



OFFICE OF
CONTROLLER

200 N. MAIN STREET, RM 300
LOS ANGELES 90012
(213) 978 7200
www.lacity.org/ctr

June 30, 2009

Linda J. Barth, Assistant General Manager
Kathleen J. Davis, Assistant General Manager
Los Angeles Animal Services Department
211 N. Figueroa Street
5th Floor
Los Angeles, CA 90012

Dear Ms. Barth and Ms. Davis:

The Controller's Office has completed the assistance requested by your Department related to audit recommendations concerning the Spay and Neuter Program. Attached is our report detailing how the Department can improve systems and processes that will facilitate implementation of the recommendations. Our report provides Management with guidelines to consolidate the three spay and neuter funds, including the necessary ordinance changes, and to simplify the accounting process for spay and neuter activities. In addition, we outline the information system needs and necessary controls to ensure the Department has sufficient, accurate data for both financial and program result purposes. Lastly, we recommend some changes to the contracting process with partnering veterinarians to ensure transparency and efficiency.

We appreciate the full cooperation and assistance of your staff during the engagement.

If you have any questions, please have your staff contact Cynthia Varela, Chief Internal Auditor, at (213) 978-7389.

Sincerely,

A handwritten signature in black ink, appearing to read 'Farid Saffar', written over a horizontal line.

FARID SAFFAR, CPA
Director of Auditing



**City of Los Angeles
Office of the Controller**

**Process Improvements for the Los Angeles
Animal Services Department Spay and
Neuter Program**

June 30, 2009

Rushmore D. Cervantes
Acting City Controller

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
SECTION I: FUND CONSOLIDATION.....	4
SECTION II: PROPOSED SPAY AND NEUTER INFORMATION SYSTEM.....	9
SECTION III: CONTRACTING WITH PARTNERING VETERINARIANS.....	18
ATTACHMENT I: ACCOUNTING GUIDELINES	i
ATTACHMENT II: ADMINISTRATIVE CODE CHANGES.....	vii

Process Improvements for the Los Angeles Animal Services Department Spay and Neuter Program

EXECUTIVE SUMMARY

BACKGROUND

The Los Angeles Animal Services Department (LAAS) requested the assistance of the Controller's Office to improve their oversight and control of the Spay and Neuter Program (Program). The Department stated it needed additional guidance to implement key recommendations in two audits issued by the Controller's Office in 2008 (i.e., Revenues and Expenses Audit and Performance Audit of the Spay and Neuter Program). Specifically, Department Management requested assistance with their accounting and management reporting activities related to the Spay and Neuter Program.

OBJECTIVES

The Controller's Office agreed to provide non-audit (consulting) services with the objective to provide recommendations to LAAS on how to improve their systems and processes, in order to:

- Provide reasonable assurance that Spay and Neuter data is accurate, reliable, and transparent in both internal records and the City's official accounting record, the Financial Management Information System (FMIS),
- Facilitate periodic reconciliations between internal records and FMIS,
- Ensure payments to partnering veterinarians are accurate,
- Ensure systems used will capture and report both performance and financial data enabling LAAS Management to analyze the Program's effectiveness and make appropriate management decisions.

To effect these changes and implement an audit recommendation to consolidate three funds currently used to account for Spay and Neuter activities, we also provided guidance on how to establish the appropriate account setup and coding of accounts within FMIS, and procedures for recording related transactions in the consolidated spay and neuter fund.

We also assessed the resources needed to support the revised processes, including the adequacy of planned systems and existing staffing levels and skills.

METHODOLOGY

In conducting this consulting service, Audit staff interviewed LAAS' Management and key staff involved in different aspects of the Program, including accounting and shelter staff. We performed "walk throughs" of processes and systems used in the Program to obtain a better understanding of key areas that need improvement. We also worked with the Department's Information Technology staff to identify processes which could be automated and the capacity and plans to develop an internal database system. We reviewed the Council ordinances and Los Angeles Administrative Code sections related to the Department's spay and neuter funds. We consulted with the Controller's Accounting staff and reviewed Generally Accepted Accounting Principles (GAAP) to ensure that all proposed accounting changes are GAAP compliant and feasible within FMIS. We also met with the Department's assigned City Attorney to review the letter agreements currently used with the partnering vets, to ensure this was the most appropriate arrangement by which to pay for spay and neuter services.

Throughout the process, Audit staff discussed proposed changes with LAAS Management for their consideration and concurrence, and to ensure that their program and financial data needs would be met.

MANAGEMENT'S RESPONSIBILITIES

To maintain our organizational independence, the guidance provided to LAAS Management is distinct from the role of management to:

- Prepare, maintain or take responsibility for basic accounting records,
- Post transactions to financial records,
- Determine or reconcile account balances,
- Design, develop, install or operate the accounting system or other information systems material to the subject matter of the spay and neuter program, and,
- Develop policies, procedures and internal controls

SUMMARY OF RESULTS

This report provides LAAS Management with guidelines to implement the recommended fund consolidation, and to simplify the accounting process for recording spay and neuter receipts, revenues, expenditures and disbursements, and facilitate the periodic reconciliation between internal records and FMIS. Section I provides information on this process, including the recommended accounting guidelines for using a single fund, and the necessary revisions to the Administrative Code.

Currently, the Department does not have an adequate information system to facilitate tracking spay and neuter activities, or provide accurate financial and

program data. We worked with the Department's IT staff to assess Management's data needs to ensure a database can be developed that will:

- Facilitate the capture of accurate and reliable spay and neuter data,
- Update animal information in the Department's Animal Database, Chameleon,
- Identify unlicensed animals,
- Track the issuance and redemption of discount coupons and free certificates, and,
- Provide reports to enable analysis of Program effectiveness.

Section II provides our recommendations regarding required data fields, procedures, and internal controls for the implementation of a new database system for spay and neuter activities.

