



City of New York

OFFICE OF THE COMPTROLLER

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COMPTROLLER



FINANCIAL AUDIT

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Deputy Comptroller for Audit

Audit Report on Animal Care and
Control of New York City, Inc.'s
Financial and Operating Practices

FM14-089A

April 17, 2015

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, NY 10007

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April 17, 2015

To the Residents of the City of New York:

My office has audited Animal Care and Control of New York City, Inc. ("AC&C") to determine whether it has adequate controls to ensure proper operational and financial accountability in key areas. AC&C is a non-profit corporation that operates New York City's municipal animal shelter system under a five-year, \$51.9 million contract with the New York City Department of Health and Mental Hygiene (DOHMH). It operates five locations throughout the City: three full-service animal shelters in Manhattan, Brooklyn, and Staten Island; and two receiving centers, one in the Bronx and one in Queens. In our audit, we specifically examined whether AC&C adequately safeguards controlled substances and maintains them in compliance with applicable laws and regulations; if AC&C complies with major non-revenue requirements of its contract with DOHMH; and whether revenue and expenses are properly recorded and reported.

This audit found that AC&C lacks effective oversight and controls over its inventory of controlled substances and that it does not maintain a computerized inventory system of controlled substances as required by its contract. Our audit identified numerous discrepancies in AC&C's controlled substance records which stem from these control failures. The audit also found controlled substances used after their expiration dates and vaccines improperly stored. Further, the audit found physical conditions in the shelters that needed to be addressed. With regard to fiscal management, we found that AC&C generally recorded and reported its revenue and expenses appropriately and maintained the required insurance. However, the audit found financial control weaknesses that led to a relatively small number of questionable payments. These control weaknesses need to be strengthened and appropriate action taken in the case of any questionable payments that AC&C finds to have been improper.

This report makes 18 recommendations, including that AC&C implement a computerized inventory system to accurately account for all controlled substances and monitor expiration dates; establish formal policies to ensure that all controlled substances are handled and accounted for in accordance with Drug Enforcement Administration guidelines and other applicable requirements; ensure that the duties of requesting, receiving, and recording controlled substances are segregated among different individuals; ensure that expenses are supported by sufficient reliable documentation; and establish policies whereby all credit card purchases by the Executive Director are required to be authorized by AC&C's Board of Directors, President or Treasurer.

The results of the audit have been discussed with AC&C and DOHMH officials, and their comments have been considered in preparing this report. Their complete written responses are attached to this report. If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on Animal Care and Control of New York City, Inc.'s Financial and Operating Practices

FM14-089A

EXECUTIVE SUMMARY

This audit was conducted to determine whether Animal Care and Control of New York City, Inc. (“AC&C”) has adequate controls to ensure proper operational and financial accountability in key areas. Specifically, we examined whether controlled substances are adequately safeguarded and maintained in compliance with applicable laws and regulations; if AC&C complies with major non-revenue requirements of its contract with the New York City Department of Health and Mental Hygiene (“DOHMH”), specifically, the adequacy of its maintenance of its facilities, and its insurance coverage; and whether revenue and expenses are properly recorded and reported.

AC&C is a non-profit corporation that operates New York City’s municipal animal shelter system under a five-year, \$51.9 million contract with DOHMH. AC&C’s contract requires it to rescue homeless and abandoned animals in New York City and to provide shelter, examine, test, treat, spay, neuter, and assure humane care and disposition of animals seized because they are deemed a threat to public health or they are accepted for care. AC&C operates five locations throughout the City: three full-service animal shelters in Manhattan, Brooklyn, and Staten Island; and two receiving centers, one in the Bronx and one in Queens.

AC&C provides shelter to approximately 30,000 animals each year. According to AC&C’s certified financial statements for Fiscal Year 2013, AC&C reported total revenue of \$13.7 million and total expenses of approximately \$13.3 million.

Audit Findings and Conclusions

AC&C lacks effective oversight and controls over its inventory of controlled substances and does not maintain a computerized inventory system of controlled substances as required by its contract. Our audit identified numerous irreconcilable discrepancies in AC&C’s controlled substance records which stem from these control failures. The audit also found controlled substances used after their expiration dates and vaccines improperly stored. Further, the audit found physical conditions in the shelters that needed to be addressed. With regard to fiscal management, we found that AC&C generally recorded and reported its revenue and expenses appropriately and maintained the required insurance. However, the audit found financial control weaknesses that led to a relatively small number of questionable payments. These control weaknesses need to

be strengthened and appropriate action should be taken in the case of any questionable payments that AC&C finds to have been improper.

At the exit conference on March 9, 2015, AC&C officials reported that they have taken action on several issues brought to their attention during the course of the audit and disclosed in this report. The section of the report entitled Subsequent Events provides additional information related to these issues.

Audit Recommendations

We make 18 recommendations, 15 to AC&C and three to DOHMH, including the following:

AC&C should:

- Ensure that the duties of requesting, receiving, and recording controlled substances are segregated among different individuals;
- Implement a computerized inventory system to accurately account for all controlled substances and monitor expiration dates;
- Establish formal policies to ensure that all controlled substances are handled and accounted for in accordance with DEA guidelines and other applicable requirements;
- Ensure that expenses are supported by sufficient reliable documentation, for legitimate business-related purposes and that appropriate and accurate purchasing documents are provided and maintained;
- Establish policies whereby all credit card purchases by the Executive Director are required to be authorized by AC&C's Board of Directors, President or Treasurer;
- Review the \$11,715 in questionable payments identified in this audit and determine if all the payments were for appropriate AC&C purposes and if not, whether any payments should be recouped and/or other action taken;
- Ensure that all employees utilize the electronic timekeeping system;
- Conduct a cost benefit and feasibility assessment to determine the benefits and liabilities of maintaining office space in Manhattan and expand AC&C's efforts in locating a lower cost alternative, including seeking office space in the outer boroughs.

DOHMH should:

- Incorporate into its contract a requirement for AC&C to implement a system of internal controls that includes formal policies and procedures for its operation;
- Ensure that AC&C complies with all of the recommendations in this report.

AC&C and DOHMH Responses

In its response to the draft audit report, with one exception, AC&C generally agreed with the report's findings and recommendations. In its response, it describes the numerous actions it has taken and that it intends to take to address the findings in the audit report. In addition, DOHMH largely agreed with the recommendations directed to it in its response. The full texts of both AC&C's and DOHMH's responses are included as addenda to this report.

AUDIT REPORT

Background

AC&C is a non-profit corporation that operates New York City's municipal animal shelter system. Working under a five-year, \$51.9 million contract with DOHMH, AC&C rescues homeless and abandoned animals in New York City. AC&C operates five locations throughout the City: three full-service animal shelters in Manhattan, Brooklyn, and Staten Island; and two receiving centers, one in the Bronx and one in Queens.¹ AC&C's leadership team consists of a nine-member Board of Directors, an Executive Director, a Director of Operations, and a Medical Director.

AC&C's contract with DOHMH requires it to operate five facilities, and to provide shelter, examine, test, treat, spay, neuter and assure the humane care and disposition of animals seized because they are deemed a threat to public health or because they are accepted for care.² The contract also requires AC&C to "maintain separate and accurate books, records, documents and other evidence and accounting procedures and practices which sufficiently and properly reflect all direct and indirect costs of any nature expended in the performance of this Agreement." Further, the contract requires AC&C to ensure that all necessary repairs to its facilities and equipment are made expeditiously by qualified and responsible contractors. Since 2006, AC&C has outsourced its accounting functions to a private company that acts as AC&C's "fiscal manager." Among other things, the fiscal manager provides general financial and strategic guidance to AC&C.

AC&C provides shelter to approximately 30,000 animals each year. According to AC&C's certified financial statements for Fiscal Year 2013, AC&C reported total revenue of \$13.7 million (\$10.6 million or 77 percent from its contract with the City and \$3.1 million from other sources), and total expenses of approximately \$13.3 million (Personnel Services Expenses of \$8.5 million and Other than Personal Service Expenses of \$4.8 million).

Objectives

The objectives of this audit were to determine whether AC&C has adequate controls to ensure proper operational and financial accountability in key areas. We examined:

- Whether controlled substances are adequately safeguarded and maintained in compliance with applicable laws and regulations;
- If AC&C complies with major non-revenue requirements of its DOHMH contract, specifically, the adequacy of its maintenance of its facilities, and its insurance coverage; and
- Whether revenue and expenses are properly recorded and reported.

¹ In July 2010, AC&C and DOHMH entered into a \$35.8 million contract for services. That contract was amended in June 2012 to require AC&C to undertake additional reporting, use DOHMH's dog licensing system, and embark on an animal sterilization campaign in exchange for an additional \$1 million. The contract was amended a second time in July 2013 to require an increase in field services and hours of operation and the procurement of 12 field service vans, in exchange for an increase in payment of an additional \$15.1 million, making the total value of AC&C's current contract with the City \$51.9 million.

² Members of the public may drop off lost, stray, or injured animals at receiving centers. The animals are then taken to one of the three full-service shelters for overnight stay and adoption.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covered Fiscal Year 2013 (July 1, 2012, to June 30, 2013) but was expanded to include additional tests of certain areas based on our observations during the course of the audit. The section of the report entitled Detailed Scope and Methodology provides a description of the specific procedures and tests that were conducted in connection with this audit.

Discussion of Audit Results with AC&C and DOHMH

The matters covered in this report were discussed with AC&C and DOHMH officials during and at the conclusion of this audit. A preliminary draft report was sent to AC&C and DOHMH and discussed at an exit conference on March 9, 2015. At the exit conference, AC&C officials provided additional information and stated that they have taken action to address some of the deficiencies cited in the report. The audit report further discusses these actions in its Subsequent Events section. On March 17, 2015, we submitted a draft report to AC&C and DOHMH with a request for comments. We received written responses from both AC&C and DOHMH on April 1, 2015.

In its response, AC&C agreed with most of the report's findings and recommendations. AC&C described actions it has taken to enhance medical care by hiring a full time Medical Director and other staff, as well as actions it has taken to ensure appropriate oversight of controlled substances. In addition, DOHMH largely agreed with the recommendations directed to it. Among other things, it reported that it "hired an engineering firm to evaluate the HVAC system." DOHMH's response further states that "[i]n December, 2014, DOHMH announced that it committed \$3.5 million in its Capital New Needs plan to replace the existing HVAC system at the Brooklyn Shelter. The project will be initiated in FY16."

The full texts of AC&C's and DOHMH's responses are included as addenda to this report.

FINDINGS

AC&C lacks effective oversight and controls over its inventory of controlled substances. In addition, AC&C does not maintain a computerized inventory system of controlled substances as required by its contract with DOHMH. As a result, we identified numerous irreconcilable discrepancies in AC&C's controlled substance records. In total, AC&C failed to adequately account for the equivalent of 43 bottles of various injectable controlled substances and 239 tablets over the four-month period reviewed by the auditors.³ The audit also found instances where controlled substances were used after their expiration dates and where vaccines were improperly stored, which raised concerns about animal safety.

