

# **SOUTHEAST AREA ANIMAL CONTROL AGENCY**

Audit Report

## **ANIMAL ADOPTION PROGRAM**

Civil Code Sections 1834 and 1846 and Food and Agriculture Code  
Sections 31108, 31752, 31752.5, 31753, 32001, and 32003  
(Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004)

*July 1, 2001, through June 30, 2009,  
excluding July 1, 2003, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

June 2012



**JOHN CHIANG**  
**California State Controller**

June 15, 2012

Art Barajas, Chairperson  
Southeast Area Animal Control Agency  
9777 SEAACA Street  
Downey, CA 90241

Dear Mr. Barajas:

The State Controller's Office audited the costs claimed by the Southeast Area Animal Control Agency 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 (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004)) for the period of July 1, 2001, through June 30, 2009, excluding July 1, 2003, through June 30, 2006.

The agency claimed \$2,316,724 for the mandated program. Our audit disclosed that \$760,091 is allowable and \$1,556,633 is unallowable. The costs are unallowable because the agency claimed unallowable costs and ineligible staff, misstated animal census data, overstated the number of eligible animals, understated the number of reimbursable days, did not claim allowable costs, and overstated offsetting revenues. The State paid the agency \$524,800. Allowable costs claimed exceed the amount paid by \$235,291.

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 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/wm

cc: Dan Morrison, Executive Director, Southeast Area Animal Control Agency  
Randall Ward, Finance Staff Analyst, Mandates Unit, Department of Finance  
Jay Lal, Manager, Division of Accounting and Reporting, State Controller's Office

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# Audit Report

## Summary

The State Controller’s Office (SCO) audited the costs claimed by the Southeast Area Animal Control Agency 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 [Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004]) for the period of July 1, 2001, through June 30, 2009, excluding July 1, 2003, through June 30, 2006.

The agency claimed \$2,316,724 for the mandated program. Our audit disclosed that \$760,091 is allowable and \$1,556,633 is unallowable. The costs are unallowable because the agency claimed unallowable costs and ineligible staff, misstated animal census data, overstated the number of eligible animals, understated the number of reimbursable days, did not claim allowable costs, and overstated offsetting revenues. The State paid the agency \$524,800. Allowable costs claimed exceed the amount paid by \$235,291.

## 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 also 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. The 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, 2001, through June 30, 2009, excluding July 1, 2003, through June 30, 2006.

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 agency'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 agency'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 Southeast Area Animal Control Agency claimed \$2,316,724 for costs of the Animal Adoption Program. Our audit disclosed that \$760,091 is allowable and \$1,556,633 is unallowable.

For the FY 2001-02 claim, the State made no payment to the agency. Our audit disclosed that \$138,926 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$138,926, contingent upon available appropriations.

For the FY 2002-03 claim, the State made no payment to the agency. Our audit disclosed that \$140,845 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$140,845, contingent upon available appropriations.

For the FY 2006-07 claim, the State paid the agency \$524,800. Our audit disclosed that \$139,835 is allowable. The State will offset \$384,965 from other mandated program payments due the agency. Alternatively, the agency may remit this amount to the State.

For the FY 2007-08 claim, the State made no payment to the agency. Our audit disclosed that \$165,888 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$165,888, contingent upon available appropriations.

For the FY 2008-09 claim, the State made no payment to the agency. Our audit disclosed that \$174,597 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$174,597, contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft audit report on May 22, 2012. Dan Morrison, Executive Director, responded by letter dated June 4, 2012 (Attachment), disagreeing with the audit results. This final audit report includes the agency's response.

Based on the agency's response, we increased allowable costs by \$57,128, from \$702,963 to \$760,091. These changes are reflected in Findings 1 through 7.

**Restricted Use**

This report is solely for the information and use of the Southeast Area Animal Control Agency, 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

June 15, 2012

**Schedule 1—  
Summary of Program Costs  
July 1, 2001, through June 30, 2009,  
excluding July 1, 2003, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Care and maintenance of dogs and cats	\$ 209,802	\$ 22,343	\$ (187,459)	Finding 1
Care and maintenance of other animals	23,215	870	(22,345)	Finding 1
Increased holding period	36,975	34,170	(2,805)	Finding 2
Lost and found list costs	—	1,319	1,319	Finding 3
Maintaining non-medical records	—	15,572	15,572	Finding 4
Necessary and prompt veterinary care	—	13,933	13,933	Finding 5
Total direct costs	269,992	88,207	(181,785)	
Indirect costs	—	61,321	61,321	Finding 6
Total direct and indirect costs	269,992	149,528	(120,464)	
Less other reimbursements	(19,137)	(10,602)	8,535	Finding 7
Total program costs	<u>\$ 250,855</u>	138,926	<u>\$ (111,929)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 138,926</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Care and maintenance of dogs and cats	\$ 225,079	\$ 23,594	\$ (201,485)	Finding 1
Care and maintenance of other animals	—	919	919	Finding 1
Increased holding period	90,302	33,139	(57,163)	Finding 2
Lost and found list costs	—	1,329	1,329	Finding 3
Maintaining non-medical records	—	15,478	15,478	Finding 4
Necessary and prompt veterinary care	—	13,773	13,773	Finding 5
Total direct costs	315,381	88,232	(227,149)	
Indirect costs	—	63,426	63,426	Finding 6
Total direct and indirect costs	315,381	151,658	(163,723)	
Less other reimbursements	(22,500)	(10,813)	11,687	Finding 7
Total program costs	<u>\$ 292,881</u>	140,845	<u>\$ (152,036)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 140,845</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Care and maintenance of dogs and cats	\$ 397,158	\$ 17,937	\$ (379,221)	Finding 1
Care and maintenance of other animals	6,592	760	(5,832)	Finding 1
Increased holding period	164,993	37,733	(127,260)	Finding 2
Lost and found list costs	—	1,489	1,489	Finding 3
Maintaining non-medical records	—	15,716	15,716	Finding 4
Necessary and prompt veterinary care	—	14,138	14,138	Finding 5
Total direct costs	568,743	87,773	(480,970)	
Indirect costs	—	63,777	63,777	Finding 6
Total direct and indirect costs	568,743	151,550	(417,193)	
Less other reimbursements	(43,943)	(11,715)	32,228	Finding 7
Total program costs	<u>\$ 524,800</u>	139,835	<u>\$ (384,965)</u>	
Less amount paid by the State		(524,800)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (384,965)</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Care and maintenance of dogs and cats	\$ 435,435	\$ 27,719	\$ (407,716)	Finding 1
Care and maintenance of other animals	7,969	1,362	(6,607)	Finding 1
Increased holding period	176,872	41,024	(135,848)	Finding 2
Lost and found list costs	—	1,648	1,648	Finding 3
Maintaining non-medical records	—	17,795	17,795	Finding 4
Necessary and prompt veterinary care	—	17,663	17,663	Finding 5
Total direct costs	620,276	107,211	(513,065)	
Indirect costs	—	73,396	73,396	Finding 6
Total direct and indirect costs	620,276	180,607	(439,669)	
Less other reimbursements	(50,551)	(14,719)	35,832	Finding 7
Total program costs	<u>\$ 569,725</u>	165,888	<u>\$ (403,837)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 165,888</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Care and maintenance of dogs and cats	\$ 579,988	\$ 35,565	\$ (544,423)	Finding 1
Care and maintenance of other animals	7,457	1,008	(6,449)	Finding 1
Increased holding period	185,180	41,278	(143,902)	Finding 2
Lost and found list costs	—	1,647	1,647	Finding 3
Maintaining non-medical records	—	22,072	22,072	Finding 4
Necessary and prompt veterinary care	—	22,980	22,980	Finding 5
Total direct costs	772,625	124,550	(648,075)	
Indirect costs	—	74,285	74,285	Finding 6
Total direct and indirect costs	772,625	198,835	(573,790)	
Less other reimbursements	(94,162)	(24,238)	69,924	Finding 7
Total program costs	<u>\$ 678,463</u>	174,597	<u>\$ (503,866)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 174,597</u>		
<u>Summary: July 1, 2001, through June 30, 2009,</u> <u>(excluding June 1, 2003, through June 30, 2006)</u>				
Direct costs:				
Care and maintenance of dogs and cats	\$ 1,847,462	\$ 127,158	\$ (1,720,304)	
Care and maintenance of other animals	45,233	4,919	(40,314)	
Increased holding period	654,322	187,344	(466,978)	
Lost and found list costs	—	7,432	7,432	
Maintaining non-medical records	—	86,633	86,633	
Necessary and prompt veterinary care	—	82,487	82,487	
Total direct costs	2,547,017	495,973	(2,051,044)	
Indirect costs	—	336,205	336,205	
Total direct and indirect costs	2,547,017	832,178	(1,714,839)	
Less other reimbursements	(230,293)	(72,087)	158,206	
Total program costs	<u>\$ 2,316,724</u>	760,091	<u>\$ (1,556,633)</u>	
Less amount paid by the State		(524,800)		
Allowable costs claimed in excess of amount paid		<u>\$ 235,291</u>		

<sup>1</sup> See the Findings and Recommendations section.

**Schedule 2—  
Summary of Care and Maintenance Costs  
July 1, 2001, through June 30, 2009,  
excluding July 1, 2003, through June 30, 2006**

Category	Actual Costs Claimed	Allowable per Audit			Audit Adjustments
		Salaries & Benefits	Materials & Supplies	Amount Allowable	
<u>July 1, 2001, through June 30, 2002</u>					
Total care and maintenance costs	\$ 813,446	\$ 176,465	\$ 41,702		
Total animal census	÷ 104,700	÷ 174,117	÷ 174,117		
Cost per day	<u>\$7.7693</u>	<u>\$1.01</u>	<u>\$0.24</u>		
Care and maintenance of dogs and cats:					
Cost per day	\$7.7693	\$1.01	\$0.24		
Number of eligible dogs and cats	× 13,502	× 5,958	× 5,958		
Reimbursable days	× 2	× 3	× 3		
Total care and maintenance costs for dogs and cats	<u>\$ 209,802</u>	<u>\$ 18,053</u>	<u>\$ 4,290</u>	\$ 22,343	\$ (187,459)
Care and maintenance of other “eligible” animals:					
Cost per day	\$7.7693	\$1.01	\$0.24		
Number of eligible other animals	× 747	× 116	× 116		
Reimbursable days	× 4	× 6	× 6		
Total care and maintenance costs for other animals	<u>\$ 23,215</u>	<u>\$ 703</u>	<u>\$ 167</u>	870	(22,345)
Total care and maintenance	<u>\$ 233,017</u>	<u>\$ 18,756</u>	<u>\$ 4,457</u>	<u>\$ 23,213</u>	<u>\$ (209,804)</u>
<u>July 1, 2002, through June 30, 2003</u>					
Total care and maintenance costs	\$ 887,971	\$ 195,713	\$ 35,556		
Total animal census	÷ 109,715	÷ 174,117	÷ 174,117		
Cost per day	<u>\$8.0934</u>	<u>\$1.12</u>	<u>\$0.20</u>		
Care and maintenance of dogs and cats:					
Cost per day	\$8.0934	\$1.12	\$0.20		
Number of eligible dogs and cats	× 13,905	× 5,958	× 5,958		
Reimbursable days	× 2	× 3	× 3		
Total care and maintenance costs for dogs and cats	<u>\$ 225,079</u>	<u>\$ 20,019</u>	<u>\$ 3,575</u>	\$ 23,594	\$ (201,485)
Care and maintenance of other “eligible” animals:					
Cost per day	\$8.0934	\$1.12	\$0.20		
Number of eligible dogs and cats	× —	× 116	× 116		
Reimbursable days	× 4	× 6	× 6		
Total care and maintenance costs for other animals	<u>\$ —</u>	<u>\$ 780</u>	<u>\$ 139</u>	919	919
Total care and maintenance	<u>\$ 225,079</u>	<u>\$ 20,799</u>	<u>\$ 3,714</u>	<u>\$ 24,513</u>	<u>\$ (200,566)</u>

