

AUDIT REPORT

Salt Lake County **ANIMAL SERVICES**

JANUARY 2023



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County Auditor

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AUDITOR'S LETTER

January 9, 2023

We audited Animal Services to see if countywide policies were adhered to and best practices followed. I now present the results of this audit.

By implementing recommendations for compliance with countywide policies and procedures, the County can be assured that budgeted countywide general funds are used for countywide purposes, and money expensed to contracted cities and townships are accurate.

We examined Animal Services for compliance with Countywide Policy 1060 "Financial Goals and Policies." We also reviewed contracts entered into by Animal Services.

Management responded with agreement to our recommendations.

This audit is authorized pursuant to Utah Code Ann. 17-19a-401 "County Auditor Investigative Powers – Report of Findings." We conducted this audit in accordance with generally accepted government auditing standards (GAGAS), except for the requirement in GAGAS 3.18, which states, "In all matters relating to the GAGAS engagement, auditors and audit organizations must be independent from an audited entity". GAGAS states in 3.21 "Independence comprises the following:

- a. Independence of mind: The state of mind that permits the conduct of an engagement without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.
- b. Independence in appearance: The absence of circumstances that would cause a reasonable and informed third party to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the engagement team had been compromised."

Our state statute, 17-19a-206 Performance audit services, reads:

(1)

(a) A county auditor shall, under the direction and supervision of the county legislative body or county executive and subject to Subsections (1)(b) and (2), provide performance audit services for a county office, department, division, or other county entity.

(b) A county auditor may not conduct a performance audit of the auditor's own office.

(2) The county legislative body or county executive shall establish the goals and nature of a performance audit and related services.

Although this audit is not a performance audit, GAGAS 3.19 states: "auditors and audit organizations

should avoid situations that could lead reasonable and informed third parties to conclude that the auditors and audit organizations are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the engagement and reporting on the work”.

A reasonable and informed third party is defined by GAGAS: “As evaluated by a hypothetical person, a person who possesses skills, knowledge, and experience to objectively evaluate the appropriateness of the auditor’s judgments and conclusions. This evaluation entails weighing all the relevant facts and circumstances, including any safeguards applied, that the auditor knows, or could reasonably be expected to know, at the time that the evaluation is made.”

Although we are working with the State Legislature, Utah Association of Counties, Utah Association of CPAs, to change this statute, we currently have no control or ability to change this statute. As such there is a risk that readers of our report would conclude that we are not capable of exercising objective and impartial judgment on the audit subject matter.

GAGAS standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Except for the independence issues above, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.”

We appreciate the leaders and team members at the various agencies and departments who shared their time and knowledge with us during the audit. Please contact me at 385-468-7200 with any questions.

A handwritten signature in black ink, appearing to read "Chris Harding". The signature is fluid and cursive, with the first name "Chris" and last name "Harding" clearly distinguishable.

Chris Harding, CPA, CFE, CIA
Auditor

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AGENCY RESPONSE

ANIMAL SERVICES23



Animal Services JANUARY 2023

Objectives

The audit objectives were to review cities and districts service revenue contracts with Animal Services to determine whether:

- Contract payments were billed, collected, and accounted for accurately and completely, and complied with the terms of the interlocal agreements and Countywide policies.
- Contract fees for service were adequate to cover Animal Services' cost to provide those services.
- Receipts for contract revenues were properly safeguarded against fraud, waste, or misuse.

REPORT HIGHLIGHTS

Animal Services did not have a detailed breakdown on file for countywide budgeted expenditures. Appropriations for both countywide and contracted municipality services expenditures were combined in the Public Works and Other Services fund.

The Uniform Fiscal Procedures Act, Section 17-36-8, requires that a budget be prepared for funds included in the County's system of accounts. Section 17-36-3 defines budgets as, "a plan for financial operations for a fiscal period, embodying estimates for proposed expenditures for given purposes...". Anticipated expenditures are budgeted appropriations, which are defined as "an allocation of money for a specific purpose."

The Public Works and Other Services Enterprise fund included expenditures for services considered Countywide. \$1.6 million was transferred from the General Fund to cover the cost of the services. However, countywide expenses do not meet the criteria for an enterprise fund.

Utah Code Title 51, 5-4 (8) states that enterprise funds are designated for operations financed like a private business where user fees cover related expenses, periodic calculation of net income is required; or where operations are financed by debt that will be paid from fees collected. Countywide services were funded by General Fund tax revenue and user charges.

There were no clear criteria for determining expenses that qualified as Countywide services. Some municipal contracts included services that management considered Countywide but did not indicate the party responsible for the related costs.

Countywide Policy ("CWP") 1060, "Financial Goals and Policies," sets forth the Salt Lake County's policy to establish contract revenues and fees at a level that covers the full cost of services provided, including overhead. Best practices require that the provisions of each contract include clear roles and responsibilities as well as the financial obligations of each party.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework states that control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out.