Further, the audit found physical conditions in the shelters that needed to be addressed, only some of which have been to date. Short term problems identified included a strong gas odor in the general corridor of the Brooklyn shelter, and peeling paint above dog kennels and a defective fire alarm in the Staten Island shelter. Potentially longer term problems observed included isolation rooms for sick animals and service rooms with healthy animals that share the same HVAC system, and doors to the dog isolation room that did not close fully in the Brooklyn shelter. Additionally, the Manhattan shelter did not have a backup generator, and animals are housed in overcrowded conditions while there is a large underutilized garage with approximately 2,500 square feet of space attached to the facility used for storage.

With regard to fiscal management, we found that AC&C generally recorded and reported its revenue and expenses appropriately and maintained the required insurance. However, the audit found several minor financial control weaknesses which need to be strengthened. AC&C also lacks proper oversight of its fiscal manager's activities and so cannot ensure adequate controls are in place for the disbursement of funds.

Lack of Oversight of Controlled Substances

AC&C does not exercise sufficient care over its storage and administration of controlled substances. We found that AC&C relies on a single employee to perform several functions related to its controlled substances that should be assigned to separate individuals. The Manhattan and Brooklyn shelters have at least two employees who can make a request, receive, and record controlled substances. However, purchasing records indicate that only one employee per order performs all three functions. Similarly, a single employee at the Staten Island shelter is responsible for requesting, receiving, and recording the receipt of controlled substances. Although each shelter's orders contain independent approvals, the records do not contain any evidence that an independent check is conducted on the receipt and recording of these controlled substances. Maintaining an adequate segregation of duties on purchases is prudent, and particularly important in the case of controlled substances with a street resale value. We also found no evidence that inventory reconciliations are performed. Consequently, there is an increased risk that controlled substances could be unaccounted for and susceptible to misuse, loss, or theft.

Further, we found that AC&C failed to comply with its City contract, which specifies that AC&C use a computerized inventory system for its controlled substances. Specifically, Annex A, Section 2.14 of the City contract requires that "[a]n inventory of all drugs used in the shelter shall be

³ To reconcile quantities of controlled substances, we obtained usage logs covering the four-month period from March 21, 2014 (the date of our physical observation) back to December 1, 2013. However, on some usage logs, the original dates of usage may precede the four-month period.

monitored and accounted for through [AC&C's] computer system.” Yet, no computerized inventory system is maintained by AC&C. Rather, AC&C relies on a manual system that we found contains many inaccuracies. For example, while AC&C recorded 32 bottles of controlled substances as empty on its manually maintained usage logs, it continued to record additional usage from these supposedly empty bottles (see Appendix I). These findings demonstrate the inaccuracy and unreliability of AC&C's manual records.

A computerized inventory system, as mandated by AC&C's contract with the City, could help to ensure the accuracy of its records. Further, accurate records could help curtail excessive purchases, misuse of items that have reached their expiration date, and theft. Further, a computerized system, together with regular inventory reconciliations, would help to ensure that AC&C complies with Title 21, Section 1301.71 of the Drug Enforcement Administration's (DEA) Code of Federal Regulations requirement that entities, such as AC&C, lawfully in possession of controlled substances “provide effective controls and procedures to guard against theft and diversion of controlled substances.” The effects of AC&C's failure to establish proper controls over its controlled substances were revealed by this audit and are described below.

AC&C Response: “AC&C agrees with this recommendation and has already begun improving the oversight of controlled substances. AC&C has revised its internal written procedures and process for requesting, receiving and recording controlled substances in response to the auditor's recommendations so that the duties of requesting, ordering, receiving and recording CDS [Controlled Dangerous Substances] are segregated among various positions in the care centers, including medical clerks, licensed veterinary technicians, veterinarians and the shelter managers and supervisors. Additionally, upon receipt, a veterinarian and shelter manager (or their designee) must confirm receipt of CDS and sign/date such receipt. As an added layer of oversight, reconciliation of inventory will now be performed and signed by two separate, authorized staff, as opposed to the same person who previously requested, received and reconciled the inventory.”

AC&C further responded that it “is currently evaluating software that maintains inventory of medication (CDS and non-CDS) use, and has already identified one vendor and scheduled a meeting with the vendor to discuss inventory control. AC&C will also work with DOHMH for guidance on best practices and computerized inventory systems used by their pharmacies. Until the acquisition of such a system, the present manual recordkeeping system shall be utilized but added levels of review and oversight have been implemented. The additions of a full time Medical Director as of 1/2/201[4]; and more recently a Senior Manager of Veterinary Medicine (DVM); Lead Veterinarian; Quality Assurance/Quality Control Licensed Veterinary Technician (QA/QC LVT); and a Medical Practice Administrator are also intended to add another layer of CDS oversight of CDS inventory.”

Unaccounted For Controlled Substances

AC&C records do not adequately account for its controlled substances.⁴ Rather, auditors found that at each of the three shelters, the ending balances of AC&C's controlled substance usage logs did not reconcile with the dosages recorded as having been administered to the animals. Also, some usage logs indicated a balance remaining in bottles that were no longer in use, but there was no corresponding record of those balances being properly disposed of. These usage logs were created for each bottle containing a controlled substance, whether the controlled substance

⁴ Title 21, Section 1304.11 of the DEA's Code of Federal Regulations requires “a complete and accurate record of all controlled substances on hand.”

was in tablet form and administered orally or in liquid form and administered through an injection.

The usage logs were supposed to have documented the beginning balance in each bottle, the animal identification number for every animal that receives medication from the bottle, the dosage, and the amount, if any, remaining in the bottle after each dosage is administered. However, the auditors' review of the usage logs for all controlled substances maintained at each of AC&C's three full-service animal shelters over the four-month period of December 1, 2013 through March 21, 2014 found that 224 out of the 257 bottles of injectable controlled substances had usage logs that contained irreconcilable discrepancies. In some cases, the logs contained arithmetical errors that resulted in the observed discrepancies. In other cases, the last entry in the usage log stated the balance remaining in the bottle was zero, but no administration of the controlled substance was logged that would account for the final reduction to a zero balance from the prior balance. Finally, some usage logs reflected existing balances for bottles that were no longer in use. However, we cannot determine whether the balances were properly disposed of or whether there were actually no balances due to unrecorded usages prior or subsequent to the last documented dose administered recorded in the usage logs.

Differences between the total contents of each bottle and the dosage administration information contained in the usage logs resulted in discrepancies per individual bottles that varied from as little as .01 milliliters (mL), to more than half the bottle. Table I below summarizes, by shelter, the total milliliters per controlled substance that were accounted for improperly during the four-month period of our review. Using the standard bottle size for each type of controlled substance, we converted the total unaccounted for milliliters to an estimated number of bottles that the unaccounted for controlled substances would fill. In total, AC&C's usage logs failed to properly account for 343.42 milliliters of liquid which would have filled the equivalent of 43 bottles worth of these controlled substances over the four-month period reviewed.

Table IUnaccounted For Injectable
Controlled Substances per
Usage Logs

Shelter Location	Controlled Substance and Quantity per Bottle	Total Bottles Used	Total Contents (mL)	Number of Bottles with Discrepancies	Total Quantity Unaccounted For (mL)	Total Equivalent Bottles for Unaccounted Liquids
Manhattan	Buprenorphine (10 mL)	34	340	20	27.23	2.723
	Hydromorphone (20 mL)	22	440	21	49.12	2.456
	Ketamine (10 mL)	4	40	3	5.63	0.563
	Sodium Pentobarbital (250 mL)	13	3250	2	21	0.084
	Telazol (5 mL)	37	185	36	50.82	10.164
	Torbugesic (10 mL)	2	20	1	7.66	0.766
Brooklyn	Buprenex (5 mL)	37	185	36	36.9	7.38
	Hydromorphone (20 mL)	21	420	20	29.24	1.462
	Telazol (5 mL)	66	330	65	64.89	12.978
Staten Island	Hydromorphone (20 mL)	4	80	4	17.59	0.8795
	Sodium Pentobarbital (250 mL)	2	500	1	13	0.052
	Telazol (5 mL)	15	75	15	20.34	4.068
Totals		257	5865	224	343.42	43.5755

In addition to the above findings related to the records for injectable controlled substances, we also looked at records for tablets during this period. In one instance in the Manhattan shelter, we found five bottles containing expired and unsecured Tramadol, a controlled substance. AC&C's records reflect that there should have been 768 tablets on hand at the time of our visit on March 31, 2014. However, our count of tablets, conducted in the presence of AC&C representatives, found only 529 tablets that day. Thus, we found that 239 tablets were missing and unaccounted for.

AC&C Response: In its response, AC&C stated that it "has been incorporating oversight measures and new procedures since implementing a formal, written CDS policy as of August 8, 2014. The policy contains provisions to ensure that math errors in CDS recordkeeping are minimized/corrected and that discrepancies are fully explained in the relevant section of each CDS logbook. An automated pill counter for each medical department that dispenses pills will also be purchased so that the greatest accuracy is afforded in this area. CDS disposal will

require an accurate count of expired CDS by two AC&C Medical Department employees authorized to handle CDS (typically the shelter's DEA agent, and LVT, and/or a veterinarian)... The additions of a full time Medical Director as of 1/2/201[4]; and more recently a Senior Manager of Veterinary Medicine (DVM); Lead Veterinarian; Quality Assurance/Quality Control Licensed Veterinary Technician; and a Medical Practice Administrator are also intended to add another layer of CDS oversight.”

Administered Expired Controlled Substances

Based on our review of information contained in usage logs, we found that AC&C administered expired controlled substances to animals at its facilities. Specifically, we looked at all the usage logs from December 1, 2013 through March 21, 2014 and identified the type of controlled substance, the date each bottle was opened, the lot number (when listed on the usage logs), expiration date, and dates of use. Based on this review, we found 499 instances where the usage logs showed that controlled substances had been administered to animals beyond their expiration dates. For example, in the Brooklyn shelter, we found that Diazepam had been given to at least three different animals in October and December 2013, one year after its December 2012 expiration date.⁵ The expiration date was not noted in AC&C's usage log until February 2014, when the remainder of the lot was finally discarded.

Table II below details instances where, according to AC&C's usage logs, expired controlled substances were dispensed to animals in the care of AC&C during the four-month period we sampled.

Table II

Instances Where Expired Controlled
Substances Were Used

Shelter Location	Controlled Substance	Number of Instances Used After Expiration Date	Expiration date [A]	Last Usage Date [B]	Number of Days Expired [B] - [A]
Manhattan	Tramadol Tablets	489	9/30/2013	3/11/2014	162
Brooklyn	Diazepam	3	12/1/2012	12/16/2013	380
Brooklyn	Diazepam	6	5/1/2013	9/8/2013	130
Staten Island	Diazepam	1	12/1/2012	6/28/2013	209
Totals		499			

In addition to administering expired controlled substances, we found that AC&C did not dispose of all its expired controlled substances, some of which were unsecured and easily accessible to AC&C employees.⁶ As noted above, we observed five bottles of expired Tramadol that were kept

⁵ Diazepam is a sedative with anti-anxiety, muscle relaxing, and hypnotic properties. It can be used to treat seizures, appetite loss in cats, anxiety, and other disorders. It may also be used to sedate pets before surgery or other procedures.