**Schedule 2 (continued)**

Category	Actual Costs Claimed	Allowable per Audit			Amount Allowable	Audit Adjustments
		Salaries & Benefits	Materials & Supplies			
<u>July 1, 2006, through June 30, 2007</u>						
Total care and maintenance costs	\$ 1,829,255	\$ 121,270	\$ 50,248			
Total animal census	÷ 127,596	÷ 139,820	÷ 139,820			
Cost per day	<u>\$14.3363</u>	<u>\$0.87</u>	<u>\$0.36</u>			
Care and maintenance of dogs and cats:						
Cost per day	\$14.3363	\$0.87	\$0.36			
Number of eligible dogs and cats	× 12,360	× 4,861	× 4,861			
Reimbursable days	× 2,24134	× 3	× 3			
Total care and maintenance costs for dogs and cats	<u>\$ 397,158</u>	<u>\$ 12,687</u>	<u>\$ 5,250</u>	\$ 17,937	\$ (379,221)	
Care and maintenance of other "eligible" animals						
Cost per day	\$14.3304	\$0.87	\$0.36			
Number of eligible other animals	× 115	× 103	× 103			
Reimbursable days	× 4	× 6	× 6			
Total care and maintenance costs for other animals	<u>\$ 6,592</u>	<u>\$ 538</u>	<u>\$ 222</u>	760	(5,832)	
Total care and maintenance	<u>\$ 403,750</u>	<u>\$ 13,225</u>	<u>\$ 5,472</u>	<u>\$ 18,697</u>	<u>\$ (385,053)</u>	
<u>July 1, 2007, through June 30, 2008</u>						
Total care and maintenance costs	\$ 1,999,850	\$ 193,753	\$ 68,666			
Total animal census	÷ 134,834	÷ 162,934	÷ 162,934			
Cost per day	<u>\$14.8319</u>	<u>\$1.19</u>	<u>\$0.42</u>			
Care and maintenance of dogs and cats:						
Cost per day	\$14.8319	\$1.19	\$0.42			
Number of eligible dogs and cats	× 12,789	× 5,739	× 5,739			
Reimbursable days	× 2,295567	× 3	× 3			
Total care and maintenance costs for dogs and cats	<u>\$ 435,435</u>	<u>\$ 20,488</u>	<u>\$ 7,231</u>	\$ 27,719	\$ (407,716)	
Care and maintenance of other "eligible" animals:						
Cost per day	\$14.8670	\$1.19	\$0.42			
Number of eligible other animals	× 134	× 141	× 141			
Reimbursable days	× 4	× 6	× 6			
Total care and maintenance costs for other animals	<u>\$ 7,969</u>	<u>\$ 1,007</u>	<u>\$ 355</u>	1,362	(6,607)	
Total care and maintenance	<u>\$ 443,404</u>	<u>\$ 21,495</u>	<u>\$ 7,586</u>	<u>\$ 29,081</u>	<u>\$ (414,323)</u>	

## Schedule 2 (continued)

Category	Actual Costs Claimed	Allowable per Audit			Audit Adjustments
		Salaries & Benefits	Materials & Supplies	Amount Allowable	
<u>July 1, 2008, through June 30, 2009</u>					
Total care and maintenance costs	\$ 2,160,122	\$ 265,244	\$ 92,554		
Total animal census	÷ 146,772	÷ 219,598	÷ 219,598		
Cost per day	<u>\$14.7175</u>	<u>\$1.21</u>	<u>\$0.42</u>		
Care and maintenance of dogs and cats:					
Cost per day	\$14.7175	\$1.21	\$0.42		
Number of eligible dogs and cats	× 17,249	× 7,273	× 7,273		
Reimbursable days	<u>× 2.284657</u>	<u>× 3</u>	<u>× 3</u>		
Total care and maintenance costs for dogs and cats	<u>\$ 579,988</u>	<u>\$ 26,401</u>	<u>\$ 9,164</u>	\$ 35,565	\$ (544,423)
Care and maintenance of other "eligible" animals:					
Cost per day	\$14.6791	\$1.21	\$0.42		
Number of eligible other animals	× 127	× 103	× 103		
Reimbursable days	<u>× 4</u>	<u>× 6</u>	<u>× 6</u>		
Total care and maintenance costs for other animals	<u>\$ 7,457</u>	<u>\$ 748</u>	<u>\$ 260</u>	1,008	(6,449)
Total care and maintenance	<u>\$ 587,445</u>	<u>\$ 27,149</u>	<u>\$ 9,424</u>	<u>\$ 36,573</u>	<u>\$ (550,872)</u>
<u>Summary: July 1, 2001, through June 30, 2009, excluding July 1, 2003, through June 30, 2006</u>					
Total care and maintenance costs for dogs and cats	\$ 1,847,462	\$ 97,648	\$ 29,510	\$ 127,158	\$ (1,720,304)
Total care and maintenance costs for other animals	<u>45,233</u>	<u>3,776</u>	<u>1,143</u>	<u>4,919</u>	<u>(40,314)</u>
Total care and maintenance costs	<u>\$ 1,892,695</u>	<u>\$ 101,424</u>	<u>\$ 30,653</u>	<u>\$ 132,077</u>	<u>\$ (1,760,618)</u>

# Findings and Recommendations

## GENERAL COMMENT

A private mandated cost consultant prepared the agency's mandated cost claims for the audit period. We initially determined that the claims were not prepared in accordance with the applicable instructions found in the parameters and guidelines for the mandated program or the State Controller's Office's (SCO) claiming instructions. Costs incurred by the agency under at least four cost components of the mandated program were combined together and claimed under the Care and Maintenance cost component. However, reimbursable costs for the other cost components are not determined in the same manner as care and maintenance costs. In addition, the expenditures claimed included costs for activities that are not reimbursable under the mandated program. Therefore, all costs, as originally claimed, were unallowable.

We worked with various agency representatives during the course of our audit in order to determine the procedures followed to perform the reimbursable activities as well as the average time increments required to perform them. To determine allowable costs, the agency provide actual salary rates, benefit rates, and expenditure reports. In addition, the agency provided actual salaries and benefits for staff performing care and maintenance activities and performed time studies supporting four difference cost components during the course of the audit. We calculated allowable costs based on agency-provided documentation. If the agency provides additional documentation supporting actual costs incurred, we will revise the audit results as appropriate.

**FINDING 1—  
Overstated care and  
maintenance costs**

The agency claimed \$1,892,695 (\$1,847,462 for dogs and cats, and \$45,233 for other animals) during the audit period under the Care and Maintenance cost component for animals that died during the increased holding period or were ultimately euthanized. We determined that \$132,077 (\$127,158 for dogs and cats, and \$4,919 for other animals) is allowable and \$1,760,618 is unallowable. The costs were unallowable because the agency claimed unallowable material and supply costs; estimated the yearly census; incorrectly calculated the number of stray dogs, cats, and other eligible animals that died during the increased holding period or were ultimately euthanized; and understated the number of reimbursable days.

The detailed Care and Maintenance formula calculations of claimed, allowable, and unallowable costs by fiscal year are presented in Schedule 2—Summary of Care and Maintenance Costs.

The following table summarizes the claimed, allowable, and unallowable costs for the audit period separately for dogs, cats, and other animals by fiscal year:

Fiscal Year	Amount Claimed			Amount Allowable			Audit Adjustment
	Dogs & Cats	Other Animals	Total Claimed	Dogs & Cats	Other Animals	Total Allowable	
2001-02	\$ 209,802	\$ 23,215	\$ 233,017	\$ 22,343	\$ 870	\$ 23,213	\$ (209,804)
2002-03	225,079	—	225,079	23,594	919	24,513	(200,566)
2006-07	397,158	6,592	403,750	17,937	760	18,697	(385,053)
2007-08	435,435	7,969	443,404	27,719	1,362	29,081	(414,323)
2008-09	579,988	7,457	587,445	35,565	1,008	36,573	(550,872)
<b>Total</b>	<b>\$1,847,462</b>	<b>\$ 45,233</b>	<b>\$1,892,695</b>	<b>\$ 127,158</b>	<b>\$ 4,919</b>	<b>\$ 132,077</b>	<b>\$(1,760,618)</b>

The parameters and guidelines (section IV.B.3—Care and Maintenance for Impounded Stray or Abandoned Dogs and Cats that Die during the Increased Holding Period or are Ultimately Euthanized) identify the following reimbursable activities:

Beginning July 1, 1999 – Providing care and maintenance during the increased holding period for impounded stray or abandoned dogs and cats that die during the increased holding period or are ultimately euthanized. The increased holding period shall be measure by calculating the difference between three days from the day of capture, and four or six business days from the day after impoundment.

The parameters and guidelines (section IV.B.4—Care and Maintenance for Impounded Stray or Abandoned Animals Specified in Food and Agricultural Code Section 31753 that Die During the Increased Holding Period or are Ultimately Euthanized) also state:

Beginning January 1, 1999 – Providing care and maintenance for . . . stray or abandoned rabbits, guinea pigs, hamsters, pot-bellied pigs, birds, lizards, snakes, turtles, and tortoises legally allowed as personal property that die during the increased holding period or are ultimately euthanized.

The parameters and guidelines for both Care and Maintenance for Impounded Stray or Abandoned Dogs and Cats that Die during the Increased Holding Period or are Ultimately Euthanized (section IV.B.3) and Care and Maintenance for Impounded Stray or Abandoned Animals Specified in Food and Agricultural Code Section 31753 that Die During the Increased Holding Period or are Ultimately Euthanized (section IV.B.4) state:

#### Exclusions

Eligible claimants are *not* entitled to reimbursement for the care and maintenance of the following population of dogs and cats and other animals:

- Stray or abandoned dogs, cats and other animals that are irremediably suffering from a serious illness or severe injury,
- Newborn stray or abandoned dogs, cats, and other animals that need maternal care and have been impounded without their mothers,
- Stray or abandoned dogs, cats and other 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 dogs, cats and other animals, and
- Stray or abandoned dogs, cats and other animals that are ultimately redeemed, adopted, or released to a nonprofit animal rescue or adoption organization

#### **Methods for Claiming Costs**

Eligible claimants may elect the Actual Cost Method or the Time Study Method to claim costs for the care and maintenance of impounded stray or abandoned dogs, cats, and other animals that die during the increased holding period or are ultimately euthanized.

Under the Actual Cost Method, actual reimbursable care and maintenance costs per animal per day are computed for an annual claim period, as follows:

- a) Determine the total annual cost of care and maintenance for all dogs, cats and other animals impounded at a facility. Total cost of care and maintenance includes labor, materials, supplies, indirect costs, and contract services.
- b) Determine the average daily census of all dogs, cats and other animals.
- c) Multiply the average daily census of dogs, cats and other animals by 365 to calculate the yearly census of dogs and cats and the yearly census of other animals.
- d) Divide the total annual cost of care by the yearly census of dogs and cats to calculate the cost per dog and cat per day and by the yearly census of other animals to calculate the cost per other animal per day.

- e) Multiply the cost per animal per day by the number of impounded stay or abandoned dogs, cats, and other animals that die during the increased holding period, or are ultimately euthanized, by each reimbursable day. The reimbursable days for cats and dogs is the difference between three days from the day of capture, and four or six business days from the day after impoundment. The reimbursable days for other animals are four or six business days from the day after impoundment.

#### *Care and Maintenance Formula*

The agency elected to use the Actual Cost Method to claim costs. The parameters and guidelines provide for a formula-driven methodology to determine allowable mandated costs for the care and maintenance of dogs, cats, and other animals. The use of this method requires a claimant to calculate the total amount of eligible costs incurred to provide care and maintenance for the animals housed in its shelter. This total is divided by the annual census of animals housed in the shelter to determine a cost per animal per day.

