



**CITY OF COLORADO SPRINGS
OFFICE OF THE CITY AUDITOR**

**06-161 - HUMANE SOCIETY OF THE PIKES PEAK
REGION ANIMAL CONTROL SERVICES
CONTRACT**

PUBLIC REPORT

FEBRUARY 14, 2007

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City of Colorado Springs



Office of the City Auditor

Public Report

Date: February 14, 2007

To: Honorable Mayor and Members of City Council

Re: 06-161 - Humane Society of the Pikes Peak Region Animal Control Services Contract

We have performed an examination of the Humane Society of the Pikes Peak Region (Society) contract to provide Animal Control Services to the City of Colorado Springs (City).

Our review covered the period January 1 to June 30, 2006 and was based on a two prong audit approach. The first prong was to review compliance with the contract and the second prong was to review the actual activity, actual costs and the cost allocation plan to see how the actual costs compared with the estimate provided by the Society.

The attached report contains our findings as well as responses from the Society, the City, or both, for each of the findings.

We thank the Society, City Budget and City Purchasing for their cooperation during this review.

As always, please let me know if you have any questions regarding this report.

Sincerely,

Jeff Litchfield
City Auditor

cc: Wesley Metzler, Society Executive Director
Leslie Yoder, Society Assistant Executive Director
Susan Vervacke, Society Director of Finance
Lorne Kramer, City Manager
Mike Anderson, Assistant City Manager
Lisa Bigelow, City Budget Director
Kara Skinner, City Principal Analyst
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Introduction

AUTHORIZATION

We have performed an examination of the Humane Society of the Pikes Peak Region (Society) contract to provide Animal Control Services to the City of Colorado Springs (City). We conducted this examination under the authority of Chapter 1, Article 2, Part 706 and Part 709 (B) and (C) of the City Code, and the audit clause in the contract which state:

1.2.706: EXAMINE BOOKS, RECORDS:

The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper or record in the custody of that person or public official.

1.2.709: MAKE PERIODIC REPORTS TO COUNCIL:

The City Auditor shall make periodic reports to Council which shall include the following:

- B. Information of proposals deemed expedient in support of the City's credit, and recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management;
- C. Matters concerning the effectiveness and efficiency of the programs and operation of the City;

Animal Control Services, Contract C003990, Section VI.K:

The City's Auditor, through authorized personnel, shall have the right at any time and from time to time to audit the Society's performance of this Contract. The Society, upon reasonable prior notice, shall make available to the City true and complete records which support billing statements, reports, performance indices, use of the City's leased premises, and all other related documentation associated with this Contract. The City's authorized representatives, upon reasonable prior notice, shall have access during regular business hours to the animal shelter facility and all records, which are deemed appropriate to audit, such as billing statements, reports, performance indices, shelter records, and all other related documentation. The Society agrees that it will keep and preserve for at least seven years all documents related to this Contract and which are routinely prepared, collected or compiled by the Society in the course of its business.

Introduction

The City's Auditor and the Auditor's authorized representatives shall have the right at any time, and from time to time, to audit the Society's performance of the contract. The Society shall make all such matters, and documents related to the Society's performance, available for such examination at the premises and without expense to the City.

BACKGROUND

Chapter 6, Article 7, Part 105 (A) and (B) of the City Code states:

- A. The City shall provide and maintain an animal shelter in a suitable location within or near the City for the impoundment of animals as provided in this chapter.
- B. The City may provide by contract with any public agency, private society or association which is interested in the humane care and treatment of animals, for the establishment, maintenance and operation of an animal shelter and for the enforcement of the provisions of articles 7 - 10 of this chapter.

