

**OFFICE OF THE CITY AUDITOR**

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City Auditor

July 6, 2004

Mr. Ronald Arias  
Director of Health and Human Services

We have reviewed operations of the Animal Control Bureau (the Bureau) of the Department of Health and Human Services. The purpose of performing this review was to evaluate the terms of the agreement in place between the City and the Society for the Prevention of Cruelty to Animals, Los Angeles (spcaLA) and to determine compliance with that agreement as well as to assess the Bureau's administrative and internal controls and effectiveness of operations.

In September 1998 the City entered into an agreement with the spcaLA in which the spcaLA would fund and construct a new state-of-the-art animal care and control village located at 7700 Spring Street. The P.D. Pitchford Companion Animal Village officially opened in August 2001 and each agency occupies a portion of the facility to deliver unique animal control services. The spcaLA handles all animal adoptions and the Bureau handles all traditional animal control functions, including field operations, dog licensing and investigations of animal cruelty. Under the agreement, the spcaLA is responsible for general operations and maintenance of the premises and the Bureau reimburses them for a share of these expenses.

The City's Animal Control Bureau utilizes the Basic Animal Regulation and Kennel System (BARKS), an internally developed system, to keep track of impounded animals and to track all licensed dogs and the status of rabies vaccinations for those pets. The Bureau has service agreements in place with the cities of Los Alamitos, Seal Beach, Signal Hill, and Cerritos. The Bureau bills and collects all fees related to its services, including dog license fees, exotic animal permit fees, impounding fees, etc. Fees collected from Long Beach and the contract cities, except Seal Beach, amount to about \$900,000 annually. Expenses related to Bureau operations amount to approximately \$2.5 million per year.

Our review determined that service contracts in place with the cities of Cerritos and Signal Hill do not cover all costs related to providing the service. Specifically, when total Bureau expenditures are allocated based on the level of activity represented by each city serviced, costs exceed contract revenues by nearly \$170,000. Our review also noted deficiencies relating to revenue balancing, expense sharing, and BARKS system operation. Specifically, there are no controls in place to ensure payments received are

recorded and deposited. Although the BARKS system was developed internally, it has not been tailored to meet the needs of the Bureau with regard to revenue recording. BARKS does not provide for recording of all types of revenue nor does it provide useful reporting and audit trails. Additionally, discrepancies were noted between written agreements with the spcaLA and actual practices in place for expense sharing, resulting in apparent overcharges to the City of approximately \$11,000. Additionally, invoices received from the spcaLA for reimbursement of certain expenses were not routinely reviewed for validity and accuracy.

The Bureau manager retired in January 2004. In an effort to reduce costs, this position was replaced with a Division Manager who was appointed as of May 2004. Bureau staff is dedicated and professional. Auditor observations were welcomed and staff has already begun to implement recommendations. We would like to thank the management and staff for their cooperation and assistance during this review.

The following report discusses in detail our observations and recommendations for improving internal controls over certain processes of the Bureau.

Sincerely,

GARY L. BURROUGHS, City Auditor

By



Janet Sutter, CIA  
Deputy City Auditor

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## **Mission**

The primary mission of the Animal Control Bureau (the Bureau) is the protection of public health from rabies and other animal related diseases that may infect humans. The Bureau is also responsible for enforcing Federal, State and local laws concerning the ownership and treatment of animals within the City.

In September 1998 the City entered into an agreement with the Society for the Prevention of Cruelty to Animals, Los Angeles (spcaLA) under which the spcaLA would fund and construct a new state-of-the-art animal care and control village. The P.D. Pitchford Companion Animal Village officially opened in August 2001 and the two agencies now jointly deliver animal control services. The City contributed \$1.5 million toward design and pre-construction costs. The balance of development costs, which exceeded \$6 million in total, were provided by the spcaLA and private donations. The City owns the property and leases it to the spcaLA for a nominal amount. A portion is then leased back to the City also for a nominal amount. The spcaLA handles all animal adoptions and the City handles all traditional animal control functions (i.e. field operations, licensing and investigations). Under the agreement, the spcaLA is responsible for maintenance of the premises and the City reimburses them for 50% of these expenses.