The next element of the formula is adding the number of stray and abandoned animals that died of natural causes during the holding period to those animals that were euthanized after the required holding period. This total number of animals is then multiplied by the cost per animal per day. The resulting amount represents allowable costs for providing care and maintenance. Our calculations took into consideration that the required holding period does not include Saturday as a business day. This is consistent with an Appellate Court decision in the case of *Purifoy v. Howell* filed March 26, 2010.

The mandate reimburses claimants for costs associated with animals that were not relinquished, redeemed, adopted, or released to a nonprofit agency—animals for which the local agency was unable to assess fees to recover such costs.

Costs incurred by the agency for care and maintenance consisted of salaries and benefits, materials and supplies, and related indirect costs. We made adjustments to the costs incurred by the agency and to the animal data that was used to claim costs. As a result, we adjusted the costs per animal per day.

The table in Schedule 2 summarizes the changes made to claimed costs for animal care and maintenance. This consisted of changes to total annual costs incurred by the agency for animal care and maintenance (salaries and benefits, materials and supplies) and animal census data used to determine the cost per animal per day. The table also shows changes to the number of eligible animals and the number of reimbursable days that were used to determine reimbursable costs for each year of the audit period.

### Salary and Benefit Costs

The agency did not claim any salary and benefit costs. We determined that the agency incurred \$952,445 in salaries and benefits for caring and maintaining animals during the audit period.

During audit fieldwork, the agency provided actual salary and benefit costs for the audit period for the following three positions that provide care and maintenance to the animals housed at the shelter:

- Animal Care Technicians
- Senior Animal Care Technicians
- Lead Animal Care Technicians

However, only a percentage of shelter staff time is devoted to care and maintenance of the animals because staff members also perform non-mandated activities such as recruiting, training, and scheduling. The agency determined that 89% of the Animal Care Technician's and Senior Animal Care Attendants' time, and 60% of the Lead Animal Care Technician's time, was devoted to care and maintenance of animals.

To determine the allowable care and maintenance salaries and benefits, we multiplied the actual salary and benefit amounts provided by the mandated percentage, as shown in the following table:

Position	Amount Claimed	Allowable per Audit			Audit Adjustments
		Salaries & Benefits	Mandated Percentage	Amount Allowable	
FY 2001-02:					
Animal Care Tech.	\$ —	\$ 149,645	89%	\$ 133,184	\$ 133,184
Lead Animal Care Tech.	—	72,135	60%	43,281	43,281
Total FY 2001-02	—	221,780		176,465	176,465
FY 2002-03:					
Animal Care Tech.	—	169,565	89%	150,913	150,913
Lead Animal Care Tech.	—	74,667	60%	44,800	44,800
Total FY 2002-03	—	244,232		195,713	195,713
FY 2006-07:					
Animal Care Tech.	—	106,755	89%	95,012	95,012
Lead Animal Care Tech.	—	43,764	60%	26,258	26,258
Total FY2006-07	—	150,519		121,270	121,270
FY 2007-08:					
Animal Care Tech.	—	182,899	89%	162,780	162,780
Lead Animal Care Tech.	—	51,621	60%	30,973	30,973
Total FY 2007-08	—	234,520		193,753	193,753
FY 2008-09:					
Animal Care Tech.	—	226,528	89%	201,610	201,610
Sr. Animal Care Tech.	—	31,509	89%	28,043	28,043
Lead Animal Care Tech.	—	59,319	60%	35,591	35,591
Total FY 2008-09	—	317,356		265,244	265,244
Total	\$ —	\$1,168,407		\$ 952,445	\$ 952,445

*Material and Supply Costs*

The agency determined that it incurred \$7,690,644 in material and supply costs during the audit period for care and maintenance of animals impounded at its shelters. We determined that \$288,726 is allowable and \$7,401,918 is unallowable. The costs were unallowable because the agency included total costs incurred to operate the shelter (such as Shelter, Kennel, Veterinary, and Administrative divisional expenses) as opposed to costs specifically incurred to care for and maintain the animals.

Animal shelter management advised us that account #140, Special Activities Supplies for Shelter Operations, is the account for the expenses related to the care and maintenance of animals and includes costs for animal food, cat litter, light bulbs, and cleaning supplies. We also verified that costs in this account did not include expenses that are not eligible for reimbursement (such as euthanasia medication, microchip expenses, and medical supplies).

The following table summarizes the material and supply costs reported and the material and supply costs allowable for each fiscal year in the audit period:

Description	Fiscal Year					Total
	2001-02	2002-03	2006-07	2007-08	2008-09	
Amount claimed:						
Shelter Division expenses	\$ 438,664	\$ 472,352	\$ 474,578	\$ 699,343	\$ 874,672	\$ 2,959,609
Kennel Division expenses	181,458	198,616	223,490	105,620	2,646	711,830
Veterinary Division expenses	—	—	462,174	534,339	625,775	1,622,288
Overhead share/admin expenses	207,718	239,185	677,877	668,800	664,807	2,458,387
Less euthanasia/disposal fee	(14,394)	(22,182)	(8,864)	(8,252)	(7,778)	(61,470)
Total amount claimed	813,446	887,971	1,829,255	1,999,850	2,160,122	7,690,644
Amount allowable:						
Account 140-Special Act Supplies	41,702	35,556	50,248	68,666	92,554	288,726
Audit adjustment	<u>\$ (771,744)</u>	<u>\$ (852,415)</u>	<u>\$ (1,779,007)</u>	<u>\$ (1,931,184)</u>	<u>\$ (2,067,568)</u>	<u>\$ (7,401,918)</u>

*Yearly Animal Census*

The yearly census refers to the total number of days that all animals were housed in the shelter. The agency estimated the yearly census by assuming that the animals were held an average of five days in FY 2001-02 and FY 2002-03, an average of seven days in FY 2006-07 and FY 2007-08, and an average of six days in FY 2008-09.

To calculate the yearly census, we used data from the agency's Paw Trax software system and added the number of days held for every animal impounded for each fiscal year.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the yearly animal census by fiscal year:

	Number of Animals				
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
Yearly census claimed:					
Total dogs held	9,189	8,665	6,181	6,867	8,737
Total cats held	10,546	11,781	10,647	10,948	13,799
Total other animals held	1,205	1,497	1,400	1,447	1,926
Total animals held	20,940	21,943	18,228	19,262	24,462
Average number of days held	× 5	× 5	× 7	× 7	× 6
Yearly census	104,700	109,715	127,596	134,834	146,772
Yearly census allowable	174,117 *	174,117 *	139,820	162,934	219,598
Audit adjustment	<u>69,417</u>	<u>64,402</u>	<u>12,224</u>	<u>28,100</u>	<u>72,826</u>

\* For FY 2001-02 and FY 2002-03, the agency did not provide animal data; therefore, we used an average of the yearly census for FY 2006-07 through FY 2008-09 and applied the result to FY 2001-02 and FY 2002-03.

### *Eligible Dogs, Cats, and Other Animals*

The agency incorrectly calculated the number of stray dogs, cats, and other animals that died during the increased holding period or were ultimately euthanized.

To verify the eligible animal population claimed, we ran a query of all of the animals that fit the following reimbursement criteria:

#### Dogs and Cats:

- Died during the increased holding period: Died days 4, 5, and 6
- Ultimately euthanized: Euthanized day 7 and later

#### Eligible Other Animals:

- Died during the increased holding period: Died days 2, 3, 4, 5 and 6 (animals that died on day 1 were not included because they were most likely irremediably suffering from a serious illness or injury or were too severely injured to move and it may have been more humane to dispose of the animal).
- Ultimately euthanized: Euthanized day 7 and later.

The following table summarizes the claimed, allowable, and unallowable population of eligible animals for the audit period by fiscal year:

Fiscal Year	Number of Animals						Audit Adjustment
	Population Claimed			Population Allowable			
	Dogs & Cats	Other Animals	Total Claimed	Dogs & Cats	Other Animals	Total Allowable	
2001-02	13,502	747	14,249	5,958 *	116 *	6,074	(8,175)
2002-03	13,905	—	13,905	5,958 *	116 *	6,074	(7,831)
2006-07	12,360	115	12,475	4,861	103	4,964	(7,511)
2007-08	12,789	134	12,923	5,739	141	5,880	(7,043)
2008-09	17,249	127	17,376	7,273	103	7,376	(10,000)
Total	69,805	1,123	70,928	29,789	579	30,368	(40,560)

\* For FY 2001-02 and FY 2002-03, the agency did not provide animal data; therefore, we used an average of the yearly census for FY 2006-07 through FY 2008-09 and applied the result to FY 2001-02 and FY 2002-03.

### *Reimbursable Days*

The agency claimed two increased holding days for dogs and cats and four increased holding days for other animals. In addition, the agency claimed three increased holding days for cats they determined to be feral in FY 2006-07 and forward. We averaged the holding period claimed for FY 2006-07 and forward to fit the schedule. Refer to Schedule 2 for detail.

An Appellate Court ruling in the case of *Purifoy v. Howell* determined that Saturday is not considered a business day for the purposes of this mandated program. Therefore, for the audit period, we determined that the increased holding period for dogs and cats is three days and the increased holding period for other animals is six days.

### Recommendation

We recommend that the agency ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

## Agency's Response

### **FINDING 1 – CARE AND MAINTENANCE COSTS**

The claiming instructions allow agencies to choose one of two methods for calculating costs for Care and Maintenance:

The first is the **ACTUAL COST METHOD**. Under this method, an agency would determine the total annual cost for care and maintenance for all dog and cats impounded at the facility, then divides this amount by the total annual census to calculate and average daily cost per animal.

The second method is the **TIME STUDY METHOD** where an agency would conduct time studies to determine the amount of time to provide care and maintenance during a reimbursable day. Then this time/cost would be applied to the eligible animal population.

SEAACA chose to calculate their claim based on the ACTUAL cost method. SEAACA's accounting system separates their costs by functional units: SHELTER OPERATIONS, FIELD OPERATIONS, LICENSING, VETERINARY SERVICES and ADMINISTRATION. Since the purpose of the SHELTER division is to care and maintain the animals, the costs of the SHELTER OPERATIONS division were taken as the base for calculating total care and maintenance costs. From the total expenditure of that division, unallowable items, such as euthanasia supplies, were deleted and additional agency wide overhead costs from the ADMINISTRATIVE division were added. That total was divided by the total number of animal days of service to calculate a cost per animal per day of service. The resulting animal daily care rates claimed ranged from \$7.77\* in FY 2001-02 to \$14.72\*in FY 2008-09. (\* It should be noted that this rate also included an allocation for Veterinary Services costs provided to the stray euthanized animal population.)

When these rates were compared to those of comparable neighboring jurisdictions, it was determined that SEAACA's cost for Care and Maintenance were in line with the others (LA City and LA County are probably the most similar in the region based on size of the area served) (SEAACA provides animal services to approximately a dozen cities in the LA metropolitan area). In addition, SEAACA felt confident the rates claimed were conservative because the agency opted **not** to claim for any other related costs such as: *Maintaining Lost and Found Lists, Maintaining Non-Medical Records, Feral Cat review since* these activities were performed in the same division (SHELTER), it was determined that the agency was already being compensated for those activities and thus no request for reimbursement was submitted for those components.

When the SCO audit staff conducted their initial "Entrance Conference" SEAACA was told that it would not be allowed to use option 1 – ACTUAL COST METHOD to calculate Care and Maintenance costs as they did in an aggregate fashion. SCO audit staff recalculated the cost component and determined that SEAACA's reimbursable daily care and maintenance rates ranging from \$1.03 to \$1.63 per animal during the audit period. This amount represented approximately 25% of the amount calculated and requested by SEAACA.

