

An Audit of the
Salt Lake County
Animal Services Division's
Cost of Services and
Fee Structure

2017

Audit Report



Salt Lake County Animal Services



Office of the
Salt Lake County Auditor
Scott Tingley, CIA, CGAP

Audit Services Division
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Our Mission:

To foster informed decision making, strengthen the internal control environment, and improve operational efficiency and effectiveness for Salt Lake County, through independent and objective audits, analysis, communication, and training.

Report Number 2017-AU03
May 2017



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June 30, 2017

To: The Citizens of Salt Lake County, the County Council, and the County Mayor

From: Scott Tingley, CIA, CGAP
Salt Lake County Auditor

Re.: An Audit of the Salt Lake County Animal Services Division's Cost of Services and Fee Structure

Transmitted herewith is our report, **An Audit of the Salt Lake County Animal Services Division's Cost of Services and Fee Structure** (Report Number 2017-AU03). An Executive Summary of the report can be found on page 1. The overall objectives of the audit were to:

- Determine if the Animal Services Division's recently adopted fee structure adequately covers the full cost of services provided.
- Determine if Animal Services has received the correct amount of fee revenue based on the terms of the current contracts with local entities.
- Determine if there is proper oversight and administration of service agreement contracts with local entities.

We reviewed the Animal Services Division's costs and expenditures, and examined their methodology for tracking the costs of services they provide. We also reviewed the terms of current service agreement contracts with local entities, and examined internal controls over contract administration and contract payments they receive. In our report, we identify findings and recommend actions to improve the efficiency and effectiveness of operations, ensure greater accountability, and better safeguard County assets at Animal Services.

We truly appreciate the time and efforts of the employees of Animal Services throughout the audit. Our work was made possible by their cooperation and prompt attention given to our requests.

We will be happy to meet with any appropriate committees, council members, management, or advisors to discuss any item contained in the report for clarification or to better facilitate the implementation of the recommendations.

Respectfully submitted,

Scott Tingley, CIA, CGAP
Salt Lake County Auditor

AN AUDIT OF THE
Salt Lake County
Animal Services Division's
Cost of Services and
Fee Structure

Report Number 2017-AU03
April 2017

Scott Tingley, CIA, CGAP
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EXECUTIVE SUMMARY

Background

In November 2015, residents of several unincorporated areas of Salt Lake County voted to establish five separate metro townships and incorporate one city (Millcreek City). Because of this change, the Salt Lake County Animal Services Division (Animal Services) changed their accounting method from a special revenue fund to an enterprise fund.

An enterprise fund, in governmental accounting, is used to account for government entities that are financed and operated like private business enterprises.

Changing to an enterprise fund prompted Animal Services management to analyze costs and develop a new fee structure. This structure consists of two parts: an updated public fee schedule for services, and a population-based charge to contracted municipalities. See Table 1 below.

Table 1. Animal Services Fee Structure Comparison

ANIMAL SERVICES FEE STRUCTURE COMPARISON		
	2016 FEE STRUCTURE	2017 ADOPTED FEE STRUCTURE
Public Fee Schedule	Complex with varying fees based on jurisdictional boundaries.	Consolidated and simplified to cost per service.
Service Agreement Contracts	Negotiated individually with each municipality that resulted in inconsistent contract pricing.	A population-based charge per person for the contracted municipality.

The recently adopted fee structure promotes consistency to County residents.

The new public fee schedule was approved by the County Council with an effective date of March 1, 2017. The population-based charge will be applied to any new 2017 contracts, and all current service agreement contracts that are renewed after June 30, 2017.

Our preliminary audit objectives were to:

- Determine if the recently adopted fee structure adequately covered the full cost of services when applied to 2016 activities.
- Examine active service agreement contracts for adequate oversight and administration, and determine whether contract payments received during 2016 were compliant with contract terms.

What We Found

- **Animal Services did not have an internal cost accounting system that could accurately track the total cost of performing a service.**

We analyzed the total unit cost for each service provided by Animal Services. We found that Animal Services did not have an internal cost accounting system for tracking the costs of services they provide. We were unable to determine the average total unit cost for each type of service, and Animal Services did not have an accurate method of determining and allocating both direct and indirect costs of services.

➤ **The 2016 public fee schedule and service agreement contract rates were not sufficient to recover the full cost of 2016 operations.**

We compared the 2016 public fee schedule and service agreement revenues, and general fund billings to determine if those revenues covered the full cost of operations. We concluded that based on those contract rates and fee structure, service agreement revenues and fees charged to the public were not sufficient to cover the total costs of Animal Services operations in 2016.

➤ **Capital costs and related depreciation were not included in the new public fee schedule and population-based service agreement contracts with local entities.**

When Animal Services moved from a special revenue fund to an enterprise fund in 2017, it required a change to the full-accrual accounting method. As such, Animal Services is now required to carry capital assets on their balance sheet and recognize the related depreciation expense on their statement of income. We found that these costs had not been determined by management.