Based on our review of contracting arrangements with partnering veterinarians, we determined that the letter agreements currently used are appropriate, but should be enhanced by including the Department's responsibilities and noting additional business-related information. We also recommend the Department utilize an RFQ process to solicit vets, to ensure a more transparent selection process and serve as a formal outreach tool. Section III provides information on our recommended contracting process for the Spay and Neuter program.

We appreciate the full cooperation and assistance of LAAS management and staff during this consulting engagement.

SECTION I: FUND CONSOLIDATION

Current Fund Usage

The City allocates approximately \$1.1 million annually from the General Fund to the Spay and Neuter Program. This funding is supplemented by donations and a portion of the dog licensing fees, which averages \$500,000 annually.

The City's Administrative Code established three different funds to account for spay and neuter activities: Veterinary Medical Trust Fund (841), Animal Sterilization Fund (842) and Spay and Neuter Trust Fund (543). While there are some differences between the revenue sources for each, all three funds have the same general intent and purpose: to account for monies to provide animal sterilizations. The Department has been using the funds interchangeably, and monies are transferred from one fund to another, creating additional accounting entries and increased complexity. This practice has led to the inability of the Department to properly monitor or reconcile the funds, adequately budget for future program needs and accurately track sterilization activities.

The Department currently uses one Agency Fund and two Special Revenue Funds to account for spay and neuter revenues/deposits and disbursements:

- Fund 841, Veterinary Medical Trust Fund, was established in 1970 by LAAC Section 5.188. The Trust Fund acts as an Agency Fund, to hold spay/neuter deposits and spay/neuter fees received from adopters or pet owners redeeming their animals. The Department collects a \$40¹ spay/neuter deposit/fee at the time of adoption, sale, or redemption. Deposits are taken for animals that cannot be sterilized at the time of adoption due to health issues. Adopters are refunded their deposit if the animal is sterilized by a private (non-participating) vet, when the adopter provides proof that the animal was sterilized and he/she has paid the full cost of the sterilization. Unclaimed deposits are to be transferred to the Animal Sterilization Fund (Fund 842).

The Agency Fund accounts for the "liability" that is potentially owed to adopters as deposit refunds. Because this is an Agency Fund, which tracks only balance sheet items, expenditures are not recorded. Monies are periodically transferred from Fund 842 to help cover payments to vets for spay and neuter services.

- Fund 842, Animal Sterilization Fund, was established in 1977 by LAAC Section 5.199. This Fund acts as a Special Revenue Fund and was created to account for donations received for providing sterilization services for

¹ Based on new fees approved May 19, 2009, which will be effective June 26, 2009.

animals adopted by City residents or others. The Fund derives most of its revenue from a \$25,000 monthly transfer from the General Fund (\$300,000 a year). Expenditures consist of payments made to participating vets for spay and neuter services.

- Fund 543, Animal Spay and Neuter Trust Fund, was established in 1992 by LAAC Section 5.201. This Trust Fund acts as a Special Revenue Fund and was created to provide pet sterilization services for “privately-owned animals of City residents who meet low-income eligibility requirements”. The Fund derives its revenue primarily from a \$67,500 monthly transfer from the General Fund (\$810,000 a year) and from surcharges paid for dog licenses (\$2 for unaltered dogs and \$7 for altered dogs). The General Fund allocation funds the voucher program (\$310,000 for \$30 value discount coupons and \$70 value free certificates) and the mobile van program (\$500,000). Certificates for free sterilizations and the mobile van sterilizations are available only to City residents who meet low-income eligibility requirements. Discount coupons may be redeemed by any City resident who takes their animal to a LAAS participating vet.

In order to simplify their accounting processes and reduce the risk of errors, the Controller’s Audit of Revenues and Expenses at the Department of Animal Services recommended that LAAS consolidate the three spay and neuter funds into one fund.

Consolidated Fund Proposal

To determine the most appropriate way to consolidate the funds, we considered several factors in addition to the requirements of Generally Accepted Accounting Principles (GAAP). Namely:

1. The City is mandated by State law (Food and Agriculture Code Sections 31751-31754) to ensure animals adopted, sold or redeemed from its animal shelters are sterilized. Therefore, the Department must have sufficient funds available to pay for the associated sterilization costs for sheltered animals.
2. The Department must account for the potential liability related to spay/neuter deposits that may need to be refunded to the animals’ new owners (adopters).
3. The Department must account for donations received specifically to fund pet sterilizations, to ensure these restricted monies are used only for their designated purpose.
4. The City Council allocates General Fund monies specifically for subsidizing pet sterilization costs. Therefore, the Department must have

accurate accounting records to demonstrate that allocated monies were spent appropriately.

5. The Department needs to have accurate, reliable accounting records to support and validate spay and neuter program data, and to demonstrate that monies were used appropriately and resulted in expected sterilization results.

Based on these key factors and the designated use of the three funds as defined by the LAAC, we propose that the Department consolidate Funds 841 and 543 into **Fund 842**.

Fund 842 is most appropriate to account for all spay and neuter activities of the Department because it:

- Allows for sterilization services to be provided to City residents, as well as other persons who adopt animals from City shelters (encouraging a high number of adoptions, which is a primary goal of the Department) and;
- Explicitly provides the General Manager with the authority to administer and expend funds on sterilization services, in accordance with City practices.

As an agency fund under GAAP, Fund 841 cannot be used for recording revenues and expenditures. Therefore, this fund cannot serve the primary function of recording transactions related to spay/neuter activities. In addition, Fund 543 does not address the Department's mandate to sterilize adopted animals.

