

CITY OF STOCKTON

Audit Report

ANIMAL ADOPTION PROGRAM

Chapter 752, Statutes of 1998,
and Chapter 313, Statutes of 2004

July 1, 1998, through June 30, 2007
Excluding July 1, 2003, through June 30, 2005



JOHN CHIANG
California State Controller

March 2011



JOHN CHIANG
California State Controller

March 9, 2011

The Honorable Ann Johnston
Mayor of the City of Stockton
425 N. El Dorado Street
Stockton, CA 95202-1997

Dear Mayor Johnston:

The State Controller's Office audited the costs claimed by the City of Stockton for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004) for the period of July 1, 1998, through June 30, 2007, excluding July 1, 2003, through June 30, 2005.

The city claimed \$2,897,544 for the mandated program. Our audit disclosed that \$444,306 is allowable and \$2,453,238 is unallowable. The costs are unallowable primarily because the city claimed unsupported costs. The State paid the city \$2,059,592. The amount paid exceeds allowable costs claimed by \$1,615,286.

If you disagree with the audit findings, 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 Web site at 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/vb

cc: Mark Moses, Chief Financial Officer
City of Stockton
Lynne Farrar, Supervising Accountant
City of Stockton
Tina Zakhary, Police Lieutenant
City of Stockton
Tom Hennig, Program Manager III
City of Stockton
Jeff Carosone, Principal Program Budget Analyst
Cor-Gen Unit, Department of Finance
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Stockton for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004) for the period of July 1, 1998, through June 30, 2007, excluding July 1, 2003, through June 30, 2005.

The city claimed \$2,897,544 for the mandated program. Our audit disclosed that \$444,306 is allowable and \$2,453,238 is unallowable. The costs are unallowable primarily because the city claimed unsupported costs. The State paid the city \$2,059,592. The amount paid exceeds allowable costs claimed by \$1,615,286.

Background

Food and Agriculture Code sections 31108, 31752-31753, 32001, and 32003 (added and amended by Chapter 752, Statutes of 1998) attempted to end the euthanasia of adoptable and treatable animals. It expressly identifies the state policy that "no adoptable animal should be euthanized if it can be adopted into a suitable home" and that "no treatable animal should be euthanized." The legislation increases the holding period for stray and abandoned dogs, cats, and other specified animals. It also requires public or private shelters to:

- Verify the temperament of feral cats;
- Post lost-and-found lists;
- Maintain records for impounded animals; and
- Ensure that impounded animals receive necessary and prompt veterinary care.

On January 25, 1981, the Commission on State Mandates (CSM) determined that Chapter 752, Statutes of 1998, imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted the parameters and guidelines on February 28, 2002, corrected them on March 20, 2002, and last amended them on January 26, 2006. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

For fiscal year (FY) 2003-04, the Legislature suspended the Animal Adoption Program.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Animal Adoption Program for the period of July 1, 1998, through June 30, 2007, excluding July 1, 2003, through June 30, 2005.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the city's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. 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.

We limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the City of Stockton claimed \$2,897,544 for costs of the Animal Adoption Program. Our audit disclosed that \$444,306 is allowable and \$2,453,238 is unallowable.

For the fiscal year (FY) 1998-99 claim, the State paid the city \$135,447. Our audit disclosed that \$11,603 is allowable. The State will offset \$123,844 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 1999-2000 claim, the State paid the city \$500,753. Our audit disclosed that \$19,888 is allowable. The State will offset \$480,865 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2000-01 claim, the State paid the city \$514,676. Our audit disclosed that \$25,800 is allowable. The State will offset \$488,876 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. Our audit disclosed that \$239,020 is allowable. The State will pay allowable costs claimed contingent upon available appropriations.

For the FY 2002-03 claim, the State made no payment to the city. Our audit disclosed that \$43,130 is allowable. The State will pay allowable costs claimed contingent upon available appropriations.

For the FY 2005-06 claim, the State paid the city \$394,977. Our audit disclosed that \$48,667 is allowable. The State will offset \$346,310 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2006-07 claim, the State paid the city \$513,739. Our audit disclosed that \$56,198 is allowable. The State will offset \$457,541 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

Views of Responsible Officials

We issued a draft audit report on February 24, 2010. Mark Moses, Chief Financial Officer, responded by letter dated May 10, 2010 (Attachment), agreeing with the audit results except for Findings 1, 2, and 5. For Findings 1 and 5, the city agreed to conduct a time study using the State Controller's Office Time Study Guidelines. The city conducted its time study during March 2010, to document time spent by city employees for the cost components of Non-Medical Records, Lost and Found Lists, and Necessary and Prompt Veterinary care. The city submitted its time study results to us via e-mail on May 26, 2010. We reviewed the time study and applied the results as appropriate. This final audit report includes the city's response.

Restricted Use

This report is solely for the information and use of the City of Stockton, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

March 9, 2011

**Schedule 1—
Summary of Program Costs
July 1, 1998, through June 30, 2007**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1998, through June 30, 1999</u>				
Direct costs:				
Salaries and benefits	\$ 80,611	\$ 6,498	\$ (74,113)	Finding 1
Materials and supplies	26,743	2,841	(23,902)	Finding 2, 4
Total direct costs	107,354	9,339	(98,015)	
Indirect costs	28,093	2,264	(25,829)	Finding 1
Total program costs	<u>\$ 135,447</u>	11,603	<u>\$ (123,844)</u>	
Less amount paid by the State		(135,447)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (123,844)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Salaries and benefits	\$ 93,546	\$ 12,714	\$ (80,832)	Finding 1
Materials and supplies	358,395	539	(357,856)	Finding 2, 4, 5
Total direct costs	451,941	13,253	(438,688)	
Indirect costs	48,812	6,635	(42,177)	Finding 1
Total program costs	<u>\$ 500,753</u>	19,888	<u>\$ (480,865)</u>	
Less amount paid by the State		(500,753)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (480,865)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Salaries and benefits	\$ 92,084	\$ 16,163	\$ (75,921)	Finding 1
Materials and supplies	378,300	1,863	(376,437)	Finding 2, 3, 4, 5
Total direct costs	470,384	18,026	(452,358)	
Indirect costs	44,292	7,774	(36,518)	Finding 1
Total program costs	<u>\$ 514,676</u>	25,800	<u>\$ (488,876)</u>	
Less amount paid by the State		(514,676)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (488,876)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries and benefits	\$ 143,345	\$ 18,925	\$ (124,420)	Finding 1
Materials and supplies	61,087	9,787	(51,300)	Finding 2, 3, 4, 5
Contract services	576,764	205,282	(371,482)	Finding 3
Total direct costs	781,196	233,994	(547,202)	
Indirect costs	38,072	5,026	(33,046)	Finding 1
Total program costs	<u>\$ 819,268</u>	239,020	<u>\$ (580,248)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 239,020</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 169,873	\$ 22,208	\$ (147,665)	Finding 1
Materials and supplies	36,233	1,190	(35,043)	Finding 2, 3, 4, 5
Contract services	65,757	12,566	(53,191)	Finding 3
Total direct costs	271,863	35,964	(235,899)	
Indirect costs	54,818	7,166	(47,652)	Finding 1
Total program costs	<u>\$ 326,681</u>	43,130	<u>\$ (283,551)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 43,130</u>		
<u>July 1, 2003, through June 30, 2004 ²</u>				
<u>July 1, 2004, through June 30, 2005 ³</u>				
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits	\$ 270,844	\$ 32,663	\$ (238,181)	Finding 1
Materials and supplies	33,436	—	(33,436)	Finding 2, 5
Contract services	5,760	5,760	—	
Total direct costs	310,040	38,423	(271,617)	
Indirect costs	84,937	10,244	(74,693)	Finding 1
Total program costs	<u>\$ 394,977</u>	48,667	<u>\$ (346,310)</u>	
Less amount paid by the State		(394,977)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (346,310)</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits	\$ 151,686	\$ 38,629	\$ (113,057)	Finding 1
Materials and supplies	1,926	—	(1,926)	Finding 2, 5
Contract services	5,760	5,760	—	
Total direct costs	159,372	44,389	(114,983)	
Indirect costs	46,370	11,809	(34,561)	Finding 1
Total program costs	<u>\$ 205,742</u>	56,198	<u>\$ (149,544)</u>	
Less amount paid by the State		(513,739)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (457,541)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 1998, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits	\$ 1,001,989	\$ 147,800	\$ (854,189)	
Materials and supplies	896,120	16,220	(879,900)	
Contract services	654,041	229,368	(424,673)	
Total direct costs	2,552,150	393,388	(2,158,762)	
Indirect costs	345,394	50,918	(294,476)	
Total program costs	<u>\$ 2,897,544</u>	444,306	<u>\$(2,453,238)</u>	
Less amount paid by the State		(2,059,592)		
Allowable costs claimed in excess of (less than) amount paid			<u>\$(1,615,286)</u>	
<u>Recap: By Cost Component</u>				
Direct costs:				
Policies and procedures	\$ 43,797	\$ —	\$ (43,797)	Finding 1
Training	20,366	—	(20,366)	Finding 1
Computer software	19,692	19,692	—	
Acquiring space and facility	649,349	206,083	(443,266)	Finding 3
Care of dogs and cats	1,057,364	—	(1,057,364)	Findings 1, 2
Care of other animals	53,159	—	(53,159)	Findings 1, 2
Holding period	203,042	26,937	(176,105)	Finding 1
Feral cats	119,294	—	(119,294)	Finding 1
Lost and found list	18,500	46,215	27,715	Finding 1
Non-medical records	277,905	77,767	(200,138)	Finding 1
Veterinary care	28,837	8,401	(20,436)	Findings 1, 5
Procuring equipment	60,845	8,293	(52,552)	Findings 1, 4
Total direct costs	2,552,150	393,388	(2,158,762)	
Indirect costs	345,394	50,918	(294,476)	
Total claimed costs	<u>\$ 2,897,544</u>	<u>\$ 444,306</u>	<u>\$(2,453,238)</u>	

