



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

11-25
Humane Society
of the
Pikes Peak Region
Animal Control Services
Contract

December 2011



OFFICE OF THE CITY AUDITOR

COLORADO SPRINGS, COLORADO

11-25 Humane Society of the Pikes Peak Region Animal Control Services Contract Compliance

December 2011

Purpose

The purpose of this audit was to confirm compliance with the contract between the City of Colorado Springs and the Humane Society of the Pikes Peak Region (the Society) for the calendar year 2010 and to examine the reasonableness of allocation methods used by the Society to assign expenses to the contract. We also examined data presented by the Society in January 2011 to City Council (Council) on animal control program costs for Colorado Springs along with other cities.

Highlights

We conclude that overall, the Society and the City were in compliance with the contract. Based on our audit, we generally believe the Society's allocation of costs to the City's contract were reasonable; however, additional analysis would be required to provide assurance that allocation methods appropriately account for certain contract requirements. In addition, we noted certain factors were not considered in the cost comparison prepared by the Society.

The Society is a private, non-profit animal welfare organization dedicated to the care and protection of domesticated animals. The City utilizes the Society to provide animal control and sheltering services.

Under the current contract, the City paid a fixed annual amount based on the previous year's contract multiplied by an inflation forecast. The base contract amount for 2010 was \$1,214,390, which was partially offset by the first \$300,000 of licensing revenue received along with court fines collected. The Society retained all other fees collected. (See Appendix B for a calculation of the City's total net cost considering revenues received by the parties).

(Continued on page 2)

Management Response

The City and the Society were in general agreement with our recommendations. The Society's response to Observation 2 indicates they did not agree with the dollar amount incorrectly allocated to the contract. Responses from the City and Society can be found in the attached report.

Recommendations

1. Future benchmarking efforts should focus on cities of similar size and demographics. Preparers should include related revenues when determining net cost figures. We recommend the Society and the City work together in preparing comparable data.
2. The Society should
 - ensure the 3.1% of all stray animals received with no source information are allocated among all contracts,
 - credit the contract for the net 1.5% of strays found in the City, but claimed by owners in another jurisdiction.
 - The Society and/or the City should consider obtaining an independent cost allocation study and further internal tracking of costs related to the City's contract. Some validation of cost

(Continued on page 2)

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(Highlights continued from page 1)

Although the contract amount was fixed, the Society was required to report revenues and expenses attributable to the contract. The Society reported a net loss in 2010 associated with the contract. We noted certain costs incorrectly charged to the contract as well as, revenues that should have been considered in the Society's contract revenue and expense report. If these were considered, the net loss reported by the Society would be reduced by approximately \$67,000.

As in prior years, the Society used a cost allocation methodology to determine expenses attributable to the City's contract. In a previous report by our office, we recommended the City complete an independent cost allocation study. The 2008 contract contained a provision for the City to obtain that study. That provision was subsequently removed due to budget constraints. Given the study was not performed, we reviewed cost allocation methods for reasonableness. Data supporting allocations appeared accurate; however, additional internal tracking would be required to validate some key assumptions.

We also examined benchmarking data presented by the Society to Council in January 2011. Our objective was to assess the reasonableness of the cost data as it was the basis of an assertion by the Society that the City's costs were low compared to other cities. We found that many of the cities reported were not comparable to Colorado Springs due to size and demographics differences. Our report includes recommendations for improving future benchmarking efforts. We observed that the City's cost per citizen for animal control services was \$3.17. This is comparable to the cost per citizen of \$3.05 for the City of Denver, a large city that includes an urban population. The next largest city in the benchmarking prepared by the Society was Aurora, (cost per citizen of \$4.62).

We also noted the City contributed \$3,000,000 toward facility construction costs in 1999, which according to one agreement with the Society was considered prepaid rent for a 20 year term. This \$150,000 per year was not reflected in the contract value or exhibits, or in the Society's analysis of contract profit and loss.