➤ **Interest rates listed for late payments in the service agreement contracts were not consistent with Countywide policy.**

Service agreement contract terms for late payment interest in five of the service agreement contracts stated a rate that was less than required by Countywide policy. One service agreement contract did not address late payments nor the associated interest rate.

➤ **Interest on late service agreement contract payments was not charged.**

A total of 15 invoices to contracted municipalities, amounting to \$213,025, were paid late. Although the contract terms stated that interest would be charged when payments were late, Animal Services management did not enforce this requirement. Thus, during 2016 a total of \$1,157 in late interest was not charged nor collected.

What We Recommend

To address the absence of an internal cost accounting system to track unit costs:

- Animal Services management should implement an internal cost accounting system that is sufficient to determine the total cost of performing individual services.

To improve the new fee structure and capture all applicable costs:

- Animal Services management should continue to analyze their public fee schedule and service agreement contract rates to determine if they are sufficient to recover the total cost of operations.
- Animal Services management should determine the capital costs and depreciation associated with its reclassification to an enterprise fund prior to the end of the County's 2017 fiscal year.

To comply with Countywide policy regarding interest charges for late payments:

- Animal Services should amend service agreement contracts with late payment interest rates that are consistent with Countywide policy.
- Animal Services management should comply with Countywide policy and enforce contract terms by charging and collecting interest on late payments.

Please refer to the main sections in the report for more details about these findings and recommendations.

INTRODUCTION

Background

Salt Lake County Animal Services has programs, resources, and services that provide solutions for animal-related issues. Salt Lake County Animal Services is separated into five operational areas: field, shelter, veterinary, special programs, and administration. Typical animal care and control services include:

- Animal care and sheltering
- Pet licensing
- Onsite veterinarian and clinic
- Pet adoptions and placement of animals with rescue groups
- Volunteer and foster programs
- Community education, media, and outreach events
- Emergency planning
- Microchips and vaccinations
- Spay and neuter

In the November 2015 Municipal General Election, voters from unincorporated areas of the County elected to form five new metro townships and incorporate one city. This led Public Works to change fund types from a special revenue fund to an enterprise fund. Under an enterprise fund, County services provided to municipalities (including the newly formed townships) are billed directly for the cost of services. As part of the change in fund types, Animal Services management updated their fee structure, which consists of two parts: a public fee schedule, and a population-based driver for service agreement contracts.

At the December 13, 2016 County Council meeting, the Director of Animal Services presented a new public fee schedule for review and consent. The County Council voted to adopt the new public fee schedule with an effective date of March 1, 2017. See Appendix A.

Objectives

The audit objectives were to determine if the 2016 public fee schedule and service agreement contracts were sufficient to recover the total cost of operations in 2016, and if the revenues from the newly adopted fee structure would have been sufficient to recover the full cost of operations in 2016. In addition, we looked to determine if there was proper oversight and administration over service agreement contracts and if payments followed contract terms.

Scope and Methodology

We limited our analysis to 2016 data and the new fee structure developed by Animal Services management. We used data acquired from Animal Services' point-of-sale system, the County's financial accounting system, and various spreadsheets provided by Animal Services accounting staff.

Government Accounting Standards Board, Statement No. 34 (GASB 34) and Generally Accepted Accounting Principles (GAAP) were used for guidance. We also reviewed service agreement contracts and performed comparisons among them and with Countywide policy.

Our work included an examination of assets, records, expenditures, and transactions in the following areas:

- Cost of Services
- Service Agreement Contracts

AUDIT RESULTS

1.0 Cost of Services

Audit Objective:

- **Determine if the newly adopted fee structure was sufficient to recover total cost of operations when applied to 2016 activities.**

Total cost of operations includes both the direct costs of performing a service, such as labor and materials, as well as indirect costs such as utilities and administrative expenses.

In December 2016, Animal Services management updated their fee structure, which consisted of two parts: a proposed public fee schedule, and a population-based charge used for service agreement contracts. See Table 1 in the Executive Summary for a comparison between the 2016 fee structure and the recently adopted 2017 fee structure.

Animal Services does not have an integrated costing system tailored to track all costs and appropriately allocate them. The point-of-sale system at Animal Services is used to track inventory, shelter animals, citations, and field officer activities. It is also used to manage individual customer accounts receivable, and manage sales. The County's financial accounting system is used to process payroll, track assets, manage accounts receivable to contracted municipalities, and produce monthly financial reports.

