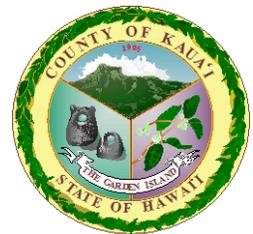


AUDIT OF THE KAUA‘I HUMANE SOCIETY



Submitted by

Office of the County Auditor
County of Kaua'i
State of Hawai'i

Report No. 17-01

PREFACE

This performance audit of the Kaua‘i Humane Society (“KHS” or “Society”) was designed to examine the Society’s use of funds under its contract with the County of Kaua‘i (“County”) to ensure compliance with the terms of the contract and identify any recommendations for improvement.

We would like to thank all who contributed data to this report, especially KHS personnel and the Department of Finance.

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Attachment 1 – Kaua‘i Humane Society Responses to Audit

EXECUTIVE SUMMARY

Spire Hawaii LLP (“Auditor,” “Spire” or “we”) has completed a performance audit of the Kaua‘i Humane Society’s (“KHS” or “Society”) compliance with its contract with the County of Kaua‘i (“County”). The audit examined KHS’ use of County funds, financial and statistical reporting, compliance with laws and regulations and the efficiency and effectiveness of internal controls and procedures during the period from July 1, 2012 to June 30, 2015 (“Period Under Scope”). The audit was designed to answer:

- Are KHS controls and policies adequate and appropriate to ensure compliance with the County contract and the applicable statutes and codes?
- Are County funds being used exclusively towards contracted services as evidenced by separate accounting records and no occurrences of co-mingling?
- Would it be more cost effective for contracted services to be handled by the County instead?
- Are there best practices that would boost efficiency and effectiveness in meeting contract objectives?

The audit findings and recommendations are summarized as follows:

Finding 1: County Funds Were Not Solely Used for County-Related Services.

KHS allocated 100% of Field Service Officer pay and benefits to the County even though the Officers were performing non-County-related services, such as dropping off and picking up animals at the airport for quarantine and transfer programs. In addition, KHS allocated other inappropriate expenses to the County such as a subscription to The Garden Island newspaper, expenses that pertained to KHS’ holiday party, and gift cards related to an employee incentive program.

Recommendation: We recommend KHS maintain better records of the methodology used to calculate their allocation percentages. We also recommend KHS re-evaluate which expenses it allocates to the County. For example, Field Service Officer pay should not be fully allocated to the County if they are doing non-County related services.

While certain operational overhead expenses are appropriate to be allocated as County expenses, those only related to KHS are not. An

expense should only be allocated if incurred as either a direct or indirect result of County-related work. Further, expenses should be allocated using a logical and well-documented methodology. While using customized methods to allocate expenses may be well-intended, it is more efficient and transparent to use a single allocation percentage that is communicated to, and ideally agreed to by, the County.

Finding 2: KHS’ Lack of Record Retention and Documentation Hindered or Prevented the Auditor’s Complete Substantiation of KHS Procedures, Controls and Calculations.

KHS’ Standard Operating Procedures (“SOPs”) are informally documented and copies of previous versions are not maintained. As a result, KHS was unable to definitely prove that it was following its operating procedures during each of the Periods Under Scope. We were only able to test current procedures against current SOPs.

KHS was also unable to provide supporting documentation or otherwise substantiate many of its procedures, the majority of which pertained to its allocation percentage calculations. As discussed in the Audit Methodology section of this report, KHS uses multiple allocation methodologies for various types of expenses. When we tried to understand what the allocation percentages were based on, we were unable to obtain any support for 34 of 42 (81%) items of our sample. These 34 instances had a total dollar value of \$27,571.

Recommendation: We recommend KHS implement stronger recordkeeping policies, in particular for the missing support noted in the finding discussion. In terms of KHS’ accountability to the County and the public, it is crucial that KHS maintain the supporting calculations for its allocation percentages, including its animal study to substantiate its allocation of expenses to the County. This is especially true when allocations are customized.

Finding 3: KHS' Animal Statistics Reported to the County Show Mixed Results When Compared to National Estimates, and Are Not Supported by KHS' Internal Records.

There is currently no government institution or animal organization responsible for tabulating national statistics, and publicly available statistics vary considerably. KHS' dog adoption and euthanasia and dog and cat returned to owner rates trend better than the American Society for the Prevention of Cruelty to Animals' ("ASPCA") national estimates. KHS' cat adoption and euthanasia rates trend worse than ASPCA's national estimates. However, KHS' cat euthanasia rate is in line with American Humane and The Humane Society of the United States' ("HSUS") euthanasia rate.

KHS' total animal intake has also decreased by approximately 16% year over year from FY 2013 through FY 2015. This could be viewed as either a positive (animal control efforts have worked and there are less strays) or a negative (fewer people turning in animals to KHS).

We were unable to fully substantiate the animal statistics reported to the County. When we requested support for the animal statistics, KHS provided multiple variations of the Animal Outcome Reports from PetPoint, none of which agreed to the statistics submitted to the County. We recalculated the animal statistics based on the Animal Outcome Reports, and noted that FY 2014 figures were significantly different (up to 19.1%) from those submitted to the County. KHS was unable to provide any explanations as to why the Animal Outcome Reports did not support the statistics it had reported to the County.

KHS' Animal Outcome Reports from PetPoint show fewer adoption and returned to owner cases, and more euthanasia cases, than were reported to the County.

Recommendation: Section 6-3.3 of the Kaua'i County Code ("KCC") allows the Department of Finance full access to KHS' records to monitor and evaluate the management and fiscal practices of the expenditure of County funds. As such, KHS should maintain exact supporting documentation for any information provided to the County. This would be in KHS' best interest, as KHS would be able to provide accurate and timely answers to any inquiries from the County on its performance.

Finding 4: Statutory Hold Periods Were Not Adhered to and a Lack of Segregation of Duties May Allow for Pre-Mature Euthanasia.

Hawai'i Revised Statutes (“HRS”) and the KCC both require minimum hold periods for both licensed and unlicensed cats and dogs. Dogs are the only type of animal specifically identified by HRS that are permitted to be euthanized before expiration of their hold period if they are too heavily diseased or pose an endangerment to other animals or humans.

However, during our planning and research phase, we noted KHS implemented a SOP permitting immediate euthanasia of unweaned kittens weighing less than one pound. We inquired about this policy during our interviews and the Executive Director explained these kittens require nearly 24-hour care and are highly susceptible to disease with a low survival rate. After additional research, we discovered this practice is not uncommon as unweaned kittens require intense resources. It does, however, violate a strict reading of HRS and KCC.

In addition, we noted a lack of segregation of duties between the user who approves, and the person who performs, the euthanasia. This resulted in the same person authorizing and performing 25 of the 45 euthanasia cases.

Further, with no IT department or personnel, there is no monitoring or administration of IT controls. While we observed most personnel had limited access between modules in PetPoint and QB, it appeared easy for someone to override these controls at any point in time.

Recommendation: While KHS’ policy of euthanizing unweaned kittens may be a common industry practice, it is not specifically allowed under the KCC.

The County should consider revising the KCC to allow the euthanasia of all animals prior to the expiration of their hold period. As part of the revision process, the County should consult with KHS and other animal shelter organizations to review the practicality of euthanasia in cases where costs of maintaining the animal might outweigh the benefits.

In order to conform with best practices regarding segregation of duties, KHS should mandate that the person who schedules and approves euthanasia in PetPoint differs from the person who performs it. This will segregate the authorization and custody functions in the euthanasia process so someone cannot immediately euthanize an animal after they approve it without a secondary review.

Finding 5: Ambiguity of Contract Wording Allows for Misinterpretation of Contract Requirements.

The County's contracts with KHS do not provide any guidance on how KHS' operating costs should be allocated to the County. KHS is therefore allowed to allocate costs in whatever methodology it deems appropriate, with what appears to be limited to no oversight or approval by the County.

In addition, the contracts state, "The Society shall submit quarterly program and financial reports," and then list various requirements to be included in the reports. The contracts later state, "...such reports shall include a program status summary and program data summary, a summary of participant characteristics, and a narrative report" but provide no further explanation or examples of what this means. We interpreted the contract to mean these summaries and narrative report were meant to be grouped as the "program report" while the remainder of the reporting requirements were supposed to be grouped as the "financial reports." Although we received assurance from the Director of Finance that KHS had met its reporting obligations, we noted the content of each reporting package was fairly inconsistent.

We further believe the County could have monitored KHS' performance more closely. This was made evident when the County was unable to produce 4 of the 26 reports they were supposed to have received. Though we were ultimately able to obtain the missing reports from KHS, of the reports submitted, there were 54 instances of missing information specifically required by the contract. In total, 20 of the 26 submissions sent to the County were missing at least one reporting requirement from the contract.

Almost all reporting periods were missing either the fiscal year to date or prior year to date financial information as well as the narrative report and the capital budget for the following fiscal year. We also noted the 2013 third and fourth quarter financial and program reports and audited financial statements from 2013 were all missing in their entirety.

Reports must further be submitted within a specific time period. After reviewing proof of submission, we were unable to confirm the timely submission of nine of the 26 reports.