Finding Risk Classifications

Classification	Description
1 – Low Risk Finding	<p>Low risk findings may not have an effect on providing reasonable assurance that:</p> <ul style="list-style-type: none">• Contract payments were billed, collected, and accounted for accurately and completely, and complied with the terms of the interlocal agreements and Countywide policies.• Contract fees for service were adequate to cover Animal Services' cost to provide those services.• Receipts for contract revenues were properly safeguarded against fraud, waste, or misuse. <p>Recommendations may or may not be given to address the issues identified in the final audit report. If recommendations are given, management should try to implement the recommendations within one year of the final audit report date if possible. Follow-up audits may or may not focus on the status of implementation.</p>
2 – Moderate Risk Finding	<p>Moderate risk findings may have an effect on whether there is reasonable assurance that:</p> <ul style="list-style-type: none">• Contract payments were billed, collected, and accounted for accurately and completely, and complied with the terms of the interlocal agreements and Countywide policies.• Contract fees for service were adequate to cover Animal Services' cost to provide those services.• Receipts for contract revenues were properly safeguarded against fraud, waste, or misuse. <p>Recommendations will be given to address the issues identified in the final audit report. Management should implement the recommendations within one year of the final audit report date if possible. Follow-up audits will focus on the status of implementation.</p>

Finding Risk Classifications

3 – Significant Risk Finding

Significant risks are the result of one or more findings that may have an effect on whether there is reasonable assurance that:

- Contract payments were billed, collected, and accounted for accurately and completely, and complied with the terms of the interlocal agreements and Countywide policies.
- Contract fees for service were adequate to cover Animal Services' cost to provide those services.
- Receipts for contract revenues were properly safeguarded against fraud, waste, or misuse.

Recommendations will include necessary corrective actions that address the significant risks identified in the final audit report. Management should implement the recommendations within six months of the final audit report date if possible. Follow-up audits will focus on the status of implementation.

4 – Critical Risk Finding

Critical risks are the result of one or more findings that would have an effect on whether there is reasonable assurance that:

- Contract payments were billed, collected, and accounted for accurately and completely, and complied with the terms of the interlocal agreements and Countywide policies.
- Contract fees for service were adequate to cover Animal Services' cost to provide those services.
- Receipts for contract revenues were properly safeguarded against fraud, waste, or misuse.

Recommendations will include necessary corrective actions that address the critical risks identified in the final audit report. Management should implement the recommendations as soon as possible. Follow-up audits will focus on the status of implementation.

BACKGROUND

The Salt Lake County Auditor's Audit Services Division recently completed an audit of the Salt Lake County Animal Services Division's Contract Services revenues. The purpose of the audit was to review service contract revenue and payments from the cities and districts that have service contracts with Animal Services. During the 2021 audit period contracted entities included the Greater Salt Lake Municipal Services District (GSLMSD) which started in 2016 and consists of the Metro Townships Brighton, Copperton, County Islands, Emigration Canyon, Kearns, Magna, and White City. Other contracted entities include the cities of Bluffdale, Holladay, Midvale, Millcreek, Murray, and Salt Lake City.

Animal care and control services provided to the contracted entities include:

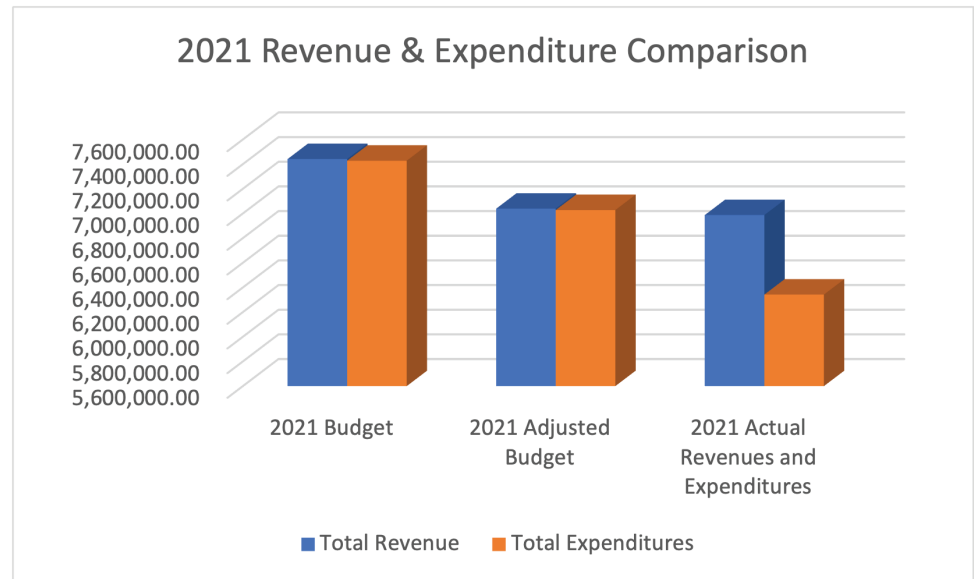
- Animal care and sheltering
- Onsite veterinarian and clinic care
- Pet adoptions and placement of animals with rescue groups
- Pet licensing
- 24/7 field operations and enforcement of animal-related city and county ordinances

Historically, Animal Services also provided services aimed at achieving countywide objectives, such as an overall reduction in the homeless pet population. Countywide services were funded through the County's General Fund. Prior to formation of the GSLMSD, Animal Services served residents of the unincorporated areas of Salt Lake County through use of Municipal Service tax revenue. Afterwards, the GSLMSD contracted with the County for provision of Animal Services, paying on a per-capita basis. Initially services were provided below cost to the contracted municipalities, with provisions for price increases to achieve full cost.