SCO provided the following information comparing other audited agency's cost per animal per day:

*Salaries and Benefits – cost per animal per day allowed after SCO Audits:*

1. El Dorado County – varied from \$2.62 to \$7.42
2. Contra Costa County – varied from \$2.95 to \$11.99
3. City/County of San Francisco – varied from \$5.48 to \$7.67
4. Sacramento County – varied from \$3.79 to \$5.33
5. Riverside County – varied from \$3.22 to \$4.75
6. City of Los Angeles – varied from \$9.17 to \$13.81
7. City of Hayward – varied from \$2.88 to \$9.12
8. SEAACA – varied from \$1.03 to \$1.63

The rates calculated by the SCO auditors are unreasonably low primarily because direct costs were very narrowly interpreted and appropriate overhead (ICRPS) and benefit costs were not calculated or applied properly. Overhead or ICRP rates should be based on salaries and benefits (as is the industry standard), not total direct costs, since allowable direct costs are predominantly labor related for this program.

Also, benefit rates were understated (0% benefits were allowed) for Fiscal Years 2001-02 and 2002-03 since the agency did not have detail benefit data per position, it was provided for the entire division. In those two years, we feel it would be appropriate to use a portion – or percentage of the benefits for the direct staff involved. We calculated a rate of 22% in FY 2001-02 and 20% in 2002-03 and request this be applied to the Care and Maintenance Formulas used by the State.

In addition, the cost for care and maintenance of an animal is not just the time and cost to feed and warehouse the animals, but also must consider the administrative and support costs associated with running operating a shelter. These support costs include supervisory oversight, review, scheduling, purchasing supplies, etc; and support functions such as receptionists and clerical duties. These departmental indirect charges were not fully captured in the SCO Draft findings.

We request that the SCO audit staff update their ICRP rate calculations to match ours and update the reimbursable cost accordingly. (See separate attachments with our proposed ICRP rates).

**A) WE DISAGREE WITH THE SCO'S RETROACTIVE APPLICATION OF PURIFOY V. HOWELL DECISION TO PRIOR YEAR CLAIMS**

During the audit, the State Controller representatives announced that they would be applying a recent court decision (Purifoy v Howell published in March, 2010) to the claims being audited (FY 2001-02 being the oldest reviewed). This decision alters the definition of a business day for purposes of the animal holding period under the Hayden Bill. The retroactive application of a recent legal interpretation to activities that have already occurred is unfair and inequitable. Particularly when the rules pertain to animals already euthanized.

**AUDIT PARAMETERS:** According to claiming instructions, under **Audit of Costs,**

***“All claims submitted to the SCO are reviewed to determine if costs are related to the mandate, are reasonable and not excessive, and the claim was prepared in accordance with the SCO’s claiming instructions and the P’s and G’s adopted by the Commission.”***

Based on this language – the SCO must review the claims to the Parameters and Guidelines (Ps and Gs) and instructions applicable at that time. The SCO does not have the authority to audit to a “new” set of guidelines and rules after the fact and without proper notice and approval of those new guidelines.

Local agencies complied with the requirements of the law mandated by the legislature in 1998. They made a good faith effort to comply with the parameters and to claim costs as instructed. They incurred additional costs to comply with the mandate legislation as it was written. The SCO is exceeding its legal authority to audit claims to a new set of guidelines. The recent court action should only have an impact on activities and claims after the date of the finding and then only after Ps and Gs are amended pursuant State Mandate regulations.

The application of “new” rules to activities which have already occurred (animals being euthanized), has resulted in substantial disallowances to our legitimate claims for State reimbursement. The claims were calculated and filed based upon the law and the Parameters and Guidelines in place at the time of filing. Changing the “rules of the game” years later is unreasonable and robs local agencies of legitimately incurred costs.

One of the main goals of the Hayden Bill was to extend the period an animal was held and to ensure shelters extended their business hours so that residents could more easily retrieve their pets. The bill instructed that shelters stay open until at least 7pm on a weeknight, or on Saturday. However, the Purifoy case basically renders the option of keeping the shelter open on a Saturday void. Those agencies that made good faith efforts to implement the State legislation and kept the shelters open even longer by offering a Saturday option are now being punished by having their claims reduced by more than half.

Shelters that opted to stay open on Saturdays are being told that the option offered by the legislature was not really a legal option and that by choosing to stay open on a Saturday would render all their calculations on when an animal could be legally euthanize invalid. It is obviously impossible to go backward in time and resurrect animals that were euthanized based upon the recent ‘Saturday as a business day’ interpretations. The SCO’s decision to apply the Purifoy decision retroactively to its audits violates the basic rules of law and the provisions of Ex Post Facto law.

It should be noted that to the best of our knowledge, ALL agencies followed the same method of calculation of holding periods prior to the 2010 court order. SEAACA was no different in its understanding or interpretation of the law at the time.

- 1 The Purifoy decision itself did not confirm that Saturday is not a business day
2. The SCO took this decision to decide itself that Saturday is not a business day (their interpretation)

California Civil Code Section 9, states that Saturday is a business day to which shelters would calculate their holding periods according to the code. Using the SCO's interpretation of business day then would technically make all of the shelters calculations incorrect because "technically" they were not holding animals the required holding periods, regardless of Hayden Bill. This would decrease reimbursable costs because it would reduce the number or eligible animals.

The standard protocol for changing the instructions is to have any involved party file a request to amend Ps and Gs with the CSM. These revisions, if approved by the CSM after proper noticing of all parties, would then be applicable for the subsequent filing deadline. The SCO has been auditing the Animal Adoption claims for over three years now; however, it does not appear that they have made any requests to revise the Ps &Gs or claiming instructions. Local agencies were still preparing their FY 2010-11 "27-Day claims" for the Animal Adoption as recently as in 2011, but the instructions on the SCO website are still identical to those originally released.

#### **B) A NUMBER OF SCO'S INTERPRETATIONS CONSTITUTE ARBITRARY RULE MAKING**

The SCO audit creates rules and definitions of eligibility that do not appear in the instructions, Ps and Gs, or Statement of Decision (SOD). These "interpretations" or "new rules" they are imposing are harming local agencies by greatly reducing the number of animals that they deemed to be eligible for reimbursement. When there is a gray area, the stated intent of the Statutes, CSM Statements of Decision, and Ps and Gs should be followed.

##### **1) Defining "Ultimately Euthanized" animals eligible for "Care and Maintenance" reimbursement.**

"Ultimately Euthanized" means those stray animals whose final action resulted in euthanasia.

The mandate's intent was to provide reimbursement for the care and maintenance of stray animals during the extra holding days required by the law. Nowhere in the instructions, Ps and Gs, or SOD does it state that reimbursement is ONLY available IF and only IF THE ENTIRE holding period is satisfied.

The language of the Ps and Gs instruct that the SCO review costs to ensure that they are related to the mandate. If an agency incurs cost for providing one extra day of care and maintenance cost for an eligible animal, then the portion of the eligible cost should be reimbursed.

The intent of the legislation was to keep the animals for the entire holding period, when possible. However, there are various reasons why an animal might not be held the entire 2-3 day holding period prior to euthanasia. Actions taken related to care for animals are by their nature, complex and unpredictable. Medical conditions are not always readily apparent; diagnosis can be subjective; treatment decisions are varied and complex; and outcomes not guaranteed. Because of these facts, it is impossible for any agency to guarantee that an animal will be able to be held (or should be held) for the entire mandated period.

A once apparently healthy animal's condition can rapidly decline. An animal can be gravely injured by other animals during their holding period in the shared and often overcrowded kennels. Unforeseen events can occur – and because of that – even an agency with the best intentions and highest levels of care cannot guarantee that an animal will – or should be kept alive for the entire mandated time period.

The issue of timing of events and the unpredictability of animal's circumstances was addressed in a related request by Fresno County to the CSM.

Fresno County recommends that reimbursements apply to animals that are ultimately euthanized also apply to those animals that die while being held pending adoption or euthanization. If the animal dies pending adoption, obviously no adoption fees can be paid, and thus there is no revenue pertaining to that animal. If the animal dies pending euthanasia, the animal still has to be held until its untimely demise.

CSM staff noted that the Statement of Decision does not specifically address animals that die during the increased holding period, but that the county's request is consistent with the Statement of Decision. First, CSM staff addressed reimbursement for euthanized animals:

If a stray or abandoned animal dies during the time an agency is required to hold that animal, the agency would still be required by the state to incur costs to care and maintain the animal, and to provide "necessary and prompt veterinary care" for the animal before the animal died. The agency cannot recover those costs from the adoptive owner since the animal was never adopted or released to a nonprofit adoption organization. Thus, staff agrees with the County that these costs are eligible for reimbursement.

However, the same reimbursement limitations apply to the stray and abandoned animals that die **during** the holding period. For example, reimbursement for the care and maintenance of these animals is limited to the costs incurred during the *increased* holding period, as calculated by the proposed Parameters and Guidelines.

Accordingly, CSM staff added language to the parameters and guidelines to address animals that die during the increased holding period.

This action by the CSM indicates determining whether the activity was eligible should hinge on whether the activity was required by the State and whether the local agency had the ability to recovery costs for the animal population in question.

This discussion did not mention another likely occurrence – that in some cases an animal might have to be euthanized during the mandated holding period.

**So if a STRAY Dog or Cat WAS EUTHANIZED on:**

**Day 3.5 = .5 days of eligible care and maintenance cost should be eligible for reimbursement**

**Day 4 = 1.5 days .... should be reimbursable**

**Day 5 = 2.5 days .... should be reimbursable**

**Day 6 = 3.5 days .... should be reimbursable**

**Any day after day 6 = max of 3.5 days should be reimbursable.**

The SCO's interpretation is if a stray animal is euthanized prior to completion of the entire holding, the extra holding days the animal WAS held are NOT eligible for reimbursement –even though the agency incurred legitimate costs for a portion of the holding period. Basically – there is no “Partial Credit” for partial compliance.

It is our belief that local agencies should be reimbursed for the actual costs incurred for providing care and maintenance of eligible animals as stated in mandate language. SCO limitation of reimbursement for only those animals that stayed the entire time is an unfair interpretation that robs agencies of actual costs incurred. Though they would not qualify to receive full reimbursement for all animals, partial credit should be granted for the portion eligible of service provided.

This “all or nothing” SCO standard is most particularly unfair since the main reason a majority of animals were not kept the entire required holding period was because the SCO's application of the “new” 2010 court decisions holding periods alters method by which the holding period is calculated and disallows a substantial portion of the population of animals. By moving the target after the fact, many animals are now being denied even partial credit for the days of service they did provide. Agencies complied with the holding periods as were written in the law and should not completely lose reimbursement for those eligible animals because the SCO's has decided to apply the 2010 court decision on holding day calculations retroactively.

It appears that the SCO auditors is “moving the target” so they can obtain the maximum cost savings to the State at the expense of fairness and equity to local agencies. Some of this “reinterpretation” benefits local agency's slightly by requiring additional holding days, however, it is clear by the net result, that the State benefits by this determination in the final analysis. If the reinterpretation was such a great deal, there would not be many complaints from local agencies in their Response to the Audits.

## **2) Defining “Irremediably Suffering Animals”**

The SCO also informed SEAACA that if an animal was euthanized DURING the holding period, the entire reimbursement for eligible care and maintenance of days service during the additional holding days provided would be forfeit. They reason that animal was “irremediably suffering” and therefore not eligible for reimbursement in the first place based on language that appears in the veterinary portion of the Ps and Gs. We question this application of the definition of “irremediably suffering” and believed the logic is flawed for the following reasons:

a) Local agencies are not required to provide veterinary care to animals that are “irremediably suffering from a serious illness or injury.” Neither are they eligible to be reimbursed for this activity.

b) It is standard practice to conduct a physical examination and document the condition of each animal upon admission to the shelter. Local agencies are reimbursed for the cost of providing an initial physical examination of the animal to determine the animal's baseline health status and classification as “adoptable”, treatable or non-rehabilitatable”. At that time a “wellness vaccine” administered to those “treatable” or “adoptable” animals is also allowed for reimbursement as a component of “Necessary and Prompt Veterinary Care” mandated in Civ. Code Section 1834 and 1846. The initial

decision is made at that time (initial exam) which animals are “treatable” and which are “irremediably suffering” and can, by law, be euthanized immediately.

