



**JOHN CHIANG**  
*California State Controller*

February 7, 2012

James O'Leary  
Interim Finance Director  
City of San Leandro  
835 East 14<sup>th</sup> Street  
San Leandro, CA 94577

Dear Mr. O'Leary:

The State Controller's Office (SCO) reviewed the costs claimed by the City of San Leandro for the legislatively mandated Animal Adoption Program (Civil Code sections 1834 and 1846 and Food and Agriculture Code sections 31108, 31752, 31752.5, 31753, 32001, and 32003 (added and amended by Chapter 752, Statutes of 1998)) for the period of July 1, 2000, through June 30, 2005, excluding fiscal year (FY) 2003-04. Our review was limited to validating the animal service contract the City of San Leandro had with the City of Hayward.

The City of San Leandro claimed \$67,650 for the mandated program. Our review disclosed that the claimed costs are unallowable. The costs are unallowable because the contracting city, the City of Hayward, determined that all funds received from the City of San Leandro were for general operating expenses of the city's animal shelter rather than mandate-related expenditures, as described in the attached Summary of Program Costs and Finding and Recommendation.

For the FY 2000-01 claim, the State paid the City of San Leandro \$5,014. Our review disclosed that the claimed costs are unallowable. The State will offset \$5,014 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2001-02 claim, the State made no payment to the City of San Leandro. Our review disclosed that the claimed costs are unallowable.

For the FY 2002-03 claim, the State made no payment to the City of San Leandro. Our review disclosed that the claimed costs are unallowable.

For the FY 2004-05 claim, the State paid the City of San Leandro \$31,182. Our review disclosed that the claimed costs are unallowable. The State will offset \$31,182 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

If you disagree with the review finding, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/bf

Attachments

RE: S11-MCC-902

cc: Carla Rodriguez, Deputy Finance Director  
City of San Leandro  
Jeff Carosone, Principal Program Budget Analyst  
Cor-Gen Unit, Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

**Attachment 1—  
Summary of Program Costs  
July 1, 2000, through June 30, 2005,  
Excluding Fiscal Year 2003-04**

<u>Cost Element</u>	<u>Actual Costs Claimed</u>	<u>Allowable Per Review</u>	<u>Review Adjustment<sup>1</sup></u>
<u>July 1, 2000, through June 30, 2001</u>			
Care of dogs, cats, and other animals	\$ 5,014	\$ -	\$ (5,014)
Total program costs	<u>\$ 5,014</u>	-	<u>\$ (5,014)</u>
Less amount paid by the State		(5,014)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (5,014)</u>	
<u>July 1, 2001, through June 30, 2002</u>			
Care of dogs, cats, and other animals	\$ 5,829	\$ -	\$ (5,829)
Total program costs	<u>\$ 5,829</u>	-	<u>\$ (5,829)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2002, through June 30, 2003</u>			
Care of dogs, cats, and other animals	\$ 25,625	\$ -	\$ (25,625)
Total program costs	<u>\$ 25,625</u>	-	<u>\$ (25,625)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Training	\$ 57	\$ -	\$ (57)
Care of dogs, cats, and other animals	6,710	-	(6,710)
Holding period	15,794	-	(15,794)
Feral cats	583	-	(583)
Lost and found lists	4,287	-	(4,287)
Non-medical records	<u>3,751</u>	-	<u>(3,751)</u>
Total program costs	<u>\$ 31,182</u>	-	<u>\$ (31,182)</u>
Less amount paid by the State		(31,182)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (31,182)</u>	
<u>Summary: July 1, 2000, through June 30, 2005 excluding fiscal year 2003-04</u>			
Training	\$ 57	\$ -	\$ (57)
Care of dogs, cats, and other animals	43,178	-	(43,178)
Holding period	15,794	-	(15,794)
Feral cats	583	-	(583)
Lost and found lists	4,287	-	(4,287)
Non-medical records	<u>3,751</u>	-	<u>(3,751)</u>
Total program costs	<u>\$ 67,650</u>	-	<u>\$ (67,650)</u>
Less amount paid by the State		(36,196)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (36,196)</u>	

<sup>1</sup> See Attachment 2, Finding and Recommendation.

**Attachment 2—  
Finding and Recommendation  
July 1, 2000, through June 30, 2005,  
Excluding Fiscal Year 2003-04**

**FINDING—  
Unallowable costs**

The City of San Leandro claimed \$67,650 for the legislatively mandated Animal Adoption Program for the period of July 1, 2000, through June 30, 2005, excluding fiscal year (FY) 2003-04. We determined that the costs are unallowable because the contracting city, the City of Hayward, determined that all funds received from the City of San Leandro were for general operating expenses of the city's animal shelter rather than mandate-related expenditures.