(Recommendations continued from page 1)

- allocation methods in place is needed.
3. The City and the Society should evaluate opportunities for increasing fine revenue to offset some of the cost of animal control services. Both parties should work together on the philosophy for issuing and enforcing fines for animal-related violations.
 4. The City and the Society should consider adding a notation to the contract and exhibits along with future analysis presented to City Council to reflect \$150,000 annually as prepaid rent. This modification should help ensure all costs to the City for animal control services, including facility costs, are represented appropriately.

See the findings and recommendations section of this report for more details.



OFFICE OF THE CITY AUDITOR

PUBLIC REPORT

Date: December 21, 2011

To: Members of City Council

Re: 11-25 Humane Society of the Pikes Peak Region Animal Control Services Contract Compliance

We conducted an audit of the City of Colorado Springs (the City) contract with the Humane Society of the Pikes Peak Region (the Society) for animal control services. The purpose of this audit was to confirm both parties' compliance with the contract and to examine the reasonableness of cost allocation methods used by the Society to assign expenses to the contract. We also examined data recently presented to City Council on animal care and control program costs of other cities. The audit covered the period January 1, 2010 through December 31, 2010.

We conclude that overall, the Society and the City were in compliance with the contract. Based on our audit, we think the Society's methods of allocating costs to the City's contract were generally reasonable; however, we believe additional analysis would be required to provide assurance that the allocation methods appropriately account for certain contract requirements. In addition, we noted certain factors were not considered in the cost comparison prepared by the Society.

During the course of our audit, we also identified areas where processes could be improved. These are detailed on the pages that follow.

We would like to thank the Society, City Budget, and City Procurement Services for their assistance during this audit.

As always, feel free to contact me if you have any questions.

Sincerely,

Denny Nester, MBA, CPA, CIA, CGFM, CFE, CGAP
City Auditor

Cc: Steve Bach, Mayor
Laura Neumann, Chief of Staff/Chief Administrative Officer
Steve Cox, Chief of Economic Vitality and Innovation
HayDen Kane, Presiding Municipal Court Judge
Kara Skinner, Interim Finance Director
Jan McHugh-Smith, Society President and Chief Executive Officer
Joe Stafford, Society Director of Animal Law Enforcement
Leslie Yoder, Society Vice President
Lisa Bigelow, City Budget Manager
Curt DeCapite, City Procurement Services Manager
Cheryl Rea, City Senior Contracting Specialist



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PUBLIC REPORT

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REPORT DETAILS

PURPOSE AND SCOPE

We performed an audit of the City of Colorado Springs (the City) contract with the Humane Society of the Pikes Peak Region (the Society) for animal control services. The purpose of this audit was to confirm both parties' compliance with the contract and to examine the reasonableness of cost allocation methods used by the Society to assign expenses to the contract. We also examined data recently presented by the Society to City Council (Council) on animal care and control program costs of other cities in the region. The audit covered the period January 1, 2010 through December 31, 2010.

BACKGROUND

The Society is a private, non-profit animal welfare organization dedicated to the care and protection of domesticated animals in the community. The Society rescues and cares for animals in distress, re-unites lost pets with their owners, finds homes for homeless animals, and teaches people how to properly care for and respect animals. It also handles licensing and other animal ordinances. It is the largest animal shelter in southern Colorado, serving not only Colorado Springs, but several other communities in the area under separate contracts. The City has utilized the Society for enforcement of animal ordinances as well as sheltering for 57 years.

During 1999, the City and the Society entered into a Construction and Use Agreement. Per the terms of this agreement, the City contributed \$3 million to the cost of the Society's building. At the end of the 20 year period, the City would no longer have any interest in the building. The \$3 million provided by the City was considered prepaid rent.

At the beginning of 2007, the City entered into a contract renewal with the Society for animal control services. The contract called for an initial one-year term with optional renewals for nine additional one-year periods if deemed to be in the best interest of the City. The contract renewal also specified the calculation of the base contract amount for each of the subsequent renewal periods, which was based on the previous year's contract amount multiplied by an inflation forecast. In addition, the contract contained a provision that allowed the Society to appeal the contract funding level to Council if contract revenues were not sufficient to cover the Society's cost of service.

