the owner or keeper, whichever occurs later." Owners can purchase their pet's licenses

online, through the mail, from licensing vendors such as veterinary clinics or animal hospitals located throughout the County, or at the shelter. In September 2015, MCAS had active licenses for about 59,250 dogs and 36,100 cats. Total license revenue was approximately \$1.66 million.

About 20% of license revenue in FY2015 came through licensing vendors. To purchase a license from a licensing vendor, owners must provide proof their pet has a current rabies vaccination or have their pet vaccinated during the visit. Pet owners must also complete a license application form which the licensing vendor sends to MCAS for entry into their data system.

In addition to receiving information from licensing vendors, MCAS also receives rabies data from veterinarians who do not issue a license at the time the pet is vaccinated. In 2007 Multnomah County required veterinarians to send rabies information to MCAS when pets were vaccinated. Once rabies information is received from veterinarians, MCAS enters it into their data system and bills pet owners for licenses.

Generally, the fine for failure to obtain a license is \$100. MCAS sends Notice of Infraction (NOI) bills to owners who have vaccinated their pets but have not purchased a license. Prior to FY2016, MCAS only used the fine as an incentive and always waived the fine when owners paid for the license. MCAS changed this practice in FY2016 to collect on NOIs over 30 days.

In September 2015, MCAS started sending NOI bills for license renewals where no current information had been received from veterinarians or licensing vendors. Prior to this change, MCAS only sent pet owners delinquency notices for renewal licenses but performed no further follow-up such as sending NOI bills.

Deferred Payments and Citations

Deferred payments occur when owners pick up their pets at the shelter. MCAS emphasizes getting the animal returned to the owner and out of the shelter regardless of whether owners can pay for accumulated charges at the time of pick up. Deferments included all kinds of fees such as boarding, shelter, licensing, spay/neuter, vet, microchip and even merchandise. The owner completes a Fee Deferment Application form and has 30 days to pay. Currently, according to management, MCAS sends a bill about a week later. According to MCAS data, uncollected deferred payments arising in FY2015 were approximately \$52,000.

In their efforts to help protect the public and animals as well as maintain neighborhood livability, Animal Control Officers issue citations for various reasons such as: allowing an animal to be at large, an annoyance or trespassing on another's property; physical mistreatment of an animal, or depriving an animal of proper facilities or care. Citations are also issued for dangerous dog violations. The citation amount is waived if the owner complies with the law. Due to the way citations were tracked, the total dollar amount of citations issued in FY2015 was not readily available.

Results Overall, we found MCAS did not manage billing and collections for licensing, deferred payments and citations very well. Although MCAS had issued delinquency notices and sent NOIs to some pet owners to increase licensing compliance, Exhibit 1 shows MCAS did not bill everything that was due in a timely manner or take enough effort to collect what was owed.

Exhibit 1: MCAS Billing and Collections

	Delinquency Notice Sent	Timely Billed	NOI Sent	Sent to Collections
License Fees (Note 1)	yes	no	yes	no
License Renewals	yes	no	no	no
Deferred Payments (Note 2)	no	yes	NA	no
Citations (Note 2)	no	yes	NA	no

Source: Auditor’s Office Analysis

Note 1: MCAS received rabies information from veterinarians.

Note 2: Most recent collections activity is in FY2011.

MCAS was not timely billing for licenses because of backlogs of entering rabies information from veterinarians. In December 2015, MCAS had an eight month backlog entering veterinarian data. Prior to FY2016, MCAS did not send NOI bills for renewal licenses when it had not received veterinarian or licensing vendor information.

Nothing has ever been sent to collections for any type of license fee or NOI. Citations and deferred payments have not been sent to collections since FY2011.

Lower collections for licenses result in higher use of County general funds to support MCAS programs. Exhibit 2 shows the average annual amounts due to MCAS for FY2011-2014. The amounts are from MCAS’s data system Multiple Options. We could not verify the reliability of the financial data in Multiple Options; therefore we could not confirm the actual average amount due to MCAS for this time period or estimate its collectability. Given that average annual collections are about \$1.64 million for FY2011-2014, Exhibit 2 does provide a general idea of the magnitude of uncollected revenue.