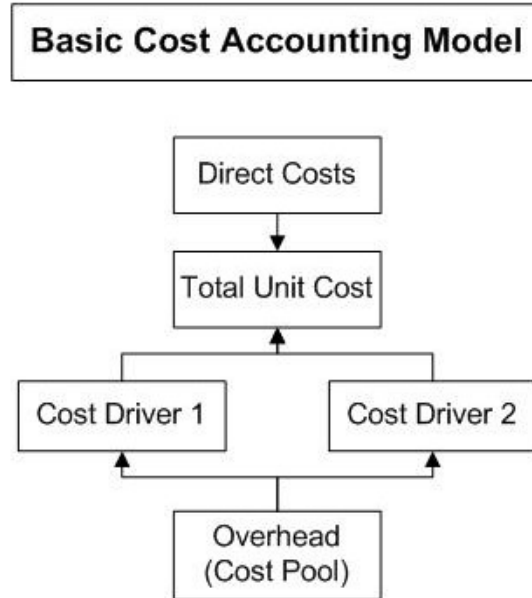
We performed an analysis of Animal Services 2016 fee structure and compared it to the recently adopted fee structure. We approximated the revenues that would have been realized in 2016 if the new fee structure been implemented. Then we compared the approximated revenues to the actual total expenses incurred in 2016 and found they preliminarily covered the costs we could identify. However, we did not have enough information to determine with a high-degree of accuracy whether the recently adopted public fee schedule and population-based service agreements would recover the full costs of operations.

FINDING 1.1: Animal Services did not have an internal cost accounting system that could accurately track the total cost of performing a service.

Risk Ranking: 3 (High)

We analyzed the various services to calculate an average total unit cost for each. Determining total unit cost involves identifying the direct costs associated with providing a service and allocating overhead costs. Figure 1 illustrates a simplified cost accounting model used to assign costs to a product or service.

Figure 1: Basic Cost Accounting Model



Total unit costs consist of direct costs and allocated overhead.

Tracking total unit costs (full cost) provides a baseline for setting public fees and pricing service agreement contracts for the complete recovery of costs. Countywide policy requires that fees and contracted services are set at full cost and provides authority for us to review cost accounting methodologies.

Countywide Policy 1060, “Financial Goals and Policies,” Section 4.6, states:

All fines, fees and ‘user’ charges, shall be set at full cost, unless the Council approves some other basis. The Council may consider such exceptions where a broad community purpose is determined, or where considerations of health, safety and welfare are determined.

Section 7.11, states:

The Auditor shall review the cost allocation methodologies used throughout the County for consistency and compliance with generally accepted cost accounting practices. This review shall include all funds of the County.

We found that Animal Services did not have an internal cost accounting system that was designed to track direct costs, such as labor and materials, to a specific service. In addition, overhead costs were not allocated using a rational cause-and-effect relationship due to the inability of Animal Services’ point-of-sale system to track appropriate cost drivers. This left us unable to determine specific unit costs with a high-degree of accuracy.

Animal Services management stated that they could determine the price of a material and/or labor (direct costs) if needed, but do not actively track the exact cost of individual services. They set the new public fees based on market rates, and priced contracts for municipal services based on the population of the municipality served.

Without an appropriate cost accounting system implemented, there is an increased risk that fees will not cover costs. In addition, management will not have accurate costing information to make informed operating decisions, which could result in double-taxation through inequitable billing practices.

A widely-accepted cost accounting practice is job-order costing combined with an activity-based costing (ABC) overhead allocation methodology.

Direct costs are identified through job-order costing that assigns costs to individual services when they are sufficiently differentiated from one another. For example, when a field officer receives a call to pick up a stray animal, the officer’s time used would be tracked including any materials specifically used on the call.

Overhead cost allocation is based on a cause-and-effect relationship using the ABC methodology. It recognizes that financial resources are used as activities are performed. For example, expenses for gasoline, oil, and vehicle maintenance could be allocated to a service based upon the number of miles driven that is required to complete that service. Table 2 provides an example of how job-order costing and ABC could be applied within Animal Services.

Table 2: Example of Job-Order Costing with ABC

EXAMPLE OF JOB ORDER COSTING WITH ABC		
JOB SA123: STRAY ANIMAL PICK-UP		
Labor	30 Minutes @ \$40/Hr	\$20.00
Materials	15mg Diazepam @ \$1/mg	15.00
Overhead	Gasoline expense: 20 miles @ .50/mile	10.00
	Telephone expense: 1 call @ \$2/call	2.00
	Administrative: 1 call @ \$4/call	4.00
Total Unit Cost		\$51.00

Note: Not actual costs. Job-order costing along with ABC provides a rational basis for allocating overhead costs to services.

Implementing job-order costing with ABC, or another effective costing model, would provide Animal Services management with the average total cost of each service. In addition, it would establish a clear financial basis for improved decision-making.

RECOMMENDATION

We recommend that Animal Services management implement an internal cost accounting system that is sufficient to determine the total cost of performing individual services.