⁶ Title 21, Section 1301.75 of the DEA's CFR requires that all controlled substances be stored securely.

on a shelf in an office and, thus, not properly secured. Subsequently, we obtained a list of expired controlled substances to be sent to a reverse distributor and found that AC&C had retained at least 92 bottles of controlled substances (including the five Tramadol bottles) that had expired, some for as long as 13 years.⁷ It appears that none of these controlled substances were disposed of until we informed AC&C officials, although these officials stated that they require employees who discover expired materials to immediately alert the individual in charge of disposal.

According to the U.S. Food and Drug Administration, “expired medical products can be less effective or risky due to a change in chemical composition or decrease in potency.” AC&C’s inadequate monitoring resulted in the use of expired controlled substances on animals, which may be unsafe or not work as intended. Moreover, failing to properly secure and dispose of expired controlled substances exposes AC&C’s inventory to an increased risk of theft, abuse, and misuse.

AC&C Response: In its response, AC&C stated that it “has been incorporating improvements and changes into its policies and operating procedures since the audit. The improved oversight system provided by the Medical Department restructure with the additions of a full time Medical Director as of 1/2/2014; a Senior Manager of Veterinary Medicine (DVM); Lead Veterinarian; Quality Assurance/Quality Control Licensed Veterinary Technician; and a Medical Practice Administrator are intended to address and prevent expired controlled substances issues. AC&C has improved its CDS manual recordkeeping system, and expects to automate compliance by purchasing a computerized inventory system to address proper storage, use, and disposal for AC&C’s CDS. Included in this computerized procurement software is a system to track and monitor the expiration date of all items purchased, including controlled substances.”

Improper Storage of Vaccines

AC&C does not properly store all of its vaccines. According to Section 7.3 of the Guidelines for Practice of Veterinary Medicine and Veterinary Technology in New York State, “[a] separate refrigerator, with temperature monitoring, for proper storage of medications, laboratory kits and biologics [which include animal remains] based on the manufacturer’s recommendations (separate from staff food storage) should be available.” However, during an observation of the Brooklyn shelter on March 13, 2014, we found that vaccines were stored in refrigerators with employee food. In addition, during an observation of the Manhattan shelter on March 14, 2014, we found that vaccines were stored in freezers with animal remains.

According to the Vaccine Storage and Handling Toolkit created by the National Center for Immunization and Respiratory Diseases (a component of the Centers for Disease Control and Prevention), food or beverages should never be stored inside a vaccine refrigerator or freezer. Refrigerating food with vaccines results in more frequent refrigerator opening and as a result, a greater chance of temperature instability. In addition, mixed refrigerator use could also lead to potential contamination of the vaccines.

AC&C Response: AC&C agrees with our finding and stated that it “has provided separate refrigerator space for human food/beverages and for vaccine storage. AC&C employees have been trained that vaccines must be stored at the correct refrigeration temperatures (35° - 45° F; 2° - 7° Celsius), so that their effectiveness is maintained. Monitoring of internal refrigerator temperatures (thermometers mounted within) has been augmented and has been delegated

⁷ The distributor, dispenser, or manufacturer can distribute the controlled substances to a reverse distributor to take control of the controlled substances for the purpose of returning them to the manufacturer or, if necessary, disposing of them.

as a requirement of the medical departments' daily compliance check performed by either an LVT or a Medical Clerk. A monitoring sheet is affixed near the refrigerator, and dated/initialed daily by these individuals to ensure compliance.”

General Maintenance Deficiencies and Shelter Conditions

Although AC&C's shelter conditions were found to be generally adequate, we identified several repair and maintenance deficiencies. Section VI(b) of AC&C's contract with DOHMH requires AC&C to “ensure that all necessary repairs of the above-specified shelter facilities or animal receiving facilities, or of equipment purchased or leased for the provision of the services set forth in Annex A, are made in an expeditious manner by qualified and responsible contractors.” We conducted both announced and unannounced observations at AC&C's facilities. Below are the deficiencies that were identified during the observations.

Brooklyn Shelter Conditions

At the Brooklyn shelter, we found a natural gas odor in the area of the general corridor; isolation rooms for sick animals using the same HVAC system that services rooms with healthy animals; doors to the dog isolation room to separate sick animals that did not close fully and which therefore potentially allowed contaminated air to flow into rooms with healthy animals; smoke and heat detectors for the fire alarm system not properly secured and associated wiring not completely removed and capped; missing fire stopping (fire-resistant material used as filler in wall openings that impedes the spread of fire) around the fire rated wall in the electrical service room, which could allow smoke to escape (see Picture I in Appendix II); and a broken specialized floor drain. We informed AC&C and DOHMH of these issues on April 14, 2014, and were informed by AC&C officials on April 29, 2014 that action was taken to correct each of these identified problems.

In addition to the aforementioned conditions, we observed a strong odor throughout the shelter, which could have been a result of poor ventilation. During a meeting with DOHMH, we were informed that the specifications of the HVAC system allowed for a frequent exchange of fresh air. However, DOHMH could not provide any documentation to indicate that the HVAC system, which is at least 17 years old, is still operating as originally designed. Therefore, we did not obtain any assurance that the odor did not result from poor ventilation, which could lead to the possible spread of contagious diseases among AC&C's animals.

AC&C Response: “Brooklyn Shelter Conditions: The auditors state that the shelter conditions were found to be generally adequate, but that several items needed to be repaired. The auditors note that they informed AC&C and DOHMH of seven issues on April 14, 2014, and were informed by AC&C officials on April 29, 2014 that action was taken to correct items 1-6, below. The auditors noted the following:

1. A natural gas odor in the area of the general corridor. There is no recommendation and this item was not included in the Observed Condition Follow Up of the audit.

AC&C Response: AC&C agrees and the item has been resolved.

2. Isolation rooms for sick animals using the same HVAC system that services the rooms with healthy animals.

AC&C Response: The City of New York and DOHMH have agreed to commit over \$3 million in capital funding for facility upgrades at the Brooklyn shelter which will include an updated HVAC system.

3. Doors to the dog isolation room to separate sick animals that did not close fully and which therefore potentially allowed contaminated air to flow into rooms with healthy animals.

AC&C Response: AC&C agrees and the item has been resolved.

4. Smoke and heat detectors for the fire alarm system were not properly secured and associated wiring [was] not completely removed and capped.

AC&C Response: AC&C agrees and the item has been resolved.

5. Missing Fire stopping (fire-resistant material used as filler in wall openings that impedes the spread of fire) around the fire rated wall in the electrical service room, which could allow smoke to escape.

AC&C Response: AC&C agrees and the item has been resolved.

6. A broken specialized floor drain.

AC&C Response: AC&C agrees and the item has been resolved.

7. The auditors also noted a strong odor throughout the shelter, which they state could have been a result of poor ventilation. The auditor states that during a meeting with DOHMH they were informed that the HVAC system allowed for a frequent exchange of fresh air, but that no documents could be produced by DOHMH to indicate that the HVAC system is operating as designed. The auditors state that they were not assured that the odor did not result from poor ventilation.

AC&C Response: AC&C partially agrees about the odor and defers to the response of DOHMH concerning this issue. In December 2014, DOHMH announced that it has committed \$3.5 million in capital funding for facility upgrades at the Brooklyn shelter which will include replacement of the HVAC system, which will address this issue. In addition, DOHMH informed AC&C that it had hired an engineering firm to evaluate the HVAC system, particularly with regard to whether the system is providing proper exchange of fresh air for stagnant air in every room in the Brooklyn facility.”

DOHMH Response: “The auditors noted that in the Brooklyn Shelter there was a strong odor which the auditors said could have been the result of poor ventilation. In response to this concern, discussed on April 29, 2014 meeting with the auditors, DOHMH hired an engineering firm to evaluate the HVAC system, particularly with regard to whether the system was providing proper exchange of fresh air for stagnant air in every room in the facility.

The engineering firm submitted a written report that confirmed that (i) the fans associated with air ventilation system in the building were operating in accordance with original designed air flow rating and (ii) the air flow was adjusted to provide the required air flow distributed through each diffuser and grill in the building as indicated on the original contract drawings. The engineer also performed other HVAC system testing such as measuring motor voltage and amperage of the fan motors and air duct static pressure.

In December, 2014, DOHMH announced that it committed \$3.5 million in its Capital New Needs plan to replace the existing HVAC system at the Brooklyn Shelter. The project will be initiated in FY16.”

Staten Island Shelter Conditions

At the Staten Island shelter, our audit noted peeling paint above dog kennels that could fall into open bowls of food and be ingested, and a defective fire alarm. See Pictures II and III in Appendix II. These conditions were corrected after we brought them to the attention of AC&C officials.

AC&C Response: “Staten Island Conditions: The auditors noted the following facility issues:
1. Peeling paint above a dog kennel. The auditors also note that this condition was corrected when brought to the attention of AC&C officials.

AC&C Response: AC&C agrees and as noted by the auditors, the item has been corrected.

2. A defective fire alarm. The auditor also notes that this condition was corrected when brought to the attention of AC&C officials.

AC&C Response: AC&C agrees and as noted by the auditors, the item has been corrected.”

Manhattan Shelter Conditions

At the Manhattan shelter, our audit noted overcrowded conditions, resulting in animals being kept in kennels that are lining the hallways. See Pictures IV and V in Appendix II. We also observed that there was no backup generator in case of emergencies.

AC&C Response: “Manhattan Shelter Conditions: The auditors noted the following facility issues:

1. Overcrowded conditions resulting in animals being kept in kennels that are lining the hallways.

AC&C Response: AC&C partially agrees. AC&C receives approximately 95 animals per day, on average. In 2014, AC&C started tracking its progress in saving the lives of all healthy and treatable animals by measuring its ‘live release rate.’ In 2014, AC&C achieved a live release rate over 80% for cats and dogs. To be able to achieve this success, AC&C will hold animals as long as possible based on a multitude of factors, including placement options, the animal’s health and behavior and the resources of the shelter at any given time. AC&C utilizes housing in the hallways as a resource to be able to hold animals until a clear determination is made for placement.

2. There is no back up generator in case of emergencies.

*Auditor’s Recommendation #6: AC&C should undertake an assessment to determine the need to secure and install a backup generator for the Manhattan shelter.

AC&C Response: AC&C partially disagrees with this recommendation in that it has assessed the need for a generator and made recommendations to DOHMH. Because this is a capital expenditure for city-owned property, DOHMH must approve this expenditure and therefore, we defer to DOHMH for further comment and assessment regarding its purchase for the Manhattan shelter.”