In accordance with the above sections, the City had entered into several agreements with the Society to provide animal control services. Agreements effective during our review period were:

- A Construction and Use Agreement entered into between the City and the Society effective August 6, 1999. Per the terms, the City provided \$3 million towards the cost of the Society's building at 633 South 8th Street. In exchange for the funds provided, the contract indicated the City would enjoy the use of 60 percent of the building for a period of 20 years. At the end of the 20 years, the City would no longer have any interest in the building.
- A Building Lease Agreement entered into between the City and the Society effective September 1, 2005. This agreement provided clarification of terms and conditions considered vague in the original building agreement mentioned above. The building address was now 610 Abbott Lane. The \$3 million provided by the City toward the building of the facility was considered prepaid rent and the specific space the City was entitled to use in the event that they or their designate occupied the building was documented.
- A contract (C003990) for 2006 Animal Control Services for a contract year beginning January 1, 2006 and ending December 31, 2006.

The audit was focused on the terms and conditions found in Contract C003990.

As additional background, the City's relationship with the Society dates back to the 1950's, when the City entered into a contract with the Society for animal control services. From its humble beginnings, the Society has grown to be the largest animal shelter in southern and western Colorado, serving not only Colorado Springs, but the counties of El Paso, Teller, Douglas and Pueblo and several other communities in the area.

Introduction

We have previously performed several audits involving the Humane Society, the most recent being an audit in 2002 of the Society's contract with the City for the period January 1, 2002 through October 31, 2002. The result of that audit was a report to the City Council dated December 18, 2002. The most significant issue noted was the terms of the animal control contract were not clearly defined. One such term was the definition of animal control and what activity constituted animal control. The Society considered animals that were voluntarily given up to the Society by the owner as animal control. The City viewed these animals as a humane function. Since the main cost driver in the Society's cost allocation methodology at that time was the number of animals handled on behalf of the City, this differing interpretation had a major impact on the cost of the City's contract. We recommended the contract language be clarified. The contract language was significantly improved in the 2006 contract and animal control was more specifically defined.

SCOPE AND METHODOLOGY

We conducted the audit of the Society's contract (C003990) with the City for animal control services for the period January 1, 2006 through June 30, 2006.

The majority of the contract costs were a fixed amount for the twelve month period commencing January 1, 2006. The essentials of the contract were:

- The Society would receive a base amount of \$1,061,100 for the period,
- The Society would receive all fees collected by it, except licensing fees,
- The City would submit bite case handling fees to the Society, and
- The City would receive the first \$350,000 in licensing fees, then all fees after that would be divided with the City receiving 70 percent and the Society receiving 30 percent.

The base amount of \$1,061,100 was agreed to after negotiations between the City and the Society. It appears these negotiations were based on estimates provided by the Society.

Based on this, we developed a two prong audit plan. The first prong was to review compliance with the contract and the second prong was to review the actual activity, actual costs and the cost allocation plan to see how the actual costs compared with the estimate provided by the Society. To accomplish our audit plan, we performed the following audit steps:

- Reviewed the internal control environment related to the collection of fees, licensing, animal intake and processing, and field services.
- Reviewed contract compliance requirements such as insurance coverage and reporting requirements.
- Performed tests to verify the number of animals handled as reported on the quarterly performance statistics.
- Performed tests to verify the report classifications of kenneling, field service and licensing costs.
- Reviewed the cost allocation methodology to verify costs allocated to the City contract.

Introduction

The audit was conducted in a manner that met or exceeded the Standards of the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. The audit included such tests of records and other supporting documentation as we deemed necessary in the circumstance. We reviewed the internal control structure and performed compliance tests using statistical sampling techniques.

Because the Society is a separate legal entity, we had to approach the audit differently than if it were a City department. The primary difference between this audit and one we would do for the City is our ability to access supporting documents. For City department audits, per the City Code, we have full access to their records, however, for the Society, we were only able to review records they provided us.

RELATIONSHIP BETWEEN THE CITY AND THE SOCIETY

The City and the Society have a history of working together to provide animal control services to the area and our office has performed several audits on the animal control operation. Based on our knowledge of the two entities, we believe there are several unique characteristics that limit the ability of the City to obtain a true arms-length agreement with the Society. They are:

- the City contributed \$3 million to the Society's building and in return had the contribution treated as pre-paid rent for 60 percent of the building for 20 years,
- the way the building is designed, it seems it would be difficult for the City to use their portion of the building for anything other than animal control,
- there is a lack of entities in the area with a proven track record of providing animal control services at the level the City requires, and
- the Society benefits from having the City's business because it spreads some of their fixed costs over a wider population.