FINDING 1.2: The 2016 public fee schedule and service agreement contract rates used by Animal Services management were not sufficient to recover the 2016 full cost of operations.

Risk Ranking: 2 (Moderate)

We performed an analysis of Animal Services 2016 revenues and expenses. We then projected revenues based on the recently adopted fee structure against actual 2016 expenses. Table 3 shows the results of this analysis.

Table 3. Animal Services Fee Structure Comparison

ANIMAL SERVICES FEE STRUCTURE COMPARISON			
REVENUES/EXPENDITURES	OLD FEE STRUCTURE	NEW FEE STRUCTURE	% CHANGE
Fee Revenues 2016			
Salt Lake City Contract	\$1,342,842	\$1,594,697	19%
Riverton Contract	232,038	318,463	37%
Herriman Contract	208,254	244,165	17%
Midvale Contract	132,360	224,120	69%
Holladay Contract	128,446	199,330	55%
Bluffdale Contract	0	105,266	100%
Municipal Serv. Dist. Contract	0	1,315,660	100%
General Fund Billings	467,814	1,239,850	165%
Fee Revenue from Patrons	670,998	1,000,442	49%
Operating Contributions	59,752	59,752	0%
Misc. Revenues	109,070	109,070	0%
Total Fee Revenues 2016	\$3,351,572	\$6,410,815	91%
Add: General Fund Contr.	2,258,726	0	-100%
Total Revenues 2016	\$5,610,298	\$6,410,815	14%
Less: Actual 2016 Expenditures*	(5,610,298)	(5,610,298)	0%
Net Results from Operations Surplus/(Deficit)	\$0	\$800,517	135%

*Note: Actual 2016 expenditures did not include depreciation and capital costs. See Finding 1.3.

The largest changes in revenues were derived from new general fund billing amounts and projected future contract revenues. Our analysis included two assumptions and estimates to arrive at the net profit shown in the table above. First, it was assumed that revenue projections made by Animal

Services management would be adopted in future contracts. Second, the estimated public fee schedule revenue from patrons was based on the same level of services provided in 2016, had the adopted fee schedule been implemented. This was necessary since some services, such as 1st vs. 2nd impounds, were not previously tracked separately prior to 2017.

Countywide policy promulgates the requirement that the amount of revenues charged by an entity for services must be designed to recover the full cost associated with those services.

Countywide Policy 1060, “Financial Goals and Policies,” Section 4.5, states:

The County shall establish all inter-local contracts for services at a level which reflects the full cost of providing the services. Full cost means all actual direct costs, plus overhead costs.

From our analysis, we concluded that the 2016 public fee schedule and service agreement contracted amounts used by Animal Services were not sufficient to cover their total costs of operations in 2016. We then approximated the revenues that would have been realized in 2016 with the adopted public fee schedule and determined Animal Services would have initially realized a profit. However, additional capital and depreciation expenses were not included; therefore, the profit could not be substantiated. See Finding 1.3 for details.

Due to the lack of information regarding capital costs and the assumptions required to perform our analysis, we could not determine with a high-degree of certainty whether the newly adopted public fee schedule and service agreement contracts would be sufficient to recover all costs of operations.

RECOMMENDATION

We recommend that Animal Services management continue to analyze their public fee schedule and service agreement contracts to determine if they are sufficient to recover the total cost of operations.

FINDING 1.3: Capital costs and related depreciation were not established before the new public fee schedule and population-based service agreement contracts were adopted.

Risk Ranking: 2 (Moderate)

Animal Services was reclassified from a special revenue fund to an enterprise fund in January 2017. Special revenue fund accounting reflects whether the financial resources obtained by the entity during the current accounting period are sufficient to pay for all current liabilities and if current resources pledged were used for their intended purpose. This measurement method does not include capital assets and long-term liabilities since they do not focus on the accountability of current resources.

Enterprise funds use a different method of accounting for financial reporting purposes. They are accounted for in a manner like a private business using the economic resource measurement focus and accrual basis of accounting. As an enterprise fund entity, Animal Services is now required to carry its capital assets (including depreciation) and long-term assets and liabilities on its balance sheet.

Countywide Policy 1060, “Financial Goals and Policies,” Section 4.7 states:

The County shall set fees, user charges and inter-fund charges, for all Enterprise and Internal Service Funds at a level that fully supports the total direct and overhead costs of services related to such funds. In certain instances, the Council may supplant proprietary fund fees and other revenues with operating transfers from other funds when legally permissible to do so...

During our audit, we noted that capital costs and related depreciation expense had not been established, causing an inability to determine the full cost of operations within the enterprise fund. Although the updated public fee schedule has been adopted by the County Council, there is an increased risk that the newly developed fee structure will not be sufficient to recover the full cost of operations.