During the audit period, Animal Services expenditures, including those related to the General Fund, were accounted for in the Public Works and Other Services Fund, which operated as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner like private business enterprises and generally use the same accounting framework as the private sector. Enterprise fund agencies can also have a net profit.

Animal Services enterprise fund revenue was derived from fees for services and payments from contracted entities. Additionally, the fund received \$1.6 million in revenue from the County's General fund to cover the cost of the Countywide services and \$337,386 in restricted funds. Animal Services total revenues exceeded expenditures by \$526,530 for 2021.

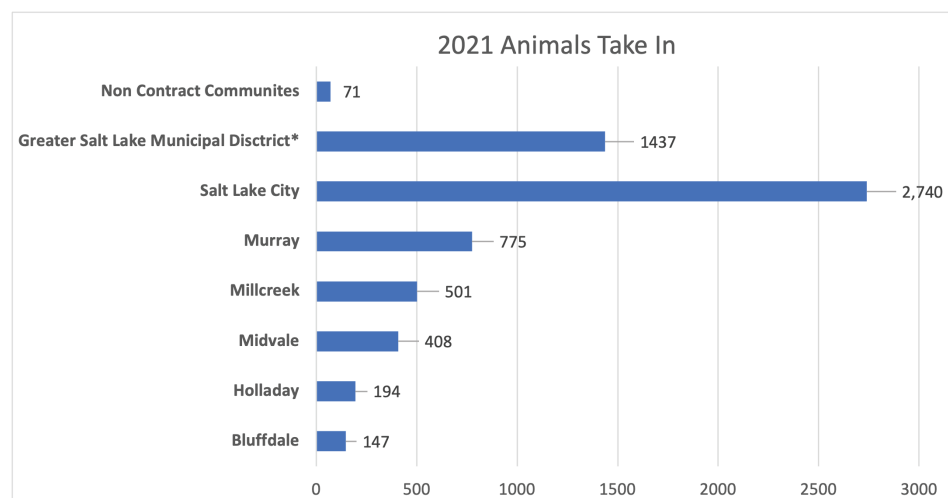
Figure 1. Analysis of Revenues and Expenditures January 1 – December 31, 2021. Animal Services actual total revenues and expenditures compared to budgeted revenues and expenditures.



Source: PageCenterX – Detailed Revenue and Detailed Expenditures Report for FY 2021.

Lost or stray animals are received at, or transported to, the Animal Services facility which is located at 3900 South and 511 West in Salt Lake City. Animal Services took in 6,273 animals in 2021. In addition, Animal Services contract with Murray City includes an agreement to operate the Murray City animal shelter located at 5624 South 300 West. Murray City's payment to Salt Lake County is reduced by \$654,000 annually for rent of the facility.

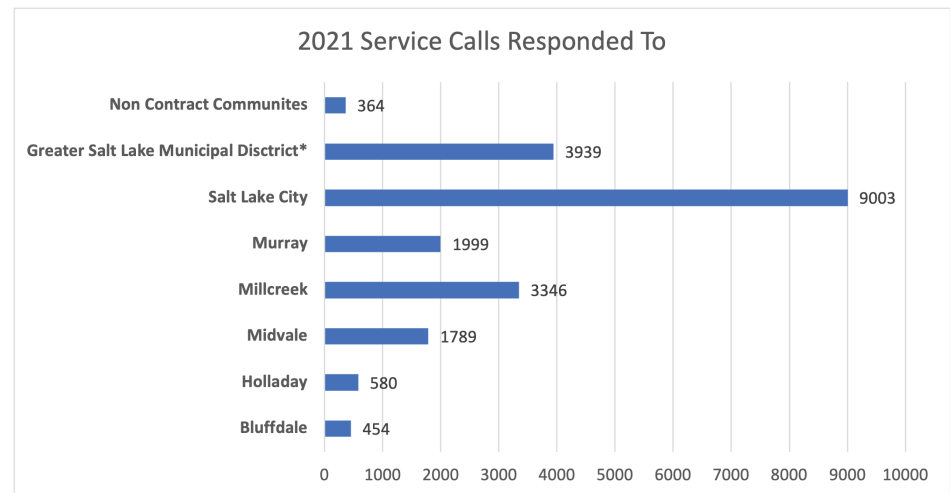
Figure 2. Animal Services pet intake report. The number of animals taken in for each location are listed below. Almost half of the animals received were from Salt Lake City.



Source: Animal Services Annual Intake Report for FY 2021.

Animal Services officers respond to calls from citizens throughout the County. Calls include lost animals, concern for the wellbeing of animals, and enforcement of local ordinances. During 2021 Animal Services responded to 21,474 calls and requests for services. 98.3% of the calls responded to were from a contracted community.

Figure 3. Animal Services service call report. The number of service calls received for each location are listed below. Salt Lake City received the most at 9,003 calls and the Greater Salt Lake Municipal District the second most of 3,939 calls. Total calls received were 21,474.



Animal Services also offers various clinics and outreach programs such as the low-income spay and neuter program. Services offered at a lower rate are meant to keep the pet population in control and ultimately lower costs throughout the county. While included in the contract for each entity, except for Bluffdale, these services are funded through the transfer from the General fund and not by contracted revenue.