¹ See the Findings and Recommendations section.

² The Animal Adoption Program was suspended for FY 2003-04.

³ Government Code section 17558.5 identified the statutory period claims are subject to audit. At the time this audit was initiated, the statutory period to audit the FY 2004-05 claim had expired.

Findings and Recommendations

FINDING 1— Unsupported salaries and benefits

The city claimed \$1,001,989 in salaries and benefits for the audit period. The related indirect costs totaled \$345,394. We determined that \$147,800 is allowable and \$854,189 is unallowable. The related unallowable indirect costs totaled \$294,476.

The costs are unallowable because the city claimed eligible activities that it estimated and/or did not support with documentation. The city provided only unsigned and undated forms, prepared after the end of the fiscal year, that estimated the time spent annually on reimbursable activities. The city's mandate consultant provided the city with forms that were completed with estimated annual time.

In the draft audit report, all salary and benefit costs and the related indirect costs claimed by the city during the audit period were unallowable. During the audit, we discussed with the city the inadequate documentation and its option of performing a time study to substantiate unsupported salaries and benefits. We provided the city a copy of the SCO time-study guidelines to assist staff in developing a time study. We agreed to review the time study results and revise the audit report, as appropriate.

Subsequent to the issuance of the draft report, the city conducted a time study during March of 2010 in order to recover unallowable costs. The city's time study was conducted for the cost components of Lost and Found Lists, Maintaining Non-Medical Records, and two activities performed under the cost component of Necessary and Prompt Veterinary Care. We also worked with the city's animal shelter representatives to document staffing and hours of operation for the cost component of Agencies Using the Holding Period of Four Business Days After the Day of Impoundment (Holding Period).

The city submitted its raw time study data to us via e-mail on May 26, 2010. The city also provided employee productive hourly rate and animal census data information in order to determine allowable costs. In consultation with city representatives, we reviewed the documentation submitted and applied the results to the audit period as appropriate.

The following table summarizes the audit adjustment amounts by fiscal year:

Cost Categories	Fiscal Year							Total
	1998-99	1999-2000	2000-01	2001-02	2002-03	2005-06	2006-07	
Salaries and benefits:								
One-time costs:								
Policies and procedures	\$ (27,643)	\$ (8,348)	\$ (7,806)	\$ —	\$ —	\$ —	\$ —	\$ (43,797)
Training	(7,429)	(6,508)	(6,429)	—	—	—	—	(20,366)
Ongoing costs:								
Care of dogs and cats	—	—	—	(65,223)	(90,294)	(133,268)	(4,091)	(292,876)
Care of other animals	—	—	—	(9,407)	(8,724)	(9,863)	—	(27,994)
Holding period	(32,689)	(29,468)	(28,252)	(14,805)	(15,799)	(27,568)	(27,524)	(176,105)
Feral cats	(1,122)	(11,950)	(11,298)	(15,232)	(15,869)	(29,378)	(34,445)	(119,294)
Lost and found lists	377	2,407	3,437	3,198	3,904	6,444	7,948	27,715
Non-medical records	(5,763)	(27,111)	(22,700)	(23,255)	(20,750)	(44,574)	(55,985)	(200,138)
Veterinary care	380	739	958	304	(133)	26	1,040	3,314
Procuring equipment	(224)	(593)	(3,831)	—	—	—	—	(4,648)
Subtotal	(74,113)	(80,832)	(75,921)	(124,420)	(147,665)	(238,181)	(113,057)	(854,189)
Indirect costs	(25,829)	(42,177)	(36,518)	(33,046)	(47,652)	(74,693)	(34,561)	(294,476)
Audit adjustment	\$ (99,942)	\$ (123,009)	\$ (112,439)	\$ (157,466)	\$ (195,317)	\$ (312,874)	\$ (147,618)	\$ (1,148,665)

The program's parameters and guidelines (section IV), state:

... to be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices and receipts. Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations.

Recommendation

We recommend that the city maintain source documents that support the actual time employees spend performing mandate-related activities.

City's Response

The SCO agreed to revise the audit report as appropriate, and thereby recalculate allowable costs if the City perform a time study based on the State Controllers Office Guidelines. This time study was completed in March 2010. The City is in contact with the Auditor to schedule appropriate review and possible revisions to disallowed costs.

SCO's Comment

The recommendation remains unchanged.

In our draft report, all salary and benefit costs and the related indirect costs claimed by the city during the audit period were unallowable. As noted in its response, the city performed a time study in March of 2010,

in order to recover unallowable costs. The city's time study was conducted for the cost components of Lost and Found Lists, Maintaining Non-Medical Records, and Necessary and Prompt Veterinary Care. The city also provided employee staffing and hours of operation information related to the cost component of Agencies Using the Holding Period of Four Business Days After the Day of Impoundment (Holding Period).

The city submitted its raw time study data to us via e-mail on May 26, 2010. In addition, the city provided employee productive hourly rate and animal census data information in order for us to calculate allowable costs.

In consultation with city representatives, we reviewed the time study data and applied the results to the audit period as appropriate. We determined that the time study supported allowable salary and benefit costs totaling \$147,800. The related allowable indirect costs totaled \$50,918.

Therefore, our comments below relate to these cost components.

Agencies Using the Holding Period of Four Business Days After the Day of Impoundment

The city claimed \$203,042 in salaries and benefits during the audit period under the Holding Period cost component. The related indirect costs totaled \$75,708. Based on the time study that the city conducted during March, 2010, we determined that salary and benefit costs totaling \$26,937 is allowable and \$176,105 is unallowable. The related allowable indirect costs totaled \$9,259. Costs were overstated because the city overstated the shelter's reimbursable hours and the required staffing necessary to make animals available for owner redemption.

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

Cost Categories	Fiscal Year							Total
	1998-99	1999-2000	2000-01	2001-02	2002-03	2005-06	2006-07	
Salaries:								
Claimed	\$ 22,528	\$ 22,528	\$ 22,528	\$ 12,497	\$ 13,117	\$ 17,093	\$ 17,121	\$ 127,412
Allowable	750	1,554	2,174	2,342	2,848	2,972	3,692	16,332
Audit adjustment	(21,778)	(20,974)	(20,354)	(10,155)	(10,269)	(14,121)	(13,429)	(111,080)
Benefits:								
Claimed	11,286	9,123	8,741	5,781	6,891	16,161	17,647	75,630
Allowable	375	629	843	1,131	1,361	2,714	3,552	10,605
Audit adjustment	(10,911)	(8,494)	(7,898)	(4,650)	(5,530)	(13,447)	(14,095)	(65,025)
Related indirect costs:								
Claimed	11,784	16,515	15,040	4,855	6,457	10,428	10,629	75,708
Allowable	392	1,139	1,451	922	1,358	1,783	2,214	9,259
Audit adjustment	(11,392)	(15,376)	(13,590)	(3,932)	(5,098)	(8,645)	(8,414)	(66,449)
Total Claimed	45,598	48,166	46,309	23,133	26,465	43,682	45,397	278,750
Total Allowable	1,517	3,322	4,468	4,395	5,567	7,469	9,458	36,196
Total audit adjustment	\$ (44,081)	\$ (44,844)	\$ (41,841)	\$ (18,738)	\$ (20,898)	\$ (36,213)	\$ (35,939)	\$ (242,554)

Hours of Operation

During the audit period, the city's animal shelter was open for four hours on Saturday (open from 10:00 a.m. to 3:00 p.m., but closed for lunch from 12:00 to 1:00 p.m.). The city's animal shelter was also open an additional two hours on Wednesdays to comply with the mandated requirements.