Exhibit 2: FY2011-2014 Average Annual Amount Due to MCAS

	Number of Accounts	Average Annual Amount
License Fees and Fines (Note 1)	2,500	\$324,000
License Renewals	9,500	264,000
Deferred Payments	350	17,000
Citations	360	45,000
Average Per Year	12,710	\$650,000

Source: Multiple Options data and Auditor's Office analysis
 Note 1: MCAS received rabies information for these accounts. NOIs are \$254,000 and we estimate license fees are \$70,000 for a total of \$324,000

Amounts owed to MCAS should be better managed

MCAS did not follow County Administrative Procedure FIN-19 and establish receivables for amounts billed or that should have been billed. FIN-19 lays out processes to properly bill, collect, monitor and age amounts due, collect on delinquent accounts, and obtain proper authorization to write-off any uncollectible receivables. These processes strengthen monitoring of amounts due and accountability for amounts that are not collected.

MCAS stopped pursuing and, in effect, wrote off significant amounts of license fees, NOIs and deferred payments without the authorization required by FIN-19 to do so. MCAS did not send unpaid amounts to collections, or send NOIs for renewals that were not paid.

MCAS did not have the tools it needed to bill and monitor amounts due. Its computer system, Multiple Options, aside from being obsolete, was never intended to function

as accounting system that would be able to follow FIN-19. As a result, there are material accounts receivables and write-offs that are not recorded in the County's financial records.

MCAS is currently in the process of purchasing a new computer system to replace Multiple Options. At this time, it is unknown whether the new system or the County's enterprise system, SAP, is the best way to account for licenses, deferred payments and citations. However, modernizing MCAS's computer system might help eliminate current backlogs by having veterinarians and licensing vendors submit their information electronically on a more frequent basis instead of by mail.

Management's approach to billing and pursuing amounts owed also affected how licenses, deferred payments and citations were managed. As illustrated above, MCAS did little to collect fees and fines. For example, MCAS had no intention to collect NOIs and citations. Instead, these charges were largely used as incentives to pay license fees or to encourage compliance with the law.

Approach to licensing impacts revenues

Going beyond billing and collections issues, we see licensing fees as a substantial revenue opportunity for MCAS. Using American Veterinary Medical Foundation statistics and the number of Multnomah County households from the US Census, we estimate Multnomah County's dog and cat license compliance rates at 33% and 19% respectively. Both of these rates have improved by approximately 10 percentage points since the law was changed to require veterinarians to send rabies information to the County. From our study of other jurisdictions we found the approach to licensing can directly affect compliance rates.

In contrast to Multnomah County, Calgary, Alberta has a 90% dog licensing compliance rate. Calgary has achieved these rates by teaching citizens the importance

of licensing and responsible dog ownership as well as communicating how the licensing program supports a wide range of services. Through these efforts, pet owners better understand the value and benefits they receive for their license fee. Calgary offers incentives to license but has also enacted stringent penalties for non-compliance. Circumstances in Calgary may be different than those in the County, but MCAS could use some parts of Calgary's program to increase its compliance rate.

Regardless of which approach and what technology MCAS chooses to administer licenses, the County's Animal Services code will need to be updated to fully support it. For example, the manner and timing of submitting veterinarian and licensing vendor information will likely change with a new computer system and should be supported by the code. The code could also be changed to prohibit free time lapses between licenses and require notification of changes in a pet's status if it dies or moves. Other changes to the code will depend on the approach MCAS takes to licensing.

Rabies compliance should be better tracked

In addition to supporting MCAS programs and identifying pets so they can be quickly reunited with their owners if lost, licenses are issued to assure that cats and dogs have their rabies vaccinations. Pets must have rabies vaccinations before licenses can be issued. As stated in the County code:

"Licenses shall be valid for one, two or three years from date of issuance, at the option of the pet owner or keeper and, for dogs and cats, shall require a current rabies inoculation for licensing period selected and shall be issued upon payment of the fee required..." [italics used for emphasis]

Currently, if owners are paying for licenses, MCAS does not track rabies compliance. Unless they have direct contact with the animal, MCAS does not fine owners if they do not have a rabies vaccination for their pet. Given the heavy volume of licenses, MCAS data system Multiple Options cannot efficiently ensure that all licenses are supported with an up-to-date rabies vaccination.