The contract renewal covering the calendar year ended December 31, 2010 was the focus of our audit. The terms of this contract were agreed to after negotiations between the City and the Society. Some of the essential terms associated with this renewal included:

- The Society would receive a fixed contract amount of \$1,214,390 for the period.
- The Society would retain all fee revenue collected, with the exception of licensing fees.

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- The City would retain any court fees collected for animal-related violations.
- The City would be guaranteed the first \$300,000 in animal licensing revenue, which would be paid by the Society in four quarterly payments of \$75,000 each.
- Any animal licensing revenue beyond \$430,000 would be split 50% each between the City and the Society.

Although the base contract amount was fixed, the contract required the Society to report total revenues and expenses associated with the City's contract on a quarterly basis. As in prior years, the Society used a cost allocation methodology to determine the expenses attributable to the City's contract. For 2010, the Society reported a net loss on services associated with the City's contract.

The Office of the City Auditor has previously performed audits of the contract between the City and the Society. The most recent audit report was issued on February 14, 2007 and covered the period January 1, 2006 through June 30, 2006. The most significant finding noted in the previous audit was related to the cost allocation method used by the Society. The result of this finding was a recommendation for an independent cost study to be performed by an outside consultant to determine an equitable method of allocating costs to the Society's various contracts. This recommendation was incorporated into the 2008 contract; however, the contract was later amended in 2008 to suspend this provision in the contract indefinitely due to fiscal challenges in the City budget.

We would like to acknowledge the high level of service we observed during the course of our fieldwork at the Society. We noted strong customer service and responsiveness by Society personnel, as well as a clean and well maintained facility. We also noted there were no concerns by the City related to customer complaints or service levels.

CONCLUSION

We conclude that overall, the Society and the City were in compliance with the contract. Based on our audit, we believe the Society's methods of allocating costs to the City's contract generally appeared reasonable.

We also believe additional analysis would be required to provide assurance that the allocation methods appropriately account for certain contract requirements. In addition, we noted certain factors were not considered in the cost comparison prepared by the Society.

During the course of our audit, we also identified areas where processes could be improved. These are detailed on the pages that follow.

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OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

**OBSERVATION 1 – CERTAIN FACTORS WERE NOT CONSIDERED IN THE COST COMPARISON
PREPARED BY THE SOCIETY**

As part of our audit, we examined data presented by the Society to Council in January 2011 regarding animal control program costs of other cities in the state. The presentation summarized data compiled by the Society regarding program costs of eight other cities and computed an estimated cost per citizen of providing animal services in each city. A copy of the relevant portion of the presentation can be found at Appendix A of this report. The purpose of our examination was to assess the reasonableness of this cost data as it was the basis of an assertion by the Society that the City's animal control costs were low compared to animal control costs in other cities.

We recognize there are many variables that impact the cost of animal control services in a particular city. These variables include:

- whether the animal control program is administered internally by the city or through a contract with a third party
- the calculation of the base contract amount
- which revenues and expenses are factored into the contract
- cost allocation methodologies used to apply costs to specific contracts
- city size and demographics
- service levels (i.e., 24-hour animal control services versus day-only services).
- number of calls for service
- number of animals served

All of these factors can impact the overall net program cost.

The Society prepared cost comparison data from public information available on each city's website. We noted that some of the program costs reported by the Society were 2011 budgeted amounts while others were 2010 actual costs. We also observed that the cost data did not include revenues received by other cities for animal care and control, which would offset some of the related program costs. Taking these factors into account, we calculated a cost per citizen for the City of \$3.17 for Colorado Springs vs. \$3.52 reported by the Society. Additional details supporting our cost calculation can be found at Appendix B of this report, while the Society's cost per citizen is presented at Appendix A.