The parameters and guidelines state that the shelter "must make the animal available for owner redemption on one weekday evening until at least 7:00 p.m., or, one weekend day." Reimbursement is limited to *one* of the days – either the increased Wednesday hours or all of the Saturday hours. As the Saturday hours are longer than the increased Wednesday hours, reimbursement is allowable for the four hours that the shelter was open on Saturdays.

Staffing Requirements

The city claimed costs for all employees who were on duty at the animal shelter on Saturdays, based on eight hours for fiscal year (FY) 1998-99 through FY 2000-01 and four hours for FY 2001-02 through FY 2006-07. Costs were claimed for one Animal Control Officer and two Animal Control Assistants during FY 1998-99 through FY 2000-01 and one Animal Control Officer and at least three Animal Control Assistants on a rotating basis during FY 2002-03 through FY 2006-07. However, reimbursement is limited to the additional employee(s) that were on duty on Saturdays to make animals available for owner redemption.

We determined that when the shelter is open on Saturdays, the shelter staff on duty typically included three Animal Control Assistants and one Animal Control Officer. This was based on information obtained from the shelter's staff and a review of employee assignment logs. However, we also noted that the same staffing requirements maintained on Saturdays were also maintained on Sundays when the shelter is closed for business.

We concluded that the shelter incurred increased costs only on Saturdays for one Animal Control Assistant to make the animals available for owner redemption. This employee would interact with the public by helping owners reclaim their animals, process any required paperwork, and collect fees as applicable. We also determined that even though the shelter may have had an Animal Control Officer on duty during one weekend day, this employee classification is not required to be at the facility in the evening or on weekends to make animals available for owner redemption. Therefore, reimbursement is allowable during the audit period for one Animal Control Assistant.

The parameters and guidelines allow reimbursement, beginning January 1, 1999, for the impounded animals specified in Food and Agriculture Code section 31753 ("other animals"), and beginning July 1, 1999 for impounded dogs and cats for either:

1. Making the animal available for owner redemption on one weekday evening until at least 7:00 p.m.; or one weekend day; or

2. For those local agencies with fewer than three full time employees or that are not open during all regular weekend business hours, establishing a procedure to enable owner to reclaim their animals by appointment at a mutually agreeable time when the agency would otherwise be closed.

Lost and Found Lists

The city claimed \$18,500 for salaries and benefits during the audit period under the Lost and Found Lists cost component. The related indirect costs totaled \$6,296. Based on the time study that the city conducted during March, 2010, we determined that allowable salary and benefit costs totaled \$46,215. The related allowable indirect costs totaled \$15,897. The city understated total costs claimed by \$37,316 because it underestimated the amount of time required to perform the reimbursable activities.

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

Cost Categories	Fiscal Year							Total
	1998-99	1999-2000	2000-01	2001-02	2002-03	2005-06	2006-07	
Salaries:								
Claimed	\$ 1,087	\$ 1,088	\$ 1,087	\$ 1,837	\$ 1,899	\$ 2,182	\$ 2,268	\$ 11,448
Allowable	1,339	2,801	3,563	3,975	4,708	5,440	6,149	27,975
Audit adjustment	252	1,713	2,476	2,138	2,809	3,258	3,881	16,527
Benefits:								
Claimed	545	441	422	861	1,155	1,780	1,848	7,052
Allowable	670	1,135	1,383	1,921	2,250	4,966	5,915	18,240
Audit adjustment	125	694	961	1,060	1,095	3,186	4,067	11,188
Related indirect costs:								
Claimed	569	798	726	717	986	1,242	1,258	6,296
Allowable	700	2,054	2,379	1,566	2,246	3,264	3,688	15,897
Audit adjustment	131	1,256	1,653	849	1,260	2,022	2,430	9,601
Total claimed	2,201	2,327	2,235	3,415	4,040	5,204	5,374	24,796
Total allowable	2,709	5,990	7,325	7,462	9,204	13,670	15,752	62,112
Total audit adjustment	\$ 508	\$ 3,663	\$ 5,090	\$ 4,047	\$ 5,164	\$ 8,466	\$ 10,378	\$ 37,316

Time Study

The city's animal shelter conducted a time study to determine the amount of time shelter staff spent performing lost and found activities. The time study focused on the five requirements as stated in the parameters and guidelines, which include:

1. Ability to list animals they have lost or found on "lost and found" lists maintained by the local agency;
2. Referrals to animals listed that may be the animals the owner or finders have lost or found;
3. The telephone numbers and addresses of other pounds and shelters in the same vicinity;
4. Advice as to means of publishing and disseminating information regarding lost animals; and
5. The telephone numbers and addresses of volunteer groups that may be assistance in locating lost animals.

The time study was conducted over a four-week period from March 1, 2010 through March 29, 2010. The animal shelter’s staff involved in the time study included seven Animal Services Assistants, one Office Assistant II, and three Animal Services Officers. The city summarized the time spent performing the lost and found activities, but the results were not applied back to the fiscal years of the audit period.

Based on our analysis of the time study data, the animal shelter’s staff spent a total of 1,433 minutes during the four-week period performing lost and found activities.

The following table presents a breakdown by employee classification of the time spent performing the mandated activities:

<u>Employee Classification</u>	<u>Total Minutes</u>	<u>Total Hours</u>
Animal Services Assistant I	866	188
Animal Services Officer	229	50
Office Assistant II	338	73
Totals	<u>1,433</u>	<u>311</u>

The minutes from the time study were converted into allowable hours per employee classification for each year. The time study hours shown in the table above were applied to one employee per classification per year for FY 2001-02 through FY 2006-07 to determine allowable costs for those years. For FY 1998-99 through FY 2000-01, the city did not have the employee classification of Office Assistant II. City representatives stated that the duties of this classification would have been performed by the Animal Services Assistant Is during those years. Therefore, we used 261 allowable hours for Animal Services Assistant Is and 50 hours for Animal Services Officers to determine allowable costs for those years.

The following table summarizes the differences between total claimed hours and allowable hours for all employee classifications during the audit period:

	<u>Total Hours</u>						
	<u>Fiscal Year</u>						
	<u>1998-99¹</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2005-06</u>	<u>2006-07</u>
Allowable	156	311	311	311	311	311	311
Claimed	<u>55</u>	<u>55</u>	<u>55</u>	<u>106</u>	<u>106</u>	<u>106</u>	<u>106</u>
Audit adjustment	<u>101</u>	<u>256</u>	<u>256</u>	<u>205</u>	<u>205</u>	<u>205</u>	<u>205</u>

¹ For FY 1998-99, reimbursement begins on January 1, 1999.

Productive Hourly Rates

To calculate employee productive hourly rates, we used annual payroll history reports provided by the city to obtain the salary and benefit rates for each employee classification. These rates were then applied to the allowable hours per employee classification to determine the reimbursable costs for each fiscal year.

The program's parameters and guidelines allow reimbursement, beginning January 1, 1999, or providing owners of lost animals and those who find lost animals with all the following:

1. Ability to list animals they have lost or found on "lost and found" lists maintained by the local agency;
2. Referrals to animals listed that may be the animals the owner or finders have lost or found;
3. The telephone numbers and addresses of other pounds and shelters in the same vicinity;
4. Advice as to means of publishing and disseminating information regarding lost animals; and
5. The telephone numbers and addresses of volunteer groups that may be assistance in locating lost animals.

Maintaining Non-Medical Records

The city claimed salaries and benefits totaling \$266,385 during the audit period under the Non-Medical Record cost component. The related indirect costs claimed totaled \$93,905. Based on the time study that the city conducted during March 2010, we determined that salary and benefit costs totaling \$66,247 is allowable and \$200,138 is unallowable. The costs are unallowable because the city overestimated the amount of time spent by shelter staff performing the mandated activities. The related allowable indirect costs totaled \$22,867.