Auditor Comment: Although AC&C may have assessed the need for a generator, it should coordinate with DOHMH to secure and install a backup generator for the Manhattan shelter.

Observed Condition Follow-Up

On November 3, 2014, we conducted unannounced follow-up visits to each shelter and found no additional potentially hazardous conditions and that many previously observed conditions had been addressed. However, we could not confirm whether in the Brooklyn shelter the shared HVAC system servicing isolation rooms for sick/contagious animals and rooms with healthy animals had been corrected. Also, the Manhattan shelter still lacked a backup generator and overcrowding conditions were observed.

Underutilized Asset

We observed that while AC&C's Manhattan shelter is so crowded that animals are maintained in cages lining the hallways, it also has access to a large garage (approximately 2,500 square feet) owned by the City adjacent to the Manhattan shelter, also a City-owned building. AC&C has chosen to use this space for storage, although it has remained underutilized for this purpose. See Pictures VI and VII in Appendix II.

When asked about the utilization of this asset, AC&C officials stated that in 2007, the Manhattan shelter underwent renovations, and the garage was used as a temporary adoption area. Since then, the garage has only been used for storage of various animal supplies and equipment. AC&C provided documentation in connection with this audit that reflects that it previously proposed three possible uses for the garage to DOHMH, and that it requested that DOHMH provide preliminary cost estimates.

AC&C Response: In its response AC&C partially agrees and stated that, “[t]he garage in question was stated to be unusable by NYC Department of Design and Construction after the shelter underwent renovations in 2007. Around 2012, AC&C was informed by DOHMH that the garage could be used for storage, but that access should be limited. In 2015, the city and DOHMH announced that it would commit capital funding of \$5 million to create an adoption center where the garage currently stands.”

Financial Related Control Weaknesses

In our audit of AC&C's financial controls, we found that it generally recorded and reported its revenue and expenses appropriately and that it maintained all required insurance. However, during the course of the audit, we found several minor financial control weaknesses in AC&C's operations that need to be addressed as detailed below:

- AC&C lacks adequate policies and procedures for documenting the proper use of corporate credit cards, which resulted in unsupported and questionable credit card expenses. Our review of a sample of the statements for the seven corporate credit cards issued to and used by its Executive Director and senior managers revealed \$277,232 in charges for May 2012 through May 2013. Of these, we found that a total of \$11,715 (4 percent) of these charges were questionable because they did not contain adequate documentation to establish that they were for legitimate business-related purposes.
- AC&C did not always pay its expenses on time and as a result incurred unnecessary expenditures for late and over-limit fees and interest. A review of the Fiscal Year 2013 general ledger found that AC&C recorded \$17,587 in late fees and interest paid. That amount included nearly \$9,900 in interest that was paid for a line of credit.
- AC&C did not always follow its own policies and procedures related to its purchasing process, resulting in errors on its purchase orders. According to the purchase order log for Fiscal Year 2013, AC&C issued 1,439 purchase orders with a total value of \$1.6 million.⁸ Based on our review of 139 sample purchase orders totaling \$346,916, there were 106 purchase orders (76 percent) totaling \$149,908

⁸ AC&C's fiscal year is July 1st of a given year through June 30th of the following year.

where one or more aspects of AC&C's purchasing policy was not followed.

- While AC&C has an electronic timekeeping system that applies to most of its employees, its three directors do not submit attendance records or use the electronic timekeeping system. In addition, AC&C permits its administrative staff and senior managers to fill out paper attendance records that simply indicate whether they were present on a given day, but not the hours they worked.
- AC&C lacks adequate oversight to ensure that the fiscal manager performs its duties appropriately. Consequently, AC&C may be vulnerable to erroneous or inappropriate actions due to the nature of the functions delegated to the fiscal manager as well as its access to AC&C's bank accounts. AC&C needs to develop and implement oversight policies of its fiscal manager to reduce this risk.
- AC&C does not maintain an inventory system that adequately accounts for all of its purchases. During Fiscal Year 2013, AC&C spent over \$330,000 to purchase dog and cat food, animal supplies, cleaning and other supplies, and approximately \$295,000 for non-controlled substances such as vaccines. However, AC&C does not maintain any central inventory of these purchases and its ability to identify overspending, re-order points, items reaching their expiration date, and theft is limited. Consequently, AC&C does not have an adequate basis upon which to determine if it is allocating its resources efficiently.

AC&C Response: AC&C partially agrees and stated that at the exit conference "AC&C was able to successfully explain in greater detail a sampling of some of these expenses that the auditors considered questionable or unsupported. AC&C acknowledges that more detail on the purchase order or in the back up justifying the expenses may assist an independent third party to better understand the nature of the expense and the business need for the expense. AC&C will provide additional detail to support purchases and requests for payment in the future."

Auditor Comment: After discussion with AC&C's Executive Director and a review of additional documentation that was provided at our March 9, 2015 exit conference, we removed certain expenses originally deemed questionable (e.g., exam fees) from the information mentioned above. However, we were not provided with sufficient reliable documentation that would indicate whether the remaining expenses were for legitimate business-related purposes. AC&C has agreed to provide additional detail to support purchases and future requests for payment.

Other Issue

Over \$221,000 in Rental Expenses Paid for Headquarters

AC&C leases office space in lower Manhattan to operate its headquarters, administrative offices, and call center. For the lease year September 1, 2013, to August 31, 2014, AC&C paid over \$221,000 in rent, which included certain other reimbursable expenses such as utilities and property taxes. Furthermore, for the period beginning September 1, 2000 through its date of expiration, August 31, 2015, AC&C will have paid in excess of \$3 million in rent and reimbursable expenses.

AC&C provided documentation that reflects that since 2012, it has made several attempts to identify space, primarily in Manhattan, in which it might relocate its headquarters. However, AC&C has not conducted an economic feasibility assessment or cost benefit analysis to determine the

economic benefits and liabilities for choosing to maintain office space in Manhattan, or if a less expensive alternative can be found in the outer boroughs prior to its lease expiring in August 2015. Such an assessment would assist AC&C to determine the value of staying in its current location and the potential costs of alternatives.

Subsequent Events

During the course of the audit, we informed AC&C and DOHMH officials of our concerns regarding the underutilized garage adjacent to the Manhattan shelter as well as the conditions of the Brooklyn shelter's HVAC system. At our exit conference, AC&C officials informed us that since we raised these concerns, the City has set aside approximately \$8 million in capital funding to design and construct a building dedicated to the adoption of animals on the site of the underutilized garage adjacent to the Manhattan shelter, to redesign and replace the HVAC system at the Brooklyn shelter, and other operational enhancements.

Further, with regard to the lack of adequate policies and procedures cited in our preliminary report, AC&C officials stated that they have already or are in the process of implementing new policies and procedures to address some of the audit findings. These new policies and procedures include an updated controlled substance policy and two new computerized inventory systems, one for controlled substances and another for all other purchases. Since these changes were implemented after our fieldwork was completed, we have no basis for determining if these changes are adequate.

RECOMMENDATIONS

AC&C should:

1. Ensure that the duties of requesting, receiving, and recording controlled substances are segregated among different individuals;

AC&C Response: “AC&C agrees with this recommendation and has already begun improving the oversight of controlled substances.”

2. Implement a computerized inventory system to accurately account for all controlled substances and monitor expiration dates;

AC&C Response: “AC&C agrees with this recommendation and is currently evaluating software that maintains inventory of medication (CDS and non-CDS) use, and has already identified one vendor and scheduled a meeting with the vendor to discuss inventory control. AC&C will also work with DOHMH for guidance on best practices and computerized inventory systems used by their pharmacies.”

3. Establish formal policies to ensure that all controlled substances are handled and accounted for in accordance with DEA guidelines and other applicable requirements;
4. Provide training to all medical staff on these policies;

AC&C Response to Recommendations 3 and 4: “AC&C agrees with these two recommendations and has been incorporating oversight measures and new procedures since implementing a formal, written CDS policy as of August 8, 2014.”

5. Ensure that all controlled and non-controlled substances are properly stored, and dispose of all expired controlled substances in an appropriate and timely manner;

AC&C Response: “AC&C agrees with these recommendations and has provided separate refrigerator space for human food/beverages and for vaccine storage. AC&C employees have been trained that vaccines must be stored at the correct refrigeration temperatures (35° - 45° F; 2° - 7° Celsius), so that their effectiveness is maintained. Monitoring of internal refrigerator temperatures (thermometers mounted within) has been augmented and has been delegated as a requirement of the medical departments' daily compliance check performed by either an LVT or a Medical Clerk. A monitoring sheet is affixed near the refrigerator, and dated/initialed daily by these individuals to ensure compliance.”

6. Undertake an assessment to determine the need to secure and install a backup generator for the Manhattan shelter;

AC&C Response: “AC&C partially disagrees with this recommendation in that it has assessed the need for a generator and made recommendations to DOHMH. Because this is a capital expenditure for city-owned property, DOHMH must approve this expenditure and therefore, we defer to DOHMH for further comment and assessment regarding its purchase for the Manhattan shelter.”

Auditor Comment: Although AC&C may have assessed the need for a generator, it should coordinate with DOHMH to secure and install a backup generator for the Manhattan shelter.

7. Ensure that expenses are supported by sufficient reliable documentation, for legitimate business-related purposes and that appropriate and accurate purchasing documents are provided and maintained;

AC&C Response: “AC&C partially agrees with this recommendation and reviewed several specific examples of the auditors’ concerns with them at the exit conference. AC&C was able to successfully explain in greater detail a sampling of some of these expenses that the auditors considered questionable or unsupported. AC&C acknowledges that more detail on the purchase order or in the back up justifying the expenses may assist an independent third party to better understand the nature of the expense and the business need for the expense. AC&C will provide additional detail to support purchases and requests for payment in the future.”

Auditor Comment: After discussion with AC&C’s Executive Director and a review of additional documentation that was provided at our March 9, 2015 exit conference, we removed certain expenses originally deemed questionable (e.g., exam fees) from the information mentioned above. However, we were not provided with sufficient reliable documentation that would indicate the remaining expenses were for legitimate business-related purposes. AC&C has agreed to provide additional details to support purchases and future requests for payment.

8. Establish policies whereby all credit card purchases by the Executive Director are required to be authorized by AC&C’s Board of Directors, President or Treasurer;

AC&C Response: “AC&C partially agrees with this recommendation and will incorporate into its existing financial oversight process the addition of a monthly review of the Executive Director’s credit card purchases by a member of the Executive Committee of AC&C’s board of directors. This will allow for regular review and dialogue about expenses that may be questionable. AC&C disagrees with the recommendation to have all credit card purchases by the Executive Director reviewed by the Board if the intent is to have these purchases pre-approved because that process would be cumbersome and time consuming, impacting AC&C’s ability to make operational purchasing decisions timely.”