RECOMMENDATION

We recommend that Animal Services management determine the capital costs and depreciation associated with its reclassification to an enterprise fund prior to the end of the County’s 2017 fiscal year.

2.0 Service Agreement Contracts

Audit Objectives:

- Determine if service agreement contracts with local entities have proper oversight and administration.
- Determine if Animal Services received the correct amount of fee revenue based on the terms of current service agreement contracts.

Municipalities that contract with Animal Services enjoy benefits without the additional burden of operating their own animal shelters. We examined six service agreement contracts, five which were active during 2016. See Table 4 below.

Table 4. Animal Services Contract Terms and Amounts

ANIMAL SERVICES CONTRACT TERMS AND AMOUNTS				
MUNICIPALITY	ORIGINAL	EXPIRES	ANNUAL	MONTHLY
Bluffdale City	01/01/17	06/30/18	\$157,899	\$13,158
Herriman City	07/01/05	06/30/17	\$213,336	\$17,778
Holladay City	10/01/10	06/30/17	\$137,407	\$11,451
Midvale City	07/01/11	06/30/17	\$142,728	\$11,894
Riverton City	07/01/12	06/30/17	\$237,696	\$19,808
Salt Lake City Corporation	04/01/15	06/30/17	\$1,351,188	\$112,599

The largest contracted municipality is Salt Lake City Corporation.

We compared contract terms and found inconsistencies with payee information, due dates, termination clauses, service requirements, and late payment interest rates. Five of the six service agreements had similar terms in content and layout. We observed the Salt Lake City Corporation (SLC) service agreement contract differed the most from others. SLC agreement stipulated a 5-day termination notice, includes extended scope of work, allowable response times for service calls, requires outreach services, and limits on renewal increases. See Table 5 below.

Table 5. Animal Services Comparison of Contract Terms

COMPARISON OF CONTRACT TERMS			
CONTACT ENTITY	CONTRACT TERMINATION NOTICE	ANIMAL SERVICES INVOICE DUE	PAYMENT DUE DATE
Bluffdale City	180 days before renewal	Not stated	15 th
Herriman	180 days before renewal	Not stated	15 th
Riverton	April 30 th before renewal	At least 10 days before due	30 th
Midvale City	180 days before renewal	At least 10 days before due	30 th
Holladay City	180 days before renewal	At least 10 days before due	30 th
Salt Lake City Corp.	5 days	1 st for previous month	30 days

Terms for contracts were inconsistent.

FINDING 2.1: Service agreement contracts were not amended to reflect the billing address change from the Auditor’s Office to Mayor’s Financial Administration.

Risk Ranking: 2 (Moderate)

In January 2012, County accounting functions including billing and receipting for service agreement contracts were moved from the Auditor's Office to the Mayor's Office. Subsequent renewals of Animal Services service agreement contracts were not amended to reflect this change.

Contracts and invoices are inconsistent regarding where payments are to be remitted. Monthly invoices sent from Animal Services to municipalities instruct remittance to be sent to "Mayor's Financial Administration." Current contract instructions are detailed in the Table 6 below.

Table 6. Contract Remittance Instructions

CONTRACT REMITTANCE INSTRUCTIONS	
CONTRACT ENTITY	REMITTANCE INSTRUCTIONS
Bluffdale City	Salt Lake County Auditor
Herriman	Salt Lake County Auditor
Riverton	Salt Lake County Auditor
Midvale City	Salt Lake County ... ATTN: Auditor’s Office
Holladay City	Salt Lake County Treasurer ... ATTN: Auditor’s Office
Salt Lake City Corp.	No instructions

Contract remittance instructions were outdated or missing.

Countywide Policy 1220, "Management of Accounts Receivable and Bad Debt Collection," states in the Purpose section that:

County departments and agencies may grant credit to patrons by relying on contracts, applications, or other similar forms which provide sufficient identifying information to enable the establishment of an accounts receivable record and information necessary for subsequent collection procedures.

Inconsistent contract terms and invoices may cause confusion, increasing the risk of misdirected payments.

RECOMMENDATION:

We recommend that management amend service agreement contracts to correctly state remittance information.

FINDING 2.2: Interest rates for late payments listed in the service agreement contracts were not consistent with Countywide policy.

Risk Ranking: (1) Low

When an organization extends credit in the form of accounts receivable to customers, there are associated costs, such as administration and interest. We observed that the stated interest in most of the service agreement contracts was lower than the rate stated in Countywide policy. See Table 7 below.