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

Cost Categories	Fiscal Year							Total
	1998-99*	1999-2000	2000-01	2001-02	2002-03	2005-06	2006-07	
Salaries:								
Claimed	\$ 5,827	\$ 23,464	\$ 21,572	\$ 20,927	\$ 20,007	\$ 30,256	\$ 36,017	\$ 158,070
Allowable	1,989	4,168	5,218	5,684	6,985	7,592	8,607	40,243
Audit adjustment	(3,838)	(19,296)	(16,354)	(15,243)	(13,022)	(22,664)	(27,410)	(117,827)
Benefits:								
Claimed	2,920	9,503	8,370	10,758	11,067	28,842	36,855	108,315
Allowable	995	1,688	2,024	2,746	3,339	6,932	8,280	26,004
Audit adjustment	(1,925)	(7,815)	(6,346)	(8,012)	(7,728)	(21,910)	(28,575)	(82,311)
Related indirect costs:								
Claimed	3,047	17,202	14,402	8,416	10,028	18,533	22,277	93,905
Allowable	1,040	3,056	3,483	2,239	3,331	4,555	5,163	22,867
Audit adjustment	(2,007)	(14,146)	(10,919)	(6,177)	(6,697)	(13,978)	(17,114)	(71,038)
Total claimed	11,794	50,169	44,344	40,101	41,102	77,631	95,149	360,290
Total allowable	4,024	8,912	10,725	10,669	13,655	19,079	22,050	89,114
Total audit adjustment	<u>\$ (7,770)</u>	<u>\$ (41,257)</u>	<u>\$ (33,619)</u>	<u>\$ (29,432)</u>	<u>\$ (27,447)</u>	<u>\$ (58,552)</u>	<u>\$ (73,099)</u>	<u>\$ (271,176)</u>

* For FY 1998-99, reimbursement begins on January 1, 1999.

Time Study

All costs claimed for this cost component were initially unallowable because the city claimed estimated costs and did not provide any supporting documentation. The city's claims for FY 2001-02 through FY 2006-07 made reference to a time study that was conducted supporting

that shelter staff spent nine minutes per animal processing non-medical records. However, the city was unable to provide any documentation supporting that a time study was ever conducted for this cost component.

The city conducted a valid time study during March of 2010 to support the amount of time spent by shelter staff processing non-medical records. The city studied the time required to process records for incoming animals and records for the final disposition of animals. These activities were performed by various employee classifications. The city’s time study results showed that 2.23 minutes were spent processing incoming animal records and final disposition of animals.

The following table summarizes the results of the time study and the calculation determining that 2.23 minutes was spent processing non-medical animal records:

<u>Employee Classification</u>	<u>Number of Records</u>	<u>Minutes</u>	<u>Average Minutes per Record</u>	<u>Percentage of Time Spent Performing Activity</u>
Animal Services Assistant I	2,205	4,793	1.33	61%
Animal Services Assistant II	321	546	0.15	9%
Animal Services Officer	767	1,702	0.47	21%
Office Assistant II	332	1,044	0.28	9%
Total	3,625	8,085	2.23	100%

Number of Animal Records Processed

During the course of the audit, we obtained the city’s raw animal data from its Chameleon database, analyzed the intake reports containing the animal data, and performed a count for the number of animal records that appeared in each year’s database. The city was unable to provide animal record statistics for FY 1998-99 through FY 2001-02. Therefore, we used the average of animal intake records processed for the last five years as the number of records processed for the first four years of the audit period.

The following table summarizes the audit adjustments to allowable hours spent processing non-medical records based on the audited number of records processed during the audit period:

	<u>Fiscal Year</u>						
	<u>1998-99¹</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2005-06</u>	<u>2006-07</u>
Total intake count of animals:							
Allowable ²	5,917	11,834	11,834	11,834	12,491	12,037	11,894
Claimed	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>	8,701	8,287	10,286	11,737
Audit adjustment				3,133	4,204	1,751	157
Total hours							
Allowable ²	220	440	440	440	464	447	442
Claimed	<u>315</u>	<u>1,274</u>	<u>1,175</u>	<u>1,305</u>	<u>1,243</u>	<u>1,543</u>	<u>1,761</u>
Audit adjustment	<u>(95)</u>	<u>(834)</u>	<u>(735)</u>	<u>(865)</u>	<u>(779)</u>	<u>(1,096)</u>	<u>(1,319)</u>

¹ Reimbursement for FY 1998-99 began on January 1, 1999.

² An average of animal census data from FY 2002-03 through FY 2006-07 was used for FY 1998-99 through FY 2001-02.

³ Allowable hours are based on 2.23 minutes per record times the number of records processed.

Productive Hourly Rates

To calculate the productive hourly rates, the auditor used annual payroll history reports provided by the city to obtain the salary and benefit rates for each employee classification. The rates were then applied to the allowable hours per employee classification to determine allowable reimbursable costs for each fiscal year.

The program's parameters and guidelines allow reimbursement, beginning January 1, 1999, for:

Maintaining non-medical records on animals that are either taken up, euthanized after the holding period, or impounded. Such records shall include the following:

1. The date the animal was taken up, euthanized, or impounded;
2. The circumstances under which the animal is taken up, euthanized, or impounded;
3. The names of the personnel who took up, euthanized, or impounded the animal; and
4. The final disposition of the animal, including the name of the person who euthanized the animal or the name and address of the adopting party.

The cost of Software license renewal contracts, to the extent these cost are not claimed as an indirect cost under these parameters and guidelines, is eligible for reimbursement under Section V (A) (2) of the parameters and guidelines. If the computer software is utilized in some way that is not directly related to the maintenance of records specified in this section, only the pro rata portion of the software license renewal contract that is used for compliance with this section is reimbursable.

Necessary and Prompt Veterinary Care

The city claimed \$5,087 in salaries and benefits during the audit period under the cost component of Necessary and Prompt Veterinary Care. The related indirect costs claimed totaled \$1,552. The entire amount claimed was originally unallowable because the city estimated that it took nine minutes to administer wellness vaccines to incoming animals. However, no documentation was provided supporting the amount of time spent performing this activity.

Based on the time study that the city conducted during March 2010, we determined that salary and benefit costs totaling \$8,401 are allowable. The related allowable indirect costs totaled \$2,895. The city understated total costs claimed by \$4,657 primarily because it understated the number of animals treated during the audit period.

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

Cost Categories	Fiscal Year							Total
	1998-99	1999-2000	2000-01	2001-02	2002-03	2005-06	2006-07	
Salaries								
Claimed	\$ —	\$ —	\$ —	\$ 535	\$ 540	\$ 1,032	\$ 685	\$ 2,792
Allowable	253	526	690	759	485	1,070	1,241	5,024
Audit adjustment	253	526	690	224	(55)	38	556	2,232
Benefits:								
Claimed	—	—	—	287	310	989	709	2,295
Allowable	127	213	268	367	232	977	1,193	3,377
Audit adjustment	127	213	268	80	(78)	(12)	484	1,082
Related indirect costs:								
Claimed	—	—	—	218	274	634	426	1,552
Allowable	132	386	461	299	231	642	744	2,895
Audit adjustment	132	386	461	81	(43)	8	318	1,343
Total claimed	—	—	—	1,040	1,124	2,655	1,820	6,639
Total allowable	512	1,125	1,419	1,425	948	2,689	3,178	11,296
Total audit adjustment	\$ 512	\$ 1,125	\$ 1,419	\$ 385	\$ (176)	\$ 34	\$ 1,358	\$ 4,657

Time Study

The city's shelter staff conducted a time study over a four week period in March of 2010 to determine the amount of time spent performing initial physical examinations of animals and administering wellness vaccines to animals. We tallied the individual employees' time and determined that during the four-week time study period, the shelter staff collectively spent 598 minutes treating 304 animals.

The following table summarizes the results of the time study:

Employee Classification	Total Minutes	Total Hours	Number of Animals	Percentage	Hours per animal
Animal Services Assistant I	554	9.23	289	95.07%	0.0319
Animal Services Officer	44	0.73	15	4.93%	0.0489
Total	598	9.97	304	100.00%	0.0808

Animal Census Data

The parameters and guidelines allow reimbursement only for animals that died during the holding period or were ultimately euthanized (euthanized after the holding period). We used the animal census data provided by the city to determine the number of dogs, cats, and other animals that fit these criteria (i.e. eligible animals). The city did not have animal census data available for FY 1998-99 through FY 2001-02. For these four fiscal years, we used a five-year average of eligible animals based on actual animal census data that the city provided for FY 2002-03 through FY 2006-07.

The table below summarizes our calculations of eligible animals for the audit period.