Though all spay and neuter monies will now be accounted for in one fund, the various revenue sources and expenditures will be separated into accounts, providing appropriate control over specific program activities. This will allow Management to more easily identify and monitor the Program's allocated budget and activities. The use of separate fund accounts will enable the Department to identify, manage and control the use of monies specifically set aside for distinct spay and neuter activities, such as the City's surcharge on dog licenses that is stipulated by Administrative Code to pay for pet sterilizations for City residents who meet low-income requirements.

The Department can begin using Fund 842 as the consolidated spay and neuter fund at the start of FY 2009-10, while simultaneously working with the City Attorney to revise the applicable sections of the Administrative Code. Department staff will need to follow the accounting guidelines prepared by the Controller's Office (see Attachment I) to ensure they comply with the intent of the

existing and to be amended Administrative Code sections. The Department can also begin the process of closing out Funds 841 and 543 during FY 2009-10.

Consolidating the three funds will also better prepare the Department for the implementation of the City's new Financial Management System (FMS), which is anticipated by FY 2010-11. Departments have been requested by the Controller to consolidate special revenue funds when possible to ensure more efficient accounting processes.

Steps for Fund Consolidation

A. Initiate use of Fund 842

The Department can meet the intent of the current LAAC provisions by accepting and implementing the attached accounting guidelines (see Attachment I), pending revised Council ordinances/resolutions. To begin the consolidation, the Department should immediately:

1. Formally notify the Controller's Office, Funds and Appropriations (F & A) Section and the City Administrative Officer that Fund 842 will be used for all spay and neuter accounting transactions and request Funds 841 and 543 be closed.
2. Request F & A to set up revenue source codes and accounts within Fund 842. The fund is to be further segregated for the purpose of reflecting financial operations of each sterilization program activity (e.g., adoption, discount coupon, free certificate, etc.). The accounts listed in Attachment I correspond to the program data needed to track and monitor specific aspects of the Spay and Neuter Program (e.g., mandated sterilizations for adopted animals, subsidized animal sterilizations for residents and low-income eligible residents).
3. Once F & A has effected all changes in FMIS, the Department should start using **Fund 842** for all spay and neuter accounting activities.

B. Implement the following procedures to close Funds 841 and 543 in FMIS

1. Complete all legal and accounting requirements for the proper disposition of the funds to be closed.
2. Send written notification to the Controller's Office to close the funds along with the Appropriation (AA) documents and journal vouchers to close the balances. *Funds are closed in FMIS once a year at the same time the year-end books are closed.*

3. Instruct Department accounting staff to account for all spay and neuter revenues, deposits, expenditures and disbursements in Fund 842 beginning July 1, 2009. The sample accounting entries in Attachment I should be followed.

C. Simultaneously initiate necessary revisions to the Administrative Code

1. Work with the City Attorney's Office to draft an ordinance amending LAAC Sections 5.199 and rescinding Sections 5.188 - 5.192 and 5.201. Specifically,
 - Identify relevant Administrative Code provisions in Sections 5.188 - 5.192 and 5.201 that should be incorporated in Article 3, Animal Sterilization Fund (see Attachment II).
 - Seek Council approval of Administrative Code revisions.

Department Resource Needs

Based on discussions with the Controller's Accounting staff, comparably-sized departments with similar operational complexity utilize a Sr. Accountant II or Principal Accountant I to perform and/or manage the accounting activities. Currently, the Department is staffed with a Sr. Accountant II. To ensure the Department's accounting activities are handled in an appropriate manner, it is critical that Management maintain the necessary accounting expertise.

In addition to staffing resources, the Department will need an information system to accurately track and report detailed spay and neuter activities, which can be easily reconciled to the accounting information noted in the consolidated fund and the associated fund accounts. Section II discusses the elements needed for an effective internal information system.

SECTION II: PROPOSED SPAY AND NEUTER INFORMATION SYSTEM

Currently, LAAS does not have an adequate system that efficiently or effectively tracks spay and neuter expenditures; collects program outputs and reports statistics. Staff uses multiple Microsoft Word documents to track incoming data, and manually enters the information into tables, manually calculating payment amounts due to partnering veterinarians. This method is time consuming and highly susceptible to human error. Further, Management does not have reliable, accurate and timely data to assess the results of the Spay and Neuter Program.

To address these concerns, based on current processes and Management needs, we recommend the Department utilize an Information System to:

- 1) Manage and track the payments to partnering vets and mobile van contractor(s);
- 2) Monitor the distribution and redemption rate of the free certificates and discount coupons;
- 3) Generate spay and neuter statistics/reports for various stakeholders;
- 4) Update the (adopted) animal's sterilization status in Chameleon;
- 5) Track unlicensed animals (through vouchered animal sterilizations)

We discussed these needs with the Department's IT staff, who indicated that they can develop an automated, web-based system to perform the outlined tasks. It is anticipated that the use of the web-based system will streamline both the partnering vet payment process for staff and the generation of statistical reports, as well as reduce the amount of manual data entry into Chameleon by accounting staff. Except for IT staff costs associated with the system development, we are unaware of any additional costs to develop the Spay and Neuter Information System.

The following are the data fields that should be included in the system:

- a) Male or Female Dog (privately owned and sheltered animal)
- b) Male or Female Cat (privately owned and sheltered animal)
- c) Feral Cat
- d) Large Breed Dog
- e) Rabbit
- f) Vendor Name (Partnering Vet or Mobile Van)
- g) Vendor Address
- h) Vendor ID
- i) Vendor BTRC
- j) Animal ID
- k) Discount Coupon Number
- l) Free Certificate Number
- m) Date of Surgery
- n) Date of Invoice

- o) Program Name
- p) Adopted or Privately owned animal
- q) Batch Number
- r) Payment Voucher Number
- s) Date of Payment
- t) Invoice Number
- u) Account used for payment
- v) Discounted payment amount for each of the contracted vets at the City-owned Spay and Neuter Clinics.
- w) Owner's name and address
- x) Amount of sterilization payment

The following is an overview of how the system will be used to process payments to partnering vets/mobile vans, track discount coupons/free certificates, and provide management reports. IT staff will be responsible for developing and implementing the details of the system and ensuring adequate controls are in place.