AUDIT CRITERIA

Countywide Policy (“CWP”) 1062 Management of Public Funds establishes procedures for receiving, recording, depositing, and distributing public funds, and to define functions and responsibilities to provide and strengthen internal controls over these procedures. The policy’s purpose is to provide effective safeguards while weighing both risks to be mitigated and costs of maintaining controls. Controls over managing public funds emphasizes clear segregation of duties and safeguarding and accountability for funds.

Countywide Policy (“CWP”) 1060, “Financial Goals and Policies,” sets forth the Salt Lake County’s policy to establish contract revenues and fees at a level the covers the full cost of services provided, including overhead.

The provisions of each contract with the municipalities establishes services provided and payments required.

Utah Code Title 51, 5-4 (8) sets forth County fund types, and defines enterprise funds as accounting for operations financed and operated in a manner similar to private business enterprises where user fees cover related expenses.

The Uniform Fiscal Procedures Act, Section 17-36-8, contains budget preparation requirements for County funds. Section 17-36-3 defines budgets as estimates of proposed expenditures for a given purpose. Anticipated expenditures are to be categorized into appropriation units, which are further allocations of funds for a specific purpose.

Finally, Countywide Policy #1220, Management of Accounts Receivable and Bad Debt Collection, provided guidance on collection efforts, late fees, and other aspects of accounts receivable management.

FINDING 1 AND RECOMMENDATIONS

No detailed breakdown of Animal Services Countywide Budgeted Expenditures was on file for 2021.

Risk Rating: **Significant Risk Finding**

A detailed breakdown supporting the \$1.6 million General Fund budget revenue request for Countywide Services provided by Animal Services was not on file for 2021. Upon request, management provided an estimation based on the breakdown for the 2022 General Fund revenue request.

The State of Utah's Uniform Fiscal Procedures, section 17-36-8, states, "Preparation of budgets. The finance officer of each county shall prepare each budget period, in a format provided pursuant to Section 17-36-4, a tentative budget for each of the following funds which are included in the county's system of accounts: (1) county general fund; (2) special revenue funds; (3) debt service funds; (4) capital project funds; and (5) any other fund or funds for which a budget is required by the uniform system of budgeting, accounting, and reporting.

Section 17-36-3 defines budgets as, "a plan for financial operations for a fiscal period, embodying estimates for proposed expenditures for given purposes...". Anticipated expenditures are budgeted appropriations, which are defined as "an allocation of money for a specific purpose."

While Animal Services primarily serves the contract municipalities, they also provide services that promote countywide goals including 1) promoting no-kill policies and 2) facilitating pet returns to their owners. For example, they administer and promote a microchip program to all Salt Lake County communities. They also host outreach programs that all residents can attend as well as programs and education at schools throughout the County.

The division receives County General Fund revenue to provide these countywide services. All money from the General Fund goes through the County's budgeting process which requires review and approval by the Mayor and County Council. However, in our review of the budget documents provided to the County Council we noted that it was difficult to determine what expenditures the money from the General Fund would pay for.

Upon request, Animal Services provided program descriptions for Countywide expenditures. However, specific line items and allocations that supported the 2021 budget request were not on file. Animal Services management provided a detailed breakdown for 2022 expenditures, which they used as a model to document which 2021 expenditures related

to General Fund services. Table 1 below contains 2021 Countywide Expenditures per Animal Services Management.

Table 1. 2021 General Fund Expenditures per Animal Services Management. While not initially on file, Animal Services Management provided a breakdown of 2021 Countywide expenditures using the 2022 model.

Table 1: Animal Services Recalculation of 2021 General Fund expenditures		
GF Expenditures	Description	Amount
Marketing & Outreach (Countywide Service)	Countywide outreach includes training and humane education, rescue, pet food pantry, Book Buddies, Hounds Around Town, Petapalooza, Spayghetti, and senior/veteran programs. It also includes development, social media/marketing, and volunteers.	\$646,311
Emergency Response	Statutory requirement for regional response. ESF-11 ECC (responsible for animals & agriculture). Utah Code 53-2a-301-A15. Provide industry trainings and certifications. Pet First Aid courses and public trainings. Population control resources and deterrents. Lead industry initiatives and manage mutual aid partnerships/grants.	\$302,258
Shelter, Animal Care/ Clinic	Allocated based on estimated percentage of staff time.	\$190,316
Administration	Allocated based on estimated percentage of staff time.	\$170,626
Overhead Costs	Allocated based on estimated percentage of staff time.	\$86,783
Sheriff - Interfund Charges	Protective Service Officer at the County-owned Shelter	\$48,536
Identification Supplies	Countywide Microchipping Services	\$33,457
Computer Software Subscription	Adoption listing website used by participating municipal animal shelters throughout Salt Lake County	\$29,946
Vehicle Usage	Allocated based on Staff Time	\$22,056
Depreciation	Allocated based on estimated percentage of staff time	\$12,758
Total Expenditures		\$ 1,543,047
Revenue		\$ (1,625,141)
Under/(Over)		\$ (82,094)*

* Management explained the under expend was due to the shelter being closed to the public for part of 2021. Therefore, a protective services deputy was not required.

The prior Fiscal Manager was not available to inquire with regarding the missing documentation. In addition, there were no written policies or procedures in place for determining, tracking, and approving General Fund costs. Some costs were allocated based on staff estimates of time spent on General Fund services. However, specific staff, methods of estimation, frequency of tracking, and required documentation was not formalized or documented.