Auditor Comment: The intent of the recommendation was not to have all credit card purchases by the Executive Director pre-approved by AC&C’s Board of Directors, President or Treasurer. Rather, all of the Executive Director’s credit card purchases should be reviewed by AC&C’s Board of Directors, President or Treasurer to ensure that the expenses were for legitimate business-related purposes. If it is determined that the expenses were unsupported or not for legitimate business-related purposes, AC&C’s Board of Directors should seek reimbursement.

9. Review the \$11,715 in questionable payments identified in this audit and determine if all the payments were for appropriate AC&C purposes and if not, whether any payments should be recouped and/or other action taken;

AC&C Response: “Regarding the \$11,715 of ‘questionable payments,’ AC&C has begun reviewing a set of these documents to determine if the purpose for the expense was legitimate and will engage the organization’s Treasurer for assistance and determination of any questionable expenses. AC&C will also work with the auditors to review the remainder of the back up documents in their possession. AC&C acknowledges that more detail can be added on the purchase order in order to demonstrate to an independent third party the nature of the expense and the business need for the expense. AC&C will also share the results of this review with a member of the Board’s Executive Committee to better implement and maintain a system of internal controls.”

10. Ensure that expenses are paid in a timely manner to avoid late fees and interest;

AC&C Response: “Regarding late fees, AC&C partially agrees with this recommendation. The audit covered FY2013 but since that time AC&C hired an Accounts Payable clerk whose major priority was to focus on late payments and ensure timely payment to avoid late fees and interest charges. We have seen a significant decrease in late fees and interest charges as a result. In FY13, late fees were \$3,128.97; in FY14 they were \$625.09.”

11. Ensure that its Purchase Policy is followed so that all purchase orders are properly completed, supported, and approved;

AC&C Response: “AC&C agrees with this recommendation and has been working on updating its purchasing process over the last several months. At the exit conference AC&C provided documentary evidence that it had already purchased a software system to upgrade this process, with the goal of fully implementing this system in FY2016. The new system will enhance the capabilities of AC&C to effectively complete, support and approve all purchase orders and to minimize and eliminate noncompliance with the purchasing process, as well as better track inventory and monitor expiration dates.”

12. Ensure that all employees utilize the electronic timekeeping system;

AC&C Response: “AC&C partially agrees with this recommendation and has since put the majority of its hourly and salaried staff on an electronic timekeeping system. AC&C does not agree that all employees must use electronic time records in order to best keep track of their time, and that paper records adequately provide the same information. Nevertheless, AC&C expects to have all its staff use an electronic timekeeping system by the end of FY2015.”

13. Conduct periodic assessments of its fiscal manager’s cash management responsibilities;

AC&C Response: “AC&C partially disagrees that it lacks oversight of the fiscal manager but agrees to conduct additional assessments. AC&C senior staff meet with the fiscal manager weekly to review and discuss financial issues including cash balance, results compared to budget, how different funding sources are to be used, projections for the year, and financial reporting to the board and outside funders. . . . Additional oversight and assessment of AC&C’s fiscal manager is performed by an outside audit firm that reviews the fiscal controls of AC&C and the fiscal manager annually; no issues of any inappropriate conduct have been identified. However, in response to the auditors’ recommendation, and in an exercise of additional precaution, going forward AC&C will require the fiscal manager to obtain prior permission from the Executive Director to move funds between AC&C bank accounts. AC&C will also assess additional oversight controls with the Board Treasurer, DOHMH and AC&C’s financial auditors to address the auditors’ notation of this minor control weakness.”

14. Establish an inventory system for supplies and items related to the operation of the shelter;

AC&C Response: “AC&C agrees. AC&C has purchased EPMX Procurement Software with an inventory module and has been working over the past several months on the requirements for implementation and integration in FY2016. This software will help to track inventory from the point of receipt, to on hand counts, sign out sheets, reorder amounts, and reconciliation. Until this system is in place, AC&C will formulate and implement a manual inventory system. Further, to prepare for the rollout of the EPMX Procurement Software, AC&C will take full count of on hand inventories of its supplies and animal food by the end of FY2015.”

15. Conduct a cost benefit and feasibility assessment to determine the benefits and liabilities of maintaining office space in Manhattan and expand AC&C's efforts in locating a lower cost alternative, including seeking office space in the outer boroughs.

AC&C Response: "AC&C disagrees with this recommendation. AC&C has explored other options in the outer boroughs with respect to its operational administrative needs. AC&C has evaluated cost, location and size of space, along with the need to have an office that is reasonably accessible to all of our staff, relative to all of our five other locations, as well as proximity to City Hall, DOHMH, City Council and many of the partners and donors with whom we work and meet with in person on a regular basis. Currently AC&C's rental costs per square foot are low relative to location. However, AC&C is mindful of its costs and is exploring other options for our headquarters."

Auditor Comment: AC&C did not provide a cost benefit and feasibility assessment to determine the benefits and liabilities of maintaining office space in Manhattan or any sufficient, reliable documentation to support its assertion of seeking office space in the outer boroughs. Nonetheless, AC&C states that it is mindful of its costs and has agreed to explore other options for its headquarters. Furthermore, DOHMH, as fiscal monitor, should ensure AC&C's compliance with this recommendation and assist AC&C in its efforts to locate a lower cost alternative.

DOHMH should:

16. Incorporate into its contract a requirement for AC&C to implement a system of internal controls that includes formal policies and procedures for its operation;

DOHMH Response: "DOHMH agrees with the recommendation and will amend the new contract accordingly."

17. Ensure that AC&C complies with all of the recommendations in this report;

DOHMH Response: "DOHMH agrees with this recommendation and will incorporate into its exiting period monitoring and auditing the implementation of recommendations to areas identified by the auditors."

18. Periodically conduct audits of AC&C's operations to ensure adherence to its contract and that AC&C maintains a sound system of internal controls.

DOHMH Response: "DOHMH partially agrees with this recommendation. DOHMH already conducts periodic audits of AC&C operations and monitors its compliance with the contract. As stated in our response to recommendation #17, DOHMH will also incorporate in its periodic audits the areas identified by the auditors, including assessment of AC&C's internal controls."

Auditor Comment: During the course of the audit, we requested any prior audit reports and were informed by DOHMH officials that it has not conducted any recent audits of AC&C. However, DOHMH does perform inspections of each of the AC&C facilities. As mentioned in the recommendation above, DOHMH should periodically conduct audits of AC&C's operations to ensure adherence to its contract and that AC&C maintains a sound system of internal controls.

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covers AC&C's Fiscal Year 2013 (July 1, 2012 to June 30, 2013) but was expanded to include additional tests of certain areas based on our observations during the course of the audit. To achieve our audit objectives, we reviewed and abstracted the contract and supporting appendices between AC&C and DOHMH, and identified relevant terms and conditions. We also reviewed AC&C's certified financial statements, board meeting minutes, tax form 990's, grant letters, and correspondence between AC&C and DOHMH. In addition, we attended AC&C's public board meetings held in January, April, June, and September 2014.

To gain an understanding of AC&C's internal controls and operations, we reviewed AC&C's policies and procedures, federal and state guidelines for storing and handling controlled substances, and conducted walkthroughs and interviews with AC&C officials (Executive Director, Medical Director, Director of Operations, Senior Manager of Shelter Operations, Human Resources Associate, Development Associate, and Purchasing and Accounts Payable Coordinator). In addition, on March 6, 2014, we met with DOHMH officials to obtain an understanding of their oversight responsibilities as they relate to AC&C. Finally, we met with AC&C's fiscal manager on March 4, 2014, to gain an understanding of its responsibilities as they relate to AC&C's books and records. We documented our understanding of AC&C's internal control processes through memoranda and flowcharts.

We traced general ledger account balances to the adjusted trial balance, and then traced amounts to the financial statements for Fiscal Year 2013. To test the accuracy of the transactions recorded in the general ledger, we selected the highest month of disbursements and deposits in Fiscal Year 2013 for all AC&C bank accounts to trace to the general ledger.

To determine whether revenue derived from DOHMH for Fiscal Year 2013 was properly recorded, we obtained a list of payments from the City's Financial Management System and reconciled those payments to AC&C's bank statements and general ledger. To determine whether AC&C properly recorded revenue derived from grants for Fiscal Year 2013, we reconciled grant letters to the bank statements and general ledger.

To determine whether AC&C's Personnel Service expenses were valid and accurate, we obtained a list of all individuals employed by AC&C for the period of July 2012 to April 2014 and compared those lists to the respective W-2 forms (Calendar Year 2012 and 2013). In addition, we obtained a list of all active employees as of September 2014. From that list, we randomly selected a sample of 50 employees (as of September 9, 2014) to determine if they were using AC&C's electronic timekeeping system. For the employees not required by AC&C to use the electronic timekeeping system, we obtained and reviewed the timesheets for the pay period ending August 30, 2014.

To determine whether AC&C was properly recording Other Than Personal Service (OTPS) expenses, we judgmentally selected June 2013, the month with the highest overall OTPS expenses for Fiscal Year 2013 (\$1.3 million, or 26 percent, of a total \$5 million for the fiscal year). Of those payments made in June 2013, we selected the five highest OTPS expense categories

and tested a proportionate sample of 50 general ledger transactions totaling \$151,478. For each transaction, we reviewed the associated invoices and compared the amounts paid to the amounts recorded in the general ledger. In addition, we reviewed those 50 invoices to determine whether the expenses were reasonable, justified, and accompanied by purchase orders that conform to AC&C's policies and procedures.

To determine whether credit card expenses incurred were reasonable and justified, we judgmentally selected the month where the highest credit card payments were made (August 2012 for the Executive Director's credit card and July 2012 for the credit cards used by senior management). Subsequently, we expanded our sample to May 2012 through May 2013 and reviewed the associated purchase orders and invoices provided by AC&C for each transaction. In addition, we computed amounts attributed to fees, interest, and sales tax.

To test AC&C's controls over its controlled substances and to determine whether all controlled substances were properly accounted for, we reviewed purchase orders, invoices, and packing slips provided by AC&C and traced the purchases to the logs. In addition, we contacted AC&C's controlled substance vendors for independent confirmation of all purchases. We then observed a physical count of each controlled substance held in inventory at the Staten Island shelter on March 20, 2014, and the Brooklyn and Manhattan shelters on March 21, 2014. We reconciled all purchases and controlled substances held in inventory on the day of our observations to the corresponding arrival, transfer, and usage logs maintained at each shelter (Brooklyn, Staten Island, and Manhattan) for the period December 1, 2013 to March 21, 2014. We also reviewed the usage logs for each controlled substance for the same period and noted instances where AC&C administered controlled substances past their expiration date. In addition, we obtained a list of expired controlled substances to be sent to a reverse distributor and on March 31, 2014, we observed a physical inventory count at the Manhattan shelter conducted by AC&C of each expired controlled substance to be disposed.⁹

To observe the conditions at each shelter and receiving center, we conducted announced observations with AC&C officials. The Brooklyn, Manhattan, and Staten Island shelters were visited on March 13, 14, and 20, 2014, respectively. The Bronx and Queens receiving centers were visited on April 11, 2014. Follow-up observations of the Brooklyn and Manhattan shelters were conducted with a Comptroller's Office engineer on April 10 and 29, 2014, respectively. The deficiencies found at the Staten Island shelter were communicated to AC&C on April 4, 2014, and the Brooklyn shelter deficiencies were communicated to AC&C and DOHMH on April 14, 2014. To determine whether the previously observed conditions had been addressed and that there were no additional conditions in need of correction, subsequent unannounced observations of the Brooklyn, Manhattan, and Staten Island shelters were performed on November 3, 2014. We also reviewed DOHMH's shelter inspection reports and its policies and procedures.