Request for Payment Process – Partnering Vets

Both the Partnering Vets and the Contracted Vets at City-owned Spay and Neuter Clinics will directly access the system to initiate payment requests for surgeries performed on both adopted animals and privately-owned animals.

Upon execution of the letter agreement, LAAS IT staff will send the Vets an email with a link to the system and a password and log-in. These must be entered by the Vets in order to access the two (2) different “invoice” templates, one for adopted animals and the other for privately-owned pets. Both templates will be pre-populated with:

- a) Vet's Business Tax Registration Certificate (BTRC) number or Vendor Identification (VIN) (On an annual basis, LAAS staff will be responsible for verifying the BTRC number)
- b) Payment address
- c) Vendor ID number
- d) Unique invoice number for reference
- e) Vet's State License Number

1) Adoption Program

This template will be completed for the sterilizations performed on adopted animals (including shelter animals sterilized as part of a special adoption event/promotion).

- Vet staff will be responsible for noting the animal ID number² and the charge for the surgery, in accordance with their City agreement.
- Once the animal ID is entered, the Vet will be required to complete information regarding any other procedures performed (vaccinations, etc.)

2) Voucher Program

This template will be completed for the surgeries performed on privately-owned animals - those where a free certificate or discount coupon was redeemed.

Vet staff will be responsible for filling in:

- a) Animal information such as the animal's breed, weight, etc.
 - b) Owner's name and address
 - c) Coupon/certificate number
 - d) Amount charged for the surgery, in accordance with their City agreement
- Since the owner's information will be entered into the system at the time of the surgery and then uploaded to Chameleon, this will allow the Department to identify any unlicensed dog. If the sterilized animal does not have a corresponding license number, the owner's name will be listed on an exception report generated by the Department. Dog owners with unlicensed animals will be sent a letter informing them of the dog license ordinance.
 - Once this information is entered, the Vet will be required to complete information regarding any other procedures performed (e.g., vaccinations, etc.)

Proof of Sterilization

For both the Adopted and Voucher Programs, Vets must submit proof of sterilization services provided, as described below:

- In order to provide reasonable assurance that the surgery was actually completed, when the animal is ready for pick-up, **both** the Vet and the owner must sign the shelter receipt or the voucher for the sterilized animal.
- At the time the Vet submits the request for payment on the system, a disclaimer will pop-up that will request the Vet to confirm he/she

² The Animal ID is on the adopter's receipt/impound record, which accompanies the animal to the Vet when it's transported by LAAS staff to the clinic for sterilization.

performed the surgery. The box can be initialed or checked and then the electronic request for payment will be submitted to the Department.

- The Vets will also be required to mail in proof of sterilization (i.e. adoption receipts for the adopted animals and free certificates/discount coupons for the privately-owned animals to the Department). The hardcopies should be mailed in by the 5th of each month, to ensure LAAS staff receives them by the 10th, to meet internal deadlines for processing payments.
- LAAS IT staff will upload the system information into Chameleon, which will automatically update the sterilization status (i.e., date of surgery, vet's name/hospital) for all sterilized animals.
- IT staff will determine the timeframe for uploading the system information to Chameleon, which, at a minimum, should be on a weekly basis.

LAAS Payment Process

- Both the hardcopies and electronic requests for payments should be received by LAAS by the 10th of the month. If they are not submitted by the deadline, payment to the vet will be delayed. Any billings received after the 10th of the month, will be processed in the following month. (This will be detailed in the letter of agreement with the Veterinarians.)
- The following day, accounting staff will access and print the billing statements from the system to initiate the payment process.
- LAAS accounting staff will review the billing statements and will be responsible for:
 - a. Printing out the request for payment
 - b. Verifying the printed payment information (billing statement) from the system matches the sterilization supporting documentation.
 - c. Following up with the Vet if there are discrepancies between the amount invoiced and the supporting documentation. A reject flag will pop up if there are discrepancies in the data entered by the Vets. (e.g., if the number of male dog surgeries does not match the kennel cards or adoption receipts.) The Vets must submit a corrected invoice. The system will enable the Vets to recall a submitted invoice, make corrections and re-submit to the Department.
 - d. After payments are processed in FMIS, LAAS staff will enter the batch number and payment voucher number (PV) in the system.

Request for Payment Process – Mobile Van(s)

The Mobile Van(s) will follow a similar process as Partnering Vets to request payment from LAAS. They will also have a unique log-in ID and will be responsible for entering the owner's information as well as the animal's information.

Since the Mobile Van should only be providing surgeries to low-income residents, they must also verify the resident's income level. Once eligibility has been confirmed, there will be a box to check which certifies the resident meets the income level.

At month end, the Mobile Van will submit the request for payment to LAAS (following the process described above).

Tracking Vouchers (Discount Coupons and Free Certificates)

Currently, the vouchers are printed by GSD in books of 25 in numerical sequence and LAAS staff distributes them to shelters and a few rescue organizations on a first-come, first-serve basis. However, there is no formal method for tracking the vouchers, and the Department cannot determine how many vouchers have been distributed to residents. As a result, the Department cannot determine the potential outstanding liability that may be owed to partnering vets for future vouchered surgeries.