The Society's presentation indicated the City's cost per citizen for 2010 was \$3.52, which was \$1.60 lower than the average cost per citizen of \$5.12. We observed the cost per citizen comparison prepared by the Society included a number of cities in Colorado that are different from Colorado Springs in terms of population and demographics. Given that there is a certain fixed cost to operating an animal control program, smaller municipalities will tend to have higher costs per citizen than larger communities able

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to take advantage of economies of scale. As a result, while we recognize the Society's positive efforts to benchmark animal control program costs, we do not believe many of the cities included in the Society's analysis can be considered comparable peer cities.

We observed that the cost per citizen for animal control services for the City of Denver, the other large city in the comparison which would include an urban population (\$3.05 per citizen) is similar to the cost per citizen of \$3.17 for Colorado Springs. The next largest municipality after Colorado Springs benchmarked by the Society was Aurora, which had a cost per citizen of \$4.62 per citizen. Please refer to Appendix B to this report for more details.

We believe there is value in periodic benchmarking efforts with other cities of similar size and demographics to assess the reasonableness of program costs. This information may be helpful for annual contract negotiations between the City and the Society and may also be useful for Council when making decisions related to the contract.

AUDITOR'S RECOMMENDATION

We noted the following recommendations for future benchmarking efforts:

- A. Benchmarking efforts should focus on cities with similar characteristics, such as population size and demographic factors that impact utilization rates.
- B. Cost comparisons should include additional research, such as contacting representatives from the appropriate city, to obtain an understanding of the reported amounts and any additional relevant data not included in public financial reports. Related revenues should be considered when determining net cost figures. Historical data should be used consistently, instead of future budgeted amounts.
- C. The Society should work with the City on any benchmarking efforts related to the City's contract. A joint effort would increase each party's confidence in the results.

CITY RESPONSE

We agree with the recommendation; however, even if a cost comparison is useful for very general purposes, the real factor for our City is what we can afford to pay for a certain level of service. Typically, it is hard to get an apples to apples comparison. The City will continue to work with the Humane Society to develop appropriate benchmarks as well as an appropriate level of service within constrained resources.

SOCIETY RESPONSE

The Humane Society of the Pikes Peak Region did a cost per capita comparison of animal control services for a City Council presentation from other Colorado communities as one data point for examining the contract compensation. A cost per capita range for animal control service is documented in the International City/County Management Association Animal Control Management Guide for Local

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Governments. According to page 17 of this Guide, in 2001 adequate funding for animal care and control programs cost at least \$4 annually. We did our best gather data relevant for this presentation. We agree that it is difficult to compare data from other animal control contracts due the various factors stated above by the auditor. For example one of the issues not included in the comparisons contain here is that in 2010 Denver Animal Control handled 7,172 animals and Aurora Animal Management sheltered 4,598 as compared to HSPPR which handled a total of 21,103 animals with 14,274 coming from Colorado Springs, 4,348 from County, and the remaining from other jurisdictions within El Paso County. We agree that the City and HSPPR should work together to find agreed upon communities that could provide comparable comparisons for level and quantity of service as well as cost.

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OBSERVATION 2 – SOME COSTS AND REVENUES WERE NOT PROPERLY CODED TO THE CITY’S CONTRACT AND ADDITIONAL ANALYSIS WOULD BE REQUIRED TO DETERMINE THE ACCURACY OF THE SOCIETY’S ALLOCATION METHODS

As noted in the background section of this report, the base contract cost for 2010 was an agreed upon amount determined through negotiations between the City and the Society. Although this amount was fixed, the contract required the Society to report total revenues and expenses associated with the City's contract on a quarterly basis. As in prior years, the Society used a cost allocation methodology to determine the expenses attributable to the City's contract. For 2010, the allocation resulted in a reported net loss to the Society for services associated with the City's contract.

Only stray animals are covered under the City's contract. Owner relinquished animals fall under the Society's humane operations, by contrast, and are not the responsibility of the City. All animals brought in as strays are coded to the jurisdiction where the animal was found (i.e., animals found within City limits are coded to the City of Colorado Springs contract).