Recommendation: The County should consider revising its contracts with KHS to clearly define performance obligations and reporting requirements to clarify the County's role and oversight over KHS. The contract should not just "allow...full access to records" but require KHS to substantiate allocation methodologies, submitted financial

reports and animal statistics or, at a minimum, require supporting documentation to be readily available upon request. We recommend the County proactively exercise its oversight rights and monitor KHS performance more closely to hold KHS to a higher level of accountability.

Finding 6: KHS' Unsupported Allocation Methodologies Make it Difficult to Determine Whether the County Could Realize Cost Savings by Performing Contracted Services In-House.

Inconsistencies in how KHS allocates expenses to the County remains a fundamental roadblock in conclusively determining whether the County grant is sufficient to cover the animal control program. KHS does not have a consistent allocation methodology, and the methodologies that it does use are applied inconsistently and are not supported by any auditable documentation.

While it may be feasible that the County could hire its own Field Service Officers, who have a combined base salary cost of approximately \$127,000, there would also be costs associated with dispatch/call center personnel and constant coordination with KHS to determine capacity and timing. Because the care of an animal extends beyond the pickup and delivery of the animal to the shelter, the costs associated with animal care personnel and administrative personnel would likely have to be allocated between the County and KHS.

Recommendation: The County should fully understand KHS' allocation methodology before evaluating whether it could realize cost savings by performing the contracted services in-house. Once the County fully understands the costs associated with the animal control program, it should then conduct a separate feasibility study to determine if it would be cost effective to move a portion of the animal control services under County control.

KHS was provided an opportunity to respond to our findings and recommendations. KHS' response is included as Attachment 1. KHS did not disagree with any of our findings except for one, and provided comments on how it has addressed, or plans to address, our recommendations.

KHS believes it is the most effective organization to provide animal control services, and welcomes the feedback provided through this audit. KHS' willingness to work with the County to establish a clear understanding of the requirements of the contract by both the County and KHS is a positive step.

CHAPTER 1

Introduction

This audit was conducted pursuant to the authority of the Office of the County Auditor, as provided in the County Charter.

Background

This performance audit examines KHS' contract with the County to determine whether County funds are used exclusively towards contractual services and whether KHS is in compliance with applicable sections of the HRS and the KCC. Performance audits provide information to improve program operations and facilitate decision making. For a complete definition of performance audits see Government Auditing Standards section 2.10.

Audit Objectives and Scope

The audit was designed to answer the following questions:

- Are KHS controls and policies adequate and appropriate to ensure compliance with the contract and related statutes and codes?
- Are County funds being used exclusively towards contracted services as evidenced by separate accounting records and no occurrences of co-mingling?
- Is it more cost effective for contracted services to be handled by the County?
- Is there opportunity for KHS to improve the efficiency and effectiveness by which they perform to meet contract objectives by implementing best practices?

Our audit period spanned from July 1, 2012 through June 30, 2015 ("Period Under Scope") and included all County-related animal activity, allocation of County funds and both financial and program reporting. Controls within KHS' animal maintenance system PetPoint and accounting software QuickBooks ("QB") were also evaluated to determine the usability of financial and program data.

KHS County Contract

Background

The County contracts with KHS to perform certain animal management activities, most notably services “necessary to protect, capture, care and dispose of dogs and cats that were customarily and historically performed by the animal wardens formerly employed by the County Department of Public Works.”¹ We have summarized key terms and requirements from each fiscal year’s contract below.

Summary of Contracts

Contract Number	8784	8971 A1*	9130
Fiscal Year	7/1/12-6/30/13	7/1/13-6/30/14	7/1/14-6/30/15
Grant Amount	\$595,000	\$695,000	\$760,000
Spay/Neuter	\$65,000	\$65,000	N/A**
Respond to public requests for assistance in matters relating to:	Capture of stray, dangerous or diseased animals and collection and disposal of animal carcasses on public roadways	Stray, sick, injured and/or aggressive animals, dogs running at large, animals in traffic, dangerous dog ordinance violations, deceased dogs on roadways, cruelty and neglect complaints, and provide assistance to police and fire department	Stray, sick, injured and/or aggressive animals, dogs running at large, animals in traffic, dangerous dog ordinance violations, deceased dogs on roadways, cruelty and neglect complaints, and provide assistance to police and fire department
During times the Society is closed for business, Society shall continue to perform the duties listed above.	No	Yes	Yes
Spay and neuter services for dogs and cats at no or reduced cost to the public?	Yes	Yes	No
Society shall provide quarterly cost breakdown detailing the costs incurred to provide spay and neuter along with the number of household dogs and cats that were spayed or neutered.	Yes	No	No

¹ County Contract No. 9130.

Contract Number	8784	8971 A1*	9130
Separate accounting records shall be kept for County funds	Yes	Yes	Yes
Quarterly program and financial reports to the Directory of Finance and County Council concerning use of County funds	45 days following the close each fiscal quarter	No later than 15 th day of the month following close of [first] quarter	No later than 15 th day of the month following close of each quarter
Year-end program and financial report	No later than 90 days after June 30, 2013	No later than 90 days after June 30, 2014	No later than 90 days after June 30, 2015
Reporting requirements:			
<ul style="list-style-type: none"> Actual quarterly, fiscal-year-to-date, prior year to date and current fiscal year budgeted information attributable to: 	Functions of the Animal Shelter and Pet Adoption Center and animal collection	Functions of the Animal Shelter and animal collection.	Functions of the Animal Shelter and animal collection.
<ul style="list-style-type: none"> Revenues itemized by source of funds 	Yes	Yes, include summary of dog licenses received and collected	Yes
<ul style="list-style-type: none"> Expenditures made with and balances remaining from County funds 	Yes	Yes	Yes
<ul style="list-style-type: none"> Explanation for budget variances of \$1,000 or more 	Yes	Yes	Yes
<ul style="list-style-type: none"> Program status and summary of data and participant characteristics, and a narrative report 	Yes	Yes	Yes
<ul style="list-style-type: none"> Audited financial statements 	No later than February 15, 2014	No later than December 15, 2014	No later than December 15, 2015
<ul style="list-style-type: none"> Notice of change in Executive Director within 1 month of such change 	Yes	Yes, or change in accountant	Yes, or change in accountant
<ul style="list-style-type: none"> Fiscal operating and capital budgets to the Director of Finance 	Detailed revenues and expenditures for County funded programs within 7 days of execution of this Agreement	Operating and capital budgets within 3 days of all parties' execution of this Agreement	Operating and capital budgets within 3 days of all parties' execution of this Agreement

* Contract No. 8971 was executed July 3, 2013, for the period July 1, 2013 to September 30, 2013, pending the passage of Bill No. 2490, which called for an increase in dog license fees. The initial grant amount was \$173,750, with a separate \$16,250 for spay and neuter services. The contract was amended (A1) on September 25, 2013, setting the total grant sum of \$695,000, with a separate \$65,000 for spay and neuter services.

**The outsourcing of the spay/neuter program and its funding were removed from the contract after the 2013-2014 fiscal year.

Other Functions of KHS (Out of Audit Scope)

KHS provides other services unrelated to the County contract that were not part of our audit scope. They are presented below to provide information and context for our later discussion of how KHS allocates shared costs between the County contract and non-County contract functions.

Adoption

KHS provides shelter to all animals they receive. Once an animal is evaluated to determine if it is able to be put up for adoption, KHS will shelter it. KHS also has a mobile adoption vehicle that brings four to five dogs to events and pet stores, called Wags on Wheels.

Airport Direct Release

Per KHS' website, KHS provides "the required inspection of animals for entry into Hawaii at the Lihue Airport." This includes those that are direct released, or quarantined if they do not qualify for direct release.

Aloha Escorts

This is KHS Shelter Pet Transfer Program, which asks for volunteers who are flying to San Diego, Portland, Seattle, or Oakland on non-stop Alaska Airlines flights from Lihue to travel with one of the shelter dogs for the purpose of transporting them to mainland pet shelters for adoption.

Bloomingtales

This is KHS' Resale Shop, which operates to generate revenue for KHS.

Gomez' Galley

This is the KHS pet food bank, which allows those who need assistance to pick up pet food once per month from either KHS or their partners, St. Catherine Church in Kapa'a and St. William Church in Hanalei.

Owner Surrenders

KHS is an "open door" shelter, which means any animal that comes to KHS is accepted. Owners may transfer ownership of their animals to KHS via a surrender process. KHS also offers low-cost euthanasia and cremation services for dogs and cats.

Pet Boarding

This is a service for dogs and cats, but only available to KHS members. Fees charged are \$30 per night for dogs and \$25 per night for cats.

Save Our Shearwaters

This is a program funded by the State of Hawai‘i’s Department of Land and Natural Resources to rescue and release seabirds who have fallen to the ground.

Veterinary Services

KHS offers low-cost spay/neuter services for pets with same day drop-off and pick-up. There is also a spay/neuter assistance program, which provides financial assistance to those in need.

Trap, Neuter, Return of Feral Cats

This program is to help get feral cats spayed or neutered. This program provides information for the public on the guidelines and trapping information.

Vaccinations and Microchips

KHS offers low-cost vaccination and microchip clinics on the first and third Saturdays of each month from 8-11 a.m.