These factors lead us to conclude the City and Society are fated to work together until the end of the building lease contract, which expires in 2020.

OVERALL CONCLUSION

It has always been our opinion that the Humane Society is a very well run operation and nowhere in this report do we question the type or level of service they provide. However, their current cost accounting methodology does not accurately calculate the true cost of providing the City's animal control services. Since the true cost of providing the various services is not known, neither the City nor the Humane Society has the knowledge necessary to negotiate a fair and reasonable contract price.

In the finding section of this report, we recommend an independent cost study be performed by an outside consultant. The cost study should review the various activities at the Society and determine the full cost of these activities (i.e., animal control, shelter, fundraising, education, etc.). Within animal control, the cost study should determine an equitable method of allocating costs to the various contracts. This would allow the City and the Society to enter into a contract based on the actual cost of service plus a reasonable rate of return or profit to the Society.

Introduction

While we believe it appropriate for the Society to make a profit off of the City contract, we also believe the items mentioned in the bulleted area on page 5 hinder the ability of the City and the Society to enter into a true arms length agreement, therefore, the rate of return should be transparent to the City, its governing body and, most importantly, its taxpayers since they are the ones who voted to allow \$3 million of their 1997 TABOR refund to be used for an Animal Shelter.

For the findings that follow, we have made no determination as to which findings are more important than others. Therefore, the findings are not listed in order of importance.

Findings, Recommendation and Responses

1. There needs to be an independent determination of the cost of administering the City's animal control contract.

The contract requires the Society to report total expenses associated with the City's contract on a quarterly basis. The Society utilized a cost allocation model to determine the cost of the City's contract. We reviewed the current cost allocation model for the six months ended June 30, 2006. The model calculated the cost of the City's contract for this time period to be \$691,356.

When we inquired about the cost allocation methodology, the Finance Director told us that for some cost categories, the beginning budget was used as the cost allocation driver to determine the City's cost. For example, \$25,200 was budgeted for the whole year as the City's cost of animal care. The total Society animal care cost was budgeted as \$70,000. Based on this information, the Society determined that the City's portion for animal care cost should be 36 percent. As of June 30, 2006, actual total animal care for the Society was \$64,082 of which \$23,070 (36 percent) was charged to the City. The Society did not provide any other support to substantiate charging the City 36 percent of the animal care costs.

In our previous 2002 audit, the Society also used a cost allocation model. We reviewed the allocation model at that time and found costs to be based on various drivers which were primarily the number of animals handled. We had some findings related to the model but overall, it seemed to be reasonable.

At that time, the Society and the City disagreed on one of the primary cost drivers, the definition of number of animals handled, and the contract was vague. The 2006 contract language clarified the definition of animals handled. The clarification reduced the number of animals the Humane Society was handling for the City from approximately 15,830 in 2002 to approximately 9,802 in 2006. This was a 38 percent reduction in the number of animals handled. During this same period, the cost to the City was reduced by only approximately 11 percent.

The ability of the City Contracting, Budgeting Department, and the Humane Society to negotiate a fair and reasonable contract price is based on having confidence in the underlying cost data produced by the Society. Currently, there is a lack of confidence in the cost data being reporting.

Auditor's Recommendation:

We recommend an independent cost study be performed by an outside consultant. The cost study should review the various activities at the Society and determine the full cost of these activities (i.e., animal control, shelter, fundraising, education, etc.). Within animal control, the cost study should determine an equitable method of allocating costs to the various contracts. Besides helping the Society understand the full cost of their activities, it would also provide for an independent and accurate cost assessment in which to base contract negotiations and a cost plus contract could be reached. We also recommend the City and the Society jointly agree on the outside consultant. However, since the study will primarily benefit the City, the City should pay for the cost of the study.