The following table summarizes the claimed, allowable, and unallowable costs by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Review Adjustment
2000-01	\$ 5,014	\$ -	\$ (5,014)
2001-02	5,829	-	(5,829)
2002-03	25,625	-	(25,625)
2004-05	31,182	-	(31,182)
Total	<u>\$ 67,650</u>	<u>\$ -</u>	<u>\$ (67,650)</u>

On May 6, 2011, the State Controller's Office (SCO) issued a final report for our audit of the City of Hayward's Animal Adoption claims for the period of July 1, 1998, through June 30, 2008, excluding July 1, 2003, through June 30, 2005. During this audit, we determined that the City of Hayward offset \$26,485 in its FY 2002-03 claim for funds received from the City of San Leandro for providing animal services to the city.

Page 45 of the City of Hayward's Animal Adoption audit report contains information regarding our "Finding 10—Understated Offsetting Revenues." In that finding, we addressed City of San Leandro's contract with the City of Hayward for animal control services and the amounts that the City of San Leandro filed with the State under the Animal Adoption Program. Language in the City of San Leandro's mandated cost claims stated that it was claiming costs based on 15.8% of mandated costs incurred by the City of Hayward for FY 2004-05 and on the number of animals originating from the City of San Leandro for the other fiscal years. The amounts were determined by an external mandated cost consultant that prepared the Animal Adoption Program claims for both cities. As a result, the City of San Leandro filed Animal Adoption claims totaling \$67,650 while under contract with the City of Hayward for animal control services.

(Note: The mandated program was suspended by the Legislature for FY 2003-04.)

The City of Hayward provided us documentation indicating that the City of San Leandro's contract with the City of Hayward for animal control services was for \$85,100 per year. The contract amount was constant during the fiscal years of this review period.

We informed the City of Hayward about the claims filed by the City of San Leandro and that they were based on a percentage of mandated costs incurred by the City of San Leandro. However, Management of the City of Hayward indicated that they were unaware of the claims filed by the City of San Leandro. During our audit of the City of Hayward's Animal Adoption claims, we were unable to determine if any of the contract revenues received by the City of Hayward funded mandated activities or funded the general operating expenses incurred to operate the city's animal shelter. We determined that the City of Hayward's allowable mandate-related expenditures comprised 21.1% of total expenditures incurred to operate its animal shelter during FY 2000-01. Mandate-related expenditures comprised 6.6% of its total expenditures for FY 2001-02, 7.0% for FY 2002-03, and 11.6% for FY 2004-05. Accordingly, general operating expenditures incurred by the City of Hayward amounted to 78.9%, 93.4%, 93%, and 88.4% of its total expenditures incurred for FY 2000-01, FY 2001-02, FY 2002-03, and FY 2004-05, respectively.

The following table summarizes the total expenditures incurred by the City of Hayward to operate its animal shelter, the claim amounts filed for the Animal Adoption program, and the mandate-related expenditures based on our audit.

<u>Fiscal Year</u>	<u>City of Hayward's Total Expenditures</u>	<u>Animal Adoption Program Costs Claimed</u>	<u>Mandate-Related Expenditures Allowable Based on Audit</u>	<u>Mandate-Related Percentage</u>
2000-01	\$ 910,722	\$ 391,674	\$ 192,239	21.11%
2001-02	989,206	314,742	95,249	9.63%
2002-03	1,174,957	152,467	82,109	6.99%
2004-05	1,427,929	166,175	166,175 *	11.64%
		<u>\$ 1,025,058</u>	<u>\$ 535,772</u>	

\* The SCO did not audit the City of Hayward's Animal Adoption claim for FY 2004-05.

We asked the City of Hayward to identify, in writing, what portion of its mandated costs were funded by contract revenues received from the City of San Leandro. The City of Hayward's Accounting Manager responded in a letter dated May 27, 2010, that the contract revenues received from the City of San Leandro were allocated for general operating costs only.

On November 28, 2011, we contacted Carla Rodriguez, Deputy Finance Director of the City of San Leandro via e-mail. We provided her a copy of the City of Hayward's Animal Adoption audit report and the City of Hayward's signed written statement on city letterhead regarding the funds received from the City of San Leandro. Ms. Rodriguez responded by telephone and indicated that she did not understand why management for the City of Hayward stated that none of the funds received from the City of San Leandro were for mandated costs. We clarified that if the

City of Hayward subsequently advises us that all or a portion of the contract revenues it received from the City of San Leandro were used for mandated activities, we will revise the audit results as appropriate.

As the City of Hayward provided all of the services, incurred all of the costs, and was the contractor for the City of San Leandro, we relied on the City of Hayward's determination as to whether the City of San Leandro's contract revenues funded the part of the percentages identified above that it incurred for mandated activities or part of the larger percentages identified above that it incurred for general operational costs. Reimbursement for mandated costs incurred by a local agency is limited to mandated costs incurred. Either the City of Hayward is entitled to 100% of its mandated costs incurred, or a portion of the reimbursements should be shared with its contracting partner. The two cities need to resolve this issue.

Recommendation

We recommend that the City of San Leandro ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.