The proposed system will have the capability of providing better control and accountability over the distribution of the spay and neuter vouchers. Specifically,

- New Free Certificates and Discount Coupon forms will be developed. The system will create, print and track all vouchers issued by LAAS staff. The vouchers can be accessed by Clerks at the shelters and printed out directly, when a resident requests one.
- The Clerks at the shelters will have login ID's and passwords to generate the vouchers. The Clerks will record who received the voucher so that once a voucher is printed, IT staff will be able to identify who printed it and who received it. This will allow the Department to identify how many vouchers each shelter is distributing and who the vouchers are issued to. This should identify if Clerks are distributing more than the limit of six per household (discussed in next bullet).
- There will be a limit of six Free Certificates and Discount Coupons provided to a household in compliance with the City's Municipal Code which prohibits households owning more than six animals - three dogs and three cats. The Department should determine whether the System can restrict the number of vouchers issued to each household or whether

a manual control needs to be implemented (staff reviews a System report of owner addresses and vouchers received).

- The system will list each voucher issued in numerical sequence. For example, if the Department begins distributing the vouchers at the beginning of the next fiscal year, the first voucher would be FY0907-000001. FY0907 is Fiscal Year 2009-2010, with 07 indicating the month of July; -000001 indicates that it is the first voucher distributed.
- The date that the Clerk prints out the voucher will be automatically listed on the voucher, and the resident will have 60 days to redeem it. The system will be updated and will account for the issued voucher.
- If the resident tries to redeem the voucher after the expiration date, the Vet is required (as stated in the revised letter agreement) to inform the resident that the voucher expired, and instruct them to get a new voucher from the nearest shelter.
- When the resident presents the voucher to the Partnering Vet, the Vet will be required to enter the voucher number into the request for payment screen template. It is also intended that the system will flag redeemed vouchers once the number is entered. (Accounting staff will also verify when processing payments.)

Reports/Forecasting/Reconciliation

Based on the data collected by the system, staff will be able to generate reports that detail the following:

- a. The total number of sterilizations—at any time and for the entire fiscal year;
 - b. Total amount spent on sterilizing adopted animals, discount/free vouchers and mobile vans;
 - c. Total amount of vouchers printed/distributed and a corresponding redemption rate;
 - d. Breakdown of animal type, i.e. male dogs, feral cats, rabbits, etc. that have been sterilized through the program;
 - e. Total amount each individual Vet has been paid for services;
 - f. Unlicensed privately owned animals; and,
 - g. Exception report which details duplicate voucher numbers, duplicate animal ID numbers.
- Management should use the program expenditure reports to determine the budget necessary to sustain individual aspects of the program, as well as the program as a whole.

- Accounting staff should reconcile FMIS reports to performance results on a monthly basis to ensure the accuracy of both financial and performance data.

Required Controls to Implement the Information System

In order to ensure proper controls are in place to protect the information maintained in the system, we propose the Department consider the following:

Transaction Origination - Manual Controls

Since each of the following manual controls must be initiated by the partnering vets, the controls should be detailed in the letters of agreement.

- Require the Partnering Vets/Mobile Vans to submit data electronically in a timely manner (on or before the 5th of the following month).
- Require the Partnering Vets/Mobile Vans to submit accurate and complete data prior to submitting electronically or inputting into the web-based System.
- Require the critical source documents supporting the data submitted electronically to be complete and received in a timely manner. *Example: If LAAS accounting staff finds a discrepancy between the printed payment information (billing statement) and the sterilization supporting documentation, the Vet should be notified and required to recall the submitted invoice, make corrections and re-submit it to the Department.*
- Require the Partnering Vets/Mobile Vans to review and correct all rejected and erroneous transactions in a timely manner.

System controls, data communications, processing, data storage and output controls are the Department's responsibility and Management will need to ensure that their IT staff, accounting staff or other assigned staff are aware of the procedures that must be followed.

Transaction Entry - System Controls

- Ensure the data input into the System is accurate and complete by subjecting data entry information to comprehensive edit and validation routines. *Examples include: A reject flag will pop up if there are discrepancies in the data entered by the Vets. (e.g., if the number of male dog surgeries does not match the number of kennel cards or adoption receipts provided to the Department as support documentation. The system should check for simple data-entry edits such as blocking alphabetic characters from being entered into numeric fields or checking for valid information such as a cat weighing 100 lbs instead of 10 lbs. or*

cat sterilization with a dog breed indicated. Input should be checked to ensure it remains within specified parameters.

- Ensure that appropriate control fields are in balance, and that the transaction entry error-handling process is controlled.
- Ensure that transactions rejected by edits in the System are reviewed, corrected and re-entered in a timely manner (ability to recall, correct and re-submit).

Data Communications

- Ensure that appropriate physical security controls are in place for workstation equipment and related communication equipment.
- Ensure that each user accessing the computer system environment is identified. *Example: Each user should have a unique user ID and password to reduce the risk of access by unauthorized users.*
- Ensure that communication lines are secured to the extent appropriate for the System.
- Ensure whether encryption technology is necessary and appropriate for the System.

Processing Controls

- Ensure that data processed by the System (including data fed from another System – Chameleon) are accurate and complete, and subject to review by appropriate levels of management.
- Ensure all data rejected during the processing cycle (exception reports) are corrected and re-entered in a timely manner.
- Ensure that electronic audit trails exist and are adequate to allow transactions to be completely traced through the application without exception.

Data Storage Controls

- Ensure that data and system files are properly backed up or archived for storage and retention purposes. *Management should have the ability to restore System data and recover from any losses, disruption or corruption of data.*

- Ensure that adequate environmental and security controls are in place to minimize loss of data, data storage devices, or data storage capacity.
- Ensure that data and system files are protected from loss, destruction, or unauthorized modifications.
- Ensure that storage and retrieval procedures allow for maximum ease in the use of files and programs and for reconstruction of files and indexes.

Output Controls

- Ensure that the integrity of data has not been lost during processing by the System.
- Ensure that all payment transactions captured by the System are accounted for and verified for accuracy against supporting documentation separately received from the Partnering Vet/Mobile Van.
- Ensure that complete and accurate reports are provided only to authorized recipients in a timely manner. *Example: Program activity/outcome reports generated by the System should only be accessible to Department management to ensure they cannot be manipulated by external vendors or program staff.*
- Ensure that the System output is properly retained and disposed of by the user groups.