Table 7. Contract Late Payment Interest

CONTRACT LATE PAYMENT INTEREST	
CONTRACT ENTITY	LATE PAYMENT INTEREST TERMS
Bluffdale City	"If any payment is not remitted to the County Auditor when due, the County shall be entitled to recover interest thereon. Said interest shall be at the rate of one percent (1%) per calendar month and shall begin to accrue on the date the remittance is due and payable."
Herriman City	
Midvale City	
Holladay City	
Riverton City	Erroneously stated, "... at the rate of twelve percent (8.0%) per annum ..."
Salt Lake City Corp.	No late payment terms stated in the contract.

Late payment interest was not consistent with Countywide policy.

Countywide Policy 1220, "Management of Accounts Receivable and Bad Debt Collection," Section 4.4, states:

Payments received after the due date shall be allowed a two-day grace period, following which interest will be charged 1 1/2 percent per month (18 percent per annum) on the unpaid balance of the account.

Service agreement contracts which state interest rates lower than established Countywide policy rates could negatively impact the County's cost of collecting on delinquent accounts. Inconsistent

application of Countywide policy may de-incentivize municipalities to pay in a timely manner and may establish a negative precedence, impeding future collection efforts.

Animal Services management used standardized language that had not been updated to reflect Countywide policy.

RECOMMENDATION:

We recommend that Animal Services management amend service agreement contracts to reflect late payment interest rates that are consistent with Countywide policy.

FINDING 2.3: Interest on late service agreement contract payments was not charged.

Risk Ranking: 1 (Low)

The practice of not charging interest on outstanding invoices, or late payments, can impede future collection efforts. Municipalities may choose to pay other obligations that charge interest in lieu of Animal Services invoices.

We examined all 70 invoices issued during 2016 to determine if payments followed the terms of the contracts. We found that 15 payments were considered late, beyond the allowable 32 days. The calculated interest was \$772 at the contracted 1% (12% per annum) interest rate. At the current Countywide policy rate of 1½ % (18% per annum), interest would have been \$1,157. See Table 8 below.

Table 8. Accumulated Interest at Contract and Countywide Policy Rates.

ACCUMULATED INTEREST AT CONTRACT AND COUNTYWIDE POLICY RATES				
DAYS PAST DUE	INVOICES	INVOICE AMOUNTS	1% CONTRACT INTEREST	1.5% COUNTY POLICY INTEREST
33 to 45 Days*	12	\$182,317	\$330.17	\$495.25
46 to 60 Days	0	\$0.00	\$0.00	\$0.00
60+ Days	3	\$30,708	\$441.22	\$661.82
Total	15	\$213,025	\$771.38	\$1,157.07

Interest was not charged or collected on outstanding invoices.

*Countywide Policy allows a 2-day grace period before charging interest on late payments.

Countywide Policy 1220, "Management of Accounts Receivable and Bad Debt Collection," Section 4.3, states:

Interest will be charged on accounts receivable not paid within 30 days of the date of the invoice. Interest charges are imposed to offset the County's cost of financing accounts receivable and to provide an incentive for timely payment of accounts receivable.

Section 4.4, continues:

Payments received after the due date shall be allowed a two-day grace period, following which interest will be charged at 1 1/2 percent per month (18 percent per annum) on the unpaid balance of the account.

Interest not charged fails to comply with terms of the service agreement contracts and Countywide policy. In addition, associated financing costs for carrying accounts receivable are not recovered. Inconsistent application of Countywide policy may de-incentivize municipalities to pay in a timely manner and may establish a negative precedence impeding future collection efforts.

Animal Services management was aware of the requirement to charge interest on late payments, but was reluctant to do so, as an effort to foster positive relations.

RECOMMENDATION:

We recommend that Animal Services management comply with Countywide policy and enforce contract terms by charging and collecting interest on late payments.

APPENDIX A: COUNCIL APPROVED PUBLIC FEE SCHEDULE

Mayor's Office : Council Agenda Item Request Form

This form and supporting documents (if applicable) are due the Wednesday before the COW meeting by noon.

Date Received (office use)	
-------------------------------	--

Date of Request	13 December 2016
Requesting Staff Member	Talia Butler
Requested Council Date	
Topic/Discussion Title	Review & Consent of Resolution to Revise Animal Services Fee Structure
Description	Animal Services has revised our fee structure and would like to ask for Council to review and approve. This does not need to go before the Revenue Committee because it does not meet the threshold.
Requested Action¹	Adopt Resolution for Revised Fee Structure
Presenter(s)	Talia Butler
Time Needed²	5 minutes or less
Time Sensitive³	No
Specific Time(s)⁴	N/A
Contact Name & Phone	Talia Butler, 385-468-6031
Please attach the supporting documentation you plan to provide for the packets to this form. While not ideal, if supporting documents are not yet ready, you can still submit them by 10 am the Friday morning prior to the COW agenda. Items without documentation may be taken off for consideration at that COW meeting.	See attached resolution and revised fee structure

Mayor or Designee approval: _____

¹ What you will ask the Council to do (e.g., discussion only, appropriate money, adopt policy/ordinance) – in specific terms.