## **Programs and Staffing**

The Bureau is organized into three basic programs:

- Administration/Kennel Operations – Responsible for overall Bureau administration, dog licensing, euthanasia of animals, public relations programs, and kennel operations. Bureau administration includes the Division Officer, a part-time Administrative Analyst, four full-time clerical staff, four temporary clerical staff, one part-time license canvasser, an Animal Health Technician, three maintenance assistants, and three temporary maintenance staff.
- Field Services – Provides field services to impound and rescue vicious, stray or injured animals. Also provides for pick up and disposal of animal carcasses. The Field Services staff includes two Senior Animal Control Officers who share responsibility over ten Animal Control Officers.
- Investigations – Responsible for the investigation and prosecution of vicious and barking dog complaints, animal cruelty and other crimes against animals. One of the two Senior Animal Control Officers is primarily responsible for investigations and is supported by the other Animal Control Officers as necessary.

Bureau personnel responded to over 18,750 calls for service during FY 2003, including calls for pick up of stray, injured and dead animals, noise complaints and investigations of animal cruelty. Over 4,700 dogs and 5,700 cats were impounded at the kennel during the year.

## Revenues and Expenditures

The schedule below reflects Bureau revenues and expenditures over the past five years. Since the opening of the new Village, both revenues and expenditures have increased. Dog licensing fees account for the majority of Bureau generated revenues. In FY 2003, license revenue totaled \$731,396, which represented 78% of all revenues. License revenues include payments totaling \$276,300 from the cities of Seal Beach, Cerritos, Los Alamitos, and Signal Hill for contract animal control services provided to those cities. Operational expenses have increased approximately \$500,000 annually since relocation to the new P. D. Pitchford Companion Animal Village. Revenues have also increased by about \$200,000 annually. The General Fund subsidy for Animal Control Bureau has increased to approximately \$1.5 million per year. The increased costs are due primarily to the addition of staff. In FY 2001 four positions were added to the Bureau: one Animal Control Officer and one Clerk and two Maintenance Assistants. The Animal Control Officer and the Clerk were added primarily because of the acquisition of two service contracts for Seal Beach and Los Alamitos. The Maintenance positions were added as a result of increased workload at the new, expanded location. In FY 2002 another Animal Control Officer was added to the Bureau.

Revenues	Fiscal Year					
	1998	1999	2000	2001	2002	2003
530 Licenses & Permits	473,151	700,632	528,358	546,620	764,894	731,396
700 Charges for Services	150,908	152,775	163,021	150,262	141,618	159,196
760 Other Revenues	35,855	21,105	17,947	33,199	58,963	35,369
790 Interfund Services	1,590	914	742	-	5,880	6,607
<b>Total Revenue</b>	<b>661,504</b>	<b>875,426</b>	<b>710,068</b>	<b>730,081</b>	<b>971,355</b>	<b>932,568</b>
Expenditures	Fiscal Year					
	1998	1999	2000	2001	2002	2003
010 Salaries, Wages & Benefits	1,237,273	1,234,957	1,274,529	1,384,613	1,593,366	1,622,308
020 Mat'l's, Supplies, Contracts	272,642	262,012	292,264	287,214	399,131	399,871
030 Internal Support	288,042	335,138	339,028	530,124	390,621	417,438
035 Capital Purchases	-	-	-	12,829	-	-
045 Transfers	22,278	1,968	-	-	16,126	16,126
499 Prior Year Encumbrance	3,854	-	-	-	-	-
<b>Total Expenditures</b>	<b>1,824,089</b>	<b>1,834,075</b>	<b>1,905,821</b>	<b>2,214,780</b>	<b>2,399,244</b>	<b>2,455,743</b>
<b>General Fund Subsidy</b>	<b>(1,162,585)</b>	<b>(958,649)</b>	<b>(1,195,753)</b>	<b>(1,484,699)</b>	<b>(1,427,889)</b>	<b>(1,523,175)</b>

**Note:** In May 2004 the City commissioned a review of services fees to determine whether fees in place adequately cover related services. This review will include the Animal Control Bureau and its services and fee structure.

## **Audit Procedures**

The following represents our procedures:

- We reviewed the prior audit report issued in April 1999 and performed procedures to determine whether weaknesses noted during the prior review had been addressed by management.
  - We interviewed Bureau personnel with regard to all significant processes, including kennel operations, field services, investigations, payment processing, and expense sharing (with the spcaLA).
  - We interviewed Bureau personnel and Technology Services personnel regarding the Basic Animal Regulation and Kennel System (BARKS).
  - We performed observation of cashiering transactions and performed a walkthrough of daily balancing procedures. We then selected an additional five days for testing to determine whether payments were properly recorded and balanced.
  - We obtained information from the City's payroll system and specifically identified all employees of the Bureau.
  - We reviewed the Lease and Lease Back agreements in place and performed reviews to determine whether terms were being adhered to. We also tested documentation to ensure the \$1.5 million invested by the City for the development of the Village was properly supported by invoices and cancelled checks.
  - We tested monthly payments to the spcaLA (as part of our expense sharing agreement) to determine whether expenses were properly supported and in compliance with the agreement.
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## **Findings and Recommendations:**

### **1. Service Contract Revenues are Insufficient to Cover Expenses**

The City has service contracts in place to provide complete animal control services to the cities of Cerritos, Los Alamitos and Signal Hill. The City also provides emergency/off-hour services to the City of Seal Beach under contract.

Our review of FY03 activity and expense reports and analysis of contract amounts indicates that contract prices for the cities of Cerritos and Signal Hill do not provide for full cost recovery. Specifically, services to the City of Cerritos account for 10-12% of Bureau activity; however, the contract price (\$155,346) represents only 6.3% of total expenses incurred by the Bureau (\$2.5 million). Similarly, services to the City of Signal Hill account for 2.3-2.6% of Bureau activity; however, the contract price (\$33,800) represents only 1.4% of total expenses.

Bureau management has indicated that it has been their intention to charge contract cities only the incremental costs associated with providing service. Analysis indicates that contract prices cover only about 70% of incremental costs and 53% of total costs.

In order to cover all related costs, including administrative and overhead costs, contract prices should be increased by approximately \$140,000 for Cerritos and \$30,000 for Signal Hill.

We recommend that management review service contracts to ensure prices are sufficient to justify providing the service. When negotiating future service contracts, management should develop and document a sound methodology for estimating incremental costs and look to cover all incremental costs with some contribution towards administrative and overhead costs.

#### **Management Response**

Management will develop and document an appropriate pricing methodology for service contracts. As these contracts expire, management will negotiate accordingly.

### **2. Revenue Balancing**

The prior audit report cited material weaknesses related to the accounting and reporting of revenues. Procedures were implemented in an attempt to address the issues noted; however, they did not adequately resolve concerns. As of the current review, the following weaknesses remain:

- Dog license revenue is recorded in the Basic Animal Regulation and Kennel System (BARKS) and in the cash register. All other revenue collected, including impound fees, relinquishment fees, vaccination charges, etc. are recorded only in the cash register. Revenues collected are not reconciled to system reports and manually issued receipts or to subsequent postings to the City's financial system, FAMIS. As a result, errors and omissions may not be detected.
- The Daily Collection Report generated from BARKS lists dog license revenues received each day; however, this report is not reconciled to amounts received. This may be partly due to the fact that the report is not compiled in a useable fashion. For instance, the report does not reflect payments that have an "effective date" different from the current date, even though cash is received on the current date. In addition, the report contains a "bug" which results in penalty amounts associated with duplicate renewal licenses to appear twice on the report, resulting in an out-of-balance condition.
- Corrections posted by the balancing clerk are not properly documented and the Daily Correction Report is not re-printed and reviewed to verify corrections are posted accurately.
- Daily balancing procedures are not efficient. The balancing clerk unnecessarily completes as many as 20 "balancing sheets" per day. The sheets are used to track dog license revenues by City; however, this information is available through the BARKS system.
- Delinquent account information currently produced does not include dollar amounts outstanding or the payment due date.

Procedures should be developed to allow for balancing and reporting of revenues. Several options were presented to management during the audit. In addition, management should continue working with Technology Services to implement improvements to the system. Once procedures have been designed, written policies and procedures should be documented.

### **Management Response**

Management will work with the Auditor's office to establish a comprehensive, manual Daily Balancing Sheet that will be used to reconcile all payments received. The balancing clerk will use this worksheet to balance all revenues collected on a daily basis. The balancing clerk and her supervisor will document their balancing and review by initialing and dating the worksheet.

In consultation with Technology Services, management will research changes to the BARKS system or alternative systems that may be considered, subject to budget constraints, as staff researches system changes.

Management is replacing the current cash register system. The new system will allow for better revenue tracking through expanded reporting abilities.

### **3. Agreement with the spcaLA for Expense Sharing**

The current Lease Back agreement between the City and the spcaLA provides for the City to pay 50% of operating and maintenance expenses for only those premises occupied by the Bureau and for "common areas"; however, currently the City is paying 50% of operating and maintenance expenses for the entire Village.

The City receives a monthly invoice from the spcaLA for these expenses. Each invoice details the vendor names, description of purchases, total amounts paid by spcaLA, and the amount due from the City (50%). The invoices are not accompanied by supporting documentation. Bureau personnel indicated that they only request supporting documents on items that appear "unusual".

We selected 8 monthly invoices for review. We reviewed supporting documentation for all items listed on the invoices. As of the close of the review, we had not received copies of documentation relating to 3 of the 8 months selected. Review of the remaining 5 months' invoices totaling \$35,717, noted the following exceptions:

- Fourteen charges, totaling \$4,728.38, for items not included in the lease back agreement as reimbursable. These included charges for animal food trays, a washer and dryer, animal medications, and copy machine rental, maintenance, and supplies.
- Ten charges, totaling \$4,688.87 were not properly supported. Several charges lacked copies of detailed receipts and charges to the City for debt service payments were not supported by bank statements and/or loan documents.
- Four charges listed represented overcharges to the City, totaling \$1,430.53.
- One instance was noted in which the total amount paid by spcaLA included a \$6.83 finance charge from the credit card issuer; this finance charge amount was included when calculating the City's 50% amount due.
- Two of the five invoices reviewed lacked the signature and date of the spcaLA President to certify the invoice.

We recommend that management consult with the City Attorney's office and execute revisions as necessary to ensure that the agreement with the spcaLA properly reflects the intentions of the parties involved. Management should then develop and implement procedures for detailed review of the monthly invoice to ensure validity of the charges and proper certification from the spcaLA president.

#### **Management Response**

Management will meet with the City Attorney to discuss revisions to the current agreement to ensure the document reflects the intentions of both agencies with



regard to allowable items and each agency's share of expenses. All invoices now include back-up documentation to support charges listed and all documentation is reviewed. Certain charges are 100% attributable to the City as they reflect purchases by the Bureau that are made through spcaLA in order to obtain a discount; however, in the future, these purchase reimbursements will be documented separately from the operating expense invoice.

#### **4. BARKS System**

The BARKS system and related reports do not support proper internal controls, accounting, and audit trails. Specifically:

- The system allows any user to make critical field changes (such as amount due, penalty waivers, payment date, etc.) and does not adequately track the change activity. The system tracks the initials of the last two users who entered changes but does not track the changes made.
- The system does not allow for reversal of payments as a result of NSF checks.
- Delinquent account information currently produced does not include dollar amounts outstanding or the payment due date.
- An aging report of delinquent receivables is not produced.
- The Periodic Activity Report, that tracks animals impounded and disposed of and/or released during the month, contains an information error with regard to animals on hand at the end of the month.

Audit staff met with Technology Services staff during the review to express concerns related to the BARKS system. Management should continue discussions with Technology Services to ensure weaknesses are addressed.

#### **Management Response**

Management will contact Technology Services to discuss system enhancements. An estimate will be obtained for implementation of these enhancements and will be compared to the cost of purchasing an alternate system that would meet audit requirements. When, or as, changes are made to the BARKS system a list of items will be maintained until they are resolved. Should it be determined that purchase of a new system would be more beneficial, management will work to obtain one. System enhancements and/or purchases are subject to available City funding.

#### **5. Cash Handling**

There is no individual accountability for cash receipts. Cashiers place their cash receipts in the safe each night without obtaining a verification of these receipts. The

next morning, the balancing clerk retrieves the cash receipts and verifies them by herself.

Cash receipts should be verified and placed in the safe by two individuals.

**Management Response**

Cash receipts are now verified and placed in the safe by two clerks.

**6. Mail-in Revenue Processing**

There is no segregation of duties in the processing of mail-in revenues. The same clerk who opens the mail processes the payments.

Mail is not always processed timely. Further, mail is sometimes opened and the payments posted to BARKS on one day and the actual receipts held over and processed in the cash register the next day.

Management should implement procedures to ensure mail-in payments are opened under dual control and payments are posted and processed on the day received.

**Management Response**

Mail is now opened under dual control. The mail is received in the afternoon and often cannot be processed on the day received; however, management has implemented procedures to ensure mail is processed on the next business day. During periods of unusually high volume this goal may be unattainable; however, this should be rare. Management expects the goal to be met 95% of the time.

**7. Rabies Information Tracking**

Rabies vaccination information is collected from veterinarians, pet stores and animal hospitals so that the Bureau can identify dogs needing a license. As of December 18, 2004, rabies shot information forms awaiting input to the database dated back to May 2003. Management should implement procedures to ensure timely input of this information.

**Management Response**

Input of rabies information is now up-to-date and the office supervisor is closely monitoring the process to ensure timeliness.

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## **8. Exotic Animal Permits**

Owners of exotic animals must purchase a permit and pay annual renewal fees. The Bureau has not developed procedures for tracking and annual billing of these permits.

### **Management Response**

Management will develop a system for tracking and billing exotic animal permits.

## **9. Dog Sales Reporting**

The Municipal Code, Section 6.16.061, requires all pet stores within the City to report dog sales to the Animal Control Bureau so that licenses may be issued and fees collected. Currently, no information is being forwarded to the Bureau.

We recommend management identify and notify all applicable pet stores of this requirement and utilize the information to generate license fee notices as applicable.

### **Management Response**

Management will work with the Business License Bureau to identify pet stores in the City. Staff will then send letters reminding them of their obligation under the Municipal Code. Follow-up procedures will be developed and implemented to ensure information is being received and utilized.

## **10. License Canvassing**

The Bureau employs a part-time non-career employee to perform license canvassing services. The employee goes door-to-door identifying residences with dogs and ensuring all dogs observed have current licenses. He updates the BARKS system to reflect dogs that have moved or died per his observations/discussions with residents. He also maintains an activity sheet that reflects how many residences he visited, how many hours he worked, and the amount of revenue collected.

A review of the Daily License Canvass Reports for October and November 2003 noted that this employee spent roughly 25% of his time in the office and 75% in the field. It is unclear from his job description whether this allocation of time is appropriate.

Management has not developed performance standards for this employee and does not utilize activity reports produced to evaluate his performance.

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Management should develop standards and review performance data. Analysis should be performed to determine if additional resources are warranted based on revenues collected.

### **Management Response**

Management will review historical data from daily license canvass reports to develop an appropriate performance standard. License canvassers will be apprised of the standard and informed that job evaluations and continued employment will be based upon meeting or exceeding the standard. Additionally, management will discuss and review coding of time with the license canvasser on staff to ensure proper allocation of time.

## **11. Landscaping**

Landscaping at the P. D. Pitchford Animal Companion Village is in poor condition, particularly the lawn, which is dead or dying in several areas. We inquired about the condition of the premises and were informed that a verbal agreement exists between the Bureau and spcaLA wherein the Bureau pays a flat \$1,000 towards landscaping expenses each month and the spcaLA has an employee perform the services. Bureau management indicated that landscaping bids were obtained from the spcaLA and that these bids far exceeded \$2,000 per month; however, neither the Bureau nor the spcaLA could locate evidence of the bids obtained. Because management believes landscape services far exceed \$2,000 per month, they are reluctant to address the issue of quality of the services.

Management should, in conjunction with the spcaLA, obtain bids for landscaping services. Even if monthly expenses increase, management may find that the increase in maintenance costs is cheaper than having to replace plants and/or lawns. If the spcaLA desires to continue performing this service, management should create a written agreement specifying the services to be performed and setting performance standards.

### **Management Response**

Landscaping at the P. D. Pitchford Companion Animal Village has greatly improved since the auditor first noted its poor condition. The spcaLA has hired another part-time employee (at no additional charge to the City) to assist the full-time employee with landscaping duties. Nevertheless, management will continue to request copies of initial landscaping bids to ensure the \$1,000 charge per month is reasonable. If original bids cannot be located we will ask that new bids be obtained. Management will also confer with the City Attorney to determine if any amendments should be made to the lease back agreement to reflect the landscaping cost arrangement.

## **12. Manual Receipt Logs**

Each field officer carries a supply of manual receipts for issuance to customers whose payments are collected in the field. A log is maintained by the supervisor to record ticket book sequence numbers as they are issued to the officers; however, the log is not reviewed for completeness.

The supervisor should review this log to ensure all receipts are accounted for.

### **Management Response**

The supervisor now reviews, initials, and dates the log.

## **13. Quarantine Period for Dog Bites**

According to the California Code of Regulations, Title 17, Sections 2606 and 2606-b, and the Long Beach Municipal Code (LBMC), Section 6.12.060, any animal that bites a person is to be isolated in strict confinement. The State requires dogs and cats be held for 10 days and all other animals be held for 14 days; however, the LBMC requires a 14 day holding period for all animals. Currently, the Bureau is observing the State standard, rather than the more stringent LBMC standard.

We recommend that management comply with the LBMC or have it amended to reflect current State requirements.

### **Management Response**

The discrepancy between the two codes is the result of changes in State law. Management will confer with the City Attorney's office to determine if the LBMC requires amendment.

## **14. Monthly Reporting to Contract Cities**

The City is required to provide each contract city with a monthly activity report. The monthly report being prepared contains irrelevant and inaccurate data on the number of animals impounded and the number of citations issued.

We recommend the report be revised to report meaningful and accurate information on activities.

### **Management Response**

Corrections have been made to the report, as suggested.