It is our understanding that the Society assigns costs directly to the appropriate contract whenever possible and allocates the remaining costs. Allocated costs included animal control services, kenneling and licensing costs for strays. Allocation methods for costs associated with the City's contract depend on the type of activity. The table below summarizes the key allocation methods utilized by the Society for 2010.

Key Cost Allocation Methods for 2010

Type of Cost	Basis for City's Allocation Percentage
Animal Control	Number of City calls for service divided by total calls for service
Licensing	Number of City licenses sold divided by total number of licenses sold
Kenneling	Number of City strays handled divided by total number of animals handled
Salaries	Number of employees attributed to the City contract out of total employees
Operating	Per the building lease agreement between the City and the Society

We verified the key data used to determine the City's allocation percentages by tracing these figures to the appropriate source. We also tested a sample of invoices to determine that costs were allocated in accordance with the stated methods. From the testing we performed, we determined that the data used to calculate the allocation bases was accurate and the Society was allocating costs as described above. However, we noted the following:

- A. Animals received with no source information were not allocated as required by the contract.

According to the contract, drop box animals should be appropriately allocated among all of the Society's contracts as well as their humane activities. Compliance with this contract provision

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was important because the source information of an animal was used to determine the appropriate jurisdiction, and therefore, was a factor in determining the expenses attributable to the City's contract. While not specifically addressed in the contract, we believe it is reasonable to presume that animals received over the counter when no source information is provided would also be allocated equitably across all of the Society's contracts.

We noted during our review that when animals were received in the night drop or over the counter and no source information was provided, the Society assumed the jurisdiction was the City. Accordingly, the City was charged for all animals with an unknown source, instead of allocating these animals to all of the Society's contracts. Based on information provided by the Society, we estimated approximately 3.1% of all strays handled for the City were incorrectly charged to the City. This resulted in approximately \$45,000 in estimated expenses incorrectly allocated to the City's contract in the presentation to City Council in January 2011.

We noted the night drop was closed in November 2010. As a result, we expect the impact of this finding to be reduced in future contract periods as source information is more likely to be obtained when the drop off is in person with Society personnel.

- B. When an animal had an intake location in one jurisdiction but was claimed by an owner in another jurisdiction, the Society did not adjust cost allocations when determining contract costs.

For 2010, we obtained reports from the Society that indicated animals were found in Colorado Springs, but claimed by an owner from another jurisdiction, and other animals were found in another jurisdiction and claimed by an owner residing in Colorado Springs. This resulted in a net cases where revenue was not received by the City, but costs were allocated to the City's contract. This represents 1.5% of the total strays in the Colorado Springs jurisdiction and results in an estimated overstatement of the City's contract costs of \$21,096 as presented to City Council by the Society in January 2011.

When findings A. and B. are considered, the adjusted net loss for 2010 on the contract as calculated in our audit would be \$66,579 less than reported.

Adjustments per Audit to 2010 contract costs as reported by the Society

A. Animals with no source information allocated to the contract	\$45,483
B. Net Animals charged to the City contract claimed by owners from other jurisdictions	<u>21,096</u>
Overstatement of Net loss by the Society	<u><u>\$66,579</u></u>
C. The allocation methods used by the Society contained some key assumptions, which we were not able to validate.	

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The previous audit contained a finding related to the cost allocation method used by the Society. The audit report concluded that the true cost of providing animal control services to the City was not known, and therefore, neither the City nor the Society had the knowledge necessary to negotiate a fair and reasonable contract price. The report recommended that an independent cost study should be performed by an outside consultant to determine the actual cost of the services provided by the Society. This recommendation was incorporated into the contract in 2008; however, the City and the Society agreed not to do the study due to budget constraints and this provision was subsequently removed from the contract. Given the lack of a study as recommended in the prior audit, we reviewed the cost allocation methods used by the Society for 2010 for reasonableness and agreement with contract terms.