² Assumed to be 10 minutes unless otherwise specified.

³ Urgency that the topic to scheduled on the requested date.

⁴ If important to schedule at a specific time, list a few preferred times.

RESOLUTION NO. _____, 2015

A RESOLUTION OF THE SALT LAKE COUNTY COUNCIL ADOPTING A FEE SCHEDULE FOR SERVICES PROVIDED BY THE ANIMAL SERVICES DIVISION.

WITNESSETH

WHEREAS, Animal Services is a Division of Salt Lake County that operates an animal shelter and provides other services, for which fees must be collected; and

WHEREAS, Animal Services desires to adopt the attached Animal Services Fee Schedule to pay for the cost of these services; and

WHEREAS, pursuant to Section 3.42.040 of the Salt Lake County Code of Ordinances, new fees imposed by Salt Lake County agencies may be adopted at any time by resolution of the County Council; and

WHEREAS, it has been determined that the best interests of Salt Lake County and the general public will be served by the attached Animal Services Fee Schedule.

RESOLUTION

NOW, THEREFORE, IT IS HEREBY RESOLVED by the County Council of Salt Lake County that the attached Animal Services Fee Schedule is approved and adopted. It shall become effective thirty (30) days after its adoption and upon at least one publication of the policy or a summary thereof in a newspaper published and having general circulation in Salt Lake County.

APPROVED AND ADOPTED in Salt Lake City, Salt Lake County, Utah, this _____ day of _____, 2016.

Max Burdick, Chairperson

ATTEST:

Sherrie Swensen
Salt Lake County Clerk

Voting:

Council Member Bradley	_____
Council Member Bradshaw	_____
Council Member Burdick	_____
Council Member DeBry	_____
Council Member Granato	_____
Council Member Jensen	_____
Council Member Newton	_____
Council Member Snelgrove	_____
Council Member Wilson	_____

APPROVED AS TO FORM:

By: Angela Lane
Angela D. Lane,
Deputy District Attorney
Date: 03/14/2016



**Fee
Schedule**

Customer ID _____
 Animal ID _____
 Officer Number _____

Impound & Boarding		
1st Impound		\$40
2nd Impound within 24 months		\$80
3rd Impound within 24 months		\$160
Subsequent Impound within 24 months		\$320
Board Fee = Each Day of Board/ \$20 multiplied by # of Days Boarded _____ = Total Board Fee _____		
Rabies/Vaccines/Microchip		
Rabies Deposit (cash or credit only)		\$25
Rabies Test Fee (or Quarantine Fee)		\$200
Microchip (may be required upon impound)		\$30
Pet Licenses (Issued for a 1-year Period)		
License - Unsterilized		\$40
License - Sterilized		\$15
License - Senior Citizen, Sterilized		\$5
License - Transfer Fee or Replacement Tag		\$5
Late License Penalty (applicable 30 days after due date)		\$50
Permits (Issued for a 1-year Period)		
Commercial operations - up to 30 animals		\$200
Commercial operations - over 30 animals		\$300
Residential Permit		\$50
Dangerous Animal Permit		\$150
Animal exhibition (single event \$100) OR (multiple events \$400)		
Other Permit Specified by Ordinance _____		
Late application renewal fee (in addition to regular fee)		\$50
Sterilization		
Sterilization Deposit (mandated for 2nd impound & each after by Utah State Code 11.46.206)		\$150
In-house Sterilization		\$100
Notice of Violation		
First NOV (fee per violation) (may include citation)		\$50
Second Violation (may include citation)		\$100
Third Violation (may include citation)		\$200
Subsequent Notices of Violation (may include citations)		\$250
Livestock		
Dead Livestock Removal		\$300
Dead Livestock Disposal		\$200
Brand Inspection Fee		\$30
Livestock Transportation Fee (per incidence)		\$50
Euthanasia and Disposal - Companion Animals		
Euthanasia and disposal of small animals (hamsters, mice, guinea pigs, etc.)		\$5
Euthanasia (dog or cat)		\$50
Disposal (dog or cat)		\$50
Other		
Turnover Fee		\$50
Other _____		
Other _____		
Other _____		
Total Fees		

Fees are established in ordinance and may not be waived or refunded. Rev. Dec 2016

AGENCY RESPONSE



Memorandum

To: James Fire, Salt Lake County Auditor's Office
CC: Scott Baird, Talia Butler
From: Michelle Blue, Associate Director/ Finance Manager
Date: June 13, 2017
Re: Audit of Animal Services

ANIMAL SERVICES DIVISION
BEN McADAMS SALT LAKE COUNTY MAYOR
SCOTT BAIRD DIRECTOR Public Works Department
TALIA BUTLER Division Director
511 West 3900 South Salt Lake City Utah 84123
PHONE 385-GOT-PETS (385-468-7387)
FAX (385) 468-6028
www.AdoptUtahPets.com
Proudly serving the citizens of...
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Herriman City
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Riverton City
Salt Lake City
And the Salt Lake County Metro Township ...
Copperton
Emigration Canyon
Kearns
Magna
White City

Thank you for providing the findings of the Animal Services Audit. Before finalizing the report, please include our responses to the findings below:

Finding # 1.1 – Animal Services did not have an internal cost accounting system that could accurately track the total cost of performing a service.