Eligible Animals	Fiscal Year						
	1998-99 ¹	1999-2000 ²	2000-01 ²	2001-02 ²	2002-03	2005-06	2006-07
Dogs and cats	976	1,952	1,952	1,952	1,048	2,157	2,075
Other animals	6	12	12	12	4	20	5
Total	982	1,964	1,964	1,964	1,052	2,177	2,080

¹ The five-year average was divided in half because reimbursement began on January 1, 1999.

² A five-year average based on data from FY 2002-03 through FY 2006-07 was used for this year.

Calculation of Allowable Costs

The best application of the time study results to each fiscal year would be to calculate a reimbursable rate per employee classification and apply this rate by the percentage of animals that were time-studied by the total number of animals impounded at the shelter. For example, as noted previously, Animal Services Assistant Is spent 0.0319 hours per treatment and they treated 95.07% of the animals impounded during the time study. As 1,964 animals were eligible during FY 2001-02, we concluded that Animal Services Assistant Is spent 59.56 hours that year performing treatment activities ($[1,964 \times 95.07\%] \times 0.0319$). Alternatively, for FY 2002-03, there were 1,052 eligible animals and Animal Services Assistant Is spent 31.90 hours performing treatment activities ($[1,052 \times 95.07\%] \times 0.0319$). We then applied the calculated time increments to the employees’ productive hourly rates to determine allowable costs.

The table below summarizes our calculations of allowable costs by the employee classifications of Animal Services Assistant I (ASA I) and Animal Services Officer (ASO):

Employee Classification	Fiscal Year							Totals
	1998-99 ¹	1999-2000	2000-01	2001-02	2002-03	2005-06	2006-07	
Salaries and benefits:								
ASA I	\$ 323	\$ 625	\$ 837	\$ 995	\$ 646	\$ 1,804	\$ 2,197	\$ 7,427
ASO	57	114	121	131	71	243	237	974
Total direct costs	380	739	958	1,126	717	2,047	2,434	8,401
Indirect costs	132	386	461	299	231	642	744	2,895
Totals	\$ 512	\$ 1,125	\$ 1,419	\$ 1,425	\$ 948	\$ 2,689	\$ 3,178	\$ 11,296

¹ Reimbursement for FY 1998-99 began on January 1, 1999.

The parameters and guidelines allow reimbursement, beginning January 1, 1999, for:

Providing “necessary and prompt veterinary care” for stray and abandoned animals other than injured cats and dogs given emergency treatment that die during the holding period or are ultimately euthanized during the holding periods specified in Statutes of 1998, Chapter 752.

“Necessary and prompt veterinary care” means all reasonably necessary medical procedures performed by a veterinarian or someone under the supervision of a veterinarian to make stray or abandoned animals “adoptable.” The following veterinary procedures, if conducted, are eligible for reimbursement:

- An initial physical examination of the animal to determine the animal’s baseline health status and classification as “adoptable,” “treatable,” or “non-rehabilitatable.”
- A wellness vaccine administered to “treatable” or “adoptable” animals.
- Veterinary care to stabilize and or relieve the suffering of a “treatable” animal.
- Veterinary care intended to remedy any applicable disease, injury, or congenital or hereditary condition that adversely affects the health of a “treatable” animal or that is likely to adversely affect the animal’s health in the future, until the animal becomes “adoptable.”

Population Exclusions

Eligible claimants are not entitled to reimbursement for providing “necessary and prompt veterinary care” to the following population of animals:

- Animals that are irremediably suffering from a serious illness or severe injury. . . ;
- Newborn animals that need maternal care and have been impounded without their mothers. . . ;
- Animals too severely injured to move or where a veterinarian is not available and it would be more humane to dispose of the animal. . . ;
- Owner relinquished animals. . . ; and
- Stray or abandoned animals that are ultimately redeemed, adopted, or released to a nonprofit animal rescue or adoption organization.

Veterinary Care Exclusions

Eligible claimants are not entitled to reimbursement for providing the following veterinary procedures:

- Emergency treatment given to injured cats and dogs. . . ;
- Administration of rabies vaccination to dogs. . . ;
- Implantation of microchip identification. . . ;
- Spay or neuter surgery and treatment. . . ; and
- Euthanasia.

**FINDING 2—
Unsupported costs
related to care and
maintenance of dogs,
cats, and other animals**

The city claimed \$789,654 in materials and supplies related to the Care and Maintenance of Dogs and Cats cost component and the Care and Maintenance of Other Animals cost component for fiscal year (FY) 1998-99 through FY 2006-07. The entire cost, totaling \$789,654, is unallowable.

The formula for care and maintenance of dogs, cats, and other animals divides total costs by the daily animal census to produce a cost per animal per day. The product is multiplied by the number of eligible dogs, cats, and other animals that were euthanized and the number of reimbursable holding days.

For FY 1998-99 through FY 2000-01, the city did not provide any supporting documentation for the total costs of care and maintenance for dogs, cats, and other animals. The total cost is necessary to determine the reimbursable costs.

For FY 2001-02, FY 2002-03, FY 2005-06, and FY 2006-07, the city claimed \$77,402 for the care and maintenance of dogs, cats, and other animals. The city provided detailed budget reports that showed total salaries and benefits, materials, services and supplies incurred for each year by accounts. However, the detailed budget reports included costs for the entire animal shelter. The city provided no documentation supporting the reimbursable portion relating to the care and maintenance of dogs, cats, and other animals. In addition, some of the costs (such as salaries, benefits, and other costs) were claimed in other cost components within the claims. The city did provide animal census data for FY 2002-03 through FY 2006-07 to help validate the number of eligible animals. However, the city provided no animal census data for FY 1998-99 through FY 2001-02. If the city is unable to locate animal census data for FY 1998-99 through FY 2001-02, it should consider using the average census data in subsequent years if the city can support that there were no significant changes in the data.

During the audit, we discussed with the city the inadequate documentation and its option of performing a time study consistent with the program’s parameters and guidelines in order to substantiate the unsupported costs. We agreed to review the results of the time study and revise the audit report, as appropriate.

The following table summarizes the unallowable costs related to care and maintenance of dogs, cats and other animals:

	Fiscal Year							Total
	1998-99	1999-2000	2000-01	2001-02	2002-03	2005-06	2006-07	
Materials and supplies:								
Care and maintenance of dogs and cats	\$ (9,250)	\$(339,838)	\$(344,976)	\$(19,263)	\$(20,906)	\$(29,452)	\$ (804)	\$(764,489)
Care and maintenance of other animals	—	(9,071)	(9,117)	(2,778)	(2,019)	(2,180)	—	(25,165)
Audit adjustment	<u>\$(9,250)</u>	<u>\$(348,909)</u>	<u>\$(354,093)</u>	<u>\$(22,041)</u>	<u>\$(22,925)</u>	<u>\$(31,632)</u>	<u>\$(804)</u>	<u>\$(789,654)</u>

The parameters and guidelines require that all costs claimed be traceable to source documents that show evidence of the validity of such costs and their relationship to the mandate.

The parameters and guidelines (section IV.B.3.) state that the increased holding period for dogs and cats is the difference between four or six business days from the day after impoundment and three days from the day of capture. The parameters and guidelines (section IV.B.3.) also states that the increased holding period for other animals is four or six business days. Four rather than six business days are applicable since the shelter was opened on one weekend day. (See Food and Agricultural Code sections 31108, 31752, and 31753.)

The parameters and guidelines state that the following populations of animals are not reimbursable for care and maintenance:

- Stray or abandoned animals that are irremediably suffering from a serious illness or severe injury. . . ;
- Newborn stray or abandoned animals that need maternal care and have been impounded without their mothers. . . ;
- Stray or abandoned animals too severely injured to move or where a veterinarian is not available and it would be more humane to dispose of the animal. . . ;
- Owner relinquished animals. . . ; and
- Stray or abandoned animals that are ultimately redeemed, adopted, or released to a nonprofit animal rescue or adoption organization.

The parameters and guidelines allow eligible claimants the option of claiming costs using either the actual cost method or the time study method.

Recommendation

We recommend that the city establish and implement procedures to ensure that claimed costs are properly supported as required by the mandate.

City's Response

The City did not provide supporting documentation for reimbursements requested for FYs 1998/99 through 2000/01, but was able to submit adequate documentation for FYs 2002/03 through 2006/7. No significant changes occurred between the particular years in question. Therefore, the City requests the average census data from the years of sufficient documentation be applied to 1998/99 through 2000/01 and the disallowed portion be recalculated.

SCO's Comment

The finding and recommendation remain unchanged.

In its response, the city refers to "adequate documentation" that was provided for FY 2002-03 through FY 2006-07. We believe that the city is referring to its animal census data and we concur that the city provided

adequate animal census data for those years. We are able to apply average animal census data from those years in order to determine allowable costs for FY 1998-99 through FY 2000-01.