Recommendations

MCAS should:

1. Comply with County Administrative Procedure FIN-19. MCAS should bill amounts that are due in a timely manner, monitor receivables, try to collect delinquent accounts, and receive authorization for any write-offs.
2. Use a computer system capable of properly managing licenses, deferrals and citations whether SAP or the system under development. Newer technology should be used to help resolve veterinarian and licensing vendor backlogs.
3. Ensure all licenses are supported with an up-to-date rabies vaccination.
4. Take a comprehensive look at their licensing approach to increase compliance rates including marketing, billing, monitoring, fining, collecting, and reporting.
5. Facilitate changes to the County Animal Services code where needed to fully support administration of licenses.

Donations/Donated Cash

MCAS receives both cash and goods as donations. This section of the report discusses cash donations. Donated cash is received through the mail by check or online through MCAS's website. Generally, MCAS spends donations on two categories of expenditures: purchases and labor. Exhibit 3 summarizes cash donations and related expenditures for FY2013-2015.

Exhibit 3: FY2013-2015 Cash Donation Revenues and Expenditures

	FY2013	FY2014	FY2015
Cash Donation Revenue	\$224,945	\$122,113	\$592,926
Less			
Purchases	181,402	197,598	130,276
Labor Costs	48,828	48,228	177,613
Revenues Over/(under)Expenditures	(\$5,285)	(\$123,713)	\$285,037
Ending Donation Funds Balance	\$582,736	\$461,713	\$775,181

Source: SAP and Auditor's Office Analysis. Note that the Ending Donation Funds Balance includes interest earnings and transfers.

To better understand Exhibit 3 several disclosures are needed:

- In FY2015, one large donation made up 68% of cash donation revenue.
- MCAS transferred donation purchases of approximately \$100,000 to the general fund in FY2015 at year end. A quarter of the transfer was needed to stay in compliance with budget law. However, the remaining three quarters of the transfer appears in conflict with County financial policy requiring MCAS to use restricted resources (donations) prior to using unrestricted revenues (General Fund) for the same purpose.¹
- As described below we estimated labor costs were \$89,478 higher in FY2014 than shown in Exhibit 3.

¹ Although it appears the financial policy *Federal/State Grant and Foundation Revenues* applies to restricted private donations such as those received by MCAS, the policy could be clarified.

Spend donations on donors' intended purposes

MCAS must clearly describe how donation funds can be spent. As shown in Exhibit 4 MCAS currently has four donation funds. The MCAS website description is shown below for each fund.

Exhibit 4: Donation Funds

Fund	MCAS Website Description
Dolly's Fund	Helps provide medical care for animals in need of emergency surgeries and veterinary care.
Adoption Outreach Fund	Donations support special outreach events, adoption advertising and grooming expenses. Donations to this fund also improve facilities for animals cared for at the shelter.
Spay/Neuter Community Outreach Fund	Supports surgeries for low-income families. It also supports the efforts of MCAS's Apartment Cat Team (ACT) program.
Shelter Dreams	Supports the capital campaign effort for a new facility in the city of Portland.
Source: MCAS website	

MCAS website is the most accessible description of donation fund accounts. When donors do not designate a fund, their donations are split evenly between Dolly's Fund and the Adoption Outreach Fund.

Strong controls should be in place to ensure all donations are spent on their intended purpose. MCAS should fully inform donors how their donations will be spent. To retain donors' trust and ongoing support, MCAS must adhere to the highest standards that leave no doubt about the purpose of any donation expenditure. If MCAS were to publish detailed donation expenditures on their website all donors should be completely satisfied that their contributions were spent as intended.

We tested FY2013 and FY2014 purchases made with donated funds. In some cases we were unsure, even after reviewing purchases with management if they were spent on donors' intended purposes. It was not clear whether some purchases were charged to the proper donation account or should have been charged to the general fund.

For example, MCAS spent approximately \$4,000 from the Adoption Outreach Fund for a surgery monitor. Management responded that "This Equipment monitor is used to maintain the health and care of shelter animals undergoing surgery (primarily spay and neuter). The expenditure complies with the use of MCAS Adoption Outreach Fund." Using the criteria in Exhibit 4 on page 11, this expenditure better fits into the Spay/Neuter Community Outreach Fund. Our concern is whether donors who contributed their money to the Adoption Outreach Fund would want their donation spend for a surgery monitor.