Our management team disagrees with this finding and will not implement the recommendation. We assert that this costing model is not feasible and is also not standard practice in most first responder agencies. Costs can vary so widely for the same service. As an example, the service of euthanasia can vary widely in costs for materials and labor, due to an animal's species, temperament, and size. The actual cost can vary from a few cents to thousands of dollars.

Animal Services keeps detailed records through our database, and we can identify how many units of service were performed and in which jurisdiction they are performed. It can easily be identified where an animal came from, how it was impounded, what materials and costs we accrued in caring for it, its disposition, and any costs that we recovered in the process. However, the variable nature of each of these factors makes it impossible to determine an accurate standard cost for the service.

Adoption services are another example of the difficulty of determining costs. Our agency may spend over \$1,000 on medical costs for an animal, and we might recover all expenses if we can locate the pet's owner. But if we adopt the animal to a new home, we may receive an adoption fee as low as \$25, as adoption fees do not vary based on how much was spent on the animal. The same animal might die in the shelter and we would not recover any costs at all.

In 2016, the Public Works Department hired Zions Bank Public Finance to determine the cost of each service, and they were unable to complete this analysis for our agency because they encountered these problems.



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Animal Services also reached out to other Animal Control Agencies, the County Sheriff and Unified Fire Authority to research their costing models. All agencies are first responders and utilize models similar to Animal Services cost per citizen model, with a single metric to determine price. (The metric varies from cost-per-jail-stay, cost-per-firefighter, cost-per-population, and cost-per-call.) Discussions with all agencies verified that they would face similar challenges if they were forced to move to an internal cost accounting system.

Animal Services agrees with the conclusion reached by Zions Bank Public Finance. As with other first responder agencies in our community, we are confident that an internal cost accounting system to determine the cost of performing each individual service is neither feasible, nor a best practice.

Finding # 1.2 – The 2016 public fee schedule and service agreement contract rates used by Animal Services management were not sufficient to recover the 2016 full cost of operations.

Our management team disagrees with this finding. Animal Services was not in an enterprise fund in 2016, and had no mandate to recover the full cost of operations. Furthermore, the “loss” identified in table 4 is the amount of county funding that equals service provided to the unincorporated areas of Salt Lake County. The amount is contract usage; not a loss.

As identified in the audit, the Director identified in 2016 that the public fee schedule needed revision, and the Director asked the Council to adopt a revised fee schedule. With the creation of an enterprise fund, the agency is acutely aware of the need to recover the total cost of operations.

Finding # 1.3 – Capital costs and related depreciation were not established before the new public fee schedule and population-based service agreement contracts were adopted.

Animal Services accepts this finding and will implement the recommendation. The relocation to an enterprise fund has resulted in a great deal of unforeseen consequences. Many of these were unknown challenges prior to the transfer, and some challenges continue to arise. One lingering challenge is that our agency still does not have a way to address capital projects. With partial funding for services delivered to the general fund, seven contract cities, and five townships participating in the MSD, there are multiple bodies of approvers from which we must seek approval for capital projects.

It is fully expected that additional unknown concerns will be identified in the future, as the migration to an enterprise fund is a foreign pursuit for the Public Works Department.



Finding # 2.1 – Service agreement contracts were not amended to reflect the billing address change from the Auditor’s Office to Mayor’s Financial Administration.

Animal Services accepts this finding and has implemented the recommendation. All county contracts are created and approved by the District Attorney’s office. Animal Services has asked our attorney to create revised contracts with the corrected information. In addition, all invoices that were sent to contract cities reflected the correct remittance address, so the vendors had the correct remittance address.

Finding # 2.2 – Interest rates for late payments listed in the service agreement contracts were not consistent with Countywide policy.

Animal Services accepts this finding and has implemented the recommendation. All county contracts are created and approved by the District Attorney’s office. Animal Services has asked our attorney to correct this information on revised contracts.

Finding # 2.3 – Interest on late service agreement contract payments was not being charged.

There are multiple factors that can result in a payment being delayed. It is imperative that our agency foster positive relations with customer cities. Thus, our agency will be pursuing an exception to the county policy that mandates the collection of interest on these contracts. We will not be implementing the audit recommendation.

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