However, the city has not yet provided information relating to the employee classifications that performed care and maintenance activities at the animal shelter nor calculated the percentage of time that these employees spent performing care and maintenance activities. For example, we believe that the employee classification of Animal Services Assistant performs most of the care and maintenance activities at the city's shelter and that a significant portion of their time is spent performing these activities. We requested such items as job duty statements and analyses of daily activities to support time spent on care and maintenance. However, the city has not provided any of this information.

In addition, the city has not yet provided any documentation supporting actual costs incurred for materials and supplies costs relating to the care and maintenance of animals, such as food, bedding, cleaning supplies, janitorial services, flea and tick control supplies, or any other items relating to the daily care and maintenance of animals.

If the city subsequently provides any or all of this information, we will revise the audit results as appropriate and reissue the audit report. If the city provides adequate information relating to the employees that performed care and maintenance activities, we will revise Finding 1—Unsupported salaries and benefits. If the city provides adequate information relating to materials and supplies costs incurred, we will revise this finding.

**FINDING 3—
Overstated acquiring
space/facilities**

The city claimed costs totaling \$649,349 (\$622,829 in contract services, and \$26,520 in materials and supplies) for FY 2000-01 through FY 2002-03 related to the Acquiring Space/Facilities cost component. We determined that \$206,083 is allowable (\$198,156 in contract services and \$7,927 in materials and supplies) and the city overstated costs by \$443,266 (\$424,673 for FY 2001-02 through FY 2002-03 in contract services, and \$18,593 for FY 2000-01 through FY 2002-03 in materials and supplies).

The total cost for FY 2000-01 through FY 2002-03 was initially unallowable because the city used the incorrect number of euthanized animals in the calculation of acquiring space/facilities. The city used Summary Reports to determine the total number of euthanized animals instead of detailed animal census reports to obtain the eligible number of euthanized animals. The summary report did not identify the number of eligible euthanized animals required by the calculation. As a result, the city overstated the reimbursable percentage.

The following table summarizes the unallowable contract services and materials and supplies:

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Contract services:				
Acquiring space and/or construction of new facilities	\$ —	\$ (371,482)	\$ (53,191)	\$ (424,673)
Total	—	(371,482)	(53,191)	(424,673)
Materials and supplies:				
Acquiring space and/or construction of new facilities	(2,960)	(14,162)	(1,471)	(18,593)
Total	(2,960)	(14,162)	(1,471)	(18,593)
Audit adjustment	\$ (2,960)	\$ (385,644)	\$ (54,662)	\$ (443,266)

For FY 2001-02, the city claimed \$578,321 in costs (\$557,073 in contract services and \$21,248 in materials and supplies). In a letter dated June 18, 2005, the SCO’s Division of Accounting and Reporting determined that the entire amount claimed was unsupported. During the current audit, the city provided support for \$192,677 (\$185,591 in contract services and \$7,086 in materials and supplies). The revised unsupported costs identified above for FY 2001-02 total \$385,644.

The parameters and guidelines require that all costs claimed be traceable to source documents that show evidence of the validity of such costs and their relationship to the mandate.

The parameters and guidelines (section IV.B.1.) state that eligible claimants are entitled to reimbursement only for the proportionate share of actual costs required to plan, design, acquire, and/or build facilities in a given fiscal year. The parameters and guidelines further state that the reimbursable percentage is based on the pro rata representation of impounded stray or abandoned dogs, cats, and other animals to the total population of animals housed in the facility, as specified in the Statutes of 1998, Chapter 752. This relates to animals that die during the increased holding period or are ultimately euthanized. This also includes animals that are excluded from reimbursement, as specified in Section IV.B.3 and IV.B.4 of the parameters and guidelines during the entire holding period required by Food and Agriculture Code sections 31108, 31752 and 31753.

Recommendation

We recommend that the city ensure that all claimed costs are supported by appropriate documentation and at the level required by the parameters and guidelines.

City’s Response

The City concurs with the revised calculation based on the documented population available.

SCO’s Comment

The city concurred with the revised calculation based on the documented animal census data information that provided during the audit. However, during preparation of the final report, we noted some errors that were made in the calculations of allowable costs.

We recalculated the audit finding amounts and determined that unallowable costs increased by \$197,535 (\$190,345 for contract services and \$7,190 for materials and supplies), from \$245,731 to \$443,266.

The table below summarizes the changes to the audit adjustment amounts by cost category and fiscal year:

Cost Category	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Draft report:				
Contract services	\$ —	\$ (231,620)	\$ (2,708)	\$ (234,328)
Material and supplies	(2,505)	(8,823)	(75)	(11,403)
Original audit adjustment	<u>(2,505)</u>	<u>(240,443)</u>	<u>(2,783)</u>	<u>(245,731)</u>
Final report:				
Contract services	—	(371,482)	(53,191)	(424,673)
Materials and supplies	(2,960)	(14,162)	(1,471)	(18,593)
Revised audit adjustment	<u>(2,960)</u>	<u>(385,644)</u>	<u>(54,662)</u>	<u>(443,266)</u>
Difference	<u>\$ (455)</u>	<u>\$ (145,201)</u>	<u>\$ (51,879)</u>	<u>\$ (197,535)</u>

Contract Services Costs

As noted in the table above, unallowable contract services costs for this cost component increased by \$190,345 (\$139,862 for FY 2001-02 and \$50,483 for FY 2002-03).

The table below summarizes the details of the revised finding amount for contract services:

	Eligible Number of Animals	Total Number of Animals	Ratio	Total Contract Services Costs	Reimburs- able Amount
Claimed:					
FY 2001-02	6,381	13,106	48.7%	\$ 1,143,885	\$ 557,072
FY 2002-03	6,367	14,907	42.7%	153,998	65,757
Total claimed costs					<u>622,829</u>
Allowable:					
FY 2001-02	1,922	11,834	16.24%	1,142,797	185,590
FY 2002-03	1,019	12,491	8.16%	153,998	12,566
Total allowable costs					<u>198,156</u>
Audit adjustment					<u><u>\$(424,673)</u></u>

Fiscal Year 2001-02

The original audit finding amount of \$231,620 for FY 2001-02 was based on the difference between claimed costs of \$557,072 and allowable costs of \$325,452. The \$325,425 amount was calculated by multiplying total contract services costs of \$1,142,797 times a ratio of 28.4785%. This ratio was based on 3,732 eligible animals and a total animal population of 13,106 ($3,732 \div 13,106 = 28.4785\%$).

However, this ratio was used in error. The denominator was incorrect because it was already determined within another cost component that the animal census data provided by the city for FY 2001-02 was inaccurate. Therefore, we used a total population of 11,834, which is a five-year average of total animals housed during the period of FY 2002-03 through FY 2006-07. The numerator was also incorrect because it included dogs and cats that were euthanized during the increased holding period (days 4-6 of the holding period). Using a five-year average of eligible animals (those that died of natural causes during the increased holding period plus that were ultimately euthanized after the holding period), we determined that the correct number of eligible animals was 1,922.

We determined that the correct ratio should be 16.24% ($1,922 \div 11,834$), as shown in the table above. Accordingly, allowable costs decreased by \$139,862, to \$185,590, and unallowable costs increased to \$371,482.

Fiscal Year 2002-03

The original audit finding of \$2,708 for FY 2002-03 was based the difference between claimed costs of \$65,757 and allowable costs of \$63,049. The \$63,049 amount was calculated by multiplying total contract services costs of \$153,998 times a ratio of 40.94%. This ratio was based on 5,114 eligible animals and a total animal population of 12,491 ($5,114 \div 12,491 = 40.94\%$).

However, this ratio was used in error. The denominator of 12,491 was correct. However, the numerator was incorrect because it included dogs and cats that were euthanized during the increased holding period (days 4-6 of the holding period). After correcting for this error, we determined that the correct number of eligible animals was 1,019.

We determined that the correct ratio should be 8.16% ($1,019 \div 12,491$), as shown in the table above. Accordingly, allowable costs decreased by \$50,483 to \$12,566 and unallowable costs increased to \$53,191.

Construction Costs Claimed Twice

We determined that the gross contract services costs incurred by the city for FY 2001-02 were overstated by \$1,088. The city's claim for that year reported total contract services costs incurred totaling \$1,143,885 under the cost component of Acquiring Space and Facilities. However, we noted that invoices for Hazard Management Services (\$840) and Stockton Blue (\$248) were claimed twice. Accordingly, actual gross

construction costs incurred by the city that year for construction of the city's animal shelter totaled \$1,142,797 and were used in the calculation of allowable costs, as shown in the table above.