Audit Methodology

We developed an overall audit plan and risk-based strategy to address the audit objectives, which included three distinct stages: planning, fieldwork and reporting.

The planning stage involved obtaining an understanding of the County contract requirements as well as KHS’ processes surrounding allocating County funds, euthanasia procedures, field service operations and financial reporting. Through telephone conferences and written requests, we reviewed, among others, the following pertinent documents: the executed contracts between the County and KHS, applicable HRS and KCC sections and KHS’ standard operating procedures (“SOP”) to identify areas of risk and familiarize ourselves with the scope of the County contracts, the procedures KHS performs to fulfill its obligation and KHS’ financial information and other operational documentation.

We also reviewed KHS’ organizational chart and position descriptions to select key personnel to interview and walk us through the above processes. Though KHS denied us access to personnel who were not associated with the County contract, we met in-person or called the following employees: Executive Director, Controller (current and previous), Outreach and Client Services Manager, Staff Veterinarian, Field Services Supervisor, Animal Care Manager, and the President of the Board on April 19, 2016.

We conducted this performance audit in accordance with generally accepted government auditing standards. Information deemed confidential under the Hawai'i state open records law (HRS chapter 92F) was omitted from this report. The determination of whether information was confidential was based on Office of Information Practices ("OIP") Guideline No. 3, effective September 7, 2011 and OIP memorandum dated May 1, 2002, "OIP Guidance Regarding Disclosure of Agency Records and Information to Auditors." Under the guidance of these documents, the following were omitted as confidential: employee social security numbers and actual base rates of pay and gross salaries for employees covered by or included in bargaining units as defined in the Hawai'i collective bargaining law (HRS chapter 76).

The following narratives describe our understanding of SOPs currently in place. SOPs are informally documented in Microsoft Word and, while the effective date is occasionally documented and modified, the prior version is overwritten and no copies are maintained. As a result, the descriptions below may not necessarily reflect the SOPs in place during the Period Under Scope. This holds especially true for fiscal year 2013 when, due to high turnover and poor employee transitioning, current key personnel were not yet employed by KHS with the exception of the Staff Veterinarian.

The following sections describe KHS' SOPs with our methodology followed by our testing procedures relating to these activities.

Euthanasia

A health exam is performed at intake and documented in the animal's Medical Record. This Medical Record, along with the animal's demographics and intake type, are entered in PetPoint. Profiles, records and any notes associated with the animal, known as memos, are maintained in this software. Memos are created at the discretion of the employee and are time-stamped and initialed when created or modified.

Each employee has his or her own unique log-in to PetPoint and varying access rights depending on position and department.

If the animal is licensed, KHS begins its Owner Notification Process which includes a written notice and "reasonable attempts" to call the owners. In accordance with HRS section 143-10 and KCC Title VIII section 22-24.4(b), licensed stray dogs and cats must be held a minimum of nine days before euthanasia may be performed. Non-licensed strays are only required to be held 48 hours per KCC Title VIII section 22-10.6, KCC Title VIII section 22-24.4(c) and HRS section 143-8.

Though HRS and KCC are silent as to when a hold period should start, KHS begins the hold the day after intake and excludes days when closed. These

dates are verified daily during the Executive Director's walkthrough of the kennels.

There are, however, exceptions to the above. HRS section 143-12, allows animal control officers to "kill any dog running at large...so obviously diseased as to be a menace to the health of persons or animals" and HRS section 143-13 allows "all dogs taken into the custody of the animal control officer which by reason of age, disease, or other causes, are unfit for further use or are dangerous to keep impounded, maybe forthwith humanely destroyed..."

Once a decision to euthanize is made, an "authorized user" must schedule the euthanasia in PetPoint. Authorized users during the Period Under Scope were the Executive Director, the Staff Veterinarian, and, in cases of emergency, the Client Services and Outreach Manager. (This policy has been updated as of April 25, 2016 to include the Animal Care Manager and the Lead Veterinary Technician.) The user reviews all memos and ensures all holds are cleared prior to approval.

If the user differs from the person performing the euthanasia, the user will run a report of all euthanasia scheduled for that day called the Daily Euthanasia Log. Those authorized to perform euthanasia include the Staff Veterinarian, Lead Veterinarian Technician and Executive Director. The employee performing the euthanasia must review all memos again and verify the euthanasia was approved in PetPoint prior to euthanizing.

Once completed, the employee who performed the euthanasia must mark the animal as euthanized in PetPoint which includes documenting who performed the procedure, the method used and the reason for euthanizing.

We performed the following procedures:

- We defined our population as all euthanasia cases from the Animal Outcome Reports from PetPoint, which we requested for each Period Under Scope.
- To test for completeness, we filtered for stray cats and dogs, sorted and summed by their outcome type and compared our recalculation to KHS' statistics.
- We sampled 15 "County animal" euthanasia cases for every Period Under Scope for a total sample of 45. Each year's sample was selected to include 10 animals euthanized before the statutory 48 hour hold period and five that were euthanized after.

- We requested the animal's PetPoint profile, related memos, Medical Record and support showing the euthanasia was scheduled by an authorized user and was performed by a qualified staff.
- We began testing by agreeing our sampled demographic data from the Animal Outcome Report to the Animal View report in PetPoint.
- To test IT controls in PetPoint, we performed a walkthrough to verify that non-authorized users could not approve a euthanasia either as themselves or as an authorized user.
- Since PetPoint was not implemented until 2014, all prior records were input after the fact by Customer Service Representatives who were temporarily given euthanasia approval rights in PetPoint. We observed a Customer Service Representative log into PetPoint and attempt to approve an animal for euthanasia.
- To submit approval, a user from a drop-down menu must be selected. We reviewed the list of users, confirmed they were all currently authorized and noted PetPoint blocked the Customer Service Representative from proceeding any further.
- We reviewed intake and outcome dates in PetPoint to ensure the minimum hold periods and any custom hold periods, if any, were met. If an animal was euthanized during a hold period, we reviewed the Outcome Subtype in PetPoint to verify the early euthanasia was permissible under HRS or KCC.
- Due to the fact KHS did not have a list of authorized users during the Period Under Scope, we used the authorized user's sign-off in PetPoint to trace the employee's position from their personnel file to a current listing of authorized positions on KHS' SOP titled *Euthanasia Authorization revised July 2015*.
- We then reviewed both the memos associated with the animal and the Outcome section of their Animal View report noting the euthanasia was approved by an authorized user.
- We reviewed the sign-off of the person who performed the euthanasia in PetPoint, which we compared to an informal listing of qualified personnel received from KHS.
- For cases performed prior to the implementation of PetPoint, we reviewed the animal's hardcopy file noting the original sign-off. However, KHS was unable to confirm whether this sign-off was from the person who approved the euthanasia or the person who performed it.

Financial Reporting

The County contract requires financial and program reports to be submitted to the Director of Finance and the County Council within specific time frames as detailed by the contract. Per the County contract, the financial reports should be in proper accounting form with itemized revenues, descriptions for County expenditures and explanations for budgeted variances over \$1,000.

The program reports should include a summary of participants and other program data. See the Summary of Contracts table above for further detail.

The financial reports, which only include County-related transactions, are run by the Controller from QB while the program reports are generated by the Executive Director from PetPoint. The general ledger detail (“GL”) is reviewed by the Executive Director on a monthly basis.

KHS must also submit audited financial statements, operating and capital budgets and notify the County within a month of any change in Executive Director or accountant.

We performed the following procedures:

- We identified the financial reporting population as all reporting packages during the Period Under Scope. Due to the small number of reporting periods, we tested the entire population.
- We requested all reporting packages from every fiscal quarter and year-end to determine whether KHS met their reporting requirements. We also requested proof of submission to confirm all reports were submitted on time.
- Although the contract does not clearly differentiate between “financial reports” and “program reports,” we defined “program reports” as “a program status summary and program data summary, a summary of participant characteristics, and a narrative report,” as per the contract, while designating the remaining reporting requirements as part of the “financial report.”
- To test the accuracy of the animal statistics submitted to the County, we requested the Animal Outcome Reports for each Period Under Scope from PetPoint. We filtered for stray cats and dogs, sorted and summed by their outcome type and compared our recalculation to KHS’ statistics.
- In our journal entry testing, we requested the GL printouts to verify their review as indicated by the Executive Director’s sign-off.

- KHS' financial statements are audited each fiscal year by CW Associates. To evaluate financial reporting accuracy, we reviewed each audit report during the Period Under Scope for any significant issues or findings. We also requested from either KHS or the County KHS' operating and capital budgets and any notification of a change in Executive Director or accountant.

Journal Entry Recording

All journal entries are recorded in QB by the Controller, the only employee with access to the software. If the Executive Director sees an entry or account believed to be incorrect during the monthly review, the Controller is asked to make a change and new financials are printed.

We performed the following procedures:

- To confirm the Controller was the only person with access to QB, we had the outgoing Controller log in to QB Online to confirm only the outgoing and current Controllers were registered. Although access to QB was limited to the Controller, we noted the Executive Director's ability to request changes to accounting records potentially undermines the strength of this control.
- In addition to relying on KHS' audited financials for accurate reporting, we also selected fifteen journal entries coded to the County to test KHS' recording process. Our population consisted of all entries during the Period Under Scope. We therefore requested the GL detail for all three years.
- We reviewed the supporting invoices or documents to make sure our sampled entries were recorded to the correct accounts, in the correct period and for the correct amounts. We also scanned the GL detail for the Executive Director's sign-off to confirm the entries were properly reviewed.