A shelter is exempt from providing the mandated care and maintenance for those animals that are determined to be “irredeemably suffering”. Logically, those animals, such as those hit by cars, would be put to sleep at their initial assessment and the segment of the population deemed “irremediably suffering” would be weeded out of the population prior to the commencement of the additional holding period.

c) If an animal has survived in the shelter to the 4<sup>th</sup> day or beyond, that animal must have been certainly been classified by shelter staff as “Treatable” and not “Irremediably Suffering” as it was added to the animal shelter inventory and given a wellness vaccine.

If an animal sickens or is injured in the shelter at a later date, that animal should not be excluded from obtaining the portion of reimbursement it is entitled to. As the SCO notes, “no adoptable/treatable animal shall be euthanized”. Their thought process however is static and does not recognize the reality of the fact that the condition of an animal can change. An animal that has survived in the shelter to the mandated holding period (beyond 72 hours), is by definition a treatable animal. However at a later date, that same animal may be reclassified as “Irremediably suffering”. However on the prior days when it was considered “treatable” – the care and maintenance time during that period should be reimbursed.

For example: an animal may be deemed:

Day 1 = Initial exams determines the animal is treatable

Day 2 = treatable & provided treatment

Day 3 = treatable & provided treatment

Day 4 = treatable & provided treatment

Day 5 = not getting better or declining, but still provided treatment

Day 6 = condition declines to a point that the vet believes euthanasia is the best action for the animal

Only on this final day is the animal determined to be non-adoptable and non-treatable

So under this scenario, local agencies believe that they should be reimbursed the care and maintenance for the additional mandated holding days (Day 4 and Day 5) during which time the animal was treated. Also the cost of providing the medical care should be reimbursed as ultimately the animal didn’t respond to treatment and was ultimately euthanized.

As the CSM reasoned in other similar situations: “There is no other means by which the agency can recover their state mandated costs – and thus, they should be entitled to State reimbursement for these eligible costs”.

The agency is charged with making “all reasonably necessary medical” interventions to make the animal “adoptable” They should not be punished for their compliance with the law and making the required efforts to treat an animal they believed in the beginning was treatable, but later found out that their efforts were not successful. If it is later determined that death is inevitable and that suffering and further costs can be avoided by euthanizing the animal, this should not preclude the

agency from obtaining reimbursement for mandated costs incurred. To let the animal suffer and die slowly on its own, just to satisfy the SCO so that they may obtain reimbursement of their costs and efforts is not logical or ethical.

The only parties that should be able to determine the best treatment for an animal are the medical professionals at each local agency shelter. It should not be up to an auditor, consultant or accountant to determine if the action taken by a medical professional was warranted and proper. This is not the venue for such inquiry and discussion. Questioning the appropriateness of treatment decisions should not be within the realm of what the SCO should be reviewing in its audits.

Again, SCO is creating its own “interpretations” that result in the loss of eligible reimbursement for local agencies.

**3) SCO DETERMINATION THAT ONLY ANIMALS THAT DIE ON DAYS 4, 5, 6 AND 7 ARE REIMBURSABLE. THE SCO CLAIMS THAT IF THEY DIE ON DAY 8 OR BEYOND – THEY ARE NO LONGER ELIGIBLE FOR OBTAINING REIMBURSEMENT FOR ANY OF THEIR 2-3 DAYS OF ELIGIBLE CARE AND MAINTENANCE AND VET CARE PROVIDED.**

This interpretation makes no logical sense and we believe the situation was not foreseen during drafting and review of the Ps and Gs and instructions. Again the CSM’s logic regarding the Fresno County request would apply. The CSM found...

*“...The agency cannot recover those (care and maintenance) costs from the adoptive owner since the animal was never adopted or released to a nonprofit adoption organization. Thus, staff agrees with the County that these costs are eligible for reimbursement.*

It makes no sense to deny reimbursement for eligible costs incurred in providing care and maintenance to a stray animal who happened to die a day or two later than the end of the holding period. This would directly contradict the intent of the law which is to: as stated in the first line of the Ps and Gs:

*“The test claim legislation was enacted in an attempt to end the euthanasia of adoptable and treatable animals.”*

By saying the agency would forfeit the 2-3 days of eligible costs incurred by keeping the animal beyond the mandated holding period if it happened to die after day 7 would directly contradict the intent of the law and put a financial incentive on agencies to kill any animal recovering from treatment on its last holding day to avoid the possibility that it might die and preclude the agency of reimbursement for even those eligible costs incurred during the additional holding period.

### SCO's Comment

We concur that benefit costs for FY 2001-02 and FY 2002-03 were not included in the care and maintenance formula. Therefore, we allocated the actual benefit costs that were identified by SEAACA as "All Positions Listed" based on actual salaries. As a result, allowable care and maintenance costs for dog, cats, and other "eligible" animals increased by \$5,201, from \$126,876 to \$132,077.

However, we do not concur with the other comments addressed by the agency related to Finding 1—Overstated Care and Maintenance Costs.

The agency addressed its comments to Finding 1 under three sub-headings as follows:

- Methods for Claiming Care and Maintenance Costs
- Retroactive Application of the *Purifoy v. Howell* Decision to Prior Year Claims
- A Number of SCO's Interpretations Constitute Arbitrary Rulemaking

We will address the agency's response in the same order that it was presented.

#### *Methods for Claiming Care and Maintenance Costs*

The agency is correct that costs for care and maintenance must be claimed using either the Actual Cost Method or the Time Study Method. The agency used the Actual Cost Method, although it did not follow the instructions contained in the parameters and guidelines of how to claim costs using this method. The agency used ALL costs incurred in its Animal Shelter Division (Division 2530), Kennel Division (Division 2541), and Veterinary Division (Division 2540), less euthanasia supplies plus indirect costs, under the assumption that all costs incurred in these divisions were totally related to the care and maintenance of animals. As noted in the agency's response, costs related to Maintaining Non-Medical Records, Maintaining Lost and Found Lists, and providing Necessary and Prompt Veterinary Care were also included in its version of the Actual Cost Formula. Instead, such costs should have been claimed separately under the cost components of Maintaining Non-Medical Records, Maintaining Lost and Found Lists, and Necessary and Prompt Veterinary Care because the parameters and guidelines provide different methodologies to claim costs under these cost components.

In its response, the agency misstates the discussion that took place at the audit's entrance conference. At that meeting, the SCO auditors discussed the incorrect way that the Actual Cost Method was used to prepare the agency's claims. Despite the agency's claim to the contrary, The SCO auditors did not advise the agency to use the Time Study Method to determine care and maintenance costs or state that it could not use the Actual Cost Method. Agency representatives at that meeting expressed no interest in performing time studies to capture costs for care and maintenance or any other cost components of the mandated

program. Therefore, the only method available to compute allowable costs for Care and Maintenance activities was the *proper* application of the Actual Cost Method.

The SCO auditors also advised agency representatives that the costs improperly included in its care and maintenance formula that are related to the cost components of Maintaining Lost and Found Lists, Maintaining Non-Medical Records, and Necessary and Prompt Veterinary Care could be captured through the conduct of a properly conducted time study to capture the actual amount of time required to perform the reimbursable activities. Even though agency representatives initially expressed no interest in performing time studies for these cost components, they subsequently reconsidered and submitted time study proposals for consideration. We reviewed and commented on the time study proposals and the agency conducted the time studies. Allowable costs for these cost components were based on the agency's time studies.

For care and maintenance, we worked with agency representatives to determine the employee classifications that performed the care and maintenance activities and the percentage of their time spent to perform them. The agency also provided us with materials and supplies costs for expenditures related to care and maintenance of animals.

The agency's comments related to the audited cost per animal per day that were realized by other animal shelters in the State, as noted in previously issued SCO audit reports, is irrelevant for the purposes of the Southeast Agency Animal Control Authority (SEAACA). The SCO's application of the Actual Cost Method for SEAACA was done no differently than that of other agencies and was based on the actual cost information provided by the agency as contained in its expenditure ledgers. In addition, we believe that the allowable cost amounts for care and maintenance would have not been materially different, had the agency opted to use the Time Study Method to claim costs.

The agency's response also refers to indirect costs and its belief that indirect charges were not fully captured in the care and maintenance formula. One reporting difference for this audit is that the total cost per animal per day of \$126,876, as presented in Schedule 2, does not include related indirect costs totaling \$71,059. After the audit exit conference, we elected to present indirect costs as a separate line item in our Summary of Program Costs (Schedule 1). This was done because the agency did not directly claim indirect costs, but instead claimed a portion of its indirect costs within the Care and Maintenance and Holding Period cost components. We addressed the issue of indirect costs and indirect cost rate calculations as a separate item in the audit report (Finding 6—Misstated Indirect Costs).

Therefore, total allowable indirect costs of \$277,964 for the audit period, as shown in the Summary portion of Schedule 1, includes \$71,059 of indirect costs related to the care and maintenance of animals.

### *Retroactive Application of the Purifoy v. Howell Decision to Prior Year Claims*

The agency disagrees with our application to the audit period of the Appellate Court decision in the case of *Purifoy et al. v. Howell*. The agency states that the court decision did not confirm that Saturday is not a business day for the purpose of this mandated program. We disagree. In that case, Saturday was determined *not* to be a business day for the purposes of determining the required holding period for dogs. For the purposes of our audit, this only affected the allowable cost calculations for unallowable care and maintenance costs (Finding 1).

The agency's response cited the following reasons why the SCO should not apply the court's decision to the audit period:

- There has been no change to the CSM's parameters and guidelines or SCO Claiming Instructions.
- SCO is applying a "new" set of rules without proper notice and approval.
- Claimants' assumption that Saturday was to be treated as a business day was a good faith effort to implement the State legislation in light of the requirements of the Hayden Bill.
- Retroactive application will not increase the holding period for animals long ago retrieved.
- The court did not confirm that Saturday is not a business day; therefore, SCO decided on its own that Saturday is not a business day.

Contrary to the agency's assertions, we believe that the court decision clarified the legal definition of a business day for the required holding period as of the date that the applicable statute was enacted in 1998.

A considerable amount of public record is related to this mandated program, including, but not limited to, the initial test claim, statement of decision, adopted parameters and guidelines, the CSM draft staff analyses, and comments made by various local agencies and other interested parties. These documents did not define what specific days of the week were considered to be business days. Therefore, we followed the decision of the Appellate Court that opined that Saturday is *not* to be treated as a business day for the purposes of determining the required holding period.

The agency is correct in stating that there has been no change to the CSM's adopted parameters and guidelines or the related SCO claiming instructions for this mandated program. However, any changes to the statement of decision, the parameters and guidelines, or the SCO's claiming instructions would not be warranted in this instance. The court decision did not make changes to the test claim statutes on which the mandated program is based. The court case clarified what the statutes mean. Therefore, the clarification would apply to all of the agency's Animal Adoption claims within the audit period.

We acknowledge that most animal shelters were operating under the assumption that they could count Saturday as a business day to calculate the holding period of an animal. However, the court's decision determined that this assumption was incorrect. We looked specifically at the language which the court used in their opinion, which stated in part:

In short, if the Legislature, having provided an incentive for shelters to remain open on weekend days, had also intended to permit shelters to count Saturdays as "business days" (thus further shortening the total number of calendar days in the holding period), we would expect a clearer expression of such an intention in the statute. More broadly, a construction of "business days" that includes Saturdays would both (1) shorten the holding period, and (2) reduce the opportunities for redemption and adoption. It thus would fail to achieve the dual purposes reflected in the legislative findings.