Reasonable assurance regarding the purpose of the 2021 general fund revenue request could not be provided. General Fund taxpayers may be under or overpaying for Animal Services. Stakeholders, such as the County Council, may not have sufficient information for decision making purposes.

1.1	RECOMMENDATION	Policies
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We recommend that Management develop policies regarding tracking and approving allocations of expenditures between the General Fund, and contracted municipalities accounted for in the Enterprise Fund.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - APRIL 2023

SEE PAGE 23 FOR THE AGENCY'S FULL RESPONSE TO OUR RECOMMENDATION

1.2	RECOMMENDATION	Policies & Procedures
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We recommend that Management develop procedures that document specific staff, methods of estimation, frequency of time tracking, and required documentation when allocating costs.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - APRIL 2023

SEE PAGE 23 FOR THE AGENCY'S FULL RESPONSE TO OUR RECOMMENDATION

We recommend that documentation supporting the general fund budget request be retained on file with the annual budget packet.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - APRIL 2023

SEE PAGE 23 FOR THE AGENCY'S FULL RESPONSE TO OUR RECOMMENDATION

FINDING 2 AND RECOMMENDATIONS

General Fund expenses included in the Public Works and Other Services Enterprise Fund.

Risk Rating: **Moderate Risk Finding**

In 2021, \$1.6 million was transferred to the Public Works and Other Services Enterprise fund from the General Fund to cover the cost of Countywide services.

Utah Code Title 51, Chapter 5, Section 4, Subsection 8, states,

“8) Enterprise Funds are designated to account for the following: (a) operations, financed and operated in a manner similar to private business enterprises, where the Legislature intends that the costs of providing goods or services to the public are financed or recovered primarily through user charges; (b) operations where the Legislature requires periodic determination of revenues earned, expenses incurred, and net income; (c) operations for which a fee is charged to external users for goods or services; or (d) operations that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the operations.”

The County established the Public Works and Other Services enterprise fund to account for expenditures and contract revenues from the contract cities and the GSLMSD. One of the purposes of an enterprise fund is to aid stakeholders in determining whether the full cost of services is covered through user charges.

Animal Services accounted for Countywide services expenditures in the Public Works and Other Services enterprise fund instead of budgeting detailed Countywide Services line-item expenditures in the General Fund. A lump sum of revenue was budgeted for and transferred to the Public Works and Other Services enterprise fund from the General Fund each year. Services provided for free or below cost by General Fund taxpayers do not meet the purpose or operational criteria for enterprise funds.

The Division Director did not know why funds were transferred to the Public Works and Other Services enterprise fund instead of accounted for in the General Fund. She supported separating both revenue and expenses for countywide services from contracted service revenues and expenditures through use of separate budgets in each fund.

By combining Countywide funds and enterprise funds transparency is diminished. Stakeholder ability to determine whether contracted revenues cover the cost of services or whether they are subsidized by the General Fund is compromised.

We recommend that the revenues and expenditures related to services provided countywide be housed in the General Fund.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - FUND CHANGES IN JULY 2023, NEW BUDGET PROCESS FOR 2024 BUDGET CYCLE

SEE PAGE 23 FOR THE AGENCY'S FULL RESPONSE TO OUR RECOMMENDATION

We recommend that the revenues and expenditures related to services provided to contracted entities be included in the Public Works and Other Services enterprise fund.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - IMPLEMENTED

SEE PAGE 23 FOR THE AGENCY'S FULL RESPONSE TO OUR RECOMMENDATION

FINDING 3 AND RECOMMENDATIONS

No clear criteria to determine Countywide services.

Risk Rating: **Moderate Risk Finding**

Animal Services offers various clinics and outreach programs such as the low-income spay and neuter program. Educational outreach and services offered at a lower rate were meant to keep the pet population under control and ultimately lower costs throughout the county. However, there were no detailed written policies and procedures regarding which services should be provided Countywide. In addition, except for Emergency Response, there were no County Ordinances or State Statutes detailing which functions were to be performed by Animal Services on a Countywide basis.

We noted that some activities provided Countywide were included in the contracts with municipalities. Marketing and Outreach services were included in each contract, except for Bluffdale. Emergency Response services were also included in each contract. Whether the municipalities were responsible for funding programs considered Countywide functions was not clear per the contracts. In addition, two current contracts included language regarding future contract price increases to achieve full-cost recovery.

Salt Lake County Policy, #1060, "Financial Goals and Policies," Section 4.7, states, *"The County shall set fees, user charges and interfund charges, for all Enterprise and Internal Service Funds at a level that fully supports the total direct and overhead costs of services related to such funds. In certain instances, the Council may supplant proprietary fund fees and other revenues with operating transfers from other funds when legally permissible to do so. As stipulated by Generally Accepted Accounting Principles (GAAP), internal service fund budgets shall be adopted on a cost-reimbursement basis. Any revenue planned to exceed expenses shall be based on a specific, Council-approved capital replacement plan."*

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework:

*"Control activities are the actions established through **policies and procedures** that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventative or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations and business*

*performance reviews...[emphasis added]*¹

The Animal Services Fiscal Manager stated Marketing and Outreach was included in the contracts so that parties agreed the services were not optional and could not be “opted-out of” in exchange for a lower price. She further explained that the provisions regarding cost increases to achieve full cost were older provisions that were not removed due to an oversight.