MCAS managers are responsible for properly coding purchases to the correct donation account or to the general fund. Instead of using website descriptions, it is possible that managers used criteria to make donation purchases that were in place prior to FY2009. Prior to FY2009, MCAS had only two donation accounts as follows:

- The Animal Care Trust Fund could only be used for the care and treatment of animals (medical or surgical treatment) under special circumstances when the cost of such care was not budgeted.
- The Adoption Outreach Trust Fund could only be used for outreach programs or items specifically designated as enhancing the care of sheltered animals and assisting in returning animals to their owners or the placement of animals into new homes.

Making sure that donated funds are only spent for donors' intended purposes goes beyond correctly coding expenditures to the proper donation account. We found some automated accounting entries were not set up correctly and resulted in erroneous charges and credits to donation accounts or to the general fund. For example, donations that should have been spent for Dolly's Fund or Adoption Outreach purposes were charged to the Spay/Neuter Fund.

Properly allocate labor costs

Labor costs charged to donation funds should be based on employee time worked as recorded on their timesheets and approved by their supervisors. Depending on their assignment, employees may charge their hours to the General Fund or one of three donation accounts in the Animal Control Fund.

As shown in Exhibit 5, we recalculated the allocation of labor costs between the donation funds and the general fund using actual hours charged per employee taking into consideration adjustments made by the former director. Overall, we found general funds of \$89,478 were spent on donation account labor costs. DCS or MCAS should have detected these labor errors through routine monitoring.

Exhibit 5: Labor Costs Charged to Donation Accounts

	<u>Recorded</u>	<u>Audited</u>	<u>Difference</u>
Dolly's Fund	(\$38,174)	\$29,495	\$67,668
Adoption Outreach Fund	90,875	90,875	0
Spay Neuter Fund	22,950	44,760	21,810
Total	\$75,652	\$165,130	\$89,478

Source: Auditor's Office Analysis.

Donations/Donated Goods

We found donated goods are not properly receipted for both donor and MCAS purposes, sufficiently tracked and recorded in the financial statements, or completely safe from theft. We could not determine the exact amount of donated goods.

MCAS receives a significant amount of donated goods that are delivered to the shelter by individuals or by commercial stores. Donated goods can range from pallets of dog food to a pet toy. Some donated goods are valuable while others are not. MCAS publishes a wish list on its website and also receives donated goods from Amazon Wish List.

Client Services receives most donated goods. Client Services will issue a receipt for the goods only if the donor wants one but does not include a value or retain all receipts. Client Services then contacts Animal Care who picks up the donations and takes them to the warehouse where they are stored until needed. Animal Care also receives Amazon Wish List goods directly from Amazon as well as other donations that Client Services may be unaware of.

MCAS receipting practices should help donors meet Internal Revenue Service (IRS) requirements for donated goods. IRS publications 526 and 1771 detail required receipting procedures. The receipt should state that no goods or services were provided in exchange for the contribution and all receipts should be retained. MCAS is not required to value the donated goods for the donor but should write a sufficient description of the goods on the receipt that will allow them to estimate the good's value at a later date.

MCAS should value donated goods at their fair market value for inclusion in the financial statements. MCAS can determine the fair value of donations, such as supplies, by using the price that would be paid on an open market for the goods on the date donated. If donated goods have no value and no alternative use, they should not be recognized because they cannot be used or resold.

Physical access to the warehouse where donated and other goods are stored should be limited. When we visited MCAS the warehouse doors were not locked. Because some goods stored in the warehouse turnover quickly, no inventory is kept making it easier to take goods without being detected. According to new management, MCAS changed how the warehouse is used.

Recommendations

MCAS should:

12. Develop written procedures for donate goods.
- 13 Use a better receipt for donated goods that complies with IRS regulations.
14. Make sure that all receipts are kept and accounted for.
15. Disclose the value of donated goods on the financial statements.
16. Limit access to inventory.

Recommendations

MCAS should:

1. Comply with County Administrative Procedure FIN-19. MCAS should bill amounts that are due in a timely manner, monitor receivables, try to collect delinquent accounts, and receive authorization for any write-offs.
2. Use a computer system capable of properly managing licenses, deferrals and citations whether SAP or the system under development. Newer technology should be used to help resolve veterinarian and licensing vendor backlogs.

3. Ensure all licenses are supported with an up-to-date rabies vaccination.
4. Take a comprehensive look at their licensing approach to increase compliance rates including marketing, billing, monitoring, fining, collecting, and reporting.
5. Facilitate changes to the County Animal Services code where needed to fully support administration of licenses.
6. Better define how funds for each of the four donation accounts can be spent.
7. Develop written policy and procedures for donation funds and special purpose donations.
8. Update managers on how to properly code donation purchases.
9. Monitor donation fund purchases and labor costs to detect misclassified expenditures and to ensure compliance with budget law and financial policy.