Accordingly, in the absence of a clear expression of legislative intent to treat Saturdays as "business days," and in light of our obligation to choose a construction that most closely comports with the Legislature's intent and promotes, rather than defeats, the statute's general purposes (see *Smith, supra*, 39 Cal.4th at p. 83; *California Highway Patrol, supra*, 135 Cal.App.4th at pp. 496-497), we conclude that "business days" in section 31108(a) means Monday through Friday, the meaning most commonly used in ordinary discourse.

Subsequently, the legislature enacted AB 222 (Chapter 97, Statutes of 2011) on July 25, 2011, which took effect January 1, 2012. This bill states that a "business day" includes any day that a public or private animal shelter is open to the public for at least four hours, excluding state holidays. We believe that the Legislature acknowledged the Appellate Court's interpretation of Food and Agriculture Code section 31108, subdivision (a), and made the necessary changes in AB 222 to provide ongoing clarity for animal shelters statewide. However, the statute is not applicable to the time period included in our audit of the agency's Animal Adoption claims.

### **Effect on Claimed Costs**

The agency's comments are based on an assumption that allowable costs decreased because we determined that Saturday was *not* to be treated as a business day at any time during the audit period. We performed an alternate analysis to determine the effect on the agency's allowable costs for care and maintenance had we considered Saturday as a business day. We performed this analysis for FY 2008-09, the final year of the audit period. The results of this analysis revealed that allowable costs would decrease by \$15,953, from \$64,506 to \$48,553. This equates to a decrease in allowable costs of 24.7% if we included Saturday as a business day.

For the purposes of this revised calculation, we reinstated all animals that were euthanized on day 6 of the holding period as "eligible animals" and reduced the number of reimbursable days from 6 days to 5 days for "other animals" and from 3 days to 2 days for dogs and cats.

The table below summarizes the differences in allowable care and maintenance costs for FY 2008-09:

	Saturday–Not a Business Day		Saturday–A Business Day		
	Salaries & Benefits	Materials & Supplies	Salaries & Benefits	Materials & Supplies	
Dogs and cats:					
Cost per day	\$1.21	\$0.42	\$1.21	\$0.42	
Eligible dogs and cats	× 7,273	× 7,273	× 8,209	× 8,209	
Reimbursable days	× 3	× 3	× 2	× 2	
Subtotal	\$ 26,401	\$ 9,164	\$ 19,866	\$ 6,896	
Related indirect costs	20,165	6,999	15,174	5,266	
Total, dogs and cats	<u>\$ 46,566</u>	<u>\$ 16,163</u>	<u>\$ 35,040</u>	<u>\$ 12,162</u>	\$ 47,202
Other animals:					
Cost per day	\$1.21	\$0.42	\$1.21	\$0.42	
Eligible other animals	× 103	× 103	× 94	× 94	
Reimbursable days	× 6	× 6	× 5	× 5	
Subtotal	748	\$ 260	569	\$ 197	
Related indirect costs	571	198	434	151	
Total, other animals	<u>\$ 1,319</u>	<u>\$ 458</u>	<u>1,777</u>	<u>\$ 348</u>	<u>1,351</u>
Total allowable costs			<u>\$ 64,506</u>		<u>\$ 48,553</u>

The primary reason that allowable costs would go down is because the agency’s animal shelter did not typically euthanize animals on day 6 of the required holding period. This means that the loss of one additional reimbursable day for the remaining population of animals outweighed the reinstatement of the animals euthanized on day 6 of the holding period as “eligible animals.”

#### *A Number of SCO’s Interpretations Constitute Arbitrary Rulemaking*

The agency’s response includes a lengthy explanation of why it believes that SCO’s application of the requirements of the mandated program, as found in the adopted parameters and guidelines, are incorrect and constitute what it calls “interpretations” or “new rules.” The agency’s response includes arguments in three areas as follows:

- Defining “Ultimately Euthanized” animals
- Defining “Irremediably Suffering” animals
- SCO determination that only animals that die on days 4, 5, 6, and 7 are reimbursable

We will address our comments in the same order that they appear in the agency’s response.

#### *Defining “Ultimately Euthanized” Animals*

The agency is correct in its statement that the term “Ultimately Euthanized,” as it is used for this mandated program, defines animals whose final action resulted in euthanasia. The agency does not note that this term was defined by the CSM to describe an event that takes place *after* the required holding period has been satisfied. Basically, the agency is arguing that reimbursement should be available for animals that were euthanized during the required holding period. The

agency's comments that SCO auditors "rob" agencies of mandated cost reimbursement and are motivated solely by "maximum cost savings to the state" are inappropriate and serve no useful purpose.

The agency believes that reimbursement should be available for animals that were euthanized or died of natural causes during the increased holding period. We concur that reimbursement is available for animals that died of natural causes during the holding period and our calculations of allowable costs includes this population of animals. The agency's argument for reimbursement for animals that were euthanized during the holding period is centered on costs for dogs and cats that were euthanized anytime between days 3.5 and 6 of the holding period. If we were to accept the agency's argument, this would mean that costs would also be reimbursable for "other animals" that were euthanized at any time during the required five-day holding period.

The distinction is important because this mandated program includes formula driven costs for the cost components of acquisition of additional space and/or construction of new facilities, remodeling/renovating existing facilities, care and maintenance of dogs and cats and other animals, and necessary and prompt veterinary care. The formulas for reimbursement are based on the total numbers of animals that are "ultimately euthanized" and "die during the increased holding period."

### **Statement of Decision**

The statement of decision begins to address this issue on pages 13 and 14, under the heading of Holding Period for Dogs and Cats. On the top of page 14, the CSM notes that the holding period and adoption requirements of the test claim statutes do not apply to animals that are irremediably suffering from a serious illness or severe injury and newborn animals that need maternal care. Such animals may be euthanized without being held for owner redemption or adoption. The agency's argument pertaining to animals that were euthanized during the increased holding period for humane reasons would appear to apply to this population of animals.

The statement of decision also states that the test claim statutes imposed a new program or higher level of service requiring local agencies to provide care and maintenance during the increased holding period for impounded animals. The statement of decision restates the purpose of the test claim legislation on page 23 under the heading of Veterinary Care. The two bullet points presented note primarily that (a) it is the policy of the state that no adoptable animal should be euthanized if it can be adopted into a suitable home and (b) it is the policy of the state that no treatable animal should be euthanized. A treatable animal includes any animal that is not adoptable but that could become adoptable with reasonable efforts.

The CSM staff noted that this last sentence was used by the test claimants as evidence of the mandated requirement to provide reasonable vet treatment services to make animals adoptable. The CSM staff found (on page 24) that this sentence merely defines treatable animals and does not impose the requirement to provide vet care for animals.

**CSM Staff Analysis–Proposed Parameters and Guidelines (Item #4–CSM Hearing of February 28, 2000)**

After the CSM adopted its statement of decision for the Animal Adoption Program, the CSM staff analyzed the proposed parameters and guidelines. After the statement of decision was adopted, Fresno County submitted a request that reimbursement should also be included for animals that die during the increased holding period. The county stated the following argument:

Fresno County recommends that reimbursements apply to animals that are ultimately euthanized also apply to those animals that die while being held pending adoption or euthanization. If the animal dies pending adoption, obviously no adoption fees can be paid, and thus there is no revenue pertaining to that animal. If the animal dies pending euthanasia, the animal still has to be held until its untimely demise.

The CSM staff noted that the statement of decision does not specifically address animals that die during the increased holding period, but that the county's request is consistent with the statement of decision.

On page 7 of the CSM Staff Analysis, our position for the definition of "ultimately euthanized" and "died during the holding period" is supported. The CSM staff addressed reimbursement for euthanized animals:

The Commission, however, concluded that the test claim legislation provides sufficient fee authority to local agencies allowing them to charge the original owner and/or adoptive owner for the cost to care, maintain, and provide "necessary and prompt veterinary care" for animals that are relinquished, redeemed, adopted, or released to a nonprofit adoption organization. Thus, there are no costs mandated by the state for these animals, and reimbursement is not required for the care, maintenance, and "necessary and prompt veterinary care" of these animals. Accordingly, the Commission concluded that reimbursement for the care, maintenance, and "necessary and prompt veterinary care" is limited to animals that are ultimately euthanized. [emphasis added]

In the next paragraph, the CSM addresses animals that die during the increased holding period:

If a stray or abandoned animal dies during the time an agency is required to hold that animal, the agency would still be required by the state to incur costs to care and maintain the animal, and to provide "necessary and prompt veterinary care" for the animal before the animal died. The agency cannot recover those costs from the adoptive owner since the animal was never adopted or released to a nonprofit adoption organization. Thus, staff agrees with the County that these costs are eligible for reimbursement.

However, the same reimbursement limitations apply to the stray and abandoned animals that die during the holding period. For example, reimbursement for the care and maintenance of these animals is limited to the costs incurred during the *increased* holding period, as calculated by the proposed parameters and guidelines.

Accordingly, the CSM staff added language to the parameters and guidelines to address animals that die during the increased holding period. Therefore, we believe that the CSM language described above in the statement of decision and in the staff analysis for the proposed parameters and guidelines supports that:

- The phrase “ultimately euthanized” refers to animals that are euthanized after the required holding period; and
- The phrase “died during the increased holding period” refers to animals that died of natural causes during the increased holding period pending adoption or euthanasia.

We reach this conclusion because the main purpose of the test claim statutes underlying the mandated program (i.e., the Hayden Bill) was to reduce the numbers of animals that were being euthanized. Therefore, the test claim statutes extended the required holding period for dogs and cats and added a required holding period for “other animals.” Therefore, it is not logical to conclude that reimbursement would be available for animals that were euthanized during this increased holding period. In fact, the CSM used the term “ultimately” which implies euthanasia that occurred *after* the required holding period. There is no language appearing in any of the public documents for this mandate suggesting that reimbursement should be available for animals that are euthanized during the increased holding period, regardless of the reason.

In addition, the CSM made a distinction in the public records for this mandated program between animals that are ultimately euthanized and those that die during the increased holding period. The fact that Fresno County submitted a request after adoption of the statement of decision and before adoption of the parameters and guidelines asking that the CSM consider reimbursement for animals that died during the increased holding period also indicates that there was no provision for reimbursement for animals that are euthanized during the increased holding period.

#### *Defining “Irremediably Suffering Animals”*

The agency’s argument concerning the definition of irremediably suffering animals seems to be centered primarily on reimbursement for veterinary care services rather than on care and maintenance of animals. While the agency’s argument is addressed under the topic of animals that were classified as “irremediably suffering from a serious illness or severe injury” upon arrival at the animal shelter, it seems to focus instead on animals classified as “treatable,” yet either died of natural causes during the holding period or were euthanized during the holding period. The agency goes on to argue that not providing reimbursement for animals that are classified as “irremediably suffering” is the SCO’s own interpretation intended to punish claimants “for their compliance with the law” attempting to treat animals while questioning “the appropriateness of treatment decisions.” The SCO does not question treatment decisions made by qualified medical professionals. We determined reimbursable costs based on decisions adopted by the CSM.

The parameters and guidelines (Section IV.B.3) make the following statement:

Eligible claimants are *not* entitled to reimbursement for the care and maintenance of the following population of dogs and cats:

- Stray or abandoned dogs and cats that are irremediably suffering from a serious illness or severe injury (Food and Agriculture Code section 17006)

Further, the parameters and guidelines (Section IV.B.4) make the following statement:

Eligible claimants are not entitled to reimbursement for the care and maintenance of the following population of dogs and cats:

- Stray or abandoned animals that are irremediably suffering from a serious illness or severe injury (Food and Agriculture Code section 17006)

Therefore, we disagree with the agency's contention that the SCO is applying its own "interpretation" of the requirements contained in the parameters and guidelines concerning reimbursement for animals that are classified as "irremediably suffering."