Field Service Activity

Field Service Officers perform various duties outside of the shelter such as responding to calls regarding stray or abused animals. Incoming calls are logged by Customer Service staff in PetPoint before notifying a Field Service Officer via mobile text. Prior to this, Dispatch Logs were used to log the Field Service Officer activity.

Field Service Officers also assist the Kaua'i Police Department with animal related cases, though this activity does not get logged in PetPoint.

The Field Service Supervisor reviews the Daily Activity Reports though no official sign-off is required.

We performed the following procedures:

- Because Field Service Officer pay is completely allocated to the County, we defined our population as all activity during the Period Under Scope.
- We defined our population as all Daily Activity Reports during the Period Under Scope and selected five from each for a total sample of fifteen. We reviewed each report to ensure all activity was County-related and approved by the Field Service Manager.

Allocation of County Expenses

KHS attempts to allocate expenses to the County using a percentage of “County animals” compared to non-county animals. KHS defined “County animals” as all incoming stray cats and dogs. Originally, we were told an intake study was performed using prior year animal counts to determine the percentage of total intake deemed to be County animals. This percentage (the “Allocation Percentage”) would then be applied to expenses, in particular overhead, to allocate to the County.

KHS did not have documentation of the intake study it said it performed or its calculation of the Allocation Percentage. It was also unable to confirm the methodology used to calculate the 2013 Allocation Percentage as this was before both the Executive Director and Controller were employed.

KHS later explained that utility and rent expenses are allocated on an individual invoice basis. Additionally, unique or varying circumstances are taken into consideration. For example, if the incinerator breaks down, KHS will manually allocate its operating cost based on knowledge of use. Therefore, simply multiplying an account balance by the Allocation Percentage would not have equaled the sum of the County-coded entries.

Non-overhead expenses, on the other hand, are more often allocated based on KHS’ knowledge of how the purchase will be used to ensure fair allocation to the County. For example, if two medications are purchased from the same vendor but only one is used on County animals, KHS will only allocate the medicine used on County animals to the County. Likewise, the cost of medicine purchased for both County and non-County animals will be allocated based on its use.

Since timesheets are not maintained other than to record sick and vacation days, payroll is allocated using a mixture of methods. Certain positions, such as Field Service Officers, are allocated 100% to the County. Others are allocated using the Allocation Percentages such as the Front Desk Department in fiscal years 2014 and 2015. The Animal Care and Vet Clinic Departments were also allocated in this manner during 2015 as well.

The remaining personnel are allocated based on the Executive Director's best knowledge of their time spent on County versus KHS duties. In fiscal years 2014 and 2015, this included the Executive Director, Customer Service Manager, Animal Caretaker Manager, Facility Caretaker among other back office and upper management personnel.

KHS maintains an Allocation Schedule with everyone's pay, benefits and allocation percentage to automatically calculate the pay and benefits assigned to the County.

We performed the following procedures:

- Our allocation testing primarily involved recalculating the allocated expense by substantiating the methodology and reviewing support for the expense itself. We defined our population as all expenses allocated to the County and requested a coded GL detail and a list of all employees with pay allocated to the County.
- To test expenses allocated using the Allocation Percentage, we requested the Allocation Percentage from each fiscal year and sampled seven utility and overhead accounts from each Period Under Scope.
- Because we were previously unable to recalculate KHS' animal statistics, we would not have been able to accurately recalculate the Allocation Percentages provided by KHS. However, in order to test the application of the Allocation Percentages used by KHS, we took KHS' Allocation Percentages at face value, multiplied it by each sampled account's year-end balance and compared the product to the sum of the entries coded to the County within each account.
- Even though we used KHS' Allocation Percentages, as opposed to our own recalculated Allocation Percentages, we were still unable to recalculate the expenses coded to the County based on the support provided by KHS.
- With our new understanding that even overhead expenses might be customarily allocated, we re-sampled one utility and one rent bill from separate months for each Period Under Scope and we requested KHS to substantiate its allocation to review for appropriateness rather than re-compute it ourselves. We then attempted to recalculate the portion of the expense coded to the County to ensure the methodology was applied correctly.
- To test non-overhead related invoices, we filtered the GL detail for all expenses charged to the County unrelated to rent, utilities and payroll. For fiscal years 2013 and 2014, we selected two County related expenses and five expenses related to the Spay and Neuter Program. Since County

funding for the Spay and Neuter Program ended after fiscal year 2014, we selected four County expenses in fiscal year 2015 for a total sample size of 18. We requested support for all expenses and their allocations to review the allocation methodology and recalculate the expense to the County.

- To test payroll, we obtained a list of everyone who KHS claimed had been allocated to the County and selected five positions from one randomly selected pay period per year. We compared each employee's pay from their employee file to their payroll register.
- We agreed each employee's pay from the register to KHS' Allocation Schedule. Though KHS was unable to substantiate the percentages, we used the schedule to recalculate the County's portion of pay and benefits and agreed them to the GL detail noting it was properly coded.
- For sampled employees who were involved with the Spay and Neuter Program in fiscal years 2013 and 2014, we used the animal statistics posted to KHS' website to recalculate both the Allocation Percentages and the pay assigned to the County.

Difficulties During the Audit

There were a few challenges that caused setbacks and delays during the audit. The most notable difficulty encountered was KHS' inconsistent explanations of operational processes and responses to our inquiries regarding variances and findings. This forced us to reassess our overall approach and testing, re-perform testing procedures and re-write sections of our report. This ultimately led to delays in issuing our draft report.

Due to the nature of the County contract and our audit scope, KHS limited our access to its records. With the backing of its Board of Directors, KHS refused to provide any documents or let us speak with anyone that was not involved with County activity. This included denying us an interview as well as a number of invoices or support we requested for our testing.

As previously disclosed, we were also forced to perform testing procedures based on current practices as prior SOPs were unavailable and key personnel were not employed at KHS during 2013.

We were also informed during our interviews and testing that the data in PetPoint may neither be complete nor accurate. Compounding this further was KHS' lack of knowledge of the reporting function in its PetPoint software. After requesting support for the animal statistics submitted to the County, multiple variations of the Animal Outcome Reports were received. However, each report varied from the others and none tied to the program reports sent to the County.

CHAPTER 2

Audit Findings and Recommendations

Finding 1. County Funds Were Not Solely Used for County-Related Services.

Field Service Pay

KHS allocates 100% of Field Service Officer pay and benefits to the County. During our review of their Daily Activity Logs, we noted 11 of the 15 logs, or 73.3%, contained at least one instance of non-County-related activity. The most common activity was the drop-off and pick-up of animals at other animal clinics on Kaua'i and the airport for quarantine and transfer programs. Because detailed timesheets are not maintained, it is not possible to quantify the number of hours associated with these activities.

The County contract specifically states “funds...shall not be used by the Society to fund any employment positions which, either in whole or in part, perform or discharge any service not specifically described in H.R.S. Sections 143-15 and 143-16.” In other words, KHS employees who are not fully allocable to the County should therefore not be billed to the County.

The results of our review of the Daily Activity Logs and KHS' payroll allocation schedules demonstrate that Field Service Officers were performing services not covered by the County contract while their pay was allocated 100% to the County. As such, KHS did not adhere to this contract provision during each Period Under Scope.

Allocation Testing

We noted certain expenses that should not have been allocated to the County. Examples include a subscription to The Garden Island newspaper, expenses that pertained to KHS' holiday party, and gift cards related to an employee incentive program. The County was charged a total of \$255 as a result of these expenses.

In our testing of the allocation of overhead expenses, we came across a rent expense that should have been split 50% to KHS and 50% to the County. When we recalculated the actual allocation, we discovered it was split 55% to the County and 45% to KHS, an overcharge of \$15.62. KHS was unable to explain why the expense was allocated in this manner.

Recommendation: We recommend KHS maintain better records of the methodology used to calculate their allocation percentages. We also

recommend KHS re-evaluate which expenses they allocate to the County to ensure the County is only charged for County-related services. For example, Field Service Officer pay should not be fully allocated to the County if they are doing non-County related services.

While certain operational overhead expenses are appropriate to be allocated as County expenses, those only related to KHS are not. An expense should only be allocated if incurred as either a direct or indirect result of County-related work. Further, expenses should be allocated using a logical and well-documented methodology. While using customized methods to allocate expenses may be well-intended, it is more efficient and transparent to use a consistent allocation methodology that is communicated to, and ideally agreed to by, the County. This would provide both KHS and the County with a baseline understanding of how KHS allocates its expenses to the County.

Finding 2. A Lack of Record Retention and Documentation Hindered or Prevented the Auditor's Complete Substantiation of KHS Procedures, Controls and Calculations.

As previously discussed, SOPs are informally documented and copies of previous versions are not maintained. As a result, KHS was unable to definitely prove that it was following its operating procedures during each of the Periods Under Scope. We were only able to test current procedures against current SOPs.