It is not clear what services should be funded by the contracted municipalities and which should be funded Countywide. Contract provisions for some entities regarding reaching full cost makes it less clear whether contract cities are being subsidized.

1 <https://www.coso.org/Documents/990025P-Executive-Summary-final-may20.pdf>, page 4.

3.1

RECOMMENDATION

Countywide Services

We recommend that written policies and procedures be developed documenting which services are considered Countywide.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - APRIL 2023

SEE PAGE 23 FOR THE AGENCY’S FULL RESPONSE TO OUR RECOMMENDATION

3.2

RECOMMENDATION

Countywide Services

We recommend that contracts be modified to clearly indicate which services are funded by Countywide, and which are funded through the contract fees.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - DECEMBER 2023

SEE PAGE 23 FOR THE AGENCY’S FULL RESPONSE TO OUR RECOMMENDATION

FINDING 4 AND RECOMMENDATIONS

There was no Animal Services capital projects fund or written reserve policy.

Risk Rating: **Moderate Risk Finding**

Repairs and other expenditures related to capital assets were paid for from any under expend in funds retained. There was no capital projects fund for Animal Services and no projection of future needs.

The Government Finance Officers Association (GFOA), "BEST PRACTICES: Working Capital Targets for Enterprise Funds¹" states, "*The General GFOA recommends that local governments adopt a target amount of working capital to maintain in each of their enterprise funds. Ideally, targets would be formally described in a financial policy and/or financial plan.*" Factors such as the Asset age and condition should be considered in establishing reserve amounts.

According to the Animal Services Director, facility improvements have been paid for using any under expend retained. There was no Animal Services capital fund and no projection of capital services needs. In addition, there is no written policy regarding how much working capital should be retained in Enterprise Funds, as recommended by the GFOA.

The Division Director acknowledged that a capital projects budget was needed. In discussions with the Public Works Fiscal Manager, he stated that they were in the process of establishing capital projects budgets for each of the agencies housed in the Public Works and Other Services enterprise fund.

Without a thorough understanding of future capital needs, contracted municipalities maybe over charged for services and excess fund balances retained. Conversely, unplanned capital expenditures may result in sharp contract increases.

¹ <https://www.gfoa.org/materials/working-capital-targets-for-enterprise-funds> visited 11/7/2022

We recommend that management develop documented working capital requirements.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - APRIL 2023, FUND CHANGES JULY 2023, NEW BUDGET PROCESS FOR 2024 BUDGET CYCLE.

SEE PAGE 23 FOR THE AGENCY'S FULL RESPONSE TO OUR RECOMMENDATION

We recommend that a capital projects fund be established for Animal Services.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - JULY 2023 FOR NEW BUDGET PROCESS FOR 2024 BUDGET CYCLE.

SEE PAGE 23 FOR THE AGENCY'S FULL RESPONSE TO OUR RECOMMENDATION

FINDING 5 AND RECOMMENDATIONS

Interest was not charged to late payments per contracted terms.

Risk Rating: **Moderate Risk Finding**

The municipalities' contracts state that interest shall accrue in accordance with the provision outlined in Countywide Policy 1220. Animal Services Division did not enforce the contract terms.

Paragraph 19 of the contract with each city states that interest should be accrued for any late payments. There is some variation in the language used within the contracts, but the contract for Salt Lake City states:

Payments shall be due and payable on the 15th day of the month for which the payment is made. If the date a payment is due and payable is (i) a legal holiday, (ii) a Saturday, (iii) a Sunday, or (iv) another day on which weather or other conditions have made the office of the County Auditor is inaccessible, then the payment shall be due and payable on the next day that is not one of the aforementioned days. If any payment is not remitted to Mayor's Finance when due, the County shall be entitled to recover interest thereon. Said interest shall accrue as specified in Salt Lake County Policy 1220, Paragraph 4.4.

Additionally, Countywide Policy #1220, Management of Accounts Receivable and Bad Debt Collection, states,

"Paragraph 4.3 - Interest will be charged on accounts receivable not paid within 30 days of the date of the invoice. Interest charges are imposed to offset the County's cost of financing accounts receivable and to provide an incentive for timely payment of accounts receivable. Additional service charges should be applied to cover the County's full cost of collecting past due amounts owed to the County.

Paragraph 4.4 - Payments received after the due date shall be allowed a two-day grace period, following which interest will be charged at 1 1/2 percent per month (18 percent per annum) on the unpaid balance of the account. The interest charged shall be assessed until the account is deemed uncollectible, or until it is referred to the District Attorney's Office."

We noted that Countywide Policy 1220 states that Interlocal Agreements are exempt from the policy. However, the contracts with the municipalities state interest shall accrue with the provision above.

To invoice municipalities, Animal Services administration created an account receivable entry in the County's financial system which generated the invoice sent to the municipality. All invoices were due thirty (30) days after the invoice date. We identified seven invoices that were paid after the due date. Four of the invoices were more than 60 days past due.

We compared the dates of billing entries made by the Animal Services Division and the dates payments were received by Mayor's Finance. For past due payments, we reviewed entries under "Customer Activity" within the financial system and determined that no late fees or interest was charged to the municipalities.