We believe additional analysis would be required to provide assurance that the allocation methods are in compliance with the contract related to the five-day window of fiscal responsibility. We understand from discussions with the Society that the data required to perform additional analysis is not readily available and additional tracking would be required to test the key assumptions.

AUDITOR'S RECOMMENDATION

We recommend the following:

- A. We recommend the Society allocate all animals received over the counter with no source information among all contracts going forward. The reported net loss for 2010 on the City's contract should be reduced by approximately \$45,000, the estimated dollar amount related to animals incorrectly coded to the City's jurisdiction.
- B. The Society should track the net number of animals charged to a particular jurisdiction and claimed by another jurisdiction and reimburse the jurisdiction where the cost was incurred. The reported net loss on the City's contract for 2010 should be reduced by \$21,096, the estimated revenue not recorded to the City's contract for the net animals coded to the City jurisdiction, but claimed by an owner from another jurisdiction.
- C. We recommend the Society and the City give additional consideration to an independent cost study and further internal tracking of costs related to the City's contract. We also acknowledge the investment that would be required to obtain an independent cost study and believe the Society should first consider working with the City to further track the costs related to handling strays compared to other animals internally (i.e., tracking a sample of animals). This tracking could provide greater assurance on the reasonableness of the allocation methods currently used by the Society.

CITY RESPONSE

We agree with the recommendation. We do not agree with the 2010 net loss as stated by the Humane Society because there has not been an independent cost study to verify their methodology. We believe

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an independent cost study is essential in determining the accurate costs associated with the animal control program. We expect that the Humane Society will immediately implement A & B and recalculate any projected losses for 2011 and 2012. We will continue to work with the Humane Society to determine how we can accomplish an independent cost study within constrained resources.

SOCIETY RESPONSE

- D. We agree that stray animals received over the counter with no source information be allocated across all contracts. We disagree with the \$45,000 estimated dollar amount related to animals incorrectly coded to Colorado Springs. This dollar amount was produced with an arbitrary cost per animal. Our contract is based on a flat fee that assures availability for services, but not at a cost per animal.
- E. The Society agrees with the auditor's recommendation. Animal reclaim fees should be credited to the originating jurisdiction.
- F. We agree that the City and Society should give additional consideration to an independent cost study.

CITY AUDITOR'S RESPONSE TO SOCIETY RESPONSE

The Office of the City Auditor understands that the contract between the Society and the City of Colorado Springs is an annual agreed-upon amount for services. However, the Society prepared a profit and loss statement based upon costs allocated to the City's contract. The City Auditor utilized the same allocation methodology to estimate the dollar amount of the loss associated with the practices, which were identified as not being in compliance with contract terms. As the Society has acknowledged that stray animals with no source information should be allocated across all contracts, the Office of the City Auditor believes the Society's contract profit and loss statement should be adjusted to reflect the dollar impact of compliance.

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OBSERVATION 3 – CITY FINE REVENUE WAS SIGNIFICANTLY LOWER THAN FINE REVENUE COLLECTED IN DENVER

Under the terms of the contract, fines were issued by Society animal control personnel, and all fine revenue collected was retained by the City during our audit period. The base contract between the City and the Society specifies that \$30,000 of fine revenue will be remitted to the City annually. Examples of violations that could be subject to a fine include animals that are not restrained or failure to license an animal.

In our review of cost data of other cities in the region (discussed in Observation 1 of this report), we noted a significant difference in the animal-related fine revenue collected by the City of Denver compared to the City of Colorado Springs. For 2010, Denver collected approximately \$241,900 in fine revenue compared to \$29,000 collected in Colorado Springs for the same period. This equates to \$0.40 per person in Denver compared to \$0.07 per person in Colorado Springs. It is our understanding that the City of Denver issues administrative citations for animal-related violations. These tickets are administered by the Animal Care and Control Division of the City of Denver, instead of through the municipal court system where tickets are administered in Colorado Springs.

Interviews with animal law enforcement personnel from the Society and the City of Denver indicated that a stronger code enforcement philosophy may exist in the City of Denver. We believe this contributed to the increased citation revenue for Denver as compared to Colorado Springs.