In addition, in our testing of KHS' procedures, controls and journal entries, KHS was unable to provide supporting documentation or otherwise substantiate many of its procedures, the majority of which pertained to its allocation percentage calculations. As discussed in the Audit Methodology section of this report, KHS uses multiple allocation methodologies for various types of expenses. When we tried to understand what the allocation percentages were based on, we were unable to obtain any support for 34 of 42 (81%) items of our sample. These 34 instances had a total dollar value of \$27,571. A summary of the missing support is shown in the following table:

Test Category	Description	No. of Instances	Total Sample Size	Issue
Allocation – General	Unable to provide support for allocation percentages	4	6	Unsupported Expense
Allocation – Invoices	Unable to provide support for allocation percentages	14	18	Unsupported Expense
Allocation – Payroll	Unable to provide support for allocation percentages	16	18	Unsupported Expense
Euthanasia	Unable to provide support for euthanasia authorization	1	45	Internal Control Deficiency
Euthanasia	No formal record of employees certified/qualified to perform euthanasia available	45	45	Internal Control Deficiency
Field Service Testing	No activity logged on Daily Activity Report	2	15	Internal Control Deficiency
Field Service Testing	Unable to provide support for Field Service Manager’s review of Daily Activity Reports	15	15	Internal Control Deficiency
Journal Entry	Unable to provide support for Executive Director’s review of GL detail	15	15	Internal Control Deficiency
Allocation – Invoices	Supporting invoice was either missing or faded and unreadable	3	18	Poor Record Keeping
Allocation – Payroll	Unable to provide supporting timesheet or timesheet is too informal to verify	2	18	Poor Record Keeping

Separately, during our allocation testing, we noted the allocation methodology for five invoices was not adequately supported. Typically, a “split” is noted on the invoice itself such as “50/50” or “60/40” meaning the invoice is meant to be split 60% to the County and 40% to KHS. When we inquired about invoices where the split was not obvious or needed further explanation, KHS explained it was uncertain of why it was split in that manner, the support was missing or the invoice should have been split differently.

In addition, we noted that out of 18 QB entries related to allocated invoices, three did not agree to their supporting invoices. Further, four of 18 payroll entries did not agree to KHS’ allocation schedule for those positions.

Recommendation: We recommend KHS implement stronger recordkeeping policies, in particular for the missing support noted in the table above. In terms of KHS' accountability to the County and the public, it is crucial that KHS maintain the supporting calculations for its allocation percentages, including its animal study to substantiate its allocation of expenses to the County. This is especially true when allocations are customized.

Maintaining SOPs in Microsoft Word is acceptable if the document is secured and not accessible to the person authorized to sign them into effect. However, a secured format such as a PDF would be preferable. We recommend KHS require its Executive Director sign-off on the SOP before it takes effect, and that access to the original document be restricted following implementation. We further recommend all previous versions be preserved. Proper maintenance and adherence to policy should allow for easier transitioning of employees and provide a clear understanding of past practices.

While the proper implementation of internal controls can help to prevent fraud and abuse, the only way to assess their effectiveness is through review of documentation. Although we identified the Executive Director's review of the GL detail and the Field Service Managers review of the Daily Activity Logs as key controls, the lack of a physical sign-off effectively made it appear as though neither happened.

Though some of the recommendations may appear tedious or unnecessary, they ensure the establishment of proper audit trails and improved accountability to reassure the Department of Finance, County Council and the public that operations are properly monitored with sufficient controls to prevent both operational and financial fraud and abuse. Given the fact that Section 6-3.3 of the KCC allows the Department of Finance full access to KHS' records to monitor and evaluate the management and fiscal practices of the expenditure of County funds, it is in KHS' best interest to be able to provide sound reasoning and adequate supporting documentation if expense items are ever scrutinized by the Department of Finance.

Finding 3. KHS’ Animal Statistics Reported to the County Show Mixed Results When Compared to National Estimates, and Are Not Supported by KHS’ Internal Records.

KHS submits statistics on its animal control program to the County on an annual basis. The following table displays key statistics related to cat and dog intake and outcomes as reported to the County.

	FY 2013		FY 2014		FY 2015	
	Count	Percent of Intake ²	Count	Percent of Intake	Count	Percent of Intake
All Animals						
Intake	5,225	100.0%	4,380	100.0%	3,698	100.0%
Outcome						
Adopted	1,205	23.1%	806	18.4%	793	21.4%
Returned to Owner	1,165	22.3%	680	15.5%	494	13.4%
Transferred	129	2.5%	221	5.0%	362	9.8%
Euthanized	2,780	53.2%	2,615	59.7%	2,045	55.3%
Dogs						
Intake	2,490 ³	100.0%	1,907	100.0%	1,559	100.0%
Outcome						
Adopted	726	29.2%	475	24.9%	451	28.9%
Returned to Owner	901	36.2%	540	28.3%	365	23.4%
Transferred	107	4.3%	221	11.6%	302	19.4%
Euthanized	738	29.6%	588	30.8%	438	28.1%
Cats						
Intake	2,735 ⁴	100.0%	2,473	100.0%	2,139	100.0%
Outcome						
Adopted	479	17.5%	331	13.4%	342	16.0%
Returned to Owner	264	9.7%	140	5.7%	129	6.0%
Transferred	22	0.8%	-	0.0%	60	2.8%
Euthanized	2,042	74.7%	2,027	82.0%	1,607	75.1%

² It should be noted that the total intake and outcome figures may not be equal within the same fiscal year because of timing issues at the start and end dates. For example, an animal that came in on June 28, 2014, and was adopted on July 5, 2015, would appear in the 2014 intake and 2015 outcome figures.

³ Includes 902 owner surrenders not previously reported to the County.

⁴ Includes 248 owner surrenders not previously reported to the County.

There is currently no government institution or animal organization responsible for tabulating national statistics, and publicly available statistics vary considerably. Shelter Animals Count, a non-profit organization sponsored by the American Society for the Prevention of Cruelty to Animals (“ASPCA”), The Humane Society of the United States (“HSUS”), Maddie’s Fund, PetSmart Charities, Petco Foundation and Best Friends, has begun the process of creating a database populated by current shelter data. However, data is not available to the public as of the date of this report.

ASPCA provides the following national estimates:

	<u>Dogs</u>	<u>Cats</u>
Adopted	35%	37%
Returned to Owner	26%	5%
Euthanized	31%	41%

American Humane states euthanasia rates of 56% and 71% for dogs and cats, based on a 1997 National Council on Pet Population Study and Policy. Meanwhile, HSUS estimates that 70% of cats are euthanized in shelters.

KHS’ dog adoption and euthanasia and dog and cat returned to owner rates trend better than ASPCA’s national estimates. KHS’ cat adoption and euthanasia rates trend worse than ASPCA’s national estimates. However, KHS’ cat euthanasia rate is in line with HSUS’ euthanasia rate.

It is important to note that figures vary from state to state and from city to city. This is especially true with a community as unique as Kaua‘i, which is geographically isolated with a relatively high transient population.

KHS’ total animal intake has also decreased by approximately 16% year over year from FY 2013 through FY 2015. This could be viewed as either a positive (animal control efforts have worked and there are less strays) or a negative (less people turning in animals to KHS).

We attempted to substantiate KHS’ animal statistics that it reported to the County by requesting data that supported these statistics. When we requested support for the animal statistics, KHS provided multiple variations of the Animal Outcome Reports from PetPoint, none of which agreed to the statistics submitted to the County. We recalculated the animal statistics based on the Animal Outcome Reports, and noted that FY 2014 figures were significantly different (up to 19.1%) from those submitted to the County. KHS was unable to provide any explanations as to why the Animal Outcome Reports did not support the statistics it had reported to the County.

As variances in FY 2013 and FY 2015 were 1% or less, only FY 2014 variances are shown in the table below:

	FY 2014			
	Reported to County	Spire Recalc.	Variance Over/ (Under) stated	Percent Variance
All Animals				
Intake	4,380	4,357	23	0.5%
Outcome				
Adopted	806	774	32	4.0%
Returned to Owner	680	567	113	16.6%
Transferred	221	262	(41)	-18.6%
Euthanized	2,615	2,714	(99)	-3.8%
Dogs				
Intake	1,907	1,890	17	0.9%
Outcome				
Adopted	478	454	24	5.0%
Returned to Owner	540	437	103	19.1%
Transferred	221	262	(41)	-18.6%
Euthanized	588	662	(74)	-12.6%
Cats				
Intake	2,473	2,467	6	0.2%
Outcome				
Adopted	331	320	11	3.3%
Returned to Owner	140	130	10	7.1%
Transferred	-	-	-	0.0%
Euthanized	2,027	2,052	(25)	-1.2%

KHS' Animal Outcome Reports from PetPoint show fewer adoption and returned to owner cases, and more euthanasia cases, than what was reported to the County.