To determine the adequacy of AC&C's computerized animal tracking system, we reviewed the "Detailed Kennel Inventory Report" listing of all animals located within a shelter. During our visits to the Brooklyn and Manhattan shelters on March 13 and 14, 2014, respectively, we selected a random sample of 50 animals and determined whether each animal was in its assigned location. At the Staten Island shelter, we selected 43 animals (total population) due to the lack of animals held at the shelter during our visit on March 20, 2014. Any discrepancies between the "Detailed Kennel Inventory Report" and our observations were brought to the attention of AC&C officials and were immediately addressed.

⁹ The distributor, dispenser, or manufacturer can distribute the controlled substances to a reverse distributor to take control of the controlled substances for the purpose of returning them to the manufacturer or, if necessary, disposing of them.

To determine whether AC&C properly maintained the required insurance coverage, we reviewed AC&C's insurance policies and certificates and compared them to the requirements of the contract.

Sample Usage Log Showing Negative Usage



11 Park Place Suite 805
 New York, NY 10007
 Fax (212) 442-2066
 www.nycacc.org

**BUPRENORPHINE
 USAGE LOG**
Manhattan SHELTER

BOTTLE NO. #47
 Date Opened 12/24/13

10 ML BOTTLE
 Log NO. 315801
 Exp. Date 06/01/2016

DATE	ID NO.	DOG	CAT	AMT. USED (cc)	AMT. LEFT (cc)	INITIALS
12/24/13	A0987864	✓		1	9	0930
12/24/13	A0987847	✓		1.3	7.7	0932
12/24/13	A0987864	✓		1.5	6.2	0932
12/24/13	A0985271		✓	.1	6.1	0932
12/24/13	A0987505		✓	.1	6.0	0932
12/24/13	A0987981		✓	.1	5.9	0932
12/24/13	A0987960		✓	.02	5.88	0932
12/24/13	A0987990		✓	.04	5.84	0932
12/24/13	A0988025		✓	.06	5.78	0932
12/25/13	A0987847	-		1.3	4.48	0674
12/25/13	A0987864	-		1.5	2.98	0674
12/25/13	A0985271		-	0.1	2.88	0674
12/25/13	A0987505		-	0.1	2.78	0674
12/25/13	A0987981		-	0.1	2.68	0674
12/25/13	A0987960		-	0.02	2.66	0674
12/25/13	A0987990		-	0.04	2.62	0674
12/25/13	A0988025		-	0.06	2.56	0674
12/25/13	A0987864	-		1.5	1.06	0632
12/25/13	A0987847	-		1.3	2.76-0.24	0632
12/25/13	A0987960		-	0.06	-0.30	0632
12/25/13	A0987990		-	0.04	-0.34	0632
12/25/13	A0987505		-	0.1	-0.44	0632
1						

*The numbers under the "Initials" column represent the identification number of the employee that administered the controlled substance.

Picture I

Poorly Maintained Fire Rated Wall Located in the Electrical Service Room of the Brooklyn Shelter



Picture II

Peeling Paint Above Kennels Located In the Adoption Room at the Staten Island Shelter



Picture III

Defective Fire Alarm Located In the Adoption Room
at the Staten Island Shelter



Picture IV

Kennels Located in Hallways of the Manhattan
Shelter Due to Overcrowded Conditions



Picture V

Kennels Located in Hallways of the Manhattan Shelter Due to Overcrowded Conditions



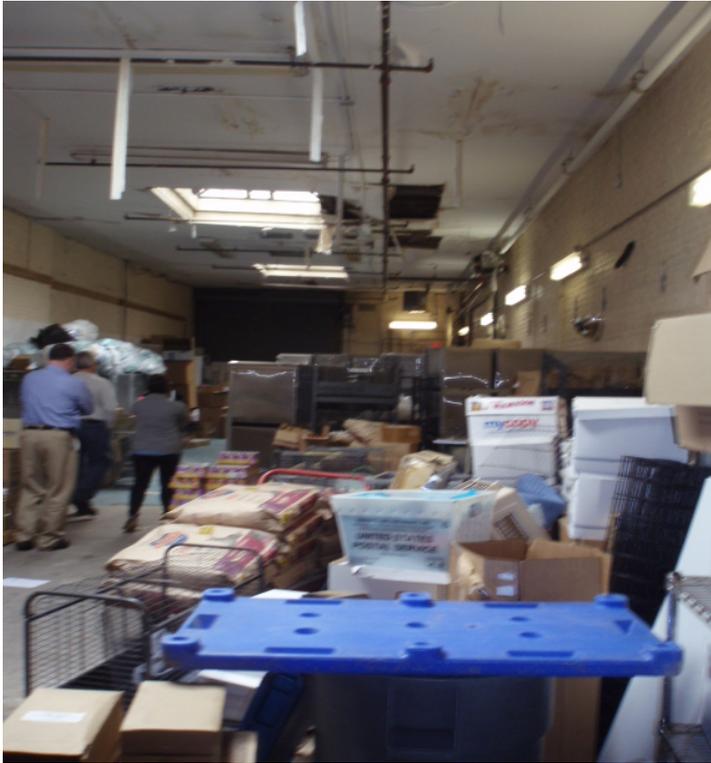
Picture VI

Exterior of Garage at Manhattan Shelter



Picture VII

Interior View of Garage at Manhattan Shelter





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April 1, 2015

BY HAND

Marjorie Landa
Deputy Comptroller for Audit
Office of the New York City Comptroller
1 Centre Street, Room 1100
New York, NY 10007-2341

**RE: Draft Audit Report on Animal Care and Control of New York City Inc.'s
Financial and Operating Practices
FM14-089A**

Dear Deputy Comptroller Landa:

This is in response to the draft Audit Report on Animal Care and Control of New York City, Inc.'s financial and operating practices issued by the Office of the Comptroller on March 17, 2015. Attached please find AC&C's detailed responses in regard to the auditors' findings and recommendations. Thank you for the opportunity to provide our comments and input.

Very truly yours,

Risa Weinstock
Executive Director
& General Counsel

Cc with Attachment:
Daniel Kass, Deputy Commissioner, Disease Control
Sara Packman, Assistant Commissioner, Audit Services
Patrick Nolan, Chairman, A&C Board of Directors

RECEIVED ON: _____ (date)
RECEIVED BY: _____ (printed name)
_____ (signature)

Response to the City of New York Office of the Comptroller Financial Audit/Audit Report on
Animal Care and Control of New York City Inc.'s Financial and Operating Practices
AUDIT NUMBER FM14-089A

Animal Care & Control of NYC (AC&C) reviewed the draft audit report prepared by the Office of the Comptroller referenced above, and appreciates the opportunity to respond. The objective of the audit was to determine whether AC&C has adequate controls to ensure proper operational and financial accountability under its contract with the City of New York in key areas, including controlled substances; facility maintenance; insurance coverage; and the recording and reporting of revenue and expenses. The scope of the audit generally covered Fiscal Year 2013, but was expanded in certain areas of the audit.

The audit concluded with eighteen recommendations, fifteen of which are directed to AC&C and three directed to the NYC Department of Health and Mental Hygiene (DOHMH). The following is AC&C's detailed response to the auditors' findings and 15 recommendations specific to AC&C. As a vendor of the City and DOHMH, AC&C defers to DOHMH to provide its own responses to the auditors' three recommendations directed specifically to DOHMH.

Lack of Oversight of Controlled Substances

The auditors state that AC&C did not exercise sufficient care over its storage and administration of controlled substances (CDS). They found that AC&C relies on a single employee to perform several functions related to CDS. The auditors found that although each shelter's orders contain independent approvals, the records did not contain evidence of independent checks on the receipt and recording of CDS, or that CDS inventory reconciliations were performed. The auditors further found that AC&C does not use a computerized inventory system for its controlled substances, as required by its contract with the city, and instead relies on a manual system for inventory.

Auditors' Recommendation #1: AC&C should ensure that the duties of requesting, receiving and recording controlled substances are segregated among different individuals.

AC&C Response: AC&C agrees with this recommendation and has already begun improving the oversight of controlled substances. AC&C has revised its internal written procedures and process for requesting, receiving and recording controlled substances in response to the auditors' recommendation so that the duties of requesting, ordering, receiving and recording CDS are segregated among various positions in the care centers, including medical clerks, licensed veterinary technicians, veterinarians and the shelter managers and supervisors. Additionally, upon receipt, a veterinarian and shelter manager (or their designee) must confirm receipt of CDS and sign/date such receipt. As an added layer of oversight, reconciliation of inventory will now be performed and signed by two separate, authorized staff, as opposed to the same person who previously requested, received and reconciled the inventory.

Auditors' Recommendation #2: AC&C should Implement a computerized inventory system to accurately account for all controlled substances and monitor expiration dates.

AC&C Response: AC&C agrees with this recommendation and is currently evaluating software that maintains inventory of medication (CDS and non-CDS) use, and has already identified one vendor and scheduled a meeting with the vendor to discuss inventory control.

AC&C will also work with DOHMH for guidance on best practices and computerized inventory systems used by their pharmacies. Until the acquisition of such a system, the present manual recordkeeping system shall be utilized but added levels of review and oversight have been implemented. The additions of a full time Medical Director as of 1/2/2015; and more recently a Senior Manager of Veterinary Medicine (DVM); Lead Veterinarian; Quality Assurance/Quality Control Licensed Veterinary Technician (QA/QC LVT); and a Medical Practice Administrator are also intended to add another layer of CDS oversight of CDS inventory.

Unaccounted for Controlled Substances

The auditors stated that AC&C records did not adequately account for its CDS and noted that the ending balances in CDS records (tablet and injectable forms) did not reconcile with the doses administered to animals. During the review period (12/01/13 – 03/31/14), the auditors found that 224 out of 257 bottles of injectable CDS usage logs contained irreconcilable discrepancies and some were due to math errors. In total, the auditors found that AC&C's usage logs failed to account for 343.2 milliliters of liquid, or an equivalent of 43 bottles. The auditors also noted a discrepancy in the number of Tramadol tablets recorded in the Manhattan shelter usage log for this CDS on 03/31/14. The auditors counted 529 tablets, while the usage log reflected 768 tablets, leaving 239 tablets missing and unaccounted for.

Auditors' Recommendation #3 and #4:

3. AC&C should establish formal policies to ensure that all controlled substances are handled and accounted for in accordance with Drug Enforcement Administration guidelines and other applicable requirements
4. AC&C should provide training to all medical staff on these issues.