AUDITOR'S RECOMMENDATION

We recommend the City and the Society evaluate opportunities for increasing fine revenue to offset some of the cost of animal control services. Both parties should also work with City Procurement Services, currently responsible for administering the contract, Municipal Court, the City Attorney's Office, and the Mayor's Office as needed on the philosophy for issuing and enforcing fines for animal-related violations.

CITY RESPONSE

We agree with the recommendation. We recommend that the Humane Society work directly with City Attorney's Office to determine how to proceed with the fine revenue issue. Internal discussion will be held in the first quarter of 2012 regarding the appropriate department to administer this contract and discuss options related to the fine revenue issue

SOCIETY RESPONSE

The Society agrees with the auditor's recommendation; City funding for this study would be necessary.

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OBSERVATION 4 – THE CITY’S CONTRIBUTION TO THE FACILITY WAS NOT REFLECTED AS RENT IN THE CONTRACT VALUE OR CONTRACT ANALYSIS

The City and the Society entered into a construction and use agreement in 1999 when the City contributed \$3,000,000 toward construction of the Society's current facility. This agreement indicates that this contribution is intended to prepay the Society for the use of the Society's real estate assets for the 20 year period of the agreement. The building lease also states that base rent has been prepaid by the Tenant for the term of the Lease. This \$3,000,000 divided by the twenty year term calculated to an annual rent of \$150,000. Under the lease agreement the City had the right, but not the obligation, to occupy a certain percentage of space in the facility.

The construction and use agreement also stated "*The City and the Society acknowledge and agree that the contribution of the City’s ..Funds does not include any reimbursement or compensation to the Society for Facility Operating Costs (defined below) or impoundment services at the Facility which shall be separately paid, as applicable, by the City to the Society, on an annual basis, (a) under any Animal Control Contract or, (b) if no Animal Control Contract is in effect, in connection with impoundment services separately provided by the Society.*" Hence, the \$150,000 in prepaid rent does not reduce reimbursement to the Society for operating expenses. However, it should be considered when quantifying the support provided to the Society by the City.

During our audit, we observed that the \$150,000 was not included in the total contract value or exhibits, or in the Society's analysis of profit or loss on the contract. As this amount represents financial resources contributed by the City, it should have been included in the contract and exhibits as an annual amount from which the Society benefited, and considered in the analysis of the contract.

AUDITOR’S RECOMMENDATION

We recommend the City and the Society consider adding a note to the contract and exhibits along with future analysis presented to City Council to reflect \$150,000 annually as prepaid rent. This modification should help ensure all costs to the City for animal control services, including facility costs, are represented appropriately.

CITY RESPONSE

We agree with the recommendation. For 2012, we will issue a change order to modify Section M accordingly. Also, we would recommend that the Humane Society provide to the City by the first quarter of 2012, documentation of action items that they have taken to increase licensing and other revenue based on the pilot program to allow the Humane Society to keep additional revenue associated with the increased fees that went into effect in 2011. Also, just to note in 2009, the City allowed the Humane Society to keep 100% of the cat licensing revenue to provide the TNR program

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SOCIETY RESPONSE

The Society agrees that with the Auditor's recommendation.

Colorado Springs Animal Services 2010 Cost Comparisons

Jurisdiction	Program Cost	Population	Square Miles	Cost Per Citizen
Arvada	\$643,468	107,702	36	\$5.97
Aurora	\$1,676,128	314,326	151	\$5.33
Boulder	\$551,000	103,650	25	\$5.32
Centennial	\$606,390	103,000	28	\$5.89
Colorado Springs	\$1,470,390	418,076	195	\$3.52 (\$1.60)
Denver	\$3,028,700	610,345	155	\$4.96
Fort Collins	\$833,495	140,600	53	\$5.93
Pueblo	\$540,000	106,079	45	\$5.09
Thornton	\$496,669	121,430	27	\$4.09
AVERAGE	\$1,094,027	237,972	79	\$5.12

NOTES

- Boulder Program Cost based on 2010 contract with Boulder Valley Humane Society.
- Colorado Springs program cost includes all fees collected by HSPPR. \$300K in licensing revenue is returned to the City. Net Cost to citizens is \$1,170,390 or \$2.80 per citizen.
- Fort Collins Program Cost based on 2010 contract with Larimer Humane Society.