To ensure all of the aforementioned controls are incorporated into the System, we recommend IT staff develop a control matrix to detail how each control has been implemented and provide examples of how and when the controls will be triggered. If a specific control will not be implemented, a description of how the risk will be mitigated or whether the risk is acceptable to Management should be noted. LAAS Management should also inform the City's Information Technology Agency of the new Spay and Neuter System to ensure it will meet citywide information system standards.

Resources and Timeline

LAAS currently has an Information Systems Division with staff who possess the skills to develop and administer the proposed database. We have discussed the data needs and internal controls with them in detail, and the IT staff believe the database can be rolled-out by January 2010.

SECTION III: CONTRACTING WITH PARTNERING VETERINARIANS

LAAS partners with private Veterinarians to perform animal sterilizations for animals that are adopted from City shelters, as well as for animals privately owned by City residents. While each of the six City shelters has a spay and neuter clinic, the Department does not currently have the capacity to hire Veterinarians to operate them. Currently, there are contracted veterinarians at two of the City-owned clinics (South Los Angeles and West Los Angeles). Given the large geographic area served by LAAS, there is still a need to partner with private Veterinarians throughout the City to ensure that all shelters and residents are adequately served.

Currently, the Department has letters of agreement with approximately 60 Vets throughout the City who perform sterilizations on adopted animals prior to their release. These Vets also honor the free certificates and discount coupons provided to City residents to subsidize payment for sterilizing their pets. However, not all of the Vets with letters of agreement actively participate in the City's Spay and Neuter Program. There is only a handful that appears to provide a majority of the City-funded sterilizations.

The Department also has an active formal contract with a Mobile Van to provide free sterilizations to low-income pet owners, which was awarded through a competitive selection process.

To ensure the Department's processes related to the Spay and Neuter Program are transparent and streamlined, we examined the current process for selecting partnering vets, and the mechanism for approving their payments.

Selection Process

The Department has partnered with private Vets for over 15 years, but has never used a formal open selection process. They have been primarily recruited via word of mouth by the Department's Spay and Neuter Coordinator or the Chief Veterinarian. The Department has indicated that although there are many Veterinarians within the City, they may not choose to partner with the Department because the amount paid for each surgery is relatively low compared to the industry average and it may not be financially worth their time.

Letters of Agreements

Partnering Vets sign a letter of agreement indicating they will abide by the Department's policies, and will only renew the letter if there are changes in the program. While the letters stipulate the Vet's roles and responsibilities, they are signed only by the Vet, not by a Department representative. Further, there is only limited information regarding the Department's responsibilities.

Encumbering Funds

Because the City Attorney's Office has determined that letter agreements are sufficient for the type of services being rendered, the Department uses an Authority for Expenditure (AE) to encumber funds to pay the partnering Vets. However, the Department does not prepare individual AE's for each Partnering Vet, rather it prepares periodic AE's to encumber lump sum amounts of the funds appropriated for spay and neuter activities. Individual payments to Partnering Vets are charged against the AE's. The AE's must be approved by the Department's Sr. Accountant, Assistant General Manager and the City Attorney, which is a lengthy process. Further, the periodic AE's for lump sum amounts are not defined as corresponding to a specific spay and neuter program, such as sterilizations for the Adoption Program or Voucher Program. The Department has also utilized AE's to encumber funds for a non-contractual mobile van provider. The extensive use of AE's without noting defined sub-programs contributes to the Department's inability to accurately and readily determine what has been spent for mandated sterilizations for sheltered animals vs. voucher or mobile van sterilizations for privately owned pets, and whether sufficient funds remain for future activities.

Proposed Improvements to Partnering with Private Vets

The Department's processes to identify and select Partnering Vets for spay and neuter activities should be more active, open and transparent. Also, the Department should enhance the letter agreements to include the new payment request processes and requirements to use the Department's database system. It would also be helpful to incorporate the Department's roles and responsibilities related to the partnering vets, to ensure each party is aware of the Program's expectations and requirements.

The Department can also improve the process to encumber funds in a more efficient and effective manner.

We propose the following actions:

A. Release a Request for Qualifications (RFQ) for Partnering Vets to ensure a more transparent selection process.

The current process to recruit Veterinarians using informal staff contacts does not ensure that all veterinarians within the City are aware of the opportunity to partner with the Department. Nor does it include a screening method to ensure Vets are selected and retained based on an objective process, rather than on personal relationships.

A formal competitive bidding process does not appear appropriate for this type of service. The Department establishes the same reimbursement amount to be paid for each surgery pending proof of service, and there is no guarantee as to the total amount that will be paid to any Vet. It is the

Department's objective to have a sufficient number of partnering vets citywide who can meet both the quality expectations and help fulfill the demand for City-subsidized spay/neuter services.

The Department can achieve better transparency in the selection of Partnering Vets by developing and releasing a request for qualifications (RFQ) to solicit partnering vets. The RFQ can provide standard criteria for selecting the vets and be used as a form of expanded formal outreach to pre-qualify vets. Using an RFQ will help ensure a more open and expanded selection process.

The Department should consider the feasibility of either a continuously open RFQ, or releasing an RFQ at periodic intervals to ensure they are including new Vets in the program, and participating vets are recertified as meeting current expectations as defined in the RFQ.

B. Execute formal letters of agreement with qualified Vets, detailing the responsibilities of both the Vet and the Department, to be signed by both parties.