Materials and Supplies Costs

The table below summarizes the details of the revised finding amount for materials and supplies:

	Eligible Number of Animals	Total Number of Animals	Ratio	Total Materials and Supplies Costs	Reimburs- able Amount
Claimed:					
FY 2000-01	—	—	100.00%	\$ 3,454	\$ 3,454
FY 2001-02	6,381	13,106	48.70%	43,631	21,248
FY 2002-03	6,367	14,907	42.70%	4,257	1,818
Total claimed costs					<u>26,520</u>
Allowable:					
FY 2000-01	1,922	11,834	16.24%	3,041	494
FY 2001-02	1,922	11,834	16.24%	43,631	7,086
FY 2002-03	1,019	12,491	8.16%	4,257	347
Total allowable costs					<u>7,927</u>
Audit adjustment					<u>\$ (18,593)</u>

Allowable materials and supplies costs for this cost component decreased by \$7,190 (\$455 for FY 2000-01, \$5,339 for FY 2001-02, and \$1,396 for FY 2002-03).

Fiscal Year 2000-01

The original audit finding amount of \$2,505 for FY 2000-01 was based on the difference between claimed costs of \$3,454 and allowable costs of \$949. However, we noted that the \$949 amount was based on a reimbursement ratio of 31.2% in error. This ratio was based on 3,732 eligible animals and a total animal population of 11,957 ($3,732 \div 11,957 = 31.2\%$).

However, this ratio was used in error. The denominator was incorrect. Therefore, we used a total population of 11,834, which is a five-year average of total animals housed during the period of FY 2002-03 through FY 2006-07. The numerator was also incorrect because it included dogs and cats that were euthanized during the increased holding period (days 4-6 of the holding period). Using a five-year average of eligible animals (those that died of natural causes during the increased holding period plus that were ultimately euthanized after the holding period), we determined that the correct number of eligible animals was 1,922. After applying the correct reimbursement ratio of 16.24%, allowable costs decreased by \$455, to \$494, and unallowable costs increased to \$2,960.

Fiscal Year 2001-02

The original audit finding amount of \$8,823 for FY 2001-02 was based on the difference between claimed costs of \$21,248 and allowable costs of \$12,425. The \$12,425 amount was calculated by multiplying total materials and supplies costs of \$43,631 times a ratio of 28.4785%. This ratio was used in error because it was already determined within another cost component that the animal census data provided by the city for FY 2001-02 was inaccurate. Accordingly, we used five-year averages of eligible animals and total animals housed during the period of FY 2002-03 through FY 2006-07 to determine the ratio of 16.24% shown in the table above. Accordingly, allowable costs decreased by \$5,339 to \$7,086 and unallowable costs increased to \$14,162.

Fiscal Year 2002-03

The original audit finding of \$75 for FY 2002-03 was based on the difference between claimed costs of \$1,818 and allowable costs of \$1,743. The \$1,743 amount was calculated by multiplying total materials and supplies costs of \$4,257 times a ratio of 40.94%. This ratio was based on 5,114 eligible animals and a total animal population of 12,491 ($5,114 \div 12,491 = 40.94\%$).

However, this ratio was used in error. The denominator of 12,491 was correct. However, the numerator was incorrect because it included dogs and cats that were euthanized during the increased holding period (days 4-6 of the holding period). After correcting for this error, we determined that the correct number of eligible animals was 1,019.

We determined that the correct ratio should be 8.16% ($1,019 \div 12,491$), as shown in the table above. Accordingly, allowable costs decreased by \$1,396 to \$347 and unallowable costs increased to \$1,471.

**FINDING 4—
Unallowed procuring
equipment**

The city claimed \$56,197 in materials and supplies related to the Procuring Equipment cost component for FY 1998-99 through FY 2002-03. We determined that \$47,904 is unallowable.

The city provided supporting documentation, but the same costs were included in its indirect cost rate proposal (ICRP) calculation for FY 1998-99 through FY 2000-01. Although some costs were included in the ICRP calculations, we have recalculated the pro-rata portion of the reimbursable costs as the ICRP calculations for those years were unsupported. If the city subsequently provides documentation supporting the ICRP calculations, it should ensure that the procuring equipment costs are excluded. For FY 2001-02 and FY 2002-03, the city claimed 100% of the costs instead of applying a pro rata percentage to the portion related to the mandated activities. We recalculated and allowed the mandate portion.

The table below summarizes the claimed and allowable amounts by fiscal year.

	Eligible Number of Animals	Total Number of Animals	Ratio	Total Procuring Equipment Costs	Reimburs- able Amount
Claimed:					
FY 1998-99	—	—	100.00%	\$ 17,494	\$ 17,494
FY 1999-2000	—	—	100.00%	3,317	3,317
FY 2000-01	—	—	100.00%	8,428	8,428
FY 2001-02	—	—	100.00%	16,633	16,633
FY 2002-03	—	—	100.00%	10,325	10,325
Total claimed costs					<u>56,197</u>
Allowable:					
FY 1998-99	1,922	11,834	16.24%	17,494	2,841
FY 1999-2000	1,922	11,834	16.24%	3,317	539
FY 2000-01	1,922	11,834	16.24%	8,428	1,369
FY 2001-02	1,922	11,834	16.24%	16,633	2,701
FY 2002-03	1,019	12,491	8.16%	10,325	843
Total allowable costs					<u>8,293</u>
Audit adjustment					<u>\$ (47,904)</u>

The parameters and guidelines (section IV.B.10.) state that:

... procuring medical kennel, and computer equipment necessary to comply with the reimbursable activities listed in section IV.B. to the extent the costs are not claimed as indirect costs under section V.B. of the parameters and guidelines. If the medical, kennel, and computer equipment is utilized in some way not directly related to the mandated program or the population of animals listed in section V.B., only the pro rata portion of the activity that is used for the purposes of the mandated program is reimbursable.

The parameters and guidelines require that all costs claimed be traceable to source documents that show evidence of the validity of such costs and their relationship to the mandate.

Recommendation

We recommend that the city ensure that all claimed costs are supported by appropriate documentation and at the level required by the parameters and guidelines.

City’s Response

The City concurs that only costs traceable to source documents and at the level required by the parameters and guidelines of the mandate are appropriate.

SCO’s Comment

The city concurred with the revised calculation based on the documented animal census data information that it provided during the audit. However, during preparation of the final report, we noted errors that were made in the calculations of allowable costs.

We recalculated the audit finding amounts and determined that unallowable costs increased by \$10,402; from \$37,502 to \$47,904.

The table below summarizes the changes to the audit adjustment amounts by cost category and fiscal year:

	Fiscal Year					Total
	1998-99	1999-2000	2000-01	2001-02	2002-03	
Draft report:						
Costs incurred	\$ 17,494	\$ 3,317	\$ 8,428	\$ 16,633	\$ 10,325	\$ 56,197
Reimbursement percentage	× 31.54%	× 31.54%	× 31.54%	× 31.54%	× 40.94%	
Original amount allowable	5,518	1,046	2,658	5,246	4,227	18,695
Final report:						
Costs incurred	17,494	3,317	8,428	16,633	10,325	56,197
Reimbursement percentage	× 16.24%	× 16.24%	× 16.24%	× 16.24%	× 8.16%	
Revised amount allowable	2,841	539	1,369	2,701	843	8,293
Difference	\$ (2,677)	\$ (507)	\$ (1,289)	\$ (2,545)	\$ (3,384)	\$ (10,402)

Adjustment to Audit Findings

Fiscal Year 1998-99 through Fiscal Year 2001-02

The original audit finding amounts for FY 1998-99 through FY 2001-02 were based on a reimbursement ratio of 31.54%. This ratio was based on 3,732 eligible animals and a total animal population of 11,834 ($3,732 \div 11,834 = 31.54\%$).

However, this ratio was used in error. The denominator of 11,834 was correct; it is a five-year average of total animals housed during the period of FY 2002-03 through FY 2006-07. We used a five-year average because the city was unable to provide any animal census data for these four fiscal years. However, the numerator was incorrect because it included dogs and cats that were euthanized during the increased holding period (days 4-6 of the holding period). Using a five-year average of eligible animals (those that died of natural causes during the increased holding period plus that were ultimately euthanized after the holding period), we determined that the correct number of eligible animals was 1,922. Therefore, the correct reimbursement percentage is 16.24% ($1,922 \div 11,834 = 16.24\%$).