We calculated over \$29,000 in accrued interest if the contract terms were enforced. Municipalities were billed at the beginning of the quarter for the services that would be received that quarter. Therefore, we calculated interest based on the entire amount of the late payment. See Table 2 below for a breakdown by city of the potential accrued interest.

Table 2: Analysis of potential accrued interest by city.			
Vendor / Description	Invoice Amount	Number of days late	Total Interest Accrued
City of Holladay	\$65,256	8	\$196
City of Holladay	\$65,256	10	\$261
City of Midvale	\$70,566	3	\$35
Millcreek	\$132,045	59	\$3,924
Millcreek	\$135,345	49	\$3,335
Salt Lake City Corporation	\$444,357	86	\$19,153
Salt Lake City Corporation	\$45,876	95	\$2,202
Projected accrued interest			\$29,107

During the audit, Animal Services management emailed us the following regarding interest accruals for late payment:

"We acknowledge and are aware of interest charges. Animal Services is reliant on the relationships and partnerships of long-term, multi-million-dollar contracts and we encourage timely payments. Our goal is that all contracts are paid in full, all services are delivered at, or above, desired expectations, and we continue to maintain strong partnerships with the cities we serve. These goals were met in 2021."

Failure to comply with the contracted terms increased risk of additional revenue that was contractually agreed to, from being received by the Animal Services Division.

We recommend Animal Services management comply with and enforce contract terms by charging and collecting interest on late payments, or that contracts be revised to remove the provision.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - DECEMBER 2023

SEE PAGE 23 FOR THE AGENCY'S FULL RESPONSE TO OUR RECOMMENDATION

FINDING 6 AND RECOMMENDATIONS

Animal Services did not have written Accounts Receivable policy.

Risk Rating: **Moderate Risk Finding**

There was no written policy regarding past due payments and some payments were received more than sixty (60) days after the due date.

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework:

*“Control activities are the actions established through **policies and procedures** that help ensure that management’s directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventative or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations and business performance reviews...[emphasis added]¹”*

Animal Services invoiced the municipalities at the beginning of each quarter for the services that were to be completed that quarter. There was no standard, written policy, or procedure regarding past due amounts. Management explained that there was an informal procedure of contacting the city if the invoice was not paid once the quarter had ended.

We noted that four invoices (9.3%) were paid more than 60 days after the due date. Animal Services had contacted two of the four municipalities regarding the past due amount. However, payment for Salt Lake City’s second quarter invoice was received eighty-six (86) days past due and no follow had been made regarding the late payment. For the fourth invoice, management explained that an error was made on Millcreek’s third quarter Urban Wildlife invoice, resulting in an overpayment. Animal Services Fiscal Manager proposed that the overpayment be applied to the city’s fourth quarter invoice. Unfortunately, there was no follow-up sent during the fourth quarter, resulting in the late payment.

Because of the small number of contracted municipalities and desire to maintain good relationship, Animal Services communicated with municipalities regarding payments on an ad hoc basis and did not develop formal procedures for collection.

Because there was not a formal written procedure, collection efforts were performed inconsistently, which increases the risk of late payment. Consistent policies may have helped to prevent the late payments noted.

1 <https://www.coso.org/Documents/990025P-Executive-Summary-final-may20.pdf>, page 4.

We recommend that Animal Services management develop a written policy regarding accounts receivable, including monitoring and following up on past due amounts, and whether interest will accrue.

AGENCY RESPONSE: AGREE

IMPLEMENTATION DATE - APRIL 2023

SEE PAGE 23 FOR THE AGENCY'S FULL RESPONSE TO OUR RECOMMENDATION

AGENCY RESPONSE



ANIMAL SERVICES DIVISION

JENNIFER WILSON
SALT LAKE COUNTY MAYOR

SCOTT BAIRD
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January 6, 2023

Auditor Chris Harding, CPA
Office of the Auditor
Salt Lake County
2001 S State Street
Salt Lake City, UT 84121

Auditor Harding,

Animal Services has reviewed the draft audit report and findings. We are grateful for the recommendations and support from the audit team that spent time learning about the work that we do at Animal Services. We look forward to implementing your recommendations that will provide more transparent service to the people and pets of Salt Lake County. Thank you for your time and efforts.

Please find our response below to each of the recommendations made in your report.

AUDIT FINDING 1: No detailed breakdown of Animal Services County-wide Budgeted Expenditures was on file for 2021.

RECOMMENDATION 1.1

We recommend that management develop policies regarding tracking and approving allocations of expenditures between the General Fund, and contracted municipalities accounted for in the Enterprise Fund.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree	April 2023	Ann Lee, Fiscal Manager Talia Butler, Division Director

Narrative for Recommendation 1.1 including action plan.

Animal Services agrees and will develop a policy for tracking and approving allocations of such expenditures.

RECOMMENDATION 1.2

We recommend that management develop procedures that document specific staff, methods of estimation, frequency of time tracking, and required documentation when allocating costs.



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Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree	April 2023	Ann Lee, Fiscal Manager Talia Butler, Division Director

Narrative for Recommendation 1.2 including action plan.

Animal Services agrees and will develop standard procedures for documenting such information.

RECOMMENDATION 1.3

We recommend that documentation supporting the general fund budget request be retained on file with the annual budget packet.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree	April 2023	Ann Lee, Fiscal Manager Talia Butler, Division Director

Narrative for Recommendation 1.3 including action plan.