AC&C Response: AC&C agrees with these two recommendations and has been incorporating oversight measures and new procedures since implementing a formal, written CDS policy as of August 8, 2014. The policy contains provisions to ensure that math errors in CDS recordkeeping are minimized/corrected and that discrepancies are fully explained in the relevant section of each CDS logbook. An automated pill counter for each medical department that dispenses pills will also be purchased so that the greatest accuracy is afforded in this area. CDS disposal will require an accurate count of expired CDS by two AC&C Medical Department employees authorized to handle CDS (typically the shelter's DEA agent, and LVT, and/or a veterinarian). The disposal forms containing this information will then be submitted to a reverse distributor by an AC&C Medical Clerk, after approval by the Medical Supervisor. Staff training in the form of the CDS continuing education has already been completed by staff members authorized to handle CDS and will be reinforced by the continued guidance and supervision of the Quality Assurance/Quality Control Licensed Veterinary Technician. The additions of a full time Medical Director as of 1/2/2015; and more recently a Senior Manager of Veterinary Medicine (DVM); Lead Veterinarian; Quality Assurance/Quality Control Licensed Veterinary Technician; and a Medical Practice Administrator are also intended to add another layer of CDS oversight.

Administered Expired Controlled Substances

During the 12/01/13 – 03/31/14 review period, the auditors found 499 instances within the usage logs for two CDS (Tramadol and Diazepam), where expired forms of these CDS had been administered to animals. The auditors found that AC&C did not dispose of all of its expired CDS and that some of these (5 bottles of expired Tramadol) were unsecured and easily accessible to AC&C employees. In their review of a list of CDS to be returned to a reverse distributor, the auditors identified 92 bottles of expired CDS, some as long as 13 years ago. Finally, the auditors stated that failure to properly secure and dispose of expired CDS exposes AC&C's inventory to an increased risk of theft, abuse, and misuse.

Auditors' Recommendation #3 and #4:

3. AC&C should establish formal policies to ensure that all controlled substances are handled and accounted for in accordance with DEA guidelines and other applicable requirements.

4. AC&C should provide training to all medical staff on these issues.

AC&C Response: AC&C agrees with these two recommendations and has been incorporating improvements and changes into its policies and operating procedures since the audit. The improved oversight system provided by the Medical Department restructure with the additions of a full time Medical Director as of 1/2/2015; a Senior Manager of Veterinary Medicine (DVM); Lead Veterinarian; Quality Assurance/Quality Control Licensed Veterinary Technician; and a Medical Practice Administrator are intended to address and prevent expired controlled substances issues. AC&C has improved its CDS manual recordkeeping system, and expects to automate compliance by purchasing a computerized inventory system to address proper storage, use, and disposal for AC&C's CDS. Included in this computerized procurement software is a system to track and monitor the expiration date of all items purchased, including controlled substances.

Improper Storage of Vaccines

The auditors state that AC&C did not properly store its vaccines and cited the caution included in the Center for Disease Control "Vaccine Storage and Handling Toolkit," which cautions against storing food/beverages in refrigerators containing human food, both for temperature instability (frequent door opening) and for potential contamination of vaccines (proximity to food). The auditors state that on 03/14/14 they found vaccines stored with animal remains in the Manhattan shelter Medical Department freezer and, on 03/13/14, found vaccines stored with food in the Brooklyn shelter Medical Department refrigerator.

Auditors' Recommendation #4 and #5:

4. AC&C should provide training to all medical staff on these issues.

5. AC&C should ensure that all controlled and non-controlled substances are properly stored, and dispose of all expired controlled substances in an appropriate manner.

AC&C Response: AC&C agrees with these recommendations and has provided separate refrigerator space for human food/beverages and for vaccine storage. AC&C employees have been trained that vaccines must be stored at the correct refrigeration temperatures (35° - 45° F; 2° - 7° Celsius), so that their effectiveness is maintained. Monitoring of internal refrigerator temperatures (thermometers mounted within) has been augmented and has been delegated as

a requirement of the medical departments' daily compliance check performed by either an LVT or a Medical Clerk. A monitoring sheet is affixed near the refrigerator, and dated/initialed daily by these individuals to ensure compliance.

General Maintenance Deficiencies and Shelter Conditions

The auditors found conditions at AC&C's shelters to be generally adequate, however they identified several repair and maintenance deficiencies as a result of their site visits. Many of these issues have been addressed or resolved as identified below. The only recommendation provided in response to these findings is **Recommendation # 6,*** that AC&C should undertake an assessment to determine the need to secure and install a backup generator for the Manhattan shelter. AC&C's response to this specific recommendation is addressed below in the section concerning Manhattan Shelter Conditions.

Brooklyn Shelter Conditions: The auditors state that the shelter conditions were found to be generally adequate, but that several items needed to be repaired. The auditors note that they informed AC&C and DOHMH of seven issues on April 14, 2014, and were informed by AC&C officials on April 29, 2014 that action was taken to correct items 1 – 6, below. The auditors noted the following:

1. A natural gas odor in the area of the general corridor. There is no recommendation and this item was not included in the Observed Condition Follow Up of the audit.
AC&C Response: AC&C agrees and the item has been resolved.
2. Isolation rooms for sick animals using the same HVAC system that services the rooms with healthy animals.
AC&C Response: The City of New York and DOHMH have agreed to commit over \$3 million in capital funding for facility upgrades at the Brooklyn shelter which will include an updated HVAC system.
3. Doors to the dog isolation room to separate sick animals that did not close fully and which therefore potentially allowed contaminated air to flow into rooms with healthy animals.
AC&C Response: AC&C agrees and the item has been resolved.
4. Smoke and heat detectors for the fire alarm system not properly secured and associated wiring not completely removed and capped.
AC&C Response: AC&C agrees and the item has been resolved.
5. Missing Fire stopping (fire-resistant material used as filler in wall openings that impedes the spread of fire) around the fire rated wall in the electrical service room, which could allow smoke to escape.
AC&C Response: AC&C agrees and the item has been resolved.
6. A broken specialized floor drain.
AC&C Response: AC&C agrees and the item has been resolved.
7. The auditors also noted a strong odor throughout the shelter, which they state could have been a result of poor ventilation. The auditor states that during a meeting with DOHMH they were informed that the HVAC system allowed for a frequent exchange of fresh air, but that no documents could be produced by DOHMH to indicate that

the HVAC system is operating as designed. The auditors state that they were not assured that the odor did not result from poor ventilation.

AC&C Response: AC&C partially agrees about the odor and defers to the response of DOHMH concerning this issue. In December 2014, DOHMH announced that it has committed \$3.5 million in capital funding for facility upgrades at the Brooklyn shelter which will include replacement of the HVAC system, which will address this issue. In addition, DOHMH informed AC&C that it had hired an engineering firm to evaluate the HVAC system, particularly with regard to whether the system is providing proper exchange of fresh air for stagnant air in every room in the Brooklyn facility.

Staten Island Conditions: The auditors noted the following facility issues:

1. Peeling paint above a dog kennel. The auditors also note that this condition was corrected when brought to the attention of AC&C officials.

AC&C Response: AC&C agrees and as noted by the auditors, the item has been corrected.

2. A defective fire alarm. The auditor also notes that this condition was corrected when brought to the attention of AC&C officials.

AC&C Response: AC&C agrees and as noted by the auditors, the item has been corrected.

Manhattan Shelter Conditions: The auditors noted the following facility issues:

1. Overcrowded conditions resulting in animals being kept in kennels that are lining the hallways.

AC&C Response: AC&C partially agrees. AC&C receives approximately 95 animals per day, on average. In 2014, AC&C started tracking its progress in saving the lives of all healthy and treatable animals by measuring its "live release rate." In 2014, AC&C achieved a live release rate over 80% for cats and dogs. To be able to achieve this success, AC&C will hold animals as long as possible based on a multitude of factors, including placement options, the animal's health and behavior and the resources of the shelter at any given time. AC&C utilizes housing in the hallways as a resource to be able to hold animals until a clear determination is made for placement.

2. There is no back up generator in case of emergencies.

***Auditor's Recommendation #6:** AC&C should undertake an assessment to determine the need to secure and install a backup generator for the Manhattan shelter.

AC&C Response: AC&C partially disagrees with this recommendation in that it has assessed the need for a generator and made recommendations to DOHMH. Because this is a capital expenditure for city-owned property, DOHMH must approve this expenditure and therefore, we defer to DOHMH for further comment and assessment regarding its purchase for the Manhattan shelter.

Underutilized Asset: The auditors state that while AC&C's Manhattan shelter is so crowded that animals are maintained in cages lining hallways, it also has access to a large garage, owned by the City adjacent to the city-owned Manhattan shelter. The auditors noted that AC&C is currently using this space for storage, although it has remained underutilized for this purpose.

AC&C Response: AC&C partially agrees. The garage in question was stated to be unusable by NYC Department of Design and Construction after the shelter underwent renovations in 2007. Around 2012, AC&C was informed by DOHMH that the garage could be used for storage, but that access should be limited. In 2015, the city and DOHMH announced that it would commit capital funding of \$5million to create an adoption center where the garage currently stands.

Financial Related Control Weaknesses

The auditors state that they found that AC&C generally recorded and reported its revenue and expenses appropriately and that AC&C maintains all required insurance. The auditors concluded that the issues noted are minor financial control weaknesses.. AC&C appreciates the auditors recommendations on these minor issues and is confident in the many layers of financial oversight that it currently has in place internally and externally. AC&C will take appropriate measures as described below to address these minor issues.

Auditors' Recommendation #7: Ensure that expenses are supported by sufficient reliable documentation, for legitimate business-related purposes and that appropriate and accurate purchasing documents

AC&C's Response: AC&C partially agrees with this recommendation and reviewed several specific examples of the auditors' concerns with them at the exit conference. AC&C was able to successfully explain in greater detail a sampling of some of these expenses that the auditors considered questionable or unsupported. AC&C acknowledges that more detail on the purchase order or in the back up justifying the expenses may assist an independent third party to better understand the nature of the expense and the business need for the expense. AC&C will provide additional detail to support purchases and requests for payment in the future.

AC&C lacks adequate policies and procedures for documenting the proper use of corporate credit cards which resulted in unsupported and questionable credit card expenses of \$11,715.

Auditors' Recommendation #8 and #9:

8. AC&C should establish policies whereby all credit card purchases by the Executive Director are required to be authorized by AC&C's Board of Directors, President or Treasurer.
9. AC&C should review the \$11,715 questionable payments identified in this audit and determine if all the payments were appropriate AC&C purposes and if not, whether any payments should be recouped and/or action taken.