Fiscal Year 2002-03

The original audit finding amount for FY 2002-03 was based on a reimbursement ratio of 40.94%. This ratio was based on 5,114 eligible animals and a total animal population of 12,491 ($5,114 \div 12,491 = 40.94\%$).

However, this ratio was used in error. The denominator of 12,491 was correct. However, the numerator was incorrect because it included dogs and cats that were euthanized during the increased holding period (days 4-6 of the holding period). After correcting for this error, we determined that the correct number of eligible animals was 1,019. We determined that the correct ratio should be 8.16% ($1,019 \div 12,491$), as shown in the table on the previous page.

**FINDING 5—
Unsupported
necessary and prompt
veterinary care**

The city claimed \$23,750 in unsupported material and supplies related to the Necessary and Prompt Veterinary Care cost component for the audit period. The entire amount claimed is unallowable because the city did not provide any supporting documentation.

The city claimed costs for necessary and prompt veterinary care for stray and abandoned animals during the holding period. The holding period for dogs, cats, and other animals is four business days from the day after impoundment (see Finding 2). The parameters and guidelines identify veterinary procedures that are and are not reimbursable and the population of animals that is not reimbursable.

During the audit, we discussed the inadequate documentation with the city and its option to perform a time study. The city has the option to time-study the initial physical examination and the wellness vaccination. We agreed to review the time study results and revise the audit report, as appropriate.

The following table summarizes the unsupported materials and supplies related to veterinary care:

	Fiscal Year						Total
	1999-2000	2000-01	2001-02	2002-03	2005-06	2006-07	
Materials and supplies:							
Necessary and prompt veterinary care	<u>\$ (6,169)</u>	<u>\$(12,325)</u>	<u>\$ (1,165)</u>	<u>\$ (1,165)</u>	<u>\$ (1,804)</u>	<u>\$ (1,122)</u>	<u>\$(23,750)</u>
Audit adjustment	<u>\$ (6,169)</u>	<u>\$(12,325)</u>	<u>\$ (1,165)</u>	<u>\$ (1,165)</u>	<u>\$ (1,804)</u>	<u>\$ (1,122)</u>	<u>\$(23,750)</u>

The parameters and guidelines require that all costs claimed be traceable to source documents that show evidence of the validity of such costs and their relationship to the mandate.

The parameters and guidelines state that reimbursable costs exclude injured dogs, cats, and other animals given emergency treatment that die during the holding period or are ultimately euthanized.

The parameters and guidelines specify that the following veterinary procedures are reimbursable:

- An initial physical examination of the animal to determine the animal’s baseline health status and classification as “adoptable,” “treatable,” or “non-rehabilitatable.”
- A wellness vaccine administered to “treatable” or “adoptable” animals.
- Veterinary care to stabilize and/or relieve the suffering of a “treatable” animal.
- Veterinary care intended to remedy any applicable disease, injury, or congenital or hereditary condition that adversely affects the health of a “treatable” animal or that is likely to adversely affect the animal’s health in the future, until the animal becomes “adoptable.”

The parameters and guidelines state that the following veterinary procedures are not reimbursable:

- Emergency treatment given to injured cats and dogs. . . ;
- Administration of rabies vaccination to dogs. . . ;
- Implantation of microchip identification. . . ;
- Spay and neuter surgery and treatment. . . ; and
- Euthanasia.

The parameters and guidelines state that the following population of animals is not reimbursable:

- Animals that are irremediably suffering from a serious illness or severe injury. . . ;
- Newborn animals that need maternal care and have been impounded without their mothers. . . ;
- Animals too severely injured to move or where a veterinarian is not available and it would be more humane to dispose of the animal. . . ;
- Owner relinquished animals. . . ; and
- Stray or abandoned animals that are ultimately redeemed, adopted, or released to a nonprofit animal rescue or adoption organization.

Recommendation

We recommend that the city ensure that all claimed costs are supported by appropriate documentation at the level required by the parameters and guidelines.

City's Response

The SCO agreed to revise the audit report as appropriate, and thereby recalculate allowable costs if the City performs a time study based on the State Controllers Office Guidelines. This time study was completed in March 2010. The City is in contact with the Auditor to schedule appropriate review and possible revisions to disallowed costs.

SCO's Comment

The finding and recommendation remain unchanged.

The city conducted its time study and we determined that \$8,401 in salary and benefit costs are allowable for the activities of performing an initial physical examination and administering wellness vaccines (see Finding 1—Unsupported salaries and benefits). However, the city has not yet provided any supporting documentation for materials and supplies costs incurred under this cost component, such as the cost of the wellness vaccines that were administered. If the city subsequently provides documentation supporting actual costs incurred, we will revise the audit results as appropriate and reissue the audit report.

**Attachment—
City's Response to
Draft Audit Report**



CITY OF STOCKTON

ADMINISTRATIVE SERVICES - ACCOUNTING

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May 10, 2010

Mr. Jim L. Spano, Chief
Mandated Cost Audits Bureau
California State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

RE: AUDIT RESPONSE CITY OF STOCKTON ANIMAL ADOPTION
PROGRAM
Audit Period: July 1, 1998 through June 30, 2007

The California State Controller's Office (SCO) audited the costs claimed by the City of Stockton for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004) for the period of July 1, 1998 through June 30, 2007, **excluding July 1, 2003 through June 30, 2005 when the Legislature suspended the Animal Adoption Program.**

The SCO audit disclosed instances of noncompliance with the requirements outlined above. Initially, a significant portion of reimbursements requested were denied primarily due to a lack of supporting documentation and lack of complete census data.

The City of Stockton has agreed to conduct, and has commenced a valid time study based on the SCO guidelines in order to project results to audit periods where documentation or census data is lacking. The SCO Division of Audits will review the time study and revise the final report and calculation of disallowed costs as appropriate.

The City of Stockton concurs with the SCO on Finding 3 that the reimbursement for additional facilities was overstated by the proportion of animals not eligible for reimbursement.

Finding 1 – Unsupported salaries and benefits

Background - In submitting its reimbursement claims for the audit period, the City of Stockton used estimates of allowable costs and did not submit supporting documentation, resulting in rejection by the State Controllers Office (SCO) of all reimbursements requested for the period of the audit.



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Response - The SCO agreed to revise the audit report as appropriate, and thereby recalculate allowable costs if the City perform a time study based on the State Controllers Office Guidelines. This time study was completed in March 2010. The City is in contact with the Auditor to schedule appropriate review and possible revisions to disallowed costs.

Finding 2 – Unsupported costs related to care and maintenance of dogs, cats and other animals

Background - Under the mandate, not all animals can be included in the population subject for cost reimbursement, and not every day of care is subject for reimbursement. Supporting documentation must be available for all requested reimbursements.

Response - The City did not provide supporting documentation for reimbursements requested for FYs 1998/99 through 2000/01, but was able to submit adequate documentation for FYs 2002/03 through 2006/7. No significant changes occurred between the particular years in question. Therefore, the City requests the average census data from the years of sufficient documentation be applied to 1998/99 through 2000/01 and the disallowed portion be recalculated.

Finding 3 – Overstated acquiring space/facilities

Background - Upon submitting the original reimbursement requests for the costs of acquiring facilities, the City did not also submit supporting documentation showing both the eligible and total numbers of animals. Supporting documentation was made available during audit for the proportions in question for FY 01/02, and that proportion was used as the basis to calculate allowable reimbursements for other years under audit.

Response – The City concurs with the revised calculation based on the documented population available.

Finding 4 – Disallowed procuring equipment

Background – Indirect costs relating to procurement were duplicated in the materials and supplies and indirect line items, and prorate of mandated costs were not distinguished from total costs.

Response – The City concurs that only costs traceable to source documents and at the level required by the parameters and guidelines of the mandate are appropriate.

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Finding 5 – Unsupported necessary and prompt veterinary care

Background - Under the mandate, not all animals can be included in the population subject for cost reimbursement, and only specific veterinary costs are eligible for reimbursement. Supporting documentation must be available for all requested reimbursements. The City could not supply the auditor with adequate supporting documentation showing the validity for necessary and prompt veterinary costs as defined in the mandate.

Response – The SCO agreed to revise the audit report as appropriate, and thereby recalculate allowable costs if the City performs a time study based on the State Controllers Office Guidelines. This time study was completed in March 2010. The City is in contact with the Auditor to schedule appropriate review and possible revisions to disallowed costs.

We will continue to work closely with Sherri Turner Sharp to finalize the time study and complete this audit. Should you have any further questions, please contact Lynne Farrar, Supervising Accountant at 209-937-8820.



MARK MOSES
CHIEF FINANCIAL OFFICER

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