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OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

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TO: Mayria Porter
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FROM: Ingram Quick, CIA, CFE
Office of Internal Audit *Ingram Quick*

DATE: October 2, 2014

SUBJ: **Investigation re: Fraud – Metro Animal Services**

Introduction

The Office of Internal Audit (OIA) investigated an allegation of fraud which was made through Louisville Metro's Ethics Tipline. Specifically, incident #120074221 reported that in February 2013, there was an injured dog named Sadie admitted to Metro Animal Services. Sadie had a broken leg which required surgery. The complainant stated after the general public became aware of Sadie's medical needs, outside agencies raised funds for Sadie's surgery. The complainant stated that Sadie never had the surgery and died in the Spring of 2014 as a result of her injuries. The complainant alleged that Metro Animal Services' (MAS) senior management (Donald Robinson and Margaret Brosko) made the decision to use funds donated specifically for Sadie's surgery for other animals in the shelter. The Office of Internal Audit investigated the allegation to determine if it could be substantiated.

Background

Metro Animal Services accepts donations from individuals, businesses and corporations for the Animal Care Fund, Building Fund and the Spot Fund. The Spot Fund, Inc. is a 501(c)(3) organization whose objectives include, but are not limited to, fundraising with and on behalf of MAS. Donations may be cash, personal property or tangible property (e.g., dog food). While there is an enterprise wide policy regarding donations, MAS does not have documented internal policies and procedures regarding how donations are solicited, processed, recorded, monitored and reported.

Methodology

Interviews were conducted with key personnel in order to understand the policies and procedures related to Metro Animal Services' processing, recording, monitoring and reporting of donation activity. Also, the Louisville Metro Government Donation Ordinance (§ 20.15) and Louisville Metro Donation Policy were reviewed to determine MAS compliance with this law and related regulations. All MAS donation activity (i.e., animal care, building and Spot funds) recorded in their data management system from the

period January 2013 through April 2014 was reviewed. Documentation reviewed included quarterly donation reports, departmental donation records, canceled check images, financial system activity as well as the activity from Metro Animal Services' data management system. Documentation was reviewed to determine whether the allegation could be substantiated.

During our review, it was revealed that there was significant noncompliance with the requirements detailed in the Louisville Metro Donation Policy (Policy). MAS did not maintain the required documentation for any of the donations received during the review period. The Policy states, "For all donations, regardless of value, departments are required to maintain a file of documentation on all donations received. The documentation required is 1) donation data sheet; 2) donor letter; 3) donor acknowledgement letter; 4) department's distribution plan and 5) a resolution from Louisville Metro Council, if required by Louisville Metro Code of Ordinance § 20.15."

As a result of the noncompliance with the Policy, MAS was unable to provide sufficient documentation regarding donor intent. In an attempt to verify the total amount of funds donated for Sadie's surgery, OIA obtained alternative documentation regarding the donor's intent. Alternative documentation included, but was not limited, to cancelled checks (memo line) and reference notes in MAS' animal management system.

Results

The investigation did not produce any evidence to substantiate the fraud allegation. However, there was significant noncompliance issues which limited our ability to provide assurance on whether or not funds donated to MAS during the review period were for Sadie's surgery. This was due to the lack of sufficient documentation regarding the donor's designated purpose.

- There were a total of 3,895 donations made to MAS during the review period per the animal management system. The total dollar amount of these donations was \$84,224. The donation amounts ranged from \$.01 to \$10,000.
- During the review period there were a total of 2,442 donations where a check was the payment type. There was one transaction identified as being specifically designated for Sadie by reviewing the memo line of the donor's check. The total amount of the check was \$10.
- During the review period there were a total of 395 cash donations. There was one transaction identified as being specifically designated for Sadie by reviewing a reference note within the MAS' data management system. Donation jars are routinely set up at MAS to collect cash donations which are normally used for animal care services. However, MAS stated that due to a joint fundraising effort, management made the decision that funds collected in the donation jars during a particular period of time would be specifically designated for Sadie's surgery. The total amount of cash donations that MAS' management designated for Sadie's surgery was \$200.
- During the review period there were a total of 1,058 donations where a credit card was the payment type. There was one credit card transaction identified as being specifically designated for Sadie by reviewing a reference note within the MAS' data management system. The total amount of the credit card transaction was \$50.
- The donations collected by MAS for Sadie's surgery were distributed to the Spot Fund, Inc. Based on corroborating interviews with Spot Fund Inc. and MAS representatives, the Spot Fund board was not made aware of the funds donated for Sadie's surgery until after the dog was euthanized. During the review, a representative from the Spot Fund board informed Internal Audit that two checks,

totaling \$60, were issued on 9/5/14 to refund persons whom donated funds for Sadie's surgery.

Recommendations

MAS personnel should review the results and implement necessary corrective actions. Specific recommendations include the following.

- ✓ The Office of Management and Budget, the Louisville Metro Donation Policy owner, should review the reporting requirements of the Donation Policy. The policy has not been updated in eight years and the intended purpose of the reporting requirements may need to be reviewed to ensure it is still beneficial for all departments. It may not be feasible for some departments to maintain a file of required documentation, especially those of nominal value or monetary amount.
- ✓ Metro Animal Services should implement documented internal policies and procedures for the solicitation, processing, recording, monitoring and reporting of donation activity. Internal policies and procedures should include the following:
 - Policies and procedures must clearly define the responsibility of MAS employees. Refer to titles, positions, and departments not specific individuals.
 - Policies and procedures should be formally documented.
 - Policies and procedures should be revised at least annually or when there is a significant change in the program or process.
 - Policies and procedures should be clear and concise and accurately describe the subject(s) addressed.
- ✓ Metro Animal Services should ensure proper monitoring is performed for donation activity. This includes verifying the accuracy and completeness of donation files as well as information recorded on the MAS data management system.

Conclusion

Based on interviews of key personnel, and reviews of supporting documentation, the allegation cannot be substantiated. There is no evidence to substantiate the fraud allegation; however, the significant noncompliance issues limited our ability to provide assurance on whether or not funds donated to MAS during the review period were for Sadie's surgery. Persons identified as donating funds specifically for Sadie's surgery were refunded their donations by the Spot Fund, Inc..

A response was received by the Office of Internal Audit from the Metro Animal Services' Assistant Director (Donald Robinson) on September 29, 2014. The response stated internal policies and procedures regarding MAS donation activity had been implemented and distributed to all applicable staff. Once the Office of Management and Budget revises the Louisville Metro Donation Policy, MAS will review to ensure that their internal policy is consistent with the overall policy for donations.

If you have any questions, or wish to discuss the investigation results in more detail, please let me know.

cc: Metro Animal Services Assistant Director
Metro Council Ad Hoc Committee on Animal Services