Findings, Recommendation and Responses

City Animal Control Team Response:

We concur with this finding and recommendation. This has been addressed in the 2007 Animal Control Services contract as it contains language, agreed to by both parties, that states the city will hire an independent consultant to perform an in-depth cost allocation study in 2008. This study will be beneficial to both parties for future negotiations.

Society's Response:

The cost allocation methodology used by the Humane Society in determining what costs are charged to the city for services provided under the contract has remained the same for at least 10 years. Services are provided to many other jurisdictions and to the Humane Society itself with the total cost of the program allocated on the basis of the amount of services used in each of the three program areas:

Field Services are based on the number of requests for service from officers in the field. Each jurisdiction is charged a share of the field service cost based on usage

Kenneling Services are based on the number of animals sheltered and the amount of time they are sheltered plus medical and other costs of sheltering. Each jurisdiction is charged a share of kenneling costs based on usage

Licensing Services are based on the number of licenses sold, reminders sent, etc. Each jurisdiction is charged based on usage

These costs have been built into the contract at the beginning of each contract and remain in place for that year. Any adjustments made through changes in usage or through negotiations are made in the following contract year.

The society feels that the method used in 2006 is not substantially different than that used in 2002 which the city found appropriate.

We agree with the auditor's recommendation.

Findings, Recommendation and Responses

2. Field Services, Kenneling Services, and Licensing Services costs reported in the quarterly performance reports were not accurate.

The contract requires that the Society record and maintain service usage and expenses for each of these funded programs and submit quarterly reports. Per the Finance Director, the Society allocated the total cost of the City's contract between these three functions based on what the City agreed to pay at the time of the contract negotiations, not on the actual costs incurred for the functions. No other supporting documentation was provided.

Auditor's Recommendation:

We recommend that an independent cost study be performed from an outside consultant to determine the cost of these three primary animal control activities. The data could then be used comparatively to other jurisdictions to measure efficiency.

City Animal Control Team Response:

We concur with this finding and recommendation.

Society's Response:

The Humane Society has recorded and maintained detailed service usage records and has submitted them to the city quarterly along with quarterly financial statements. It is the Humane Society's position that the reports submitted were an accurate reflection of the services performed.

We agree an independent cost study should be performed.

Findings, Recommendation and Responses

3. The 2nd Quarterly Performance Report for 2006 differed from the agreed upon format.

When reviewing the 2nd Quarterly Performance Report that was submitted by the Society to the City, it was noted that the report was not in the format that was agreed upon in the contract.

For the second quarter, under Kenneling Services, the Society changed the way they were reporting stray animals. The Society restated the first quarter information to be consistent with the second quarter format.

Auditor's Recommendation:

We recommend that any changes in the reporting format should be discussed and agreed upon by both the City and the Society. Furthermore, the contract should be amended to reflect such changes before the new format is used.

City Animal Control Team Response:

We concur with this finding and recommendation. Reporting has been addressed in the 2007 Animal Control Services contract as it contains a report exhibit which displays the required format and outlines the categories. We will insure the reports submitted are in compliance with the contract or the contract is correctly amended to reflect the required categories for future negotiations.

Society's Response:

While preparing the 1st quarter statistical report, a minor change was requested by HSPPR. This was discussed and agreed upon between the Executive Director and the contract liaison. The requested change had to do with breaking out the total number of animals handled vs. stray animals. This agreement resulted in a permanent change to the report form. A copy of the original form and a highlighted version of the agreed upon format is attached.

Findings, Recommendation and Responses

4. There were still some classifications of animals included in animal control that were not specifically defined in the contract.

It was noted that stray animals included as part of the Colorado Springs Animal Control Service contract for the first half of 2006 were as follows:

<i>Classification</i>	<i>Number</i>	<i>Percentage</i>
Strays	4,388	89.53%
Evict/Arrest	117	2.39%
Protective Custody	64	1.31%
Safekeeping	122	2.49%
Night drop	210	4.28%
Total	4,901	100.00%

Some of the stray animal classifications were not specifically defined in the contract. The first three classifications were addressed in the City Code and appear to be animal control.

The safekeeping classification was used for animals that were cared for temporarily in such cases where an individual was taken to the hospital or away from their home due to domestic violence.