Animal Services agrees and will retain a copy of the documentation on file with the annual budget packet kept at Animal Services.

AUDIT FINDING 2: General Fund expenses included in the Public Works and Other Services Enterprise Fund.

RECOMMENDATION 2.1

We recommend that the revenues and expenditures related to services provided countywide be housed in the General Fund.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree	Make fund changes in July 2023 and a new budget process for the 2024 budget cycle.	Ann Lee, Fiscal Manager Talia Butler, Division Director

Narrative for Recommendation 2.1 including action plan.

Animal Services agrees with and supports the Auditor's recommendation to house General Funded expenditures in the General Fund. Animal Services will keep contracted services in Fund 735. We will request that county-wide expenses stay in Fund 110 (it being understood that county-wide services do not receive revenue). Each fund will be managed separately. Allocations and expenses that are utilized by both sides will be tracked and documented. As with Recommendations 1.1-1.2 above, we will create written policies and procedures for tracking and costing allocations.



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RECOMMENDATION 2.2

We recommend that the revenues and expenditures related to services provided to contracted entities be included in the Public Works and Other Services enterprise fund.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree	Current	Ann Lee, Fiscal Manager Talia Butler, Division Director

Narrative for Recommendation 2.2 including action plan.

Animal Services supports this recommendation, as this is the current funding location.

AUDIT FINDING 3: No clear criteria to determine Countywide services.

RECOMMENDATION 3.1

We recommend that written policies and procedures be developed documenting which services are considered Countywide.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree	April 2023	Ann Lee, Fiscal Manager Talia Butler, Division Director

Narrative for Recommendation 3.1 including action plan.

Animal Services agrees and will develop written policies and procedures to document which services are provided Countywide.

RECOMMENDATION 3.2

We recommend that contracts be modified to clearly indicate which services are funded Countywide, and which are funded through contract fees.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree	Contract amendment and renewal periods. Anticipated completion by December 31, 2023	Carrie Sibert, Contract Liaison Ann Lee, Fiscal Manager Talia Butler, Division Director

Narrative for Recommendation 3.2 including action plan.

Animal Services agrees and will work with the District Attorney's Office and Contracts Office to make sure that contracts clearly state what services provided are included as services of jurisdictional contracts.

AUDIT FINDING 4: There was no Animal Services capital projects fund or written reserve policy.

RECOMMENDATION 4.1



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We recommend that management develop documented working capital requirements.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree	Policy April 2023. Make fund changes in July 2023 and a new budget process for the 2024 budget cycle.	Ann Lee, Fiscal Manager Talia Butler, Division Director

Narrative for Recommendation 4.1 including action plan.

Animal services agrees with this recommendation. It should be noted that Animal Services currently maintains a capital project list. We will create a more comprehensive, capital requirements long-range plan to help us better plan for future needs. To support this strategic capital plan, we will create a capital fund and reserve policy.

RECOMMENDATION 4.2 We recommend that a capital projects fund be established for Animal Services.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree.	Make fund changes in July 2023 and new budget process for 2024 budget cycle.	Ann Lee, Fiscal Manager Talia Butler, Division Director

Narrative for Recommendation 4.2 including action plan.

As noted in Narrative for Recommendation 4.1 above, Animal Services agrees that a fund specifically dedicated to capital replacement should be established. A fund and policy will be created to support this recommendation.

AUDIT FINDING 5: Interest was not charged to late payments per contracted terms.

RECOMMENDATION 5.1 We recommend Animal Services management comply with and enforce contract terms by charging and collecting interest on late payments, or that contracts be revised to remove the provision.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree.	Remove provision when contracts are amended or	Ann Lee, Fiscal Manager Talia Butler, Division Director



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	renewed, anticipated by December 31, 2023	
--	--	--

Narrative for Recommendation 5.1 including action plan.

Animal Services agrees and supports this recommendation. Animal Services will revise contracts to remove interest accruals given that interest accruals are not necessary or appropriate for these types of interlocal contracts.

AUDIT FINDING 6: Animal Services did not have a written Accounts Receivable policy.

RECOMMENDATION 6.1

We recommend that Animal Services management develop a written policy regarding accounts receivable, including monitoring and following up on past due amounts, and whether interest will accrue.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and Title of specific point of contact for implementation
Agree	April 2023	Ann Lee, Fiscal Manager Talia Butler, Division Director

Narrative for Recommendation 6.1 including action plan.

Animal Services currently abides by the County's accounts receivable policy 1220. With that said, Animal Services supports this recommendation and will develop a written accounts receivable policy that is specifically tailored for Animal Services (to the extent necessary and appropriate in addition to the County policy).

Talia Butler
Division Director
Salt Lake County Animal Services

AUDITOR'S ADDENDUM

We have noticed a systemic issue throughout the County in which contracted services being provided are routinely paid after the due date. This is not just a problem we have seen with Animal Services (related to interlocal agreements). After reviewing the audit in our final management review, we have determined to write an auditor's addendum to finding 5 recommendation 1 which states,

"We recommend Animal Services management comply with and enforce contract terms by charging and collecting interest on late payments, or that contracts be revised to remove the provision."

Although policy 1220 gives an exemption to interlocal agreements regarding accounts receivable and bad debt collection, we recommend the county consider removing this exemption and enforcing contract terms for interlocal agreements in the future.