The following table presents the animal statistics based on the Animal Outcome Reports:

	FY 2013		FY 2014		FY 2015	
	Count	Percent of Intake	Count	Percent of Intake	Count	Percent of Intake
All Animals						
Intake	5,185	100.0%	4,357	100.0%	3,674	100.0%
Outcome						
Adopted	1,203	23.2%	774	17.8%	793	21.6%
Returned to Owner	1,160	22.4%	567	13.0%	490	13.3%
Transferred	129	2.5%	262	6.0%	362	9.9%
Euthanized	2,779	53.6%	2,714	62.3%	2,045	55.7%
Dogs						
Intake	2,477	100.0%	1,890	100.0%	1,539	100.0%
Outcome						
Adopted	725	29.3%	454	24.0%	451	29.3%
Returned to Owner	897	36.2%	437	23.1%	362	23.5%
Transferred	107	4.3%	262	13.9%	302	19.6%
Euthanized	737	29.8%	662	35.0%	441	28.7%
Cats						
Intake	2,708	100.0%	2,467	100.0%	2,135	100.0%
Outcome						
Adopted	478	17.7%	320	13.0%	342	16.0%
Returned to Owner	263	9.7%	130	5.3%	128	6.0%
Transferred	22	0.8%	-	0.0%	60	2.8%
Euthanized	2,042	75.4%	2,052	83.2%	1,604	75.1%

The biggest percentage changes as a result of using the Animal Outcome Reports are related to FY 2014 dog adoptions (decrease from 24.9% to 24.0%), dog returned to owner (decrease from 28.3% to 23.1%), dog transfers (increase from 11.6% to 13.9%) and dog euthanasia (increase from 30.8% to 35.0%).

Recommendation: Section 6-3.3 of the KCC allows the Department of Finance full access to KHS' records to monitor and evaluate the management and fiscal practices of the expenditure of County funds. As such, KHS should maintain supporting documentation for any information provided to the County. This would be in KHS' best interest, as KHS would be able to provide accurate and timely answers to any inquiries from the County on its performance.

Finding 4. Statutory Hold Periods Were Not Adhered to and a Lack of Segregation of Duties May Allow for Premature Euthanasia.

HRS and the KCC both require minimum hold periods for both licensed and unlicensed cats and dogs. Dogs are the only type of animal specifically identified by HRS that are permitted to be euthanized before expiration of their hold period if they are too heavily diseased or pose an endangerment to other animals or humans.

However, during our planning and research phase, we noted KHS implemented a SOP permitting immediate euthanasia of unweaned kittens weighing less than one pound. We inquired about this policy during our interviews and the Executive Director explained these kittens require nearly 24-hour care and are highly susceptible to disease with a low survival rate. After additional research, we discovered this practice is not uncommon as unweaned kittens require intense resources. It does, however, violate a strict reading of HRS and KCC.

Of our total sample of 45 euthanasia cases, 15 were euthanized in accordance with their statutory hold periods, and 30 were euthanized before the animal's statutory hold period expired.

Of the 30, one was a dog euthanized for legitimate causes permitted by HRS and KCC (medical contagious). Another 26 were cats that, per HRS and KCC, are not permitted to be euthanized prior to the expiration of their 48 hour hold period. Reasons for the euthanasia included behavior, unweaned, lack of space, medical treatable, medical untreatable, temperament, feral and physical condition.

The remaining three were dogs that, despite their issues, could have potentially been adopted given sufficient money, space, time and staff according to KHS' SOP *Reasons for Euthanasia*. Reasons for euthanasia included kennel cough, physical condition and unweaned. We also noted one dog that, while it was euthanized after the 48-hour hold period, was euthanized with a given reason of lack of space. A prior hold placed on the animal was lifted by the person performing the euthanasia without any further memo in the animal's file.

Segregation of duties is a key aspect of preventing fraud, waste and abuse. The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”)⁵ defines segregation of duties as dividing or allocating tasks among various individuals making it possible to reduce the risks of error and fraud. By separating the authorization, record keeping and custody functions, an entity is able to exert confidence its controls are working effectively. We noted a lack of segregation of duties between the person who approves, and the person who performs, the euthanasia. This resulted in the same person authorizing and performing 25 of the 45 euthanasia cases.

PetPoint requires separate sign-offs for the person who approves, and the person how performs, the euthanasia. Prior to the use of PetPoint, euthanasia documentation was maintained in hardcopy files. It appears that the process at that time only required one sign-off. However, the documentation was poor and KHS was unable to distinguish between the person who approved and the person who performed the euthanasia.

Further, with no IT department or personnel, there is no monitoring or administration of IT controls. While we observed most personnel had limited access between modules in PetPoint and QB, it appeared easy for someone to override these controls at any point in time.

Recommendation: The fact that both HRS and KCC do not specifically provide for cats to be euthanized before expiration of their hold period for any reason puts KHS in a precarious situation. While KHS’ policy of euthanizing unweaned kittens may be a common industry practice, it is not specifically allowed under the KCC.

The County should consider revising KCC to include euthanasia of all animals prior to the expiration of their hold period. As part of the revision process, the County should consult with KHS and other animal shelter organizations to review the practicality of euthanasia in cases where costs of maintaining the animal might outweigh the benefits. Until these adjustments are made, we recommend KHS revise its euthanasia policy paying particular attention to its policy surrounding the euthanasia of unweaned kittens. These policies should be re-written to match current legislation.

⁵ COSO is a joint initiative of the American Accounting Association, American Institute of CPAs, Financial Executives International, The Association of Accountants and Financial Professionals in Business and the Institute of Internal Auditors, that provides thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

In order to conform with best practices regarding segregation of duties, KHS should mandate that the person who schedules and approves euthanasia in PetPoint differs from the person who performs it. This will segregate the authorization and custody functions in the euthanasia process so someone cannot immediately euthanize an animal after they approve it without a secondary review.

KHS should also augment their euthanasia documentation. This holds especially true if euthanasia occurs prior to expiration of the applicable statutory hold period. We noted for the five euthanized dogs with adoption potential, there was no further substantiation for their euthanasia beyond the reason selected from a drop-down menu (e.g. kennel cough, space, physical condition, behavior).

We further recommend KHS consider hiring or contracting an IT specialist to act as an administrator of access rights and controls. The specialist would not only have custody and admin rights over PetPoint and QB but all procedural and administrative documents stored on KHS' hard drives including SOPs. This would keep the custody function separate from the authorization and record keeping functions while simultaneously ensuring edit rights are at appropriate levels for each employee.

Finding 5. Ambiguity of Contract Wording Allows for Misinterpretation of Contract Requirements.

The County's contracts with KHS do not provide any guidance on how KHS' operating costs should be allocated to the County. KHS is therefore allowed to allocate costs in whatever methodology it deems appropriate, with what appears to be limited to no oversight or approval by the County.

In addition, the contracts state, "The Society shall submit quarterly program and financial reports," and then list various requirements to be included in the reports. The contracts later state, "...such reports shall include a program status summary and program data summary, a summary of participant characteristics, and a narrative report" but provide no further explanation or examples of what this means. We interpreted the contract to mean these summaries and narrative report were meant to be grouped as the "program report" while the remainder of the reporting requirements were supposed to be grouped as the "financial reports." Although we received assurance from the Director of Finance that KHS had met its reporting obligations, we noted the content of each reporting package was fairly inconsistent and did not regularly meet contract specifications.

We further believe the County could have monitored KHS' performance more closely. This was made evident when the County was unable to produce 4 of the 26 reports they were supposed to have received. Though we were ultimately able to obtain the missing reports from KHS, of the reports submitted, there were 54 instances of missing information specifically required by the contract. In total, 19 of the 26 submissions sent to the County were missing at least one reporting requirement from the contract.

Almost all reporting periods were missing either the fiscal year to date or prior year to date financial information as well as the narrative report and the capital budget for the following fiscal year. We also noted the 2013 third and fourth quarter financial and program reports and audited financial statements from 2013 were all missing in their entirety.

Reports must further be submitted within a specific time period. After reviewing proof of submission, we were unable to confirm the timely submission of nine of the 26 reports.

Recommendation: The County should consider revising its contracts with KHS to clearly define performance obligations and reporting requirements to clarify the County's role and oversight over KHS. The contract should not just "allow...full access to records" but require KHS to substantiate allocation methodologies, submitted financial reports and animal statistics or, at a minimum, require supporting documentation to be readily available upon request. We recommend the County proactively exercise its oversight rights and monitor KHS performance more closely to hold KHS to a higher level of accountability.

Finding 6. KHS’ Unsupported Allocation Methodologies Make it Difficult to Determine whether the County Could Realize Cost Savings by Performing Contracted Services In-House.