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APPENDIX B – COST COMPARISON DATA AS CALCULATED BY THE OFFICE OF THE CITY AUDITOR

Jurisdiction	Population ¹	Gross Revenue Retained ²	Gross Revenue Forgone ³	Gross Expenses ⁴	Net Cost Before Revenue Retained ⁵	Net Cost ⁶	Net Cost Per Citizen
Colorado Springs ⁷	416,427	329,544	283,308	1,364,390	1,647,698	1,318,154	3.17
Denver ⁸	600,158	1,009,494	-	2,839,372	2,839,372	1,829,878	3.05
Aurora ⁹	325,078	390,041	-	1,893,319	1,893,319	1,503,278	4.62

¹ Population was obtained from 2010 census data.

² Gross revenue retained is the amount received for animal care and control which was retained by the city.

³ Gross revenue forgone is the amount received for animal care and control which was not retained by the city. This revenue was retained by the organization which administered the animal care and control contract for the city.

⁴ Gross expenses include all known costs related to animal care and control incurred by the city.

⁵ Net cost before revenue retained is the sum of the gross expenses and the gross revenue forgone. This is the total cost to the city of animal care and control.

⁶ Net cost is considered the true cost of animal care and control services for each city. It is calculated by taking the total expenses incurred by the city for animal care and control, adding any related revenue retained by another organization that the city would have retained if they had administered the program on their own, and subtracting any related revenue retained by the city.

⁷ The program cost of \$1,470,390 reported by the Society in Appendix A appears to be an estimated cost of animal care and control for 2011. The gross expenses of \$1,364,390 included \$1,214,390 of actual costs paid by the City to the Society for 2010, along with \$150,000 of prepaid rent. The prepaid rent was calculated based on the \$3 million contribution by the City to the Society's building, divided by the 20-year period of the Construction and Use Agreement (discussed in the Background section of this report). The City retained revenue totaling \$329,544 for 2010, which included \$300,000 in licensing revenue and \$29,544 in fine revenue. Revenue totaling \$283,308 was retained by the Society, which was made up primarily of impound fees of \$103,910 and licensing fees of \$103,137. Adoption fee revenue is retained by the Society as part of Humane Operations and is not included in revenue figures.

⁸ Animal control was provided by the City of Denver's Health Department and sheltering was provided by a municipal shelter. The program cost of \$3,028,700 reported by the Society in Appendix A was the 2011 recommended budget for animal care and control. The gross expenses of \$2,839,372 were the actual costs for 2010. This amount included costs incurred by the Health Department for animal care and control as well as related building maintenance costs incurred by the Facilities Management Division. As the City of Denver administered both animal control and sheltering, all revenues were retained for 2010. The gross revenues retained of \$1,009,494 were made up primarily of licensing fees, permit fees, and adoption fees, as well as fines and forfeits. These revenues offset the cost of providing animal control and sheltering services, which lowered the net cost per citizen.

⁹ Animal control was provided by the City of Aurora's Neighborhood Services department which operates a municipal shelter. The program cost of \$1,893,319 includes animal care as well as facilities costs incurred by the Public Works Department. As the City of Aurora administered both animal control and sheltering, all revenues were retained for 2010 and were composed of licensing fees, permit fees, fines and forfeits, and adoption fees. These revenues offset the cost of providing animal control and sheltering services.

CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

COLORADO SPRINGS, COLORADO

About our Office

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities, Memorial Health System, and Colorado Springs Airport. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

Authorization and Organizational Placement

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council.

Audit Standards

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. The audit included interviews with appropriate personnel and included such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.

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