AC&C Response: AC&C partially agrees with this recommendation and will incorporate into its existing financial oversight process the addition of a monthly review of the Executive Director's credit card purchases by a member of the Executive Committee of AC&C's board of directors. This will allow for regular review and dialogue about expenses that may be questionable. AC&C disagrees with the recommendation to have all credit card purchases by the Executive Director reviewed by the Board if the intent is to have these purchases pre-approved because that process would be cumbersome and time consuming, impacting AC&C's ability to make operational purchasing decisions timely. Regarding the \$11,715 of "questionable payments," AC&C has begun reviewing a set of these documents to determine if the purpose for the expense was legitimate and will engage the organization's Treasurer for assistance and determination of any questionable expenses. AC&C will also work with the auditors to review

the remainder of the back up documents in their possession. AC&C acknowledges that more detail can be added on the purchase order in order to demonstrate to an independent third party the nature of the expense and the business need for the expense. AC&C will also share the results of this review with a member of the Board's Executive Committee to better implement and maintain a system of internal controls.

AC&C did not always pay its expenses on time and incurred \$17,587 in late fees and interest, including \$9,000 in interest that was paid for a line of credit.

Auditors' Recommendation # 10: AC&C should ensure that expenses are paid in a timely manner to avoid late fees and interest.

AC&C Response: Regarding late fees, AC&C partially agrees with this recommendation. The audit covered FY2013 but since that time AC&C hired an Accounts Payable clerk whose major priority was to focus on late payments and ensure timely payment to avoid late fees and interest charges. We have seen a significant decrease in late fees and interest charges as a result. In FY13, later fees were \$3,128.97; in FY14 they were \$625.09.

Regarding interest payments, AC&C partially agrees with this recommendation. AC&C maintains a line of credit as a standard business practice. AC&C only draws on the line of credit when cash balances are low and there is a timing difference between when cash is received (primarily the DOHMH Contract funds) and when bills are due. Historically, AC&C has had to draw down the Line of Credit at the beginning of the fiscal year as the city payment to AC&C was late in July. In FY13, the payment for July 2012 wasn't received until August 8, 2012. With an operating budget of over \$1,000,000 per month, any delay in receiving the DOHMH Contract funds (usually received by the 5th of the month) has a significant impact on AC&C's cash flow. In FY13, there were only three months when AC&C received city funds on time; all the other months, payment was at least five days late, and on three occasions over one month late. The inconsistency of receiving funds prevented AC&C from repaying the Line of Credit for the year and thus incurring the interest charges. In FY2014, this issue was minimized and AC&C did not have to draw down on the Line of Credit or incur any interest on the account.

AC&C did not always follow its own policies and procedures related to its purchasing process, resulting in errors on its purchase orders.

Auditors' Recommendation # 11: AC&C should ensure that Purchasing Policy is followed and so that all purchase orders are completed, supported, and approved.

AC&C's Response: AC&C agrees with this recommendation and has been working on updating its purchasing process over the last several months. At the exit conference AC&C provided documentary evidence that it had already purchased a software system to upgrade this process, with the goal of fully implementing this system in FY2016. The new system will enhance the capabilities of AC&C to effectively complete, support and approve all purchase orders and to minimize and eliminate noncompliance with the purchasing process, as well as better track inventory and monitor expiration dates.

While AC&C has an electronic time keeping system that applies to most of its employees, three of its directors do not submit attendance records or use the electronic timekeeping system. In addition, AC&C permits its administrative staff and senior managers to fill out paper attendance records that indicate whether they were present on a given day but not the hours they worked.

Auditors' Recommendation # 12: AC&C should ensure that all employees use the electronic timekeeping system.

AC&C Response: AC&C partially agrees with this recommendation and has since put the majority of its hourly and salaried staff on an electronic timekeeping system. AC&C does not agree that all employees must use electronic time records in order to best keep track of their time, and that paper records adequately provide the same information. Nevertheless, AC&C expects to have all its staff use an electronic timekeeping system by the end of FY2015.

AC&C lacks adequate oversight to ensure that the fiscal manager performs its duties appropriately. AC&C needs to develop and implement oversight policies of its fiscal manager.

Auditors' Recommendation # 13: AC&C should conduct period assessments of its fiscal manager's cash management responsibilities.

AC&C's Response: AC&C partially disagrees that it lacks oversight of the fiscal manager but agrees to conduct additional assessments. AC&C senior staff meet with the fiscal manager weekly to review and discuss financial issues including cash balance, results compared to budget, how different funding sources are to be used, projections for the year, and financial reporting to the board and outside funders. Each week AC&C senior management meets with BTQ to review its finances and spending patterns. Each month, AC&C senior management review financial results compared to budget with the fiscal manager and discuss significant variances to budget, including different funding sources and their uses on a monthly basis. DOHMH, AC&C's Board and senior management can request detailed information at any time regarding payments made to vendors. The accounting system provides detail of every transaction made during the fiscal year. Vendor payments are processed using an electronic accounts payable system, which requires a staff member at AC&C to code the invoice and then senior management (at the director level) of AC&C must approve the payment. Once the approval is received, the fiscal manager processes the check which is then sent back to AC&C for signature. ACH type of payments are done by AC&C staff and not by the fiscal manager. The fiscal manager has been given permission to move funds between AC&C bank accounts (primarily from a segregated DOH account to a payroll and operating account), but does not have the ability to pay bills on its own, or wire or transfer funds out of the bank accounts. Nor does the fiscal manager have the ability to open any accounts or withdraw funds from any accounts. The Executive Director reviews the bank statements on a monthly basis.

Additional oversight and assessment of AC&C's fiscal manager is performed by an outside audit firm that reviews the fiscal controls of AC&C and the fiscal manager annually; no issues of any inappropriate conduct have been identified. However, in response to the auditors' recommendation, and in an exercise of additional precaution, going forward AC&C will require the fiscal manager to obtain prior permission from the Executive Director to move funds between AC&C bank accounts. AC&C will also assess additional oversight controls with the Board

Treasurer, DOHMH and AC&C's financial auditors to address the auditors' notation of this minor control weakness.

Lack of an inventory system that adequately accounts for all of AC&C's purchases.

The auditor states that AC&C does not maintain an inventory system that adequately accounts for all of its purchases. During Fiscal Year 2013, AC&C spent over \$330,000 to purchase dog and cat food, animal supplies, cleaning and other supplies and approximately \$295,000 for non-controlled substances such as vaccines. However, AC&C does not maintain any central inventory of these purchases and its ability to identify overspending, re-order points, items reaching their expiration date, and theft is limited. Consequently, AC&C does not have an adequate basis upon which to determine if it is allocating its resources efficiently.

Auditors' Recommendation #14: AC&C should establish an inventory system for supplies and items related to the operation of the shelter.

AC&C Response: AC&C agrees. AC&C has purchased EPMX Procurement Software with an inventory module and has been working over the past several months on the requirements for implementation and integration in FY2016. This software will help to track inventory from the point of receipt, to on hand counts, sign out sheets, reorder amounts, and reconciliation. Until this system is in place, AC&C will formulate and implement a manual inventory system. Further, to prepare for the rollout of the EPMX Procurement Software, AC&C will take full count of on hand inventories of its supplies and animal food by the end of FY2015.

Other Issue

Over \$221,000 in Rental Expenses Paid for Headquarters

Auditors' Recommendation # 15: AC&C should conduct a cost benefit and feasibility assessment to determine the benefits and liabilities of maintaining office space in Manhattan and expand AC&C's efforts in locating a lower cost alternative, including seeking office space in the outer boroughs.

AC&C Response: AC&C disagrees with this recommendation. AC&C has explored other options in the outer boroughs with respect to its operational administrative needs. AC&C has evaluated cost, location and size of space, along with the need to have an office that is reasonably accessible to all of our staff, relative to all of our five other locations, as well as proximity to City Hall, DOHMH, City Council and many of the partners and donors with whom we work and meet with in person on a regular basis. Currently AC&C's rental costs per square foot are low relative to location. However, AC&C is mindful of its costs and is exploring other options for our headquarters.



NEW YORK CITY DEPARTMENT OF
HEALTH AND MENTAL HYGIENE
Mary T. Bassett, MD, MPH
Commissioner

Oxiris Barbot, M.D.
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April 1, 2015

Marjorie Landa
Deputy Comptroller for Audit
Office of the New York City Comptroller
1 Centre Street, Room 1100
New York, NY 10007-2341

Re: Draft Audit Report on Animal Care and
Control of New York City Inc.'s (AC&C)
Financial and Operating Practices FM14-089A

Dear Deputy Comptroller Landa:

We have received and reviewed the draft Audit Report on Animal Care and Control (AC&C) of New York City, Inc.'s financial and operating practices. Senior management of the Department of Health and Mental Hygiene (DOHMH) discussed with AC&C the draft audit report findings and recommendation and the response from AC&C. The following is DOHMH's response to the auditors' observation on Brooklyn shelter's HVAC system and three audit recommendations addressed to DOHMH.

The auditors noted that in the Brooklyn Shelter there was a strong odor which the auditors said could have been the result of poor ventilation. In response to this concern, discussed on April 29, 2014 meeting with the auditors, DOHMH hired an engineering firm to evaluate the HVAC system, particularly with regard to whether the system was providing proper exchange of fresh air for stagnant air in every room in the facility.

The engineering firm submitted a written report that confirmed that (i) the fans associated with air ventilation system in the building were operating in accordance with original designed air flow rating and (ii) the air flow was adjusted to provide the required air flow distributed through each diffuser and grill in the building as indicated on the original contract drawings. The engineer also performed other HVAC system testing such as measuring motor voltage and amperage of the fan motors and air duct static pressure.

In December, 2014, DOHMH announced that it committed \$3.5 million in its Capital New Needs plan to replace the existing HVAC system at the Brooklyn Shelter. The project will be initiated in FY16.

Auditors' Recommendation and DOHMH's Response:

Recommendation #16: "DOHMH should incorporate into its contract a requirement for AC&C to implement a system of internal controls that includes formal policies and procedures for its operation"

DOHMH's Response: DOHMH agrees with the recommendation and will amend the new contract accordingly.

Recommendation #17: "DOHMH should ensure that AC&C complies with all the recommendations in this report."

DOHMH's Response: DOHMH agrees with this recommendation and will incorporate into its exiting period monitoring and auditing the implementation of recommendations to areas identified by the auditors.

Recommendation #18: "DOHMH should periodically conduct audits of AC&C's operations to ensure adherence to its contract and that AC&C maintains a sound system of internal controls."

DOHMH's Response: DOHMH partially agrees with this recommendation. DOHMH already conducts periodic audits of AC&C operations and monitors its compliance with the contract. As stated in our response to recommendation #17, DOHMH will also incorporate in its periodic audits the areas identified by the auditors, including assessment of AC&C's internal controls.

We appreciate the efforts and professionalism of your staff in the performance of this audit. If you have any questions or need further information, please contact Sara Packman, Assistant Commissioner, Audit Services, at (347) 396-6679.

Sincerely,



Oxiris Barbot, MD
First Deputy Commissioner

Attachment

c: Daniel Kass, Deputy Commissioner, Disease Control
Sara Packman, Assistant Commissioner, Audit Services
Sheila Benjamin, Assistant Commissioner, Operations