We analyzed KHS’ financial statements and how expenses are split between County and non-County related services. Notwithstanding the difficulties in substantiating how KHS allocates costs to the County, KHS has reported net operating losses related to the County contract of \$493,694, \$170,668 and \$78,504 for FY 2013, FY 2014 and FY 2015, respectively, as shown below:

	FY 2013	FY 2014	FY 2015
County Grant	\$ 595,000	\$ 695,000	\$ 760,000
Program Revenue (Licenses)	-	55,090	102,111
Total Revenue	595,000	750,090	862,111
Animal Food	80,307	29,745	19,003
Bank Charges (Credit Card Fees)	-	39	6,038
Insurance	20,009	7,000	16,993
Equipment and Leases	7,302	16,193	14,270
Licenses, Permits & Fees	1,060	1,031	1,189
Meetings/Seminars	332	558	630
Payroll, Payroll Expenses & Benefits	695,769	675,036	683,795
Postage & Shipping	1,904	466	2,873
Printing	3,071	301	1,191
Professional Services	13,960	14,109	27,131
Property Tax	-	-	38
Rent	1,890	1,875	1,875
Repairs & Maintenance	34,160	16,063	20,576
Supplies	120,941	62,205	45,272
Travel	-	5	9
Uniforms	1,072	1,612	1,252
Utilities	75,807	63,668	62,111
Vehicle	31,110	30,852	36,369
Total Expenses	1,088,694	920,758	940,615
Net Income/(Loss)	<u>\$ (493,694)</u>	<u>\$ (170,668)</u>	<u>\$ (78,504)</u>

The majority of the expenses allocated to the County are for personnel costs, which represent 117%, 90% and 79% of total program revenue in FY 2013, FY 2014 and FY 2015, respectively. KHS has been able to reduce its operating loss primarily through reductions in animal food and supplies.

The County's contract with KHS states that "...any and all costs, expenses, fees and liabilities incurred by [KHS] which exceed amounts granted by the County shall be the sole responsibility, liability, and obligation of [KHS], and not the County." As such, KHS is reporting that its donations and revenue from other services such as boarding and quarantine subsidize its animal control program.

However, as discussed earlier in this report, inconsistencies in how KHS allocates expenses to the County remains a fundamental roadblock in conclusively determining whether the County grant is sufficient to cover the animal control program. KHS does not have a consistent allocation methodology, and the methodologies that it does use are applied inconsistently and are not supported by any auditable documentation.

While it is feasible that the County could hire its own Field Service Officers, who have a combined base salary cost of approximately \$127,000, there would also be costs associated with dispatch/call center personnel and constant coordination with KHS to determine capacity and timing. As personnel costs make up the majority of the County-allocated expenses, the County would have to negotiate clear allocation methodologies for administrative and animal care personnel, even if the County took on some of the animal care functions.

Recommendation: The County should fully understand KHS' allocation methodology before evaluating whether it could realize cost savings by performing the contracted services in-house. Once the County fully understands the costs associated with the animal control program, it should then conduct a separate feasibility study to determine if it would be cost effective to move a portion of the animal control services under County control.

AUDITEE RESPONSE

KHS was provided an opportunity to respond to our findings and recommendations. KHS' response is included as Attachment 1. KHS did not disagree with any of our findings except for one, and provided comments on how it has addressed, or plans to address, our recommendations.

In general, KHS management and board believe that the updated procedures and systems implemented in FY2013 and FY2014 have resulted in a significantly improved control structure for FY2015 and beyond. KHS states that a new Executive Director (ED) began her tenure in March 2013 and began improvements to policies and procedures pertaining to operations and financial management. KHS also cites the audit team's lack of experience with animal welfare organization procedures and states that while the lack does not invalidate the results of this audit, it created communication and procedural challenges.

Although the auditee is confident that the audit team kept an objective viewpoint, it feels the team's lack of knowledge of animal control procedures may have impacted some of the findings of this audit.

Auditor's Comments: Our audit period spanned from July 1, 2012 through June 30, 2015 ("Period Under Scope"). As previously disclosed, we were forced to perform testing procedures based on current practices as prior SOPs were unavailable and key personnel were not employed at KHS during 2013. For this reason, we believe that our findings are appropriate, even under current conditions.

We did not modify our findings in response to KHS' contention that the audit team was not familiar with animal welfare organizations and animal control procedures, because KHS agreed with all but one of our findings, and appears prepared to address our recommendations. Our work is dictated by professional standards and our findings and recommendations require substantiation based on fact. We now address the Auditee's response to each of the findings.

Finding 1. County Funds Were Not Solely Used for County-Related Services.

Auditee's Response: The Auditee does not disagree with this finding, but contends that the fee included in the County contract is agreed upon at the beginning of the year and is not a strict "reimbursement" for services provided. The Auditee further states that it believes the reporting provided to the County by KHS regarding funds spent supporting the contract is informational in nature and does not directly impact the funds provided to KHS, and the incidents noted had only a small impact, and may have been offset by other expenses.

KHS disagrees that a single percentage being applied across the board is an appropriate allocation methodology, but is willing to work with the County to determine a satisfactory methodology (e.g., agreed-upon allocation percentages by department) that can be regularly evaluated for consistency and updated/revised as needed. KHS states that it is currently conducting a detailed timekeeping audit assessing actual time in each department that is allocated to County contract work.

Auditor's Comments:

The contract between KHS and the County clearly states that funds provided under the contract "shall be used by the Society only for those purposes specifically described in H.R.S. Sections 143-15 and 143-16, and shall not be used by the Society to fund any employment positions which, either in whole or in part, perform or discharge any service not specifically described in H.R.S. Sections 143-15 and 143-16." Further, "County funding of the Society's expenses directly related to the scope of services required for County to meet its statutory obligations under H.R.S. Sections 143-15 and 143-16 shall be limited to the amounts granted by the County, and any and all costs, expenses, fees, and liabilities incurred by the Society which exceed amounts granted by the County shall be the sole responsibility, liability, and obligation of the Society, and not the County."

The contract fee is based on a budget presented by KHS to the County before a contract is finalized. The budget shows expenses KHS expects to incur for County-related services over the upcoming fiscal year. When the County agrees to a contract fee based on the budgeted County-related expenses, it is essentially agreeing to pre-fund KHS' expenses based on its representation that those same expenses are fully supportable as County-related. To imply that the reporting of monies that were actually expended is merely informational and does not impact the funds provided to KHS would ignore the purpose of the reporting, which is to substantiate how KHS used the funds to meet the requirements of its contract.

As KHS mentions, the Period Under Scope covered a transitional period not only in terms of leadership but operations as well. We consequently established an expectation that discrepancies would decrease between fiscal years 2012 and 2015 as revised policies were implemented. Despite KHS' claim that improvements were implemented by fiscal year 2015, we observed similar findings across all fiscal years and believe KHS did not adequately enforce the new policies after adoption. We recommend a follow-up audit to determine post-transition compliance.

We continued to note County funds were used for services and expenses not related to the Contract through fiscal year 2015. The most readily evident example is the Field Service Officers who, based on their Daily Activity Reports, did not spend 100% of their time on County-related activities despite having 100% of their salary and benefits paid using County funds.

Finding 2. A Lack of Record Retention and Documentation Hindered or Prevented the Auditor's Complete Substantiation of KHS Procedures, Controls and Calculations.

Auditee's Response: KHS does not disagree with this finding. KHS states that it recognized that the SOPs in place were limited in early 2013, and that when the Executive Director began her tenure in March 2013 KHS began the process of revising, updating and implementing the SOPs. The bulk of major revisions were implemented by FY2015. All departments have printed copies of the current SOPs and are updated with any changes in SOPs. KHS states that if the County feels that an increase in documentation or reporting is necessary, it welcomes the opportunity to work collaboratively with the County to meet its reporting and documentation needs.

Auditor's Comments: We commend KHS' willingness to work with the County to develop adequate reporting and documentation. However, even if changes were being made during the Period Under Scope, this does not change the fact that SOPs for this Period were not available for our review.

Finding 3. KHS' Animal Statistics Reported to the County Show Mixed Results When Compared to National Estimates, and Are Not Supported by KHS' Internal Records.

Auditee's Response: KHS states that it began using PetPoint software in FY 2015 as the sole system for recording animal records and began reporting animal statistics in line with the Asilomar Accords. KHS states that changing to this methodology brought KHS in line with the bulk of animal welfare organizations in the country. KHS does not dispute this finding, but believes that the finding is a result of not understanding the distinctions between the methodologies used as well as an understanding of the factors impacting the national vs. local statistics.

KHS states it is willing to provide the statistics on animals serviced per the County contract or KHS as a whole, and welcomes the opportunity to provide further background on this process to ensure that the County is confident that the results reported are an accurate representation of the impact of the services provided.

KHS would like clarification regarding the concern that it might not "maintain exact supporting documentation." KHS states annual financial audit requires supporting documentation and this issue has never arisen during this audit. KHS welcomes the opportunity to provide the County with whatever detail it deems necessary either directly or through its annual financial statement auditors.

Auditor's Comments: KHS' efforts to improve its reporting capabilities is a positive step in the right direction. However, it does not change the finding that KHS could not produce supporting data that would substantiate the animal statistics reported to the County. Even after inquiring about differences, we were ultimately unable to recalculate the statistics because KHS did not provide data, particularly for fiscal year 2014. KHS' argument that its maintenance of supporting documentation over animal statistics reporting has never arisen during its financial statement audit is based on a misunderstanding of the purpose of a financial statement audit. A financial statement audit provides reasonable assurance that KHS' financial statements are free from material misstatement. It does not include an examination of animal records and statistics.

Finding 4. Statutory Hold Periods Were Not Adhered to and a Lack of Segregation of Duties May Allow for Pre-Mature Euthanasia.

Auditee's Response: KHS disagrees with this finding, because it believes that its procedures have been in compliance with all the various statutes both at the State and County level. KHS states it requested a change in the Kaua'i County Code via the Council in January 2016.