Night drop strays were animals left at the Society after normal business hours. The animal left in the night drop area without any documentation stating where the animal was found were assumed to be strays and coded to the Colorado Springs jurisdiction. If documentation was left that indicated the animal was surrendered by the owner or found outside of the Colorado Springs area, they would be coded as such.

Auditor's Recommendation:

We recommend that night drop strays and safekeeping be addressed specifically as part of the scope of services in the contract.

City Animal Control Team Response:

We concur with this finding and recommendation. Night drop strays have been specifically addressed in the 2007 Animal Control Services contract.

Society's Response:

The recommendation to address safekeeping and night drop animals specifically in the contract is fine. However, we would like to define the categories in order to eliminate possible confusion.

Strays are animals that are unattended and have not been surrendered by owners. These animals are keyed into the database with an intake type of STRAY. An animal that has been signed over to HSPPR by an owner is keyed into the database with the intake type of OWNER

Findings, Recommendation and Responses

SURRENDER. There are subtypes for both that further define how the animal arrived at the shelter. The subtypes include Field, OTC (over the counter) and Night (night drop). In other words, Night Drop is not an intake type, but rather a subtype of either a stray animal or an owner surrendered animal.

It would be our recommendation to define all Intake Subtypes (Field, OTC and Night) to eliminate any confusion about Night Drop animals.

Findings, Recommendation and Responses

5. The City was not being properly credited for all the revenue received for stray animals that were returned to owners.

We noted that in 2 out of 20 receipts tested, the impound fees were not always credited to the proper jurisdiction. In the animal tracking system, when an owner claimed an animal, the revenue received was credited to the jurisdiction that the owner lived in, not the jurisdiction that was charged for the animals when it was received as a stray. This resulted in the City being charged for the stray animal but not receiving the appropriate credit when the animal was returned to its owner (i.e. impound fees).

Also, Ordinances for other jurisdictions outside City limits did not assess boarding fees for owners. Therefore, animals were charged to the City as strays but no offsetting board fees were collected for owners living outside the City limits. Per the Society's Assistant Executive Director, Ordinances will be changing in the future to allow board fees to be assessed for the other jurisdictions.

Auditor's Recommendation:

A process needs to be developed to properly match recovered fees to the jurisdiction charged for the animal.

City Animal Control Team Response:

We concur with this finding and recommendation.

Society's Response:

We disagree with the assertion that the City was not being properly credited for stray animals that were returned to owners.

Statistical reporting provides information on the number of strays that are impounded within each jurisdiction. None of the animal control contracts charge on a per animal basis. Therefore, there is no "charging" of the jurisdiction, but rather, a reporting of the number of animals impounded from within the jurisdictions boundaries whether by a response by an AWO from the field, an intake over the counter from a customer or an animal left in the Night Drop.

If an animal is reclaimed by an owner, authority to assess fees comes directly from the applicable ordinances. For the year 2006, only the city of Colorado Springs ordinances provided authority to assess a daily board fee which accumulates on day two of the impoundment. In the absence of an ordinance, HSPPR has no authority to assess the board fee to residents of Fountain, El Paso County, Monument, etc.

In most cases, reclaimed animals are impounded from within the jurisdiction that their owner resides in. However, in the first half of 2006, sixty-four (64) animals reclaimed by their owners were impounded outside of the city limits and reclaimed by City residents. To the contrary, one hundred twenty-one (121) animals were impounded within the City limits and were reclaimed to non-city residents.

Findings, Recommendation and Responses

What we have learned is that within the first six months of 2006, 2.5 percent of the animals impounded from within the city limits are returned to owners of other jurisdictions. Tracking these reclaims and adjusting the recovered fees to match the impoundment location would be time consuming and not worth the time and effort in our opinion, given such a low percentage. Especially since these scenarios occur in both directions and we do not "charge" on a per animal basis.

Fortunately, effective January 1, 2007, El Paso County resolution and Fountain city code have been amended to be consistent with the City of Colorado Springs ordinances.