

**PERFORMANCE AUDIT
OF THE
HAWAIIAN HUMANE SOCIETY**

**PERFORMED BY ARTHUR ANDERSEN LLP
FOR THE HONOLULU CITY COUNCIL**



OFFICE OF

**COUNCIL
SERVICES**

City and County of Honolulu
STATE OF HAWAII

ARTHUR ANDERSEN

September 5, 1997

The Honorable John De Soto, Chairman and
Members of the City Council
City and County of Honolulu
Honolulu, Hawaii 96813

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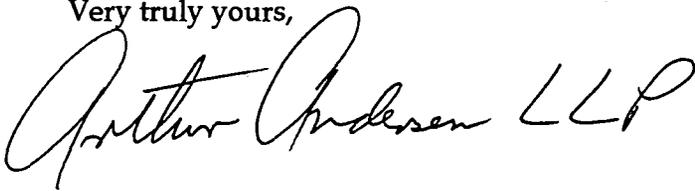
Dear Chair De Soto and Council Members:

We are pleased to submit our Final Report on the Performance Audit of the Hawaiian Humane Society.

This report is the result of an examination and evaluation of the programs and operations of the Hawaiian Humane Society related to city contracts. We performed the audit for the City Council under contract with the Office of Council Services pursuant to the Honolulu City Council's Resolution 96-165, CD1, FD1, which authorized a performance audit of the Hawaiian Humane Society.

We appreciate the opportunity to perform this audit and sincerely hope that it will be constructively used to improve the services which the Hawaiian Humane Society performs.

Very truly yours,

A handwritten signature in cursive script that reads "Arthur Andersen LLP". The signature is written in black ink and is positioned below the typed name "Very truly yours,".

Performance Audit of the
Hawaiian Humane Society

**Prepared by Arthur Andersen LLP for the
Honolulu City Council**

September 1997

PERFORMANCE AUDIT OF THE HAWAIIAN HUMANE SOCIETY

Findings

As a good business practice, the Council authorized a performance audit of the Society (Resolution 96-165, CD1, FD1). An audit of the Society had not been done since 1980. Arthur Andersen LLP was engaged by the Office of Council Services to conduct the audit.

The auditors found that:

- (1) The Society's animal control program has mixed results against certain animal control performance "benchmarks."
- (2) The Society' budgetary controls over the City's programs could be improved.
- (3) The Society's system to track and address public complaints about Society personnel was inadequately documented.
- (4) The Society did not comply with City contract provisions in such areas as program reporting and monitoring, response time for animal nuisance calls, and use of animal control officers.
- (5) Animal care provided by the Society and by spay/neuter veterinarians appeared to be adequate, but certain improvements could be made.
- (6) The Society's internal operations relating to the City's programs could be improved; program goals and objectives were not measurable, controls over purchases could be improved, and record keeping was incomplete.
- (8) The Department of Finance oversight of the City's contracts could be improved.

PERFORMANCE AUDIT OF THE HAWAIIAN HUMANE SOCIETY

Recommendations and Response

The auditors recommended that:

- (1) The Society physically segregate City program funds from its other funds and keep separate accounting records.
- (2) The Society review the basis it uses to budget and account for the City's programs and review budget differences with the City.
- (3) The Society document its procedure for handling both written and oral complaints from the public about Society personnel and document its responses.
- (4) The Society comply with the reporting and monitoring requirements of its City contracts and develop reasonable animal complaint response times and qualifications for spay/neuter certificate purchasers.
- (5) The Society improve its goal setting and internal operations with respect to the City programs.
- (6) The City strengthen oversight of its Society contracts, bolster contract provisions, ensure its contracts are properly awarded, and establish a balanced budget for the animal control program.

The Hawaiian Humane Society responded that certain recommendations were either being implemented or would be addressed in consultation with the City, but that other findings and recommendations were not consistent with its legal relationship with the City. However, the auditors believe that contract compliance and sound business practices are essential elements for any contractor providing services to the City with public monies.

Regarding recommendations pertaining to it, the Department of Finance was in general agreement, and noted that contract oversight has since been moved to the Director's office. The department also said it would meet regularly with the Society to review contract performance.

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I. INTRODUCTION

As a good business practice, the Council authorized a performance audit of the Society (Resolution 96-165, CD1, FD1). The Council's last audit of the Society was conducted in 1980. Arthur Andersen LLP was engaged by the Office of Council Services on behalf of the City Council to conduct the audit.

A. OBJECTIVES OF THE PERFORMANCE AUDIT

Resolution 96-165 set forth the objectives of the audit as follows:

Determine if City funds had been used efficiently and effectively to support each of the direct services contracted by the City with the Society, including administrative overhead.

Evaluate the Society's compliance with its contractual obligations to the City.

Determine whether the Society has complied with all applicable statutes, ordinances, policies, and rules relating to the investigation of animal nuisances, cruelty, abuse, and neglect, and the seizure of animals from their owners.

Determine whether the Society has provided adequate animal care in the City's contracted animal shelter.

Determine the cause(s) of any deficiencies found, whether in management, financial, personnel or other systems or procedures, and make recommendations for improvement as appropriate.

B. SCOPE AND METHODOLOGY

To meet the objectives of the performance audit, the auditors performed a review of selected financial and operational records and transactions and the related systems of controls of the Society as they relate to the Society's contracts with the City. The examination was made for the two fiscal years 1995 (from July 1, 1994 to June 30, 1995) and 1996 (from July 1, 1995 to June 30, 1996).

The audit was conducted in accordance with standards established by the American Institute of Certified Public Accountants and the relevant provisions of Government Auditing Standards (1994 Revision) issued by the Comptroller General of the United States.

The audit procedures included, among other things, the following major areas of emphasis:

Review of selected financial and operational information related to the City contracts contained in the Society's reports. The review was made using certain information obtained from the Humane Society of the United States (HSUS). Based upon the auditors' discussions with an HSUS employee, the auditors understand that the HSUS compiles the results of surveys of certain animal shelters across the U.S. These surveys are conducted by the HSUS and other agencies, such as the American Humane Association. This information was not compiled for the express purpose of evaluating the Society's operations and, as with all publicly available information, has certain inherent limitations. However, the auditors believe that the use of these survey findings was a reasonable "benchmark" to evaluate the Society's animal control program performance and meet the objectives of the performance audit.

Review of selected elements of the accounting and management control system covering the City contracts.

Testing selected transactions for compliance with specific provisions of the City contracts, the Society's internal policies and procedures, and laws and regulations. However, no legal determination was made as to the Society's compliance with specified requirements.

Review of certain major elements of the animal control operations using the most recent edition of the Self-Evaluation Workbook For Animal Care and Control Agencies, published by the American Humane Association. A veterinarian licensed in the State of Hawaii also participated in the review. This workbook was not compiled for the express purpose of evaluating the Society's program and, as with all publicly available information, has certain inherent limitations. However, the auditors believe that the use of this workbook as animal care "standards" coupled with the knowledge of a practicing veterinarian represent reasonable methods to understand and evaluate the Society's animal shelter operations in meeting the objectives of the performance audit.

Review of certain major elements of the animal control and spay/neuter operations for compliance with contract provisions and applicable professional veterinary standards with the assistance of a veterinarian licensed in the State of Hawaii.

Evaluation of the results of the procedures performed in the context of efficiency and effectiveness in the use of City funds.

C. RESULTS OF 1980 PERFORMANCE AUDIT

The 1980 performance audit of the Society previously commissioned by the City Council was reviewed with respect to those findings directly related to the animal control and spay/neuter contracts. In this report, all findings which were part of the previous performance audit results are so noted.

II. BACKGROUND: THE CITY'S CONTRACTS WITH THE HAWAIIAN HUMANE SOCIETY

A. AUTHORIZATION FOR CITY CONTRACTS

The City is empowered, by Section 46-1.5(15) of the Hawaii Revised Statutes (HRS), to provide public pounds, regulate the impounding of stray animals and fowl and their disposition, and to provide for the appointment, powers, duties, and fees of animal control officers. In addition, the City is empowered by Section 7-5.1 of the Revised Ordinances of Honolulu 1990 (ROH), to establish a clinic at which members of the public may have dogs and cats spayed or neutered for a fee. The City has also contracted with the Society for this program.

B. BRIEF HISTORY OF CONTRACTS BETWEEN THE CITY AND THE SOCIETY

The Hawaiian Humane Society was established in 1897 and incorporated in 1920 as a private, not-for-profit organization whose mission, as stated in the Society's brochures and annual reports, is to prevent cruelty to animals, promote the humane treatment of animals and perpetuate the bond between humans and animals. In 1934, the Society was first contracted by the City to operate an animal shelter. In 1969, the Society's current site was leased from the City for the sum of one dollar, for the purpose of operating an animal shelter. The lease expires on June 30, 2024, at which time (unless renewed) the site will revert back to the City.

During the period covered by this report consisting of fiscal years ended June 30, 1995 and 1996, respectively, City programs accounted for approximately 50 percent and 47 percent of the Society's total public support and revenue (as reported in the Society's audited financial statements).

C. DESCRIPTION OF CONTRACTS BETWEEN THE CITY AND THE SOCIETY

The Society currently has two contracts with the City, as described below: the animal control contract and the spay/neuter contract. Part of the costs of Society departments are charged to the City's contracts as allowable administrative overhead and support services.

Animal Control Contract

Purpose and Responsibilities. The animal control contract requires among other things, the Society to enforce animal-related laws over which it has jurisdiction and operate the animal shelter. The contract states that, "the Society and City share the long-term goals of reducing the number of stray animals to effect a consequent reduction in animal control activities and to educate the public in responsible and lawful animal ownership." The contract states that the following regulations are to be enforced:

Cruelty to Animals, 711-1109 and -1109.3, HRS

Dogs: Licenses and Regulations, Chapter 143, HRS and regulation of Dogs, Chapter 7, Article 4, ROH

Animal Nuisances, Chapter 7, Article 2, ROH

Hawaiian Humane Society, Chapter 3, Article 5, ROH

Under the animal control contract, the Society's scope of services is to provide adequate personnel, facilities, equipment, supplies, supervision, and administrative support to: operate the animal shelter, provide patrol services, enforce regulations, operate a 24-hour dispatch office to receive requests for services and complaints about animals from the public, provide and maintain dog license files, and administer the City's spay/neuter program.

Society Services and Programs. The following services and programs of the Society are provided in whole or in part under its contract with the City.

Adoptions. This program includes services rendered pursuant to the City contract and the Society's other activities. The objective of this program is to help find new homes for stray and owner turned-in animals. Owner turned-in animals are not included in the scope of services of the City contract.

Animal Nuisance Complaints. This service covers the City contract requirement for a 24-hour dispatch office to handle such calls, along with other service requests within the scope of the City contract.

Animal Pick-Up. This service is performed by the Field Services department, for both stray and owner turned-in animals. As mentioned previously, owner turned-in animals are not included in the scope of the City contract.

Cat Identification. Under the Cat Identification Program (Chapter 7, Article 6, ROH), the Society enforces the identification and sterilization requirements for impounded cats over six months of age. This ordinance was not included in the City contract scope of services during the period under examination.

Cruelty Investigations/Dog Licensing/Inspections/Stray and Loose Dogs. These services include the following:

Conducting investigations into reported incidents of animal cruelty or violations of applicable laws and regulations.

Obtaining search warrants, issuing citations (if necessary), and seizing animals (pursuant to court order) to enforce animal welfare laws and regulations.

Education of the public on the humane treatment of animals and the related laws and regulations.

Administering the issuance of dog licenses on behalf of the City.

Performing inspections of pet shops, circuses, etc. for appropriate treatment of animals.

Collection and transportation of stray or loose dogs to the animal shelter.

Euthanasia. This service is performed for both stray and owner turned-in animals if they are incompatible as companion animals due to severe behavior problems, and/or physical disease or injury. Animals are also euthanized due to space limitations. Prior to being euthanized, the animals are typically held in separate holding areas (cats, dogs and other animals are generally separated as groups and individually). It was reported that the holding periods are not less than two days for stray dogs without a license and cats without identification, and nine days for dogs with a license and cats with identification.

Contracted Funding. The City and the Society negotiate a fixed sum annually to fund this contract as an integral part of the City's annual budget process. The contracted funding was \$1,301,634 for the 1996 fiscal year (July 1, 1995 to June 30, 1996) and \$1,155,595 for the 1995 fiscal year (July 1, 1994 to June 30, 1995).

Spay/Neuter Program Contract

Purpose and Responsibilities. The spay/neuter contract requires among other things, the Society to administer the sale of certificates for discounted spay/neuter services to the public as well as administer payment of City funds to participating veterinarians for related

services rendered. The contract states that, "the City wishes to establish a municipally sponsored spay/neuter program for dogs and cats," and, "the Society and City share the long-term goals of reducing the number of unwanted dogs and cats, of reducing the number of stray animals and of educating the public in responsible, controlled and lawful animal ownership."

Society's Services. Under the contract the Society's scope of services are to provide adequate personnel and administration support to: administer the spay/neuter program, assist the City's Office of Information and Complaint in developing, producing, and implementing an advertising and education campaign for the spay/neuter program directed at the general public. The expenses for the personnel and administrative support to administer the program are the responsibility of the Society. However, as discussed previously, the cost of administering this program is included in the scope of services of the animal control contract.

Contracted Funding. The City and the Society negotiate a fixed sum annually to fund this contract as an integral part of the City's budget process. The contracted funding was \$597,395 for the 1996 fiscal year and \$526,830 for the 1995 fiscal year and consisted entirely of payments for spay/neuter services rendered by participating veterinarians.

Administrative Overhead and Support Services for City Contracts

Administration Department. This department oversees the Society in its entirety and provides services for both the City contracts and private programs.

Shelter Operations. This department provides customer, animal care, field (including enforcement of laws and regulations) and maintenance services to the Society. Its operations are split between the City contracts and other Society programs as services relate to both stray and owner turned-in animals. Education expense charged to City contracts reflects a portion of the labor cost attributable to the Shelter Operations and Field Services personnel. According to the American Humane Association, it is a "best practice" to educate the public about the humane treatment of animals, rather than gain compliance through citations and other forms of enforcement. It was reported by the Society that the Society, to its credit, has placed a significant emphasis on education of the public in its programming as a means to improve the treatment of animals and compliance with animal laws and regulations.

Community Relations. The Community Relations department promotes both City contracts and private programs and answers inquiries from the public.

Community Outreach (Volunteer Coordination). This department coordinates community volunteers who provide care, feeding and other services for both stray and owner turned-in animals.

D. OTHER SOCIETY PROGRAMS (NOT COVERED BY THIS REPORT)

In addition to the services provided by the Society pursuant to City contracts, the Society provides services and programs to the public which are not within the scope of the City contracts, and therefore not covered by this report.

The Animal Port program assists in the care of animals in transit at the Honolulu International Airport, including basic care and monitoring of the animal's health.

Feral Cat Sterilization is provided by the Society as a service whereby feral cats are brought into the Society, spayed or neutered and then released. The program's goal is the long-term reduction of stray and unwanted cats.

The Humane Education program is to create "humane curriculum" and incorporate animal awareness into basic academic curriculum at all education levels. The Society has treated its education department separately from its City contracts.

The Pets Are Loving Support (PALS) program helps elderly and ill people care for their pets, the intent is to aid the owner's ability to keep his/her pet. Services are free and are done by Society volunteers and include grooming/bathing, exercising and transportation to veterinarians.

The Pet Bereavement program operates as a support group for those who have lost a pet. Trained volunteers run the program.

The Pets in Housing program works with interested parties including landlords, owner associations, and property managers to promote allowing pets in houses and apartments with the intention of creating more potential homes for adoptable animals.

III. FINDINGS AND RECOMMENDATIONS

FINDING NUMBER ONE: THE SOCIETY'S ANIMAL CONTROL PROGRAM HAS MIXED RESULTS AGAINST CERTAIN PERFORMANCE "BENCHMARKS"

The annual statistics compiled by the Society display certain trends in its animal control program. Selected summarized (unaudited) information for the period covered by this report, fiscal years 1995 and 1996, is provided below. The table also displays the annual results as a percentage of intake as reported by the Society.

TABLE 1. Outcomes for Intake of All Animals, Including Cats and Dogs, FY 1995 and 1996

	FY 1995	FY 1996	%Change
	No. (%)	No. (%)	95-96
<u>All Animals, Including</u>			
<u>Cats and Dogs</u>			
Total Intake	34,216 (100)	32,347 (100)	-5
Redeemed by Owner	1,043 (4)	1,646 (6)	58
Adopted	6,828 (21)	6,795 (22)	0
Returned (after adoption)	820 (8)	843 (9)	3
Euthanized	26,583 (62)	24,005 (60)	-10
<u>Dogs</u>			
Total Intake	7,240 (100)	7,120 (100)	-2
Redeemed by Owner	838 (12)	1,101 (15)	31
Adopted	3,189 (44)	2,981 (42)	-7
Returned (after adoption)	559 (8)	552 (8)	-1
Euthanized	3,599 (50)	3,248 (46)	-10

TABLE 1. (continued)

	FY 1995	FY 1996	%Change
	No. (%)	No. (%)	95-96
Cats			
Total Intake	21,070 (100)	19,583 (100)	-7
Redeemed by Owner	194 (1)	521 (3)	169
Adopted	2,804 (13)	2,893 (15)	3
Returned (after adoption)	233 (1)	270 (1)	16
Euthanized	17,962 (85)	16,800 (86)	-6

Unaudited; also note that the number of cases per outcome do not equal yearly intake, so percentages will not total to 100 percent.

Due to the relatively short period covered by this report of two years, caution should be taken in interpreting these results. A longer period (i.e. 5 to 10 years) would provide a more stabilized trend analysis.

The Society met or exceeded certain animal control performance “benchmarks” for dogs.

Based upon the auditors’ discussions with an HSUS employee, the auditors understand that the HSUS compiles the results of surveys of certain animal shelters across the U.S. These surveys are conducted by the HSUS and other agencies, such as the American Humane Association. This information was not compiled for the express purpose of evaluating the Society’s operations and, as with all publicly available information, has certain inherent limitations. The auditors have decided to use the surveys as “benchmarks”. The results of the HSUS surveys indicate that dog and cat adoption rates and euthanization rates vary widely, but adoption rates can be expected to be between 25-35 percent, while euthanization rates can be expected to be between 30-60 percent.

During the period covered by this report, there was a decline in the total number of animals taken in and euthanized, accompanied by an increase in the number of animals returned to their owners. The Society’s performance with respect to the percentage of dogs taken in at the shelter that are adopted exceeds this “benchmark”, while the percentage of dogs euthanized is well within the “benchmark” range discussed above.

The Society did not meet certain animal control “benchmarks” for cats.

The percentage of cats adopted during the period covered by this report is below the “benchmark” range discussed previously, while the percentage of cats euthanized is above the “benchmark” range. It is unclear whether the low adoption rate and high euthanization rate for cats is due to the general Honolulu cat overpopulation problem or the effectiveness of the Society’s adoption program. The increase in cats redeemed (i.e.,

returned to their owners) was expected by the Society after the enactment of the "Cat Bill" (Chapter 7, Article 6, ROH). The Cat Bill requires cats over six months in age to have identification tags, resulting in easier owner identification if these animals are taken in at the shelter.

The Society's operational cost for the animal control program is within the "benchmark" range.

The HSUS has published a cost range for animal control programs (International City/County Management Information Service Report, Volume 25, Number 9, September 1993, "Local Animal Control Management", Appendix, page 19). This information was not compiled for the express purpose of evaluating the Society's operations and, as with all publicly available information, has certain limitations. Based upon the auditors' discussion with an HSUS employee, this cost range remains applicable today and includes the cost of a low-cost spay/neuter program as a part of the scope of an animal control program, plus associated costs such as land rent.

Based on this information, the "benchmark" cost of operating an animal control program during fiscal year 1995 and 1996 would be between \$3 and \$5 for each person in the population served. Given the Oahu population of 870,761 in 1995 and 871,766 in 1996 (source: State of Hawaii Data Book), this would suggest a "benchmark" budget of between \$2.6 million and \$4.4 million per year to operate the animal control and spay/neuter programs on Oahu. The reported operating expenses of the Society for the contracted animal control and spay/neuter programs was approximately \$1.9 million in 1995 and \$2.1 million in 1996.

Before the Society's reported costs can be fairly compared to the "benchmark", however, the Society's use of the City site at nominal rent must be factored in. The Office of Council Services developed an estimate of imputed land costs (i.e. the rent that would otherwise be payable) for the Society's use of the Moiliili site, which has been improved over the years by the Society to include a building complex and animal shelter/housing facilities. Applying a conservative estimate on potential rents for use of that site of between \$0.50 and \$1.00 per square foot per month, the Office of Council Services estimates an imputed rent range for the 2.83-acre (123,275-square foot) site of \$740,000 to \$1.5 million per year.

Adding this to the Society's reported costs results in an adjusted estimate of the cost to operate the City's animal control program of from \$2.6 to \$3.6 million per year. This is within the "benchmark" range of \$2.6 million to \$4.4 million per year.

RECOMMENDATION

The Society could enhance its operational performance by determining why its cat adoption and euthanization rates do not meet certain “benchmarks”. The Society, City and community should also continue their efforts in reducing cat overpopulation through education, legislation, and sterilization.

**FINDING NUMBER TWO:
THE SOCIETY'S BUDGETARY CONTROLS
OVER THE CITY'S PROGRAMS COULD BE IMPROVED**

A. BUDGETING PROCESS

Budget Preparation and Approval. At each stage of the budgeting process, the Society and City have opportunities to discuss the Society's budget request. According to the Society, the annual fiscal year budgets for the City's programs are prepared by the Society for the City halfway through the current fiscal year. During the period covered by this report, the Society's budget was submitted first to the Department of Finance as part of the Division of Motor Vehicles' budget. The Department of Finance then submitted its budget to the Department of the Budget for review. The Department of the Budget discussed individual line items with the Society. Based on their discussions with the Society and as a result of other analytical procedures, the Department of the Budget recommended a funding amount for the Society to the Managing Director of the City. The funding amount was included as part of the recommended budget for the Department of Finance which then became part of the Mayor's operating budget request for the City. The mayor's operating budget request was submitted to the Honolulu City Council for approval. The operating budget for the City was approved by the Honolulu City Council and sent to the Mayor for signature.

Budget Execution. The operating budget for the City was next allotted for expenditure on a quarterly basis by the various departments by the Managing Director based on input from the Department of the Budget. In turn, the Department of Finance allotted its approved budget funds to its divisions and programs. At this point, the budget for the Society was decided and written into the contract for the upcoming fiscal year.

B. COST ALLOCATION TO CITY PROGRAMS

Cost allocation ratios used by the Society to prepare the animal control budget should be reviewed annually using a sound methodology.

The Society allocates payroll and certain other of its expenditures to the City's animal control program using a number of fixed allocation percentages that were based on a 1992 internal study prepared by the Society. Certain allocation percentages are based on certain animal control statistics, such as the ratio of stray animal intake to the total animal intake. Other allocation percentages are based on broad estimates that were not developed using a sound methodology, such as time-reporting or resource consumption studies. These allocation percentages have been used by the Society for both budgeting and financial reporting to the City. In general, allocation ratios used for these purposes should be

reviewed at least annually. The Society's allocation percentages have not been revised or updated to reflect more recent operating statistics. In addition, certain operating statistics are also difficult to evaluate and verify (such as intake and other statistics) because of the Society's general record keeping practices (see Finding Number Six). As a result of these issues, the Society's cost allocations submitted to the City for budgeting and financial reporting purposes may not accurately represent the actual cost of labor and other resources consumed in the animal control program.

C. BUDGET REVISIONS

Changes made by the Society to the animal control budget should be communicated to the city.

As described here, the internal budget used by the Society is prepared several months before the beginning of each fiscal year. During and after the animal control contract budgeting process with the City, the Society creates internal budgets for the animal control program that include reallocations of budget line items from the City budget. The following is a summary of the differences between the budget submitted to the City and the Society's internal budget for these periods:

TABLE 2. Reported Animal Control Budget Versus Internal Budget, FY 1995 and 1996

	<u>1995</u>	<u>1996</u>
Salaries & wages		
- budget submitted to the City	\$1,020,709	\$1,087,353
- revised budget	1,008,380	1,062,640
	-----	-----
Difference	\$ 12,329	\$ 24,713
	=====	=====
Other operating expenses		
- budget submitted to the City	\$329,033	\$303,410
- revised budget	312,364	365,676
	-----	-----
Difference	\$ 16,669	\$ (62,266)
	=====	=====

The changes to the originally-submitted City budgets were not discussed directly with the City; however, the Society's revised internal budget and actual results were submitted to the City on a quarterly basis during the contract years.

D. FINANCIAL PERFORMANCE

The Society has operated the animal control program at a loss, which the Society has subsidized.

As reported by the Society, the animal control program's financial performance for FY 1995 and 1996 is summarized below.

**TABLE 3. Animal Control Program Finances,
FY 1995 and 1996**

	<u>1995</u>		<u>1996</u>
City contract funds	\$1,155,595		\$1,301,634
Other	116,478		103,986
	-----		-----
Total revenues	1,272,073		1,405,620
	-----		-----
Salaries & wages	1,005,571		1,065,926
Operating expenses	355,729	(1)	386,758
	-----		-----
Total expenses	1,361,300		1,452,684
	-----		-----
Excess of expenses over revenues, before depreciation	(89,227)		(47,064)
Depreciation expense (2)	32,233		28,461
	-----		-----
Excess of expenses over revenues	\$(121,460)		\$(75,525)
	=====		=====

	<u>1995</u>	<u>1996</u>
Actual excess of expenses over revenues	\$(121,460)	\$(75,525)
Budgeted excess of expenses over revenues	(77,389)	(17,830)
Difference	\$44,071	\$57,695

Source - Society internal unaudited financial information 1995-1996

- (1) Expenses include allocations of \$16,400 for feral cat program costs and cat micro chipping costs (not included in the City contract) that were inadvertently included in animal control program costs.
- (2) Depreciation represents a non-cash expense which approximates average capital expenditures.

Animal control program expenditures have exceeded City funding (i.e., the final budget) during the period covered by this report. Expenses exceeded revenues by \$121,460 in FY 1995 and \$75,525 in FY 1996.

Interestingly, the City expected the Society to incur deficits; deficit amounts were included the City's budget for the program. It is unclear why the City budgets for operating deficits; this issue is further discussed in Finding Number Seven later in this report. In any case, actual deficits exceeded the deficit amount budgeted by the City. It was reported that the 1995 and 1996 animal control program deficits were funded by the Society's own unrestricted funds, with Board approval.

Crematorium costs exceeded budget.

For the period covered by this report, actual crematorium expenditures exceeded budget. The following shows the differences between budgets and actual expenditures:

TABLE 4. Crematorium Expenditures, FY 1995 and 1996

Fiscal Year	Submitted City Budget	Internal Budget	Actual Expenditure
1995	\$35,804	\$45,139	\$51,446
1996	\$36,878	\$45,440	\$50,152

Source - Society budgets and quarterly financial reports submitted to the City

It was reported that actual crematorium expenditures exceeded budget because of higher than expected usage and gas prices, and unexpected repair and maintenance costs.

RECOMMENDATIONS

The Society should strengthen the controls over the City program budgets by implementing the following:

Continue to charge programs directly for program costs incurred when possible, rather than performing allocations.

Perform a time-report study for payroll allocation percentages and at least annually review the allocation percentages used for accuracy and relevance to resources consumed.

Develop a process to discuss significant differences between the budget submitted and the internal budget used with the City.

Increase efforts to adhere to budgeted funding and evaluate continued subsidy of animal control program costs..

Continue to evaluate opportunities to reduce the animal control program deficit.

Ensure all expenses are appropriately charged to the animal control program.

Investigate possibility of reducing operating cost of crematorium by performing a lease versus buy analysis for a new crematorium, rather than continuing to repair the existing unit.

**FINDING NUMBER THREE:
THE SOCIETY'S SYSTEM TO TRACK AND ADDRESS PUBLIC
COMPLAINTS ABOUT SOCIETY PERSONNEL WAS
INADEQUATELY DOCUMENTED**

A. PUBLIC COMPLAINTS ABOUT SOCIETY EMPLOYEES

There was inadequate documentation by the Society of its system to address public complaints about contracted services, and of disciplinary actions taken against animal control officers stemming from public complaints

The Society orally reported to the auditors that for the period covered by this report, it used the following procedures to address complaints from the public regarding its employees. However, this procedure is not documented in any Society policy, rule, or employee manual.

According to the Society, complaints received from the public, whether verbal or written, relating to the Society's employees were referred to the employee's department supervisor. The department supervisor would determine the seriousness of the complaint and the level of action to be taken. If the complaint was determined to be valid, most were handled by verbally counseling the employee and/or verbal warnings that the alleged behavior was not acceptable. If necessary, the supervisor would prepare a written warning indicating the problem and the potential consequences (e.g. termination) and the written warning would be discussed with and signed by the employee. This write-up would become part of the employee's personnel file. The auditors were informed that a few such instances were documented during the period covered by this report.

If the supervisor determined that the alleged misconduct was more serious, the supervisor would conduct an investigation with the parties involved and document the related discussions in detail. Once the investigation was complete, the supervisor would recommend an action to be taken (e.g. termination). The supervisor and Executive Director would then review the report and discuss the incident, results of the investigation and recommendations. The Executive Director is responsible for determining the final course of action. If termination was recommended, the Society may consult further with the Hawaii Employers Council, to determine if it had adequate evidence/documentation to proceed.

Prior to September 1996, written complaints about Society employees were not tracked.

The Society reported that all written complaints were sent to the Executive Director of the Society for review. Written responses were generally sent to the senders of written complaints to indicate that the complaint was received and acknowledged by the Society. Prior to September 1996, however, written complaints relating to Society employees were not tracked or filed separately. Instead, after responding to the complaint, the complaint letter and response were filed with the Society's general correspondence. This makes monitoring and follow-up of complaints difficult.

The auditors were informed that in September 1996, the Society implemented a complaint log. This log is used to record all written complaints received. Formal counseling forms were implemented in fiscal year 1997, which are used to document the description of the incident, the expected improvement, the action taken at the time by the supervisor, action to be taken by the Society if improvement/standard is not met, employee comments and supervisor comments. The completed counseling form is to be reviewed and signed by the supervisor and the employee.

It could not be determined if the Society complied with its own complaint resolution process.

The auditors attempted to verify the Society's complaint resolution process from the initiation of a complaint to its final resolution. Ideally, this would have been done by selecting complaints from a listing of all complaints received, tracing the complaints to documentation of how they were handled, and if the disposition of the complaint required employee disciplinary action, reviewing the related disciplinary records.

As previously discussed, however, all written complaints were filed with the Society's general correspondence, and no written or telephone complaints were tracked during the period covered by this report. Therefore, the auditors could not select from a separate complete listing of all complaints received by the Society.

In addition, it was reported that four disciplinary records represented all of the disciplinary records that existed in the period covered by this report. Due to the Society's concern for potential liability arising from breach of confidentiality, these records were edited by the Society by removing mention of all names contained in the documents. The Society offered to allow the auditors access to employee files to verify that no other disciplinary records existed, but only if the Society first reviewed the employee files and removed

records deemed confidential, or edited disciplinary records as previously described. The removal of all names from the disciplinary records by the Society precluded the auditors from tracing the disciplinary record to the related complaint and verifying that the record related to a bonafide employee.

Since review of these files would not have enabled the auditors to conclude on the completeness of the disciplinary records, the auditors did not review the employee files. Without a tracking system for complaints, employee write-ups, or disciplinary actions, it was not possible to verify that all complaints were handled as described by the Society. These problems thus placed a limitation on the scope of the audit work.

RECOMMENDATIONS

The Society can improve its responsiveness to the public by implementing the following:

Formally document the Society's procedure for handling complaints about its employees for all managers and supervisors to follow.

Provide a brochure or other form of information to the public regarding the process for filing complaints about Society employees.

Document and enforce a system to track public complaints about Society employees and document the resolution of the complaints.

Ensure City officials and auditors have reasonable access to pertinent records of City contracted programs.

**FINDING NUMBER FOUR:
THE SOCIETY DID NOT COMPLY
WITH CERTAIN CITY CONTRACT PROVISIONS**

A. CONTRACT REPORTING

The Society failed to properly report its contract performance.

The Society is required by the animal control contract to submit its quarterly and annual financial and performance reports 15 days after the end of each quarter and fiscal year-end, respectively. During the period covered by this report the Society submitted its fiscal 1995 second and third quarter financial and performance reports and all of its 1996 quarterly reports between two weeks and as much as two months after the deadlines established in the contract. The Society did not submit any reports for the spay/neuter program to the City. The Society reported that the Department of Finance did not follow-up on late reports or failure to submit reports.

B. CONTRACT REPORT CONTENTS

Financial reports to the City did not include a balance sheet.

The animal control and spay/neuter program contracts require the Society to provide quarterly and annual financial reports prepared in accordance with GAAP which includes statements of assets, liabilities and fund balance (i.e. balance sheets) to the City Department of Finance for the programs. However, the Society does not maintain separate accounting records for the programs, so such statements cannot be prepared and no such reports have been submitted to the City.

C. RESPONSE TIME FOR ANIMAL CONTROL COMPLAINTS

Actual response time for certain types of animal control calls was not in accordance with the contract's recital of 24-hour response times.

The animal control contracts for both years recite, "WHEREAS, the SOCIETY has responded to cruelty, leash, license, and animal nuisance violations within 24 hours from receipt of complaints..." It was reported that the Society's complaint response

prioritization procedures do not necessarily require response times of within 24 hours. It was reported that low priority complaints may not be responded to in 24 hours, and certain field investigations are required to be responded to within three days.

D. MONITORING OF SPAY/NEUTER VETERINARIANS

Qualifications and operations of participating veterinarians for spay/neuter program were inadequately monitored.

During the period covered by this report, the Society was not in compliance with its responsibility to monitor the performance of the work performed by the participating veterinarians as agents of the Society.

According to section VII. of the spay/neuter contract, "the SOCIETY shall be an independent contractor with authority and responsibility to monitor the performance and details of the work and services require under this CONTRACT." In addition, "All persons hired or used by the SOCIETY shall be the SOCIETY'S employees and agents, and the SOCIETY shall be responsible for the accuracy, completeness, and adequacy of any and all work and services performed by its employees and agents."

The Society did not inspect veterinarian records or inquire with participating veterinarians regarding their work to verify whether the veterinarians had complied with the terms of the requirements of the spay/neuter contract and conducted themselves in accordance with appropriate professional standards. As part of its procedures, the auditors attempted to confirm the participating veterinarians' compliance with the spay/neuter contract provisions. The auditors did so by selecting one spay/neuter operation each month for the period covered by this report (24 months) from the certificates redeemed. With the aid of the Society, the auditors sent confirmation letters to selected participating veterinarians. The letters contained a listing of the spay/neuter contract requirements and requested the participating veterinarians to supply any information that would indicate that the requirements had been satisfied.

The following is a listing of the contractual requirements of participating veterinarians and the results of the testing:

TABLE 5. Compliance with Spay/Neuter Contract Requirements,
FY 1995 and 1996

Contractual Requirement	Complied with	Not Complied with	Unable to verify from records
Rigid aseptic techniques	0	0	24
Equal treatment as regular clients	0	0	24
Conducted during normal business hours	0	0	24
Pre-surgical examination	14	0	10
Check for proper vaccinations	15	0	9
No other procedures required	21	0	3
Anesthesia shall be used	21	0	3
Maximum overnight charge of \$12	16	0	8
Monthly invoices and signed certificates are remitted to the Society	20	4	0

For this audit, a review of 24 medical records was made covering male and female dog and cat spays and neuters performed by a total of 14 veterinarians from each of the four service areas of Oahu. The auditors found an instance where one individual used four certificates for four cat spays and neuters. The spay/neuter program contract states that individuals are to be limited to two dog and two cat spays and neuters each year. In addition the auditors noted one cat was operated on while it was in heat. The animal eligibility requirements of the spay/neuter program contract states, "Female animals shall not be pregnant, lactating or in heat." However, despite the lack of documentation discussed above, the review of the medical records by a veterinarian licensed in the State

of Hawaii revealed nothing to indicate participating veterinarians provided less than general levels of veterinary care practiced in the State of Hawaii.

Minimum qualifications for purchase of spay/neuter certificates were inadequately monitored.

Under section IV of the contract ("Eligibility Requirements"), it is stated that:

"The SOCIETY shall be responsible to assure that the following minimum qualifications are met by the owner/possessor and the animal applying for the services."

During the period covered by this report, however, the Society did not ensure compliance with this requirement. Below is a summary of the minimum requirements not actively verified by the Society:

Owner/Possessor Eligibility Requirements:

- I.D.'s for proof of age were not checked
- Limit of two dogs and two cats per person per year was not enforced

Animal Eligibility Requirements:

- Animals were not physically checked for certain requirements (i.e. animal is of an acceptable age, medically fit, not pregnant, etc.)

The spay/neuter program services are sold in the form of certificates. To provide easy access to the public, these certificates were sold at various satellite City Halls as well as at the Society. No procedures have been established by the satellite City Halls or the Society to check the eligibility requirements as required by the contract.

E. USE OF CERTAIN CONTRACT PERSONNEL FOR NONCONTRACT SERVICES

Animal enforcement officers sometimes performed noncontracted work.

During the period covered by this report, the Society allocated all of the cost of its field services department to the animal control program. However, animal control officers performed services that were not within the scope of the contracted services.

These services include pick-ups of owned dogs, cats, and other animals.

In fiscal 1996, the Society began to charge members of the public a \$5 pick-up service fee for stray, owner turned-in, and other animals, and had its field services perform services for the Society's animal port program, which is not a part of the City contract, for a fee of \$20 per animal. None of the fees collected (\$14,460) were reported in the financial operations of the animal control program or applied against the amounts due from the City. It was reported that the Society tries to limit the number of animal pick-ups it performs by encouraging the public to bring in the animal if possible and by charging a pick-up fee. However, it is the Society's policy to provide animal pick-up services to members of the public who have a stray animal problem or an owned animal they want to surrender. Subsequent to 1995, other Society employees whose payroll cost was not charged to the animal control program began to perform non-contract services. During the review of the dispatch logs and daily field service reports, the auditors noted no field service officers performing animal port services after 1995. The reason for this change was not determined.

F. FIXED ASSETS

It could not be determined which animal control program property belonged to the City.

During the period covered by this report, it is uncertain what personal property, as defined by the contract, was purchased solely with Society funds versus purchased in whole or in part with City funds. As provided in section IV.2 of the animal control contract:

"In the event of termination of this CONTRACT or any renewal or extension thereof, at such termination and final accounting, full legal title to all personal property acquired in whole or in part with CITY funds shall revert to the CITY unless otherwise agreed upon in writing by the CITY . . . all PROPERTY which was paid for by the SOCIETY out of its own funds shall become and remain the property of the SOCIETY," (emphasis added).

The auditors found that the budget for the animal control program did not include funds for the purchase of any equipment or other personal property, suggesting that the Society had to use its own funds for any purchases of physical assets. This could not be confirmed, however, since the Society does not physically segregate City funds from its own funds. Therefore, it was not possible to determine the source of funding for certain personal property acquired for the animal control program. Subsequent to field work and prior to issuance of this report, the Society verbally clarified that all personal property

included on the Society's listing of program assets was deemed to be either wholly or partially purchased with city funds; however, there was no documentation to that effect.

It could not be determined whether the Society had performed a periodic inventory of City assets acquired under the animal control contract.

According to section IV.4 of the animal control contract, the Society is required to perform a physical inventory of all property at least once a year and reconcile the physical counts with its property records. The auditors were informed that such inventories were performed during the period covered by this report; however, the Society did not retain documentation of the physical inventory count sheets or the related reconciliations to its physical asset records. Accordingly, it could not be determined whether the physical inventory counts had been properly performed and reconciled with property records.

Written approval for the disposal of City property was not obtained.

The animal control contract requires that the, "disposition of non-expendable personal property acquired with City funds (the Property) with an economic life of more than a year and costing more than \$500 shall require the written approval of the Department (of Finance) if not previously included in the budget approved by the City." In fiscal year 1995, the Society sold the trucks used in performing duties under the animal control contract. The intended sale of these trucks was not communicated in the budget submitted to the City and no written approval for the disposal was obtained by the Society. However, the Society did report the gain resulting from the sale of these trucks to the City Director of Finance. The gain on the sale was credited to the animal control financial performance results, and reduced the operating deficit reported for the fiscal year.

RECOMMENDATIONS

The Society can improve compliance with the City's contract provisions and other policies by performing the following:

Submit reports that are in compliance with the contract terms.

Develop in consultation with the City reasonable response time to animal complaints based on the priority of the complaints and reasonable reporting deadlines.

Require the Society's dispatch employees to sign in and out on the dispatch log to verify that 24-hour service is being provided.

Review in consultation with the City the merits of the qualifications required by the contract to purchase the spay/neuter certificates and enforce those deemed necessary.

Establish procedures to periodically check with the participating veterinarians for compliance with the terms of the spay/neuter contract.

Ensure that animal control officers are performing work at all times that is within the scope of the contract.

Obtain approvals required by the contract prior to the disposal of property related to the contract.

Maintain signed count sheets and reconciliations as evidence of compliance with the property inventory requirements.

**FINDING NUMBER FIVE:
ANIMAL CARE PROVIDED BY THE SOCIETY AND BY
SPAY/NEUTER VETERINARIANS APPEARS TO BE ADEQUATE,
BUT CERTAIN IMPROVEMENTS COULD BE MADE**

A. ANIMAL CARE “STANDARDS”

The quality of care in the City animal shelter was adequate.

Based on the review of letters received by the City Council and provided to the auditors by the Office of Council Services as well as correspondence provided by the Society, the Society has a nationally respected and recognized animal control program. Members of both the American Humane Association and the Humane Society of the United States, whose suggested levels of quality and statistics have been used in this report, have written in the support of the quality of the Society’s animal shelter.

Arthur Andersen is not an expert in animal care matters. However, to aid in the evaluation of the adequacy of care in the animal shelter, the auditors used the assistance of a veterinarian licensed in the State of Hawaii. The auditors toured the Society’s facilities with the veterinarian and compared the condition of the facilities to “best practices” based upon the most recent edition of the “Self-Evaluation Workbook For Animal Care and Control Agencies,” published by the AHA. This workbook was not compiled for the express purpose of evaluating the Society’s program and, as with all publicly available information, has certain inherent limitations. The auditors have decided to use the self-evaluation workbook as animal care “standards”.

Based on the “standards” set forth in the Self-Evaluation Workbook, the condition of the facilities was determined to be adequate. It was noted by the veterinarian that the Society’s anesthetic procedures (including pain medication for every animal that has surgery) was progressive and beyond comparable levels of veterinary care provide in the State of Hawaii. However certain items were noted that may be improved, based on the suggested AHA “standards”.

B. DEVIATIONS FROM ANIMAL CARE "STANDARDS"

Certain dog kennels allow nose-to-nose contact.

Certain dog kennels do not prevent cross-contamination from nose-to-nose contact as recommended by the AHA. This could result in the spread of disease.

Cracks in dog kennel floor may permit growth of bacteria.

The dog kennels have concrete floors with cracks in certain places. This is considered a porous surface that is difficult to thoroughly clean and disinfect. As such, the floors could facilitate the spread of disease.

Holding time in Society vehicles can exceed two hours.

The Society indicated that the holding time of animals in the Society's transport vehicles can exceed the AHA's recommended two-hour maximum. This could result in undue stress to the animals. In addition the divider in the forward holding sections of the Society's three new transport vehicles allows for nose-to-nose contact. The AHA recommends that all animal compartments should have solid partitions to prevent the spread of disease.

Old trucks with holding cages require replacement.

The Society has three older vehicles that do not have temperature control. The AHA recommends that all animal compartments in transport vehicles should be properly ventilated and temperature controlled. The Society's ability to upgrade and replace its transport vehicles is limited by the approved budget with the City, which provided for one replacement vehicle each year for the period covered by this report.

One dog kennel had standing water, algae.

One dog kennel had standing water with algae build-up present as a result of a dripping pipe. This situation could result in the spread of disease.

Air conditioning needs monitoring.

The Society does not have set procedures for monitoring its air exchange and flow systems. The AHA recommends checking the entire system twice a year and suggests a system should have 10 to 12 fresh or filtered air exchanges per hour.

Animal shelter refrigeration is at risk from power outages.

The building complex does not have an emergency back-up power generator. The AHA suggests a small back-up generator should be tied into the circuits for the exam or veterinary area that provide emergency lighting, and the circuits for the refrigerator systems that preserve perishable medical supplies and provide cold storage of animal remains.

RECOMMENDATIONS

While the quality of animal care provided for the contracted services was adequate, the Society should consider the following:

Continue to evaluate animal care practices taking into consideration "standards" such as those suggested by AHA or other recognized bodies.

Consider feasible means of separation (e.g. plexiglass) for the kennels that do not currently prevent cross-contamination.

Evaluate the appropriateness of holding times in Society vehicles that are in excess of two hours.

Continue to replace old trucks with new vehicles with improved holding facilities.

Consider correcting the conditions that cause water build-up in dog kennels.

Consider in consultation with the City the merits of an emergency power generator during the next budget.

Examine from time to time the air flow from the Society's new air conditioning system to ensure that it is adequate.

**FINDING NUMBER SIX:
THE SOCIETY'S INTERNAL OPERATIONS RELATING TO
THE CITY'S PROGRAMS COULD BE IMPROVED**

A. ESTABLISHMENT OF PROGRAM GOALS AND OBJECTIVES

The relationship of the Society's goals and objectives for the City's programs to its contract budgets was unclear.

For both years under audit, the goals and objectives of both the animal control and spay/neuter program contracts were stated as a part of the budgets submitted to the City. The following are the goals and objectives submitted in the budget package:

Animal Control Program Goals

- 1) To inform and educate the public regarding the laws and responsibilities of animal ownership.
- 2) Resolve animal nuisance situations.
- 3) To provide consistent and rigid enforcement of the laws relating to animal ownership including receiving and investigating complaints, issuing citations, case development and court appearances.

Animal Control Program Objectives - Fiscal Year 1995

- 1) To provide at least one piece of printed literature regarding laws and responsibilities of animal ownership to each contact made by the investigators and Humane Officers.
- 2) To maintain the fiscal year 1994 level of violations issued for the above mentioned regulations.
- 3) To maintain a computer dog licensing program and achieve a 75 percent renewal rate.

Animal Control Program Objectives - Fiscal Year 1996

- 1) Provide at least one piece of printed literature regarding laws and responsibilities of animal ownership to each contact made by the investigators.
- 2) Increase compliance with dog licensing laws.
- 3) Increase visibility of investigators in the community through attendance at neighborhood board meetings and community policing meetings.
- 4) Respond to complaints within 24 hours of receipt.
- 5) Provide same day service for pick up of stray dogs.

Spay/Neuter Program Goals

- 1) To decrease the number of excess dogs and cats on the island of Oahu.
- 2) To prevent the increase of future excess and unwanted dogs and cats on the island of Oahu.
- 3) To educate the general public about the importance of controlling animal population and their role in accomplishing this reduction.

Spay/Neuter Program Objectives (Same for both 1995 and 1996)

- 1) To meet the demand for sterilization's which is required by the pet owning population in Honolulu.
- 2) To provide efficient and accessible service to the pet owning population.

The goals and objectives for the 1995 and 1996 fiscal years enumerated above were either not measurable, or could not be compared to actual results because no such system had been developed by the Society or the city. Certain other performance results are tracked, such as intake, adoptions and euthanizations, however these are not clearly linked to the contract language, goals or objectives. As a result, the Society was not able to measure its performance results against its goals and objectives as stated to the City.

B. PURCHASING SYSTEM

Controls over purchasing supplies could be improved.

The Society uses an ordering log for medical supplies and other animal care purchases which reflects the item and quantity ordered. This log is also used for receiving goods to match the quantities ordered. However, the prices quoted are not written down and a copy is not sent to the accounting department for verification against the vendor's invoice. In addition, there is no standard method (such as a purchase order) used to document prior approval of purchases. This may lead to unauthorized purchases or overpayment due to incorrectly billed prices and quantities.

An approved vendor list is not used.

Vendor pre-approval procedures ensure that the best pricing is obtained and help to avoid the possibility of favoritism. It was reported that the Society's Director of Finance reviews the invoices before they are signed for payment and for unusual vendors. However, the Society does not use a standard vendor list in which the vendors are preapproved by management. The Society's policy does require competitive bidding for purchases greater than \$5,000.

C. CASH MANAGEMENT

Cash for City and non-City programs should be segregated.

It was reported that the Society currently receives funding for both the animal control and spay/neuter contracts in quarterly installments. These funds are deposited in the general cash account of the Society with the Society's other funds. As a result, it is difficult (without significant manual effort) to accurately track City funds and where these funds are specifically used.

The Society is required by contract to prepare separate financial reports in accordance with generally accepted accounting principles (GAAP) which include statements of assets, liabilities and fund balance (i.e., balance sheets) for the animal control and spay/neuter programs. A balance sheet would typically include cash, long-lived assets, and other assets and liabilities specifically attributable to the program. For the spay/neuter program, the Society functions as an agent or "fiscal intermediary" by processing payments on behalf of the City to participating veterinarians for services rendered.

While the auditors are not aware of any significant weaknesses in the controls over the Society's general cash account, it is desirable to segregate City funds in separate cash

accounts, one account for the animal control contract and another for the spay/neuter contract. This would facilitate the creation of balance sheets for both programs, improve tracking of City cash, improve tracking of equipment and other long-lived assets purchased with City funds (as required by the animal control contract), and properly segregate funds held in trust for payment to participating spay/neuter program veterinarians on behalf of the City.

D. RECORD KEEPING

There was no documentation for employee safety program.

A written employee safety program is an important way to inform employees how to prevent the occurrence of workplace accidents and reduce the likelihood of worker's compensation claims, which ultimately would be charged to the animal control program for certain employees. During the period covered by this report, the Society did not maintain documentation of an employee safety program describing the policies and safety procedures of the Society.

Certain key records of the Society were missing or incomplete.

For the period covered by this report, the auditors selected various Society dispatch logs, daily reports, and case reports for review. The following summarizes the results of the work.

Dispatch Logs. The auditors evaluated whether the dispatch office operates 24 hours a day, by reviewing certain dispatch logs for evidence of continuous service. The Society uses the dispatch log to record and assign animal complaints and pick-up requests. The auditors selected eight weeks of dispatch logs, one week each quarter from July 1, 1994 through June 30, 1996 for review. The following table summarizes the results of the testing:

TABLE 6. Status of Dispatch Logs, FY 1995 and 1996

Total Weeks Reviewed	Weeks With No Exceptions	Weeks With Unlocated Reports	Weeks With Incomplete Reports
8	1	2	5

The Society did not use a dispatch log from July 1994 through December 1994. As such there were two weeks selected for which no dispatch reports were available for review. To ensure 24-hour service was provided for the two weeks that the dispatch logs were not used the auditors reviewed the time cards of the dispatch employees. For the time cards reviewed, there were no breaks in the days serviced but there were certain breaks in the times the dispatch employees worked the dispatch office. It was reported that when a dispatch officer was not monitoring the phones another Society employee, usually a department supervisor would monitor the phones until the next dispatch officer came on duty. While review of the dispatch logs selected indicated no unusual breaks in time from January 1995 to June 1996, as indicated in the table above, the documentation was incomplete.

There were five weeks included in the selection of dispatch logs where the auditors noted that certain non-contracted services were performed by animal control program employees or where the dispatch logs were incomplete. The following is a summary of the findings:

- 58 pick-ups of owner turned-in cats or dogs
- 19 pick-ups of non-contract animals (e.g. birds, rabbits, mongoose)
- 7 other non-contract animal assignments (e.g. loose pigs, horse, cows and "misc.")
- 5 instances where it was not documented if the animal complaint was assigned.

Daily Field Service Reports. The auditors also evaluated whether the regulations and ordinances included in the animal control contract were being enforced. The auditors selected one day for each week used in the dispatch log review discussed above and reviewed all daily field service reports for those days, including the descriptions of the types of services performed. For the eight days selected, a total of 49 daily field service reports were selected. During the period covered by this report, all field service officers were required to record each task performed daily on a standard report. On average, field service officers had 10 to 12 tasks performed daily (over six-hour shifts). The payroll cost of field service officers is allocated 100 percent to the animal control contract. As such, the activities performed by these Society employees should relate entirely to the scope of the animal control contract. The auditors reviewed the daily field service reports for documentation of animal control services performed. The results of the review are as follows:

TABLE 7. Status of Field Service Reports, FY 1995 and 1996

Total Reports Reviewed	Reports with No Exceptions	Unlocated Reports	Incomplete Reports	Reports Re: Non-contract Services
49	17	2	27	7

The types of non-contract related services performed and/or incomplete documentation noted during the review was as follows:

<u>Non-contract services</u>	<u>Instances</u>
Animal Port	4
Owner turned-in animals	2
Delivery of birds to Sea Life Park	1
 <u>Incomplete documentation</u>	 <u>Instances</u>
Case number not documented	12
Report not signed/approved	9
Other	6

Case Reports. From the 47 daily field service reports the auditors selected that were available for review, the auditors further selected specific case reports from each officers' daily field service reports. Field officers are required to prepare standard case reports which describe in detail the incident and actions performed. After December 1994, animal pick-ups were recorded only in the dispatch log and daily field service report, while case reports were not prepared. The auditors reviewed certain case reports for the types of services provided and whether the services were in compliance with the animal control contract. The results of the testing are summarized below:

TABLE 8. Status of Case Reports, FY 1995 and 1996

Total Reports Reviewed	Reports With No Exceptions	Unlocated Reports	Incomplete Reports	Reports Re: Non-contract Services
99	32	25	38	4

Of the 99 case reports selected for review, 25 (or approximately 25 percent) of them could not be located in either hard copy or on the Society's computer records of cases. The Society estimates that for the period covered by this report, roughly 20 percent of all case reports cannot be located. It was reported that missing case reports are mainly due to the reports not being adequately cross referenced for tracking and also due to misfiling. Of the remaining 74 case reports available for the review, 42 case reports were noted to have non-contract services and/or incomplete documentation. There were four cases noted of non-contract activity (e.g. animal port and non-contract animal pick-ups). The remainder of the exceptions noted were due to incomplete documentation (e.g. the case report was not signed by a supervisor, the case number was not written, the officer's name was not written, etc.).

Payroll Records. The auditors reviewed selected employee files to verify that necessary documents were properly kept. The auditors noted that for several employees, the I-9 forms were not properly filled out (i.e. Society had not signed, no documentation of the type of identification reviewed, etc.)

Insurance Records. Both the animal control and spay/neuter program contracts require the Society to maintain specific levels of insurance. In addition, the animal control contract requires the automobile and general liability insurance coverages to include endorsements to name the City as additionally insured and notification to the City in writing of any cancellation, reduction or changes in insurance coverage. The auditors reviewed the Society's insurance policies or certificates of insurance to determine if the levels of insurance were in compliance with the requirements of the contracts.

During the course of fieldwork for this audit in April and May 1997, the Society was not able to locate its certificate of insurance covering the period from January 15, 1995 to January 1, 1996 (the certificate of insurance will indicate additionally insured parties and the party to be notified of changes in insurance coverage). In addition, there was a period from January 2, 1995 to January 14, 1995, for which the Society was unable to locate its policy extension letter to demonstrate that the Society was insured for that time period. However, these documents were subsequently found by the Society in July 1997.

The spay/neuter program contract requires evidence of adequate insurance from the participating veterinarians. The Society does not retain copies of these records beyond one year. As such, the auditors were unable to verify if the insurance requirements had been met or verified by the Society.

Tax Records. The Society is required to provide evidence of a valid tax clearance pursuant to performing its City contracts. The Society was unable to locate its tax clearance documentation for the period covered by this report.

Veterinarian Contracts. The Society requires participating veterinarians to sign contracts acknowledging the terms and requirements of the animal control contract. The 24 spay/neuter operations tested were performed by 14 different participating veterinarians. The auditors asked to review the signed contracts of these veterinarians. The Society was able to provide 12 signed contracts, but was not able to locate two of the contracts.

E. PUBLIC COMPLAINTS ABOUT ANIMAL NUISANCES

Low priority and phone complaints about animal nuisances were not documented.

The Society did not use a dispatch log from July 1994 through December 1994 to document and track the receipt of animal related complaints and the officer assigned to the

complaint. From January 1995, the Society began to use a dispatch log to document the receipt of animal related complaints and pick-up requests; however, cases that were categorized as low priority (e.g. animal nuisance complaints) were not immediately assigned to a specific officer nor assigned a case number for tracking purposes. These low priority complaints were placed in files for the next field shift to investigate. From the dispatch log it was not possible to determine if all animal complaints placed in the files for the next shift were assigned or resolved.

Verbal complaints received by the Society were not tracked or documented during the period covered by this report. Phone complaints are not tracked currently, unless they result in a written warning to an employee.

F. COMPLIANCE WITH INTERNAL POLICY

Animal control officer may have deviated from internal policy.

During the review of case reports discussed in an earlier section, the auditors noted an instance where an animal control officer may have deviated from internal policy. In one case report, the auditors noted that a field officer had documented, after responding to an animal cruelty complaint, that he had advised the animal owner that if rough discipline of the animal was necessary then it should be performed where the public cannot view it. It was reported that this type of advice was not consistent with the Society's policies. The auditors were not able to verify that any counseling was given to this field officer related to the officer's conduct.

G. ANIMAL CONTROL VEHICLES COULD BETTER INFORM PUBLIC HOW TO REPORT ANIMAL NUISANCES

The American Humane Association (AHA), recommends animal transport vehicles should be identified with the name and phone number of the Society on both sides and the rear of the vehicle as a public service and to increase exposure to the community. The Society's animal transport vehicles do not have the Society's phone number on them and do not have the identification of the Society on the rear of the vehicles.

RECOMMENDATIONS

The Society should improve program management, personnel, materials management and record keeping procedures by implementing the following:

Measure and evaluate contract performance against revised (quantifiable and measurable) goals and objectives.

Implement program goals and objectives in cooperation with the City that are measurable and are clearly linked to contract performance.

Revise the purchasing system to include customary control processes such as purchase orders.

Use a formal approved vendor listing.

Maintain a separate set of accounting records for the City programs in accordance with generally accepted accounting principles, to include separate cash accounts and balance sheets.

Physically segregate funds held in trust for payments to veterinarians on behalf of the City from the Society's own funds.

Document the Society's employee safety program.

Review dispatch logs, daily field service reports and case reports to ensure completeness at the end of each shift, appropriate services have been provided and the reports are properly cross-referenced and filed for accurate tracking.

Review all payroll records and ensure all necessary forms are completed properly.

Examine record keeping policies to ensure that all necessary documents are kept on file or in storage.

Document low priority and phone complaints.

Ensure animal control officers adhere to internal policies.

Consider placing Society's phone number on animal control vehicles.

**FINDING NUMBER SEVEN:
THE DEPARTMENT OF FINANCE'S OVERSIGHT OVER
THE CITY'S CONTRACTS COULD BE IMPROVED**

A. CONTRACT OVERSIGHT

It is unclear who in the Department of Finance is responsible for contract monitoring and what level of monitoring the Department requires.

It was reported that during the period covered by this report, the Society was considered by the City to be administratively attached to the Department of Finance's Division of Motor Vehicles ("DMV"). However, based upon the auditors' discussions with representatives from the DMV, the monitoring responsibilities of the DMV were unclear.

Recently, administrative responsibility for monitoring City contracts was shifted to the Director of Finance.

City review of or response to the Society's budget overruns, late or absent required reports, disposition of program assets, and contract performance appears to be inadequate.

Communications between the City and Society (excluding the quarterly financial and performance reports for the animal control program) appears to be limited to the City's annual budget process and fiscal year-end reporting of operating deficits and related requests for additional funding from the City. Although the City reviewed the Society's requests for additional funding, it appears there was no City review of or response to the Society's budget overruns. The 1980 performance audit of the Society recommended that the City perform "inspections of the documentation for pound activities" to improve accountability, and that "the accuracy of the statistics used in the quarterly and annual performance reports should be confirmed occasionally, as well." These recommendations were apparently not implemented by the City.

The DMV received and filed reports submitted by the Society for the animal control program, but it does not appear that there was any follow-up for reports that were submitted late. In addition, there did not appear to be any follow-up on failure to submit reports (i.e. a balance sheet for the animal control program and spay/neuter program reports).

The City did not follow-up on the terms of the animal control contract that require certain personal property purchased by the Society, in whole or in part with City funds, to revert to the City upon termination, extension or renewal of the City contract.

The City did not monitor the Society's performance related to contractual requirements during the period covered by this report. As discussed previously, during the period covered by this report there were certain instances where the Society was not in compliance with provisions of City contracts.

B. REVISION OF CONTRACT PROVISIONS

Animal control and spay/neuter contracts need to be strengthened.

Controls over City resources and segregation of cash and assets. As mentioned previously, the contracts for the period covered by this report appear to require a segregation of City program cash, personal property, other assets, liabilities and fund balance for both programs and that this be reported to the City on a separate financial report (i.e., a balance sheet). Given the contractual requirement to track the acquisition and disposition of City property for the animal control program, the trust/agency fund arrangement of the spay/neuter program and the need for greater accountability for City funds, segregation of City cash and assets is desirable and should be more clearly articulated in the contracts.

Calculation of spay/neuter program funding excess (deficiency). The Society has properly calculated its spay/neuter program expenditures versus City contract payments received to demonstrate that under the terms of the spay/neuter program contract, no repayments were due to the City. However, the contract's formula to calculate the actual expenditures related to the spay/neuter program may result in program over funding which would not be refunded to the City.

Section II.d. of the spay/neuter program contract requires the calculation of program expenditures versus City contract payments to determine if amounts are due back to the City or if more funding is required by the Society. The contract allows the calculation of program expenditures to include estimated liabilities for certificates sold prior to the end of the fiscal year, but not yet redeemed. However, all certificates sold expire after six months from the date of issue and there is a history of a certain number of certificates sold and not redeemed before expiration. As such, the estimated liability calculated for certificates sold but not yet redeemed does not reflect the actual amount that the Society will have to pay.

Due to unredeemed certificates, the estimated liability is generally more than the actual expenditure incurred. Accordingly, the calculation of expenditures could result in program over funding that would not be refunded to the City under the terms of the contract. The following table shows City contract payments received compared to actual expenditures (adjusted for unredeemed certificates):

TABLE 9. Spay/Neuter Certificate Payments Versus Expenditures,
FY 1995 and 1996

Fiscal Year	Contract Payments	Actual Expenditures	Variance - Unexpected Funds
1995	\$526,830	\$526,485	\$ 345
1996	\$597,405	\$572,400	\$25,005

Source – Spay/Neuter contracts and Society Spay/Neuter Program Income Statements

Measurements of contract goals and objectives. As mentioned previously, the program goals and objectives for both City contracts (as articulated in the budget submitted to the City) are neither measurable nor measured. Goals and objectives should be clearly stated in the contract and in the annual budgets. These goals and objectives should include qualitative and quantitative criteria. Actual program performance should be measured and evaluated periodically against these criteria. In addition it was recommended in the 1980 performance audit that “departures from those agreed upon goals should be justified and corrective action required.” This 1980 Performance Audit recommendation was not yet implemented by the City.

Stronger reporting requirements including penalties for non-reporting. Currently, there are no penalties in the City contracts for late reporting or failure to report. Future contracts should clearly indicate penalties for failing to meet reporting requirements and these penalties should be enforced.

Including cat ID requirements in animal control contract. During the period covered by this report the Society budgeted for and allocated both the costs of stray cat control and adoption revenues of stray cats to the animal control contract. However, for both years, the “Cat Identification Program” (Chapter 7, Article 6, ROH) was not listed in either animal control contracts as one of the animal ordinances that the Society was contracted to enforce, nor were there any contract addenda adding the Cat Identification Program to the contracts.

The establishment of the Cat Identification Program provided the Society with the legal authority to impound stray cats lacking identification. The animal control contract requires only dog-related revenues to be considered in the reduction of budget requests; however, the Society has reduced its requests further than required by including expected stray cat revenues. It was reported that there was a verbal understanding, during fiscal years 1995 and 1996, between the Society and the City that costs related to stray cat control were covered by the contracts.

Without contract revisions or addenda, the Society’s budgeting and allocation of

expenditures and revenues related to stray cats to the animal control contract were technically beyond the scope of written arrangements in the contracts. It appears that both the Society and City were aware of these matters, and the non-compliance with respect to stray cats was due mainly to the contract not being adequately updated or amended.

C. PROCUREMENT OF CONTRACT SERVICES

Animal control contract may not have been awarded in compliance with procurement code.

In February 1995, the Auditor of the State of Hawaii indicated in its Report No. 95-8, Chapter 2, page 16, that the use of the sole source method for both contracts was questionable. The City responded that the "animal shelter contract is sole source as authorized by the Revised Ordinance of Honolulu, Chapter 3, Article 5." In addition, the City indicated that it would consider determining if interested veterinary groups were interested and capable of operating the spay/neuter program. In 1995 and 1996 the animal control and spay/neuter contracts were awarded directly to the Society as sole source contracts. In 1996, the City printed a notice in the Honolulu Advertiser and Honolulu Star-Bulletin newspapers stating the City's intent to award the spay/neuter contract to the Society as a sole source contract and any objections or comments could be submitted to the City. It was reported that the contracts did not go out to bid in 1997.

D. BUDGETING

City should develop a balanced budget for the animal control program.

As noted in Finding Number Two, the Society incurred deficits in the animal control program for fiscal years 1995 and 1996. These deficits were fully anticipated by the City; in fact, they were made part of the budget for the program. It is difficult to understand why the Department of Finance would not only sanction but require the Society to run the program at a loss, thereby requiring the Society to cover the loss from its own funds. Budgeting the program at a deficit is unfair to the Society, acts as a discouragement to the Society from complying with the established budget, and is at odds with the need to link the program's budget with its goals and objectives as discussed in Finding Number Six.

RECOMMENDATIONS

The City should strengthen its administration of the animal control and spay/neuter contracts by implementing the following:

Clearly establish which department the Society should report its budgets and fiscal results to.

Meet with the Society periodically to discuss performance results.

Follow up on reports that are not received on time and review them to ensure that they are in the formats required by the contract.

Establish in consultation with the Society measurable and controllable long-term goals and objectives for the programs and periodically evaluate their progress.

Strengthen reporting and review requirements relating to accounting for program cash and property.

Revise the contracts to bring budgets more closely in alignment to actual revenues and expenditures.

Reduce the expiration period of the spay/neuter certificates to reduce the uncertainty in closing that program's budget at year's end.

Mandate physical segregation of program cash and assets.

Update the animal control contract to include the enforcement of the "Cat ID Bill" (Chapter 7, Article 6, ROH).

Review the City's method of awarding the animal control contract to ensure compliance with the procurement code, including involving legal counsel to check if both contracts meet the sole source criteria.

Establish a balanced budget for the animal control program.

IV. CONCLUSION: THE SOCIETY'S AND CITY'S MANAGEMENT CONTROL ENVIRONMENT COVERING CITY PROGRAMS COULD BE IMPROVED

As part of the audit procedures, the Society's and City's management control environment covering City programs was reviewed. The management control environment encompasses budgetary and accounting controls, management attitudes about financial and operational reporting, and other critical matters. The quality of the management control environment has a pervasive effect on the operation of a program and the integrity of reported financial and operational results. Since the review of the management control environment did not extend beyond the City programs to the Society or City as a whole, this audit does not comment on the overall management control environment of the Society or City.

As discussed in the previous chapter, during the period covered by this report, the following were noted:

Noncompliance with certain requirements of City contracts.

Budgetary, record keeping, accounting practices, and internal control policies and procedures which could be improved.

Based upon the results of the work performed, the overall assessment of the auditors is that the management control environment covering City programs could be improved.

V. RESPONSES FROM AFFECTED AGENCIES

Responses to the preliminary draft of this audit report were requested and received from the Hawaiian Humane Society and the Department of Finance. Based upon discussions with the Hawaiian Human Society, certain minor clarifications were made to this report. In the Society's written response, they indicated that several recommendations were being implemented and that the Society would work with the Department of Finance on addressing other recommendations. The Hawaiian Humane Society responded that the report includes constructive recommendations; however, certain findings and recommendations were not consistent with the Society's legal relationship with the City. We believe the interpretation of the Society's relationship with the City (independent contractor, City agency, or grantee) is a matter of public policy and should be reflected in the agreements with the City regardless of the form or substance of this relationship. However, compliance with contractual requirements, sound internal control, accounting and business practices with respect to City programs are essential elements for any contractor providing services to the City with public monies.

Regarding recommendations pertaining to it, the Department of Finance was in general agreement. The response from the Department of Finance was reviewed and no clarifications were deemed necessary.

September 3, 1997



HAWAIIAN HUMANE SOCIETY

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*The mission of the
Hawaiian Humane Society
is to prevent cruelty
to animals, promote the
humane treatment of
animals and perpetuate
the bond between
humans and animals.*



Ivan Kaisan, Legislative Auditor
Office of Council Services
City & County of Honolulu
530 South King Street
Honolulu, Hawaii 96813

Dear Mr. Kaisan:

We have reviewed the draft report of the performance audit of the services for which the City and County of Honolulu contracts with the Hawaiian Humane Society. We are pleased to note that the auditors have recognized that "the Society has a nationally respected and recognized animal control program." The audit cited that to the Society's credit, we had placed a significant emphasis on education of the public about the humane treatment of animals, rather than gaining compliance through citations and other forms of enforcement. As an animal welfare society, animal care is of our utmost concern and the report noted, "that the Society's anesthetic procedures was progressive and beyond comparable levels provided in the state of Hawaii." Furthermore, the audit validated our assertion that the Society has subsidized the cost of the animal control program.

The report includes some constructive recommendations, however, certain findings and recommendations would require that the Society be other than an independent contractor, which is the legal relationship between the Society and the City. Recommendations to keep separate accounting records for the contracted services and to physically segregate City funds are not legally nor contractually required. To implement these recommendations would incur significant additional administrative cost (which would have to be passed on to the City) without a significant increase in accountability or service provided to the community. Some recommendations were evaluated to be inappropriate to our particular shelter environment.

Several recommendations have already been implemented, either prior to or since the performance audit was conducted. Contracts for fiscal year 1998 have been revised and certain recommendations have been incorporated. Recommendations that have either not been implemented or addressed by the revised contracts will be reviewed with the Department of Finance to assess their financial and operational feasibility.

We look forward to working with the City's Department of Finance to further the goals which we share regarding animal control in our community.

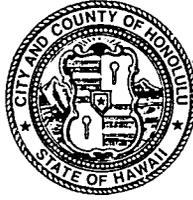
Sincerely,

Pamela Burns
President

DEPARTMENT OF FINANCE
CITY AND COUNTY OF HONOLULU

HONOLULU, HAWAII 96813

JEREMY HARRIS
MAYOR



ROY K. AMEMIYA, JR.
DIRECTOR
MANUEL T. VALBUENA
DEPUTY DIRECTOR

August 13, 1997

TO: IVAN KAISAN, LEGISLATIVE AUDITOR
COUNCIL SERVICES

VIA: ROBERT J. FISHMAN, MANAGING DIRECTOR
MANAGING DIRECTOR'S OFFICE

FROM: ROY K. AMEMIYA, JR., DIRECTOR
DEPARTMENT OF FINANCE

SUBJECT: HAWAIIAN HUMANE SOCIETY AUDIT REPORT

Thank you for the opportunity to comment on the advance report of the audit by Arthur Andersen LLP on the Hawaiian Humane Society.

We believe that the Society has continually endeavored to provide an excellent level of service at the lowest possible cost. It runs its operations efficiently, and we are satisfied with its performance.

Prior to the audit, we had determined that oversight of the animal control and spay/neuter programs was more appropriately placed in the Director's office. Accordingly, the Mayor submitted a FY 98 budget that reflects the transfer of the funds for these programs from the Motor Vehicle and Licensing Division to the Director's office.

Since February, I have been meeting with Jim Tollefson, Chairperson, Hawaiian Humane Society Board; Pamela Burns, Executive Director; and Felix Young, Director of Finance, to solidify the relationship and to discuss the Society's contracts and services. The discussions have covered some of the concerns identified by the report.

"City review of or response to the Society's budget overruns, late or absent required reports, disposition of program assets, and contract performance appears to be inadequate (sic)."

"Animal control and spay/neuter contracts need to be strengthened."

We previously reviewed the contracts' placement with the Motor Vehicle and Licensing Division and determined that it is better suited in Administration as we have staffing whose regular responsibility is to review programs and their budgets.

Accordingly, this office assumed the direct administration and oversight of the contracts at the beginning of this year and has already instituted improvements. For example, the FY 98 contracts require the Society to submit quarterly and annual reports describing the reason for variances over \$1,000 between planned and actual expenditures. The animal control contract establishes response time performance standards for calls to the dispatch office.

"Clearly establish which department the Society should report its budget and fiscal results to."

The Mayor's FY 99 budget proposal reflects the contracts' intradepartmental transfer from the Motor Vehicles and Licensing Division to Administration.

The lines of reporting and responsibility are clearly established between this office and the Society. This will benefit both the Hawaiian Humane Society and the City since Administration oversees the budget for all of Finance.

"Meet with the Society periodically to discuss performance results."

We agree and plan to do so on a regular basis.

"Follow up on reports that are not received on time and review them to ensure that they are in the formats required by the contract."

We agree. The deadline for reports has been set at 30 days from the end of the quarter and end of the fiscal year, similar to the 30-day reporting deadline in Section 3-5.4, R. O.

"Establish in consultation with the Society measurable and controllable long-term goals and objectives for the programs and periodically evaluate their progress."

We have already discussed the need for goals and objectives with the Society and will follow through.

"Strengthen reporting and review requirements relating to accounting of program cash and property."

We agree that accountability for City funds is desirable and have already included more detailed expenditure reporting requirements in the FY 98 contracts.

"Revise the contracts to bring budgets more closely in alignment to actual revenues and expenditures."

The Society's animal control services are of a responsive nature and it is sometimes difficult to anticipate expenditures with accuracy. This will be addressed by the review of the allocations.

It should be noted that Section 3-5.3, R. O., Expenses incurred--Appropriations, states that, "All expenses of seizing, impounding and disposing of stray dogs shall be borne by the Hawaiian Humane Society provided, however, that the council may from time to time make such appropriations to assist the society, as in its discretion and judgment shall be deemed necessary."

"Reduce the expiration period of the spay/neuter certificates to reduce the uncertainty in closing the program's budget at year's end."

The Society and the City have already mutually agreed that, after six years of operation, this is an appropriate time for a comprehensive review of the program. We will include this recommendation in our joint discussions.

"Mandate physical segregation of program cash and assets."

We do not feel that physical separation of the City funds is necessary to ensure accountability. The City often physically comingles funds received from various State and Federal agencies while accounting for the various programs separately. We do, however, share the auditor's concern that accountability of funds is important.

"Update the animal control contract to include the enforcement of the 'Cat ID Bill' (Chapter 7, Article 6, ROH)."

Enforcement of the Chapter 7, Article 6, R. O., has been included in the FY 98 animal control contract.

"Review the City's method of awarding the animal control contract to ensure compliance with the procurement code, including involving legal counsel to check if both contracts meet the sole source criteria."

The animal control contract is exempt from the procurement code as Article 5, R. O., specifically names the Society as being authorized and empowered to seize and impound animals.

The spay/neuter contract is a sole source contract. The criteria for a sole source contract is that there are no other available sources. In addition to the requirement of posting a

notice, we published a notice of intent to award a sole source contract in the Honolulu Advertiser and Star Bulletin on April 3, 4, 5, 6, 7, 8, and 9, 1995. No comments or protests were received, confirming that no other organization was available to offer the services.

"Establish a balanced budget for the animal control program."

The transfer of oversight responsibilities promotes the review of all assumptions used in the past. Preliminary discussions have already been held with the Society to identify current allocation percentages in preparation for reviewing their funding request for FY 99. The next step will be to determine the appropriateness of the allocations.

Finally, Section 3-5.3, R. O., states that, "All expenses of seizing, impounding and disposing of stray dogs shall be borne by the Hawaiian Humane Society provided, however, that the council may from time to time make such appropriations to assist the society, as in its discretion and judgment shall be deemed necessary."

The report's conclusion that the management control environment concerning the Society's City programs is weak was earlier recognized and improvements have already been incorporated into the FY 98 contract. There will be other improvements during the next twelve months as we review the FY 99 funding request and develop a FY 99 contract.

Thank you again for the opportunity to comment. Please do not hesitate to call me at extension 4617 if you have any questions.



ROY K. AMEMIYA, JR.
Director of Finance

RKA:ec
cc: Mayor

APPROVED TO FORWARD:



AUG 13 1997

ROBERT J. FISHMAN
Managing Director

Date