KHS agrees having two people sign off on euthanasia is a reasonable practice. KHS is reviewing other organizations of its size to assess best practices in this area and will review its current processes and procedures as appropriate.

Auditor's Comments: We disagree with KHS' assessment that its procedures have "been in compliance with all of the various statutes both at the State and County level." The HRS and County Code do not allow for the early euthanasia of cats and dogs other than for "dogs running at large...so obviously diseased as to be a menace to the health of persons or animals" and "all dogs taken into custody of the animal control officer which by reason of age, disease, or other causes, are unfit for further use or are dangerous to keep impounded..." As noted in the discussion of this finding, we discovered evidence that KHS has policies and practices in place that would appear to place KHS in violation of State and County statutes. KHS' requested change of the Kaua'i County Code further supports this finding.

Finding 5. Ambiguity of Contract Wording Allows for Misinterpretation of Contract Requirements.

Auditee's Response: KHS does not dispute this finding, and states it welcomes the opportunity to work collaboratively with the County on contract and/or verbiage changes to ensure clarity of interpretation.

Auditor's Comments: KHS' willingness to work with the County to address this finding will greatly assist in establishing a clear understanding of the requirements of the contract by both the County and KHS. The lack of performance standards or metrics within the contract creates difficulty when evaluating KHS' performance. The County should explore options for clearer contract language using the following questions:

1. What level of service should the County receive in consideration of the funds provided to KHS, and how should this level of service be measured?
2. Are the current reporting requirements enough for the County to evaluate whether KHS is performing its duties?

Finding 6. KHS' Unsupported Allocation Methodologies Make it Difficult to Determine whether the County Could Realize Cost Savings by Performing Contracted Services In-House.

Auditee's Response: KHS states it welcomes the opportunity to work with the County to develop a transparent and efficient allocation methodology (e.g., establishing an agreed-upon percentage allocation by department) to meet the needs of the County. Although KHS believes it is the most effective organization to provide these services, it welcomes the feedback provided through this audit. KHS states it remains committed to efficiently and transparently providing services and reporting under the County animal control contract and appreciates the opportunity to work with the County and its residents to provide these services.

Auditor's Comments: Again, KHS' willingness to work with the County to address this finding will provide the County with sufficient data to analyze whether the contract with KHS is the most efficient and effective way for the County to deliver animal control services.



January 5, 2017

Mr. Tyler Kimura
Spire Hawaii LLP
55 Merchant Street, Suite 2130
Honolulu, HI 96813

Re: Responses to Kauai Humane Society Audit

Dear Mr. Kimura,

Thank you for allowing us to respond to issues raised in the audit by the County of Kauai of Kauai Humane Society's (KHS) contracted service of animal control. KHS is prepared and willing to go into detail on each of the specific incidents and suggestions the auditors indicate but for efficiency, please find a summary below.

In the pre-audit interview, KHS pointed out that auditing records from FY2012-FY2015 would indicate that the policies and procedures were updated and improved over this period. A new Executive Director (ED) began her tenure in March 2013 and KHS began reviewing and updating policies and procedures pertaining to operations and financial management at that time. Many of the issues noted in the audit occurred prior to or at the very beginning of this ED's tenure and the implementation of revised procedures. Similarly, budgeting and accounting systems were reviewed and updated in FY2014. Due to changes in accounting and animal statistic software used, the results comparing FY2014 and prior years reflect these changes. A detailed understanding of the impact of these modifications and improvements is required to ensure an accurate comparison of these results. **KHS management and board believe that the updated procedures and systems implemented in FY2013 and FY2014 have resulted in a significantly improved control structure for FY2015 and beyond.**

In the pre-audit interview it became clear that the auditor team had little or no previous experience auditing an animal welfare organization nor a working knowledge of the work performed and procedures of such an organization. While this does not invalidate the results of this audit it did create communication and procedural challenges. Although we are confident that the audit team kept an objective viewpoint, the team's lack of knowledge of animal control procedures may have impacted some of the findings of this audit.

Finding 1. County Funds Were Not Solely Used for County-Related Services.

The incidents noted by the auditors were only applicable prior to FY2014 and did not reflect the staffing and procedural changes made beginning FY2014. We do not believe that the incidents noted by auditors lead to the conclusion that "County funds were not solely used for County-related services". The fee included in the County contract is agreed upon at the beginning of the year and is not a strict "reimbursement" for services provided. The reporting provided to the County by KHS regarding funds spent supporting the contract is informational in nature and does not directly impact the funds provided to KHS. Additionally, while the incidents noted may have had a small impact on the reporting provided we believe that other expenses may have existed which offset the amounts reported prior to FY2014. With the review performed in FY2014 by

KHS we believe the allocation methodology is significantly improved and the reporting for FY2015 and beyond are reflective of the allocation of resources to support the County contract.

KHS disagrees that a single percentage being applied across the board is appropriate but understands that a detailed process of allocating each invoice between KHS and the County may have seemed too detailed by the audit team. KHS felt that this represented the most accurate allocation methodology for the contract. However, KHS welcomes the opportunity to work with the County to determine a satisfactory methodology (e.g., agreed-upon allocation percentages by department) that can be regularly evaluated for consistency and updated/revised as needed. KHS is currently conducting a detailed timekeeping audit assessing actual time in each department that is allocated to County contract work.

Finding 2. A Lack of Record Retention and Documentation Hindered or Prevented the Auditor's Complete Substantiation of KHS Procedures, Controls and Calculations.

In early 2013 KHS recognized that the Standard Operating Procedures (SOPs) in place were limited. When the Executive Director began her tenure in March 2013 KHS began the process of revising, updating and implementing the SOPs. The bulk of major revisions were implemented by FY2015. All departments have printed copies of the current SOPs and are updated with any changes in SOPs.

It is not clear whether the narrative associated with each monthly budget was evaluated by the auditors. This information provides narrative on each line item and the methodology for establishing the budgeted numbers. If the County feels that an increase in documentation or reporting is necessary KHS welcomes the opportunity to work collaboratively with the County to meet its reporting and documentation needs.

Finding 3. KHS' Animal Statistics Reported to the County Show Mixed Results When Compared to National Estimates, and Are Not Supported by KHS' Internal Records.

In FY2015 KHS began using PetPoint software as the sole system for recording animal records and began reporting animal statistics in line with the Asilomar Accords. This nationally recognized methodology was a result of a meeting of 20 animal welfare industry leaders to facilitate the data collection process and assure consistent reporting across agencies. Changing to this methodology brought KHS in line with the bulk of animal welfare organizations in the country. We believe this finding is a result of not understanding the distinctions between the methodologies used as well as an understanding of the factors impacting national vs. local statistics.

Reports on animal statistics provided to the County pertained specifically to intake and animal care for strays resulting from the service provided under the terms of the contract. Overall intake and animal care would also include animals surrendered by owners to KHS. KHS is willing to provide the statistics on animals serviced per the County contract or KHS as a whole. Limitations in the reporting capabilities of PetPoint result in greater data analysis to provide the County with greater reporting detail. We welcome the opportunity to provide further background on this process to ensure that the County is confident that the results reported are an accurate representation of the impact of the services provided.

KHS would like clarification regarding the concern that it might not “maintain exact supporting documentation”. KHS’s annual financial audit requires supporting documentation and this issue has never arisen during this audit. We welcome the opportunity to provide the County with whatever detail it deems necessary either directly or through its annual financial statement auditors.

Finding 4. Statutory Hold Periods Were Not Adhered to and a Lack of Segregation of Duties May Allow for Premature Euthanasia.

KHS believes that its procedures have been in compliance with all of the various statutes both at the State and County level. In line with your recommendation, KHS had requested a change in the Kauai County Code via the Council in January 2016.

KHS appreciates the feedback regarding the segregation of duties and agrees having two people sign off on euthanasia is a reasonable practice. With an organization of KHS’ size one of those signors might also be the individual performing the euthanasia. Because of this finding KHS is reviewing other organizations of its size to assess best practices in this area and will review its current processes and procedures as appropriate.

Finding 5. Ambiguity of Contract Wording Allows for Misinterpretation of Contract Requirements.

KHS welcomes the opportunity to work collaboratively with the County on contract and/or ordinance verbiage changes to ensure clarity of interpretation.

Finding 6. KHS’ Unsupported Allocation Methodologies Make it Difficult to Determine whether the County Could Realize Cost Savings by Performing Contracted Services In-House.

As noted above the narrative of each line of the budget should be revisited. KHS welcomes the opportunity to work with the County to develop a transparent and efficient allocation methodology (e.g., establishing an agreed-upon percentage allocation by department) to meet the needs of the County. Although KHS believes it is the most effective organization to provide these services we welcome the feedback provided through this audit. KHS remains committed to efficiently and transparently providing services and reporting under the County animal control contract and we appreciate the opportunity to work with the County and its residents to provide these services.

Sincerely,



Emily E. Larocque
President, Board of Directors
Kauai Humane Society



Scott Pisani
Executive Director
Kauai Humane Society

cc: Bernard P. Carvalho Jr., Mayor
Ken Shimonishi, Director of Finance
Mel Rapozo, Council Chair