10. DCS Business Services should take a more active role in monitoring MCAS finances to help ensure financial policies and procedures are followed.
11. The County should review the existing financial policy *Federal/State Grant and Foundation Revenues* to explicitly address whether restricted private donations such as those received by MCAS must be spent before any unrestricted funds used for the same purpose.

MCAS should:

12. Develop written procedures for donate goods.
13. Use a better receipt for donated goods that complies with IRS regulations.
14. Make sure that all receipts are kept and accounted for.
15. Disclose the value of donated goods on the financial statements.
16. Limit access to the inventory.

**Scope and
Methodology**

The objectives of this audit were to determine whether:

- Licenses, deferred payments and citations are properly accounted for and reported.
- Donations are spent on their intended purposes and are properly receipted and reported.
- MCAS donation practices comply with MCAS-specific County resolutions and Internal Revenue Service regulations.

To accomplish these objectives we:

- Interviewed the Interim Director of MCAS, DCS financial personnel, and MCAS Client Services personnel.
- Reviewed annual MCAS budgets, and financial information.
- Researched other jurisdiction's audit reports on licensing and donations.
- Studied State and County licensing and rabies law, County resolutions, Internal Revenue Service publications, Governmental Accounting Standards Board guidance and MCAS procedures.
- Obtained an understanding of licensing, deferment and citation processes and controls.
- Analyzed license, deferred payment, and citation data in Multiple Options for FY2009 through FY2015. We did not verify the reliability of financial data in Multiple Options in Exhibit 2; however we did correct any obvious errors in the data that we used. Multiple Options was not designed to be a financial system and did not have important controls in place such as edit or completeness checks.
- Gained an understanding of County administrative Procedure FIN-19.
- Examined selected donation purchases for FY2013 through FY2015.

- Recalculated labor costs for donation accounts in FY2014.
- Toured the MCAS warehouse where donated goods are stored.
- Estimated the County's dog and cat licensing compliance rates.
- Browsed the MCAS web page focusing on licensing and donation information.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Response to Audit

April 28, 2016

Auditor Steve March
501 SE Hawthorne Blvd, Suite 600
Portland, OR 97206

Dear Auditor March:

Please accept this letter as management's response to the Animal Services Finances Audit. Thank you for the thorough review and analysis conducted by you and your staff. We are in agreement with the recommendations and have begun to take steps in modifying Multnomah County Animal Services (MCAS) practices.

Recommendations:

1. **Comply with County Administrative Procedure FIN-19. MCAS should bill amounts that are due in a timely manner, monitor receivables, try to collect delinquent accounts, and receive authorization for any write-offs.**

RESPONSE

MCAS recognizes and concurs on the deficiencies of the current Multiple Options software as a subsidiary system capable of meeting requirements outlined in Administrative Procedure FIN-19. MCAS, in coordination with the Department of County Assets-IT Division, is working on a project to replace Multiple Options with a more robust subsidiary system capable of managing licenses, deferred payments, and citations. As more information is known on the system capabilities and/or limitations of the new shelter software MCAS will adjust plans to find a suitable customer/vendor accounting platform to operate.

We have begun to have discussions with MCAS, Business Services and the Chief Financial Officer's (CFO) Office to discuss improvements for the short-term need as well as long-term solutions to managing an appropriate subsidiary system to meet County financial procedures. Additionally, we have begun discussions with the Health Department to become familiar with their approach to managing medical account billings and use of an Allowance for Doubtful Accounts, account reconciliation, and write-off procedures.

- Revenue recognition – MCAS is currently recording revenue on a cash basis in SAP which makes monitoring revenue trends, timeliness of billings, collections efforts, accounts receivable (AR) monitoring, and compliance to County write off procedures very difficult to follow. MCAS will make changes to existing processes to begin recording revenue on a full accrual (when revenue is available and measurable) basis. Due to the nature of the type of services being provided and fees being charged collection rates are well below 100%. In

an effort to be more transparent and more accurately monitor collection efforts; MCAS in coordination with Central Finance will be evaluating whether to use an allowance for doubtful accounts.