Webster's New World Dictionary, 3<sup>rd</sup> College Edition, 1991, defines the word "irremediable" as "that cannot be remedied or corrected, incurable or irreparable." During the audits of numerous claims filed by local agencies under the Animal Adoption Program, the SCO auditors have been repeatedly advised by animal shelter representatives that animals classified as "irremediably suffering from a serious illness or severe injury" are usually euthanized soon after their arrival at an animal shelter in the interest of being humane. As noted previously, reimbursement is provided for animals that died of natural causes during the holding period and animals that were euthanized after the required holding period but not for animals euthanized during the increased holding period.

*The SCO's determination that only animals that die on days 4, 5, 6, and 7 are reimbursable*

To clarify, as noted in the finding, we limited reimbursement to those animals that died during the increased holding period to be those animals that died on days 4, 5, and 6, which does not include animals that died on day 7.

The agency believes that allowable costs for care and maintenance should include costs for animals that died of natural causes after the required holding period. However, this argument is not supported by the parameters and guidelines. Section IV.B. (subsection 3) of the parameters and guidelines—Care and Maintenance for Impounded Stray or Abandoned Dogs and Cats and Section IV.B. (subsection 4)—Care and Maintenance for Impounded Stray or Abandoned Animals Specified in Food and Agriculture Code Section 31753, both include two

methods for claiming costs—the Actual Cost Method and the Time Study Method. The agency selected the Actual Cost Method option to claim mandated costs.

Both sections of the parameters and guidelines noted above state that “Eligible claimants may elect one of the following two methods to claim costs for the care and maintenance of impounded stray or abandoned dogs and cats/animals specified in Agriculture Code Section 31753 that *die during the increased holding period or are ultimately euthanized*” [emphasis added]. The parameters and guidelines then go on to describe how to claim reimbursable costs using the Actual Cost Method, through five steps labeled (a) through (e). Step (e) states “Multiply the cost per animal per day, by the number of impounded stray or abandoned dogs and cats/ animals specified in Agriculture Code Section 31753 *that die during the increased holding period or are ultimately euthanized* [emphasis added], by each reimbursable day” (the difference between three days from the day of capture, and four or six business days from the day after impoundment).

The agency may be correct by stating that this “situation was not foreseen during drafting and review of the Ps and Gs and instructions.” Regardless, this population of animals was excluded as “eligible animals” in the calculation of allowable costs. Based on our discussions with animal shelter representatives statewide, we believe that the population of animals that die in an animal shelter of natural causes after the required holding period is very small. If the agency believes that the parameters and guidelines are deficient, it may file an amendment request with the CSM in an effort to have this population of animals included as “eligible animals.”

**FINDING 2—  
Misstated holding  
period costs**

The agency claimed costs totaling \$654,322 for the Holding Period cost component during the audit period. We determined that \$187,344 is allowable and \$466,978 is unallowable. The unallowable costs occurred because the agency used total expenditures from the Shelter and Kennel division and a percentage of the Administrative Support division to claim costs.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
2001-02	\$ —	\$ 34,170	\$ 34,170
2002-03	—	33,139	33,139
2006-07	—	37,733	37,733
2007-08	—	41,024	41,024
2008-09	—	41,278	41,278
Subtotal, salaries and benefits	—	187,344	187,344
Materials and supplies:			
2001-02	36,975	—	(36,975)
2002-03	90,302	—	(90,302)
2006-07	164,993	—	(164,993)
2007-08	176,872	—	(176,872)
2008-09	185,180	—	(185,180)
Subtotal, materials and supplies	654,322	—	(654,322)
Total	\$ 654,322	\$ 187,344	\$ (466,978)

The parameters and guidelines (section IV.B.5—Agencies Using the Holding Period of Four Business Days After the Day of Impoundment) state that the following activities are reimbursable beginning January 1, 1999, for 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 weekday 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.

**Unallowable Material and Supply Costs**

The agency claimed \$654,322 in material and supply costs for the audit period. We determined that none of the costs are allowable.

The agency determined total expenditures by adding together expenditures of the Shelter division and Kennel division and a portion of the expenditures of the Administration division and Veterinary division. Next, the agency divided the total expenditures by the total number of hours the facility was open for operation to arrive at a cost per hour. The cost per hour was multiplied by the additional hours the shelter was open

to comply with the mandate to make animals available for owner redemption. This calculation is incorrect because it does not factor in the additional staff necessary to keep the shelter open for owner redemption.

The following table details the methodology the agency used to arrive at the claimed costs for each fiscal year in the audit period:

Description	Fiscal Year					Total
	2001-02	2002-03	2006-07	2007-08	2008-09	
Shelter division expenses	\$ 438,664	\$ 472,352	\$ 474,578	\$ 699,343	\$ 874,672	
Kennel division expenses	181,458	198,616	223,490	105,620	2,646	
Veterinary division expenses	—	—	462,174	534,339	625,775	
Overhead share/admin expenses	207,718	239,185	677,877	668,800	664,807	
(Euthanasia supplies/disposal fees)	(14,394)	(22,182)	(8,864)	(8,252)	(7,778)	
Subtotal	813,446	887,971	1,829,255	1,999,850	2,160,122	
Less veterinary expenses	—	—	—	(534,339)	(625,775)	
Subtotal	813,446	887,971	1,367,081	1,465,511	1,534,347	
Total operating hours	÷ 2,288	÷ 3,068	÷ 3,016	÷ 3,016	÷ 3,016	
Cost per hour	\$356	\$289	\$453	\$486	\$509	
Hours mandated	× 104	× 312	× 364	× 364	× 364	
Subtotal	\$ 37,024	\$ 90,168	\$ 164,892	\$ 176,904	\$ 185,276	
Rounding error	(49)	134	101	(32)	(96)	
Total cost claimed	\$ 36,975	\$ 90,302	\$ 164,993	\$ 176,872	\$ 185,180	\$ 654,322

~2 hours × 52 weeks = 104 hours

6 hours × 52 weeks = 312 hours

7 hours × 52 weeks = 364 hours

## Allowable Salaries and Benefits

### Hours of Operation

The agency provided documentation identifying the hours of operation for its animal shelter. During the audit period, the shelter was open Mondays and Saturdays from 8 a.m. to 5 p.m., and Tuesdays through Fridays from 8 a.m. to 6 p.m. On Saturdays, the shelter was open from 8 a.m. to 5 p.m.; however, the shelter staff made the animals available for owner redemption only from 10 a.m. to 5 p.m., which is a total of seven hours per week.

### Staffing Requirements

We determined that it is not reasonable to calculate reimbursable costs under this cost component for all employees on duty at the agency's shelter.

We inquired about the number of employees and classifications of staff working when the shelter is closed to the public (Sunday) and the staffing needed when the shelter is open on Saturdays. Based on information obtained from shelter management, we determined the employee classifications and the number of employees on duty to make animals available for owner redemption.

We acknowledged that additional shelter employees were on duty when the shelter was open on Saturdays; however, these additional employees performed reimbursable activities that are already included in other cost components of the agency's claims (Care and Maintenance, Lost and Found Lists, Maintaining Non-medical Records, and Necessary and Prompt Veterinary Care).

The following table shows the allowable employee classifications determined to be the increased positions necessary to comply with the mandate to make the animals available for owner redemption. In addition, the table summarizes the total hours allowable.

Position	Hours					Total
	Fiscal Year					
	2001-02	2002-03	2006-07	2007-08	2008-09	
Clerical and Dispatch	3	3	3	3	3	
License Clerk	1	1	1	1	1	
Animal Care Technicians	2	2	2	2	2	
Total employees	6	6	6	6	6	
Hours per position	× 7	× 7	× 7	× 7	× 7	
Saturdays per year	× 52	× 52	× 52	× 52	× 52	
Allowable hours	<u>2,184</u>	<u>2,184</u>	<u>2,184</u>	<u>2,184</u>	<u>2,184</u>	<u>10,920</u>

We applied the allowable hours by each employee's productive hourly rate and benefit rate and determined that \$187,344 is allowable for salary and benefit costs in the audit period.

### Recommendation

We recommend that the agency ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

### Agency's Response

SEAACA objects to the method used by the SCO to calculate allowable costs related to the activity of keeping the shelter open for the extended hours. Food and Agriculture Code sections 31108, 31752 and 31753 state that the shelter be open on a weekday evening or a Saturday. SEAACA opted to keep the shelter open on Saturday.

The SCO is not allowing SEAACA the reimbursement for their full actual costs incurred to implement this mandated activity. They argue that only a bare bones staffing level is reimbursable (only those that are specifically tasked with interacting with the public and animals to make the animal available to the public) despite the fact that this interpretation is not in any CSM approved document. This denies SEAACA of the supervisory and other support staff present on the weekend day and does not cover the full actual costs incurred for this eligible activity.

State Mandate claiming procedures requires that claimants be reimbursed their full "Actual Costs Incurred". There is no direction or limitation as to how that is to be accomplished. Local agencies are given the discretion of how to accomplish the State Mandate. Nowhere in the claiming instructions, Ps and Gs, or the SOD does it state that only certain positions are eligible for reimbursement and how staffing should be determined. SEAACA implementation of this mandate

component includes supervisory staff and support staff be present on the extra holding day. Having supervisory and support staff present during hours of operation is a reasonable and common business practice. We do not believe those costs are excessive or unreasonable and should be restored.

If the SCO determines that the costs must be calculated in the method proposed by the auditors, we would request that the ICRP rates we developed for the Shelter Division be applied to these costs and that the allowable costs be increased to reflect the higher overhead rates proposed by SEAACA.

#### SCO's Comment

As a result of the agency's response to Finding 6—Misstated Indirect Costs, we have reclassified a position to the indirect cost pool on the agency's indirect cost rate plan for each fiscal year in the audit period, which slightly reduced the direct benefit rates for each fiscal year in the audit period. Consequently, allowable costs decreased by \$629, from \$187,973 to \$187,344.

We disagree with the agency's response that only a portion of its staff time and costs are reimbursable under this cost component.

The agency misstates the language contained in Food and Agriculture Code sections 31108, 31752, and 31753. These statutes do not "state that the shelter be open on a weekday evening or a Saturday." Instead, the statutes state "If the public or private shelter has made the dog/cat/other animal available for owner redemption on one weekday evening until at least 7:00 p.m. or one weekend day, the holding period shall be four business days, not including the day of impoundment." The statutes are defining the length of the required holding period if the agency makes animals available for owner redemption during these extended hours.

The SCO is relying on the language in the parameters and guidelines that the reason to be open on a weekend is to make animals available for owner redemption on one weekday evening until 7 p.m. or on one weekend day. Therefore, we used this criterion to determine the actual costs associated with making the animals available for owner redemption. Our audit report notes the additional employee classifications that performed these activities during the audit period. All salary, benefit, and related indirect costs incurred for these employees to be on duty during Saturdays were reimbursable.

However, in its response, the agency does not recognize that costs for other staff on duty during Saturdays are already reimbursable within other cost components of the mandated program. For example, salaries, benefits, and related indirect costs for the Animal Care Technicians not involved with duties under this cost component as well as the Senior Animal Care Technician are allowable under the Care and Maintenance cost component. In addition, costs incurred for these and other employee classifications on duty during Saturdays are also reimbursable for performing lost and found list activities, processing non-medical records, performing initial physical examinations, and administering wellness vaccines. Such costs were supported by the time studies that the agency

conducted. The costs for these employees cannot also be reimbursable under the cost component of Holding Period. Such a situation would constitute double-claiming of costs.