The current letters of agreement include the following:

- The program guidelines;
- What the sterilization surgeries entail;
- The required Veterinarian standards and professional standards;
- The reimbursement process;
- The request for payment process;
- The reimbursement cost of each surgery;
- A statement which allows LAAS to make periodic visits/inspections; and,
- A statement which allows LAAS to terminate the agreement at any time

In addition to the elements listed above, the Department should also require the selected Vets to provide their BTRC number and comply with any procedures related to the new spay and neuter database. The Department should also describe their role and responsibilities related to using the partnering vets with the Spay and Neuter Program. The letters of agreement may also need to be tailored to the individual Vet, depending on the program they participate in. For example, one Vet may only perform surgeries for adopted animals, and another may only want to honor the Discount Coupons. Finally, the letters of agreement should be signed by both the Vet and the Department.

The Department should submit the revised letters of agreement to the City Attorney for review as to form. The Controller's User Department Manual requires the City Attorney to determine whether a contract is required or a letter of agreement is sufficient.

C. Continue to use AE's as an encumbering document, but define the specific spay and neuter program activity.

The Department should continue to use AE's to encumber funds for paying the Partnering Vets. However, the AE's should be defined by program type (free certificates, discount, etc.) or service provider type, which will allow for better tracking of funds available for different program activities. The Department should also consider submitting the AE's on a quarterly basis to establish a systematic process, rather than the current sporadic requests, which may delay payments to vets.

**ACCOUNTING GUIDELINES
LOS ANGELES ANIMAL SERVICES DEPARTMENT FUND 842**

To enable the use of the consolidated spay and neuter fund – Fund 842, the Department needs to complete the following steps:

1. Request F & A to set up the accounts at the fund and account levels for Fund 842 within FMIS.

Fund Level:

- Cash- Spay and Neuter
- Liability- Spay and Neuter
- Expenditure- Spay and Neuter
- Revenue- Spay and Neuter

The next level of accounts are “account level” which are identified by object code and can be used to designate distinct programs or aspects of a program. The accounts listed below correspond to the program data needed to track and monitor specific aspects of the Spay and Neuter Program (e.g., mandated sterilizations for adopted animals, subsidized animal sterilizations for residents and low-income eligible residents).

Account Level:

- Liability- Adoption
- Liability- Redemption¹
- Expenditure- Adoption spay/neuter
- Expenditure- Voucher spay/neuter- discount coupon
- Expenditure- Voucher spay/neuter- free certificate
- Expenditure- Mobile Van
- Expenditure- Refund of Deposits
- Revenue- Adoptions
- Revenue- Deposits/Prepayments
- Revenue- Donations
- Revenue- Surcharges (\$2 and \$7 from paid dog license fees)
- Revenue- General Fund allocation

2. Once the F & A section has effected all changes into FMIS, **Fund 842** should be used for all spay and neuter accounting activities.
3. Instruct LAAS accounting staff to adhere to the following structure for recording receipts, revenues, expenditures and disbursements related to spay and neuter activities (the following are examples of accounting entries, using a single unit of service as an example. It is understood that transactions representing multiple like

¹ This account is for sterilization deposits required for shelter animals that are redeemed by their owners.

**ACCOUNTING GUIDELINES
LOS ANGELES ANIMAL SERVICES DEPARTMENT FUND 842**

transactions would be batched for accounting purposes; however detailed information would be available in subsidiary records within the internal database:

I. ADOPTIONS

A. Upon Adoption

Healthy Animal:

Cash – Spay and Neuter	\$40	
Revenue – Adoptions		\$40

To book spay/neuter fee received from adopter of healthy animal.

Unhealthy Animal:

Cash – Spay and Neuter	\$40	
Liability – Adoption		\$40

To book spay/neuter deposit received from adopter of unhealthy animal.

B. Upon Sterilization

Healthy animal:

Expenditure - Adoption spay/neuter	\$60	
Cash - Spay and Neuter		\$60

To book payment to partnering vet for sterilization of a healthy animal.

Unhealthy animal:

Liability – Adoption	\$40	
Expenditure - Adoption spay/neuter	\$60	
Cash – Spay and Neuter		\$60
Revenue - Deposits/Prepayments		\$40

To book payment to partnering vet for subsequent sterilization of an unhealthy adopted animal and recognize revenue for deposit received initially booked as liability for unhealthy animal.

**ACCOUNTING GUIDELINES
LOS ANGELES ANIMAL SERVICES DEPARTMENT FUND 842**

II. REDEMPTIONS

A. Upon Redemption:

Cash – Spay and Neuter	\$40	
Revenue – Deposits/Prepayments		\$40

To book spay/neuter deposit received upon redemption of animal by its owner.

B. Upon sterilization:

Expenditure - Adoption spay/neuter	\$60	
Cash - Spay and Neuter		\$60

To book payment to partnering vet for sterilization of a redeemed animal.

III. EVENT/PROMOTIONAL STERILIZATIONS

A. Upon Sterilization:

Expenditure – Adoption spay/neuter	\$60	
Cash - Spay and Neuter		\$60

To book sterilization cost for event animal.

B. Upon Adoption (at the event show):

Cash – Spay and Neuter	\$40	
Revenue - Adoptions		\$40

To book spay/neuter fees upon adoption of an event animal.

IV. REFUNDS

A. Revenue - Adoptions or Prior Period. Adj.	\$40	
Liability - Adoption		\$40

To initiate a refund for “healthy animal”, reverse previous entry booking spay and neuter revenue (Note: debit revenue if refund occurs during the same fiscal year the deposit was booked as revenue **or** debit prior period adjustment if refund occurs after fiscal year end.

**ACCOUNTING GUIDELINES
LOS ANGELES ANIMAL SERVICES DEPARTMENT FUND 842**

Liability – Adoption	\$40	
Cash - Spay and Neuter		\$40

To book 100% refund to adopter if the animal died during surgery at one of LAAS' partnering vets (initially identified as a healthy animal).

B. Liability – Adoption	\$40	
Cash – Spay and Neuter		\$40

To book 100% refund of spay/neuter deposit if adopter sterilized animal at own expense (for previously unhealthy animal).

C. Liability – Adoption	\$40	
Cash – Spay and Neuter		\$40

To book 100% refund to adopter for animal returned to the shelter before sterilization (for unhealthy animal - however other fees are forfeited e.g., pound fees, microchip, vaccination, etc.).

D. Revenue- Deposits or Prior pd. adjustment	\$40	
Liability - Redemption		\$40

To initiate a refund for redeemed animal, reverse previous entry booking spay and neuter deposit as revenue for redeemed animal (Note: debit revenue if refund occurs during the same fiscal year the deposit was booked as revenue or debit prior period adjustment if refund occurs after fiscal year end).

Liability – Redemption	\$40	
Cash - Spay and Neuter		\$40

To book 100% refund to owner of redeemed animal if vet determines animal was already sterilized.

V. VOUCHER PROGRAM (DISCOUNT COUPONS & FREE CERTIFICATES)

A. Expenditure - Voucher spay/neuter - discount coupon \$30		
Cash – Spay and Neuter		\$30

To book payments to partnering vets for spay/neuter when a discount coupon is used.

B. Expenditure - Voucher spay/neuter - free certificate	\$70	
Cash - Spay and Neuter		\$70

**ACCOUNTING GUIDELINES
LOS ANGELES ANIMAL SERVICES DEPARTMENT FUND 842**

To book payments to partnering vets for spay/neuter when a free certificate is used.

VI. MOBILE VAN PROGRAM

Expenditure - Mobile Van Program	\$60	
Cash - Spay and Neuter		\$60

To book payments made to mobile vans contracted to provide spay/neuter services to low-income City residents. Payments may vary depending on contract terms.

VII. MONTHLY BUDGET ALLOCATION FROM THE GENERAL FUND

A. Cash - Spay and Neuter	\$25,000	
General Fund 100		\$25,000

To book general fund allocation to cover spay/neuter costs for sheltered animals/Adoption Program. Annual allocation is \$300,000.

B. Cash – Spay and Neuter	\$25,833	
General Fund 100		\$25,833

To book general fund allocation to cover costs for Voucher Program (discount coupons and free certificates). Annual allocation is \$310,000.

C. Cash - Spay and Neuter	\$41,667	
General Fund 100		\$41,667

To book general fund allocation for Mobile Van program to provide sterilization services for privately owned animals for low-income City residents. Annual allocation is \$500,000.

D. Cash – Spay and Neuter	varies	
General Fund 100		varies

To book General Fund allocation to cover costs of the Voucher Mobile Van, and adoption Programs from the dog license surcharge (\$2 unaltered, \$7 altered).

**LOS ANGELES ANIMAL SERVICES DEPARTMENT
SPAY AND NEUTER FUNDS
ADMINISTRATIVE CODE CHANGES**

Currently, the City's Administrative Code establishes three different funds for spay and neuter services: Veterinary Medical Trust Fund (841), Animal Sterilization Fund (842) and Spay and Neuter Trust Fund (543). While there are some differences between the revenue sources for each, all three have the same general intent of providing animal sterilizations.

The Controller's Office noted in a 2008 audit that due to the practices followed with the three funds, LAAS management lacked the ability to properly monitor the funds, budget for future Spay and Neuter Program needs, and track sterilization activities.

The Controller's Audit of the Department's Revenues and Expenses¹ recommended consolidating these three funds. Upon reviewing the intended purpose and revenue sources of all three, we propose that Funds 841 and 543 be consolidated into the Spay and Neuter Trust Fund (842), primarily because Fund 842:

- 1) Allows for sterilization services to be provided to City residents, as well as other persons who adopt animals from City shelters (this encourages adoptions - a primary goal of the Department) and;
- 2) Explicitly provides the General Manager with the authority to administer and expend funds on sterilizations services, in accordance with City practices.

Fund consolidation will streamline accounting processes for LAAS accounting staff, while still providing various revenue sources and disbursements to be individually tracked and monitored. This will allow Management to more easily manage and monitor the Spay and Neuter Program's budget and activities.

Since the funds were established by Council ordinance and included in the Administrative Code, the Department must work with the City Attorney to draft amendments to the applicable Administrative Code sections for Council approval.

We recommend that the City Attorney, in consultation with LAAS management, draft the appropriate ordinance language to:

1. Rescind Administrative Code Sections 5.188 - 5.192, (Fund 841) and Section 5.201 (Fund 543), and

¹ Audit of Revenues and Expenses at the Department of Animal Services, May, 27 2008
Recommendation No. 25, page 31

**LOS ANGELES ANIMAL SERVICES DEPARTMENT
SPAY AND NEUTER FUNDS
ADMINISTRATIVE CODE CHANGES**

2. Incorporate language from these two sections into Section 5.199 (Fund 842). The **added** language should ensure the consolidated Fund 842 has the purpose and authority to receive revenues, delineated as follows :

Purpose

- To collect adopters' deposits (\$40) for animals that are not ready to be sterilized at the time of adoption, as directed by State law.
- To provide a refund to an adopter whenever an animal that has been acquired from the Department dies prior to sterilization, or if the adopter has sterilized the animal at their own expense.
- To provide pet sterilizations to residents of the City who meet (low-income) eligibility requirements, as established by Council.

Revenues

- Appropriate \$2 for each paid dog license for an unaltered dog and \$7 for each paid dog license for an altered dog to help subsidize the costs of privately-owned animal sterilizations for low-income City residents.
- Appropriate 100% of the penalties collected for non-compliance with breeder's permits and dog licenses to help subsidize the costs of privately-owned animal sterilizations.

The City Attorney should ensure that LACC Section 5.199 **maintains** the Department's authority to appropriate budget allocations from the General Fund (for the adoption, voucher and mobile van programs), and receive any gift, contribution or bequest (donations) accepted by the City Council or the General Manager for the purpose of providing pet sterilization services.