- Accounts Receivable Aging: As part of the current subsidiary system evaluation (Shelter Buddy) an AR aging report is being established. The report will detail balances at 0-30, 30-60, 60-90, and over 90 days. This AR aging report will be monitored monthly by the DCS Business Services Manager and the MCAS Director. In addition, as required by FIN-19, general ledger performs a quarterly countywide AR aging report from SAP. Departments are required to provide explanations for receivables 90 days past due. Once MCAS begins recording revenue on a full accrual basis general ledger's quarterly report will require that MCAS provide quarterly justifications for old, uncollected AR balances.
 - Quarterly Reconciliation: Upon the implementation of a new subsidiary system MCAS plans to implement and maintain a process that reconciles accounts receivable from a subsystem to SAP on a quarterly basis. The reconciliation will be carried out by someone not responsible for processing regular transactions in the subsidiary system. The reconciliation will be reviewed and approved by the DCS Business Services Manager.
 - Recovering delinquent accounts: MCAS, in coordination with Central Finance, will be revising existing internal controls and billing procedures aimed at creating greater consistency around fixed billing schedules, follow up collection schedules, and delinquent account reporting. MCAS, in coordination with DCA-IT, will be exploring methods in which vendors can transmit licensing and rabies information electronically to the MCAS subsidiary system to expedite timely entry and billing.
 - Write Off process – In many cases, as a result of revenue recognition being done on a cash basis, uncollectible balances were never recorded in SAP and, thus, FIN-19 write off procedures were not fully followed. Effective immediately MCAS will begin processing all write off requests through the standard County process with proper authorization (e.g. CFO or Chair's Office) and entry in SAP.
2. **Use a computer system capable of properly managing licenses, deferrals and citations whether SAP or system under development. Newer technology should be used to help resolve veterinarian licensing backlog.**

RESPONSE

Staff turnover in MCAS Client Services and poor software capabilities attribute to this report reference. Staffing has been restored and MCAS is on pace to have the backlog cleared prior to the end of the fiscal year. MCAS has been working with County IT since Spring 2015 to find replacement software for shelter operations. Vendor selection for the new Shelter Operation software is complete and is now in the contracting phase. Upon successful contract negotiations,

an implementation schedule will be developed which will include involvement with Business Services and staff from the CFO to support decisions around the approach to collections. The CFO's Office has recently been included in the evaluation of the new subsidiary system.

3. Ensure all licenses are supported with an up-to-date rabies vaccination.

RESPONSE

MCAS is in agreement that licenses should not be issued without proof of up-to-date rabies vaccinations. MCAS has begun to evaluate current policy and will develop strategies to address this recommendation.

4. Take a comprehensive look at license approach to increase compliance rates including marketing, billing, monitoring, fining, collecting, and reporting.

RESPONSE

As mentioned above significant staff turnover in MCAS Client Services and poor software capabilities partially contribute to this report reference. MCAS has taken steps over the years to improve the customer experience through an online shopping cart and increased use of the internet to communicate license regulations. We have already started the process of looking at our billing, monitoring, and fining practices and have implemented changes in the way we notify clients of license renewals, as well as citing/fining clients that are not in compliance with the ordinance. These changes have led to a compliance increase of approximately 20% for known animals in the county (compliance has gone from 60%-65% monthly to 80%-85% monthly).

We are continuing to look at ways to improve our processes to raise this compliance rate even higher. MCAS is confident as the new Director builds the management team, the expectation will be given to develop clear procedures and manuals to respond to this recommendation. MCAS also recognizes the limitations of Multiple Options and understands the needs to secure software which supports a customer accounting solution which will positively respond to this audit recommendation.

5. Facilitate changes to County Animal Services code where needed to fully support administration of licenses.

RESPONSE

MCAS understands the benefit of updating code to support business processes and policy. We are currently in the process of evaluating all aspects our licensing program and comparing it with similar sized municipalities both regionally and nationally. Once all data is gathered and reviewed, we will bring that information to the MCAS Citizen Advisory Committee to help facilitate their understanding of any proposed changes.

6. Combined Response 6 – 9

- (6) Better define how funds for each of the four donation accounts can be spent.**
- (7) Develop written policy and procedures for donation funds and special purpose donations.**
- (8) Update managers on how to properly code donation purchases.**
- (9) Monitor donation fund purchases and labor costs to detect misclassified expenditures and to ensure compliance with budget law and financial policy.**

RESPONSE

Donations

MCAS utilizes the functionality of SAP to account for all donations activity. Utilization of SAP Project System (internal orders) provides MCAS the capability to monitor discrete donations for specific projects. General donations are deposited to the assigned Cost Center for each of the four donation accounts. In July 2014 Business Services worked with MCAS to restructure their SAP cost codes to eliminate the confusion in how temporary and regular employees posted their time. Business Services will work with the new MCAS leadership to evaluate modifying the existing cost structure and/or add additional monthly reports to support the financial review of donation accounts. In addition, MCAS in coordination with Business Services will revise existing internal controls and develop procedures aimed at building stronger and more transparent donation management.

10. DCS Business services should take a more active role in monitoring MCAS finances to help ensure financial policies and procedures are followed.

RESPONSE

DCS Business Services departmental internal controls place the authorization of disbursement of County funds to the program area managers. The arrival of the new MCAS Director brought a new approach in the monthly delivery of financial reports to support MCAS's review of their financial activity as well as onsite training to allow for self-help to pull reports directly from SAP. Further, regular communications with the new Client Services Manager and Business Services has become common as financial policy and processes are reviewed. Establishment of these relationships has already begun build a financial support network for MCAS which has also included additional coordination with CFO staff.

Business Services has a history of partnering with the CFO and MCAS staff to review County financial policies and procedures to meet new business solutions requested by MCAS. Examples include,; the 2015 Cloud Sourcing campaign, launch of PayPal for online shopping, a 2014 Lean exercise to review MCAS License processes and, most recently, evaluating the customer accounting capabilities of Shelter Buddy.

- 11. The County should review the existing financial policy *Federal/State Grant and foundation Revenues* to explicitly address whether restricted private donations such as those received by MCAS must be spent before any unrestricted funds for the same purpose.**

RESPONSE

MCAS plans to engage the CFO and County Board in a discussion to validate the intent of the current financial policy as to whether it should include or exclude private donation proceeds. MCAS currently operates under two Board resolutions providing guidelines on the use of donated funds. Based on the outcome of these discussions MCAS will align program expenditures to meet County financial policies.

- 12. Develop written procedures for donated goods.**

RESPONSE

MCAS has already taken steps to evaluate current practices and has initiated changes. MCAS will have a written procedure for donated goods developed by June 30th.

- 13. Use a better receipt for donated goods that complies with IRS regulations.**

RESPONSE

County Treasury, in coordination with MCAS, will develop (by June 1st) a standard receipt form and process that will meet requirements described in IRS publications 526 and 1771. New receipting practices will ensure donors are given a proper description of donated goods sufficient for the donor to estimate value and will specify that no goods or services were provided in exchange for contributions. Receipts will be provided for all donations regardless of donor preference.

- 14. Make sure that all receipts are kept and account for.**

RESPONSE

Upon the completion of a standardized receipting process that meets IRS requirements, MCAS will develop a procedure to ensure all donated goods/services receipts are kept for record keeping and management.

- 15. Disclose the value of donated goods on the financial statements & develop written procedures for donated goods.**

RESPONSE

MCAS and Business Services are working with Central Finance to begin evaluating a process to value donated goods/services and incorporate the annual value as a disclosure within the Comprehensive Annual Financial Report. This evaluation will incorporate the development of DCS specific procedure/policy that will describe how donated goods are received, managed, recorded/valued, reported, and secured. Central Finance, in coordination with MCAS and Business Services, is aiming to have a process/procedure developed by the current fiscal year end.

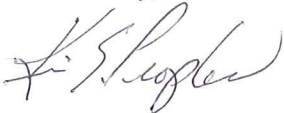
16. Limit Access to the inventory.

RESPONSE

MCAS has taken steps to improve physical inventory control in the MCAS warehouse. Since this report was issued behavioral assessments were discontinued in the warehouse which eliminated traffic of non MCAS staff in that space. The warehouse is located behind a secured fence and is not open to the public. Business Services will work with MCAS staff to evaluate physical tracking, inventory management system and appropriate segregation of duties to avoid theft.

In closing, my appreciation is extended to you and Craig Hunt for presenting these recommendations to Community Services. My team has already initiated corrective steps on many of the recommendations and has partnered with the CFO's Office to leverage their expertise where needed.

Sincerely,



Kim E. Peoples
Director