In addition, some staff on duty during Saturdays are performing activities not reimbursable under the mandated program. Just because the mandated program requires agencies to be open extra hours one weekday evening or on one weekend day to make animals available for owner redemption does not make activities such as euthanasia, spay and neutering procedures, implanting microchips, licensing, processing animal adoptions, as well as other unallowable activities temporarily reimbursable.

We believe that our approach to the mandated program provides the intended reimbursement allowable under the mandated program per the requirements of the adopted parameters and guidelines.

**FINDING 3—  
Unclaimed lost-and-found list costs**

The agency did not claim any costs under the Lost and Found cost component. We determined that \$7,432 is allowable. The allowable costs are based on a time study that the agency conducted during the course of the audit for the time spent on performing lost and found list activities.

The following table summarizes the claimed, allowable, and audit adjustment amounts by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
2001-02	\$ —	\$ 1,319	\$ 1,319
2002-03	—	1,329	1,329
2006-07	—	1,489	1,489
2007-08	—	1,648	1,648
2008-09	—	1,647	1,647
<b>Total</b>	<b>\$ —</b>	<b>\$ 7,432</b>	<b>\$ 7,432</b>

The parameters and guidelines (section I.V.B.7—Lost and Found Lists) identify the following reimbursable activities:

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

**Time Study**

The agency conducted a time study to determine the average amount of time staff spend performing lost-and-found activities. The time study was conducted over a two-week period from September 12, 2011, to September 18, 2011, and from September 26, 2011, to October 1, 2011. For the first week, one Desk Clerk and one Front Office Supervisor participated in the time study, and for the second week, only one Desk Clerk participated in the time study. Shelter management agreed that it was reasonable to combine the total minutes of the two time studies together to calculate a one-week average.

The time study revealed that the Desk Clerk spends an average of 69 minutes per week (or 60 hours per year) performing lost-and-found activities and the Front Office Supervisor spends an average of 18 minutes per week (or 16 hours per year) performing lost-and-found activities.

<u>Shelter Staff</u>	<u>Average Minutes per Week</u>	<u>Average Hours per Week</u>	<u>Average Hours per Year</u>
Desk Clerk	69	1.15	60
Front Office Supervisor	18	0.30	16
<b>Total</b>	<b>87</b>	<b>1.45</b>	<b>76</b>

We applied the time study yearly average by each employee's productive hourly rate and benefit rate and determined that \$7,432 is allowable for salary and benefit costs in the audit period.

#### Recommendation

We recommend that the agency ensure that claimed costs include only eligible costs that are supported by source documentation and are properly calculated.

#### Agency's Response

As discussed above in Finding 1, SEAACA did not claim these components individual since they felt the rate for care and maintenance of the animal included these activities. If the SCO determines that the costs must be calculated in the method proposed by the auditors, we would request that the ICRP rates developed by SEAACA applied to these costs and that the allowable costs be increased to reflect the higher overhead rates proposed.

#### SCO's Comment

As a result of the agency's response to Finding 6—Misstated Indirect Costs, we have reclassified a position to the indirect cost labor pool on the agency's indirect cost rate plan for each fiscal year in the audit period, which slightly reduced the direct benefit rates for each fiscal year in the audit period. Consequently, allowable costs decreased by \$24, from \$7,456 to \$7,432.

In its response, the agency acknowledges that it claimed costs for this cost component as part of the care and maintenance formula. However, the care and maintenance formula methodology was not intended to be used for this cost component. The agency also refers to calculating allowable costs "in the method proposed by the auditors." We disagree. The method used to determine allowable costs is prescribed in Section V.A, (subsection 1) of the parameters and guidelines (Claim Preparation and Submission—Direct Costs—Salaries and Benefits). This section requires claimants to "Identify the employee(s), and/or show the classification of the employee(s) involved. Describe the reimbursable activities performed, specify the actual time devoted to each activity by each employee, and the productive hourly rate, and related fringe benefits."

For the Lost and Found Lists cost component, the agency elected to perform a time study. We reviewed the agency's time study proposal and the subsequent results of its time study for this cost component. We applied the allowable costs as appropriate, based on the employees involved, their productive hourly rates, the reimbursable activities performed, and the actual time required to perform them. The agency's comments concerning indirect costs are addressed in our comments to Finding 6—Misstated Indirect Costs.

**FINDING 4—  
Unclaimed maintaining  
non-medical record  
costs**

The agency did not claim any costs under the Maintaining Non-Medical Records cost component. We determined that \$86,633 is allowable. The allowable costs are based on a time study that the agency conducted during the course of the audit for the activities of maintaining non-medical animal records.

The following table summarizes the claimed, allowable, and audit adjustment by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
2001-02	\$ —	\$ 15,572	\$ 15,572
2002-03	—	15,478	15,478
2006-07	—	15,716	15,716
2007-08	—	17,795	17,795
2008-09	—	22,072	22,072
Total	<u>\$ —</u>	<u>\$ 86,633</u>	<u>\$ 86,633</u>

The program's parameters and guidelines (section IV.B.8—Maintaining Non-Medical Records) identify the following reimbursable activities:

Beginning January 1, 1999 – Maintaining non-medical records on animals that are either taken up, euthanized after the holding period, or impounded. Such records shall include the following:

- The date the animal was taken up, euthanized, or impounded;
- The circumstances under which the animal is taken up, euthanized, or impounded;
- The names of the personnel who took up, euthanized, or impounded the animal; and
- 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.

**Time Study**

The agency performed two separate time studies during the course of the audit. First, the agency studied the average time required to process the final disposition of animals from September 19, 2011, through September 24, 2011. Next, the agency studied the time required to process non-medical animal records for incoming animals from December 2, 2011, through December 18, 2011.

These activities were performed by various employee classifications. The Clerks, Animal Care Technicians, and the Animal Control Officers process the non-medical animal records for incoming animals, and the Clerks process the final disposition of the animals.

The agency used stopwatches to capture the average time to process non-medical animal records. As a result, the agency's time study showed that 10.08 seconds (.17 of a minute) were spent processing incoming animal records and 31.20 seconds (.52 of a minute) were spent processing records for the final disposition of animals.

We rounded the time study results to the nearest whole number for processing the incoming animal record up to 60 seconds (1 minute) and up to 60 seconds (1 minute) for processing the final disposition of animals to determine the allowable costs for the Maintaining Non-Medical Records cost component. We applied these time study results to the entire audit period.

**Number of Animal Records Processed**

To apply the time study averages, we needed to determine the number of animal records processed each fiscal year. To determine the number of animal records processed, we obtained the agency’s raw animal data from its Paw Trax database, sorted the animal data by intake date, and counted the number of animal records that appeared.

The following table summarizes the number of non-medical records processed during the audit period:

Time Study	Fiscal Year				
	2001-02	2002-03	2006-07	2007-08	2008-09
Intake	28,368 *	28,368 *	25,564	26,682	32,858
Final disposition	28,368 *	28,368 *	25,564	26,682	32,858

\* For FY 2001-02 and FY 2002-03, the agency did not provide animal data; therefore, we used an average of the animal records processed for FY 2006-07 through FY 2008-09 and applied the result to FY 2001-02 and FY 2002-03.

As a result, we applied the time study average of 1 minute for processing the animal impound and 1 minute for recording the animal disposition by the number of animal records processed by each employee’s productive hourly rate and benefit rate and determined that \$86,633 is allowable for salary and benefit costs in the audit period.

Recommendation

We recommend that the agency establish and implement procedures to ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported

Agency’s Response

As discussed above in Finding 1, SEAACA did not claim these components individual since they felt the rate for care and maintenance of the animal included these activities. If the SCO determines that the costs must be calculated in the method proposed by the auditors, we would request that the ICRP rates developed by SEAACA applied to these costs and that the allowable costs be increased to reflect the higher overhead rates proposed.

### SCO's Comment

As a result of the agency's response to Finding 6—Misstated Indirect Costs, we have reclassified a position to the indirect cost pool on the agency's indirect cost rate plan for each fiscal year in the audit period, which slightly reduced the direct benefit rates for each fiscal year in the audit period. Consequently, allowable costs decreased by \$279, from \$86,912 to \$86,633.

In its response, the agency acknowledges that it claimed costs for this cost component as part of the care and maintenance formula. However, the care and maintenance formula methodology was not intended to be used for this cost component. The agency also refers to calculating allowable costs "in the method proposed by the auditors." We disagree. The method used to determine allowable costs is prescribed in Section V.A, (subsection 1) of the parameters and guidelines (Claim Preparation and Submission—Direct Costs—Salaries and Benefits). This section requires claimants to "Identify the employee(s), and/or show the classification of the employee(s) involved. Describe the reimbursable activities performed, specify the actual time devoted to each activity by each employee, and the productive hourly rate, and related fringe benefits."

For the Maintaining Non-Medical Records cost component, the agency elected to perform a time study. We reviewed the agency's time study proposal and the subsequent results of its time study for this cost component. We applied the allowable costs as appropriate, based on the employees involved, their productive hourly rate, the reimbursable activities performed, and the actual time required to perform them. The agency's comments concerning indirect costs are addressed in our comments to Finding 6—Misstated Indirect Costs.

**FINDING 5—  
Unclaimed necessary  
and prompt veterinary  
care costs**

The agency did not claim any costs under the Necessary and Prompt Veterinary Care cost component. We determined that \$82,487 is allowable. The allowable salary and benefit costs are based on a time study that the agency conducted during the course of the audit for the activities of performing an initial physical exam and administering a wellness vaccine to “treatable” or “adoptable” animals. The allowable material and supply costs are based on the actual costs of wellness vaccines administered to “treatable” or “adoptable” animals.

The agency claimed reimbursement for medical costs in the materials and supplies cost element for the Care and Maintenance cost component (see Finding 1); however, this is an incorrect application of costs.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
2001-02	\$ —	\$ 3,807	\$ 3,807
2002-03	—	3,647	3,647
2006-07	—	3,312	3,312
2007-08	—	4,032	4,032
2008-09	—	5,111	5,111
Subtotal, salaries and benefits	—	19,909	19,909
Materials and supplies:			
2001-02	—	10,126	10,126
2002-03	—	10,126	10,126
2006-07	—	10,826	10,826
2007-08	—	13,631	13,631
2008-09	—	17,869	17,869
Subtotal, materials and supplies	—	62,578	62,578
Total	\$ —	\$ 82,487	\$ 82,487

The parameters and guidelines (section IV.B.9–Necessary and Prompt Veterinary Care) identify the following reimbursable activities:

Beginning January 1, 1999 – 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 period 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 when 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.

### **Time Study–Initial Physical Examination**

The agency has a veterinarian on staff. However, after discussions with shelter management, we determined that it is not part of the veterinarian’s duties to perform an initial physical examination of animals impounded at the shelter.

During the course of the audit, the agency performed a time study for conducting an initial physical examination of the animal to determine the animal’s baseline health. The Animal Care Technicians and the Animal Control Officers participated in the time study and are qualified to make a determination in regards to an animal being “adoptable,” “treatable,” or “non-rehabilitatable.”

The time study was performed from March 21, 2011, through April 3, 2011. The results of the time study showed that it takes the shelter staff an average of 52.95 seconds (.88 of a minute) to conduct an initial physical examination. Shelter management agreed that the agency’s accurate method to capture time with a stopwatch warranted rounding the time study results to the nearest whole minute. Therefore, we used 60 seconds (1 minute) to determine the allowable cost for the initial physical exam.

We applied the 60 seconds per initial physical examination to the eligible animals (as discussed below) by each employee's productive hourly rate and benefit rate and determined that \$9,289 is allowable for salary and benefit costs during the audit period.

### **Time Study—Administration of a Wellness Vaccine**

Although the agency does have a veterinarian on staff, administration of wellness vaccines is usually performed by the Animal Care Technicians and the Animal Control Officers.

During the course of the audit, the agency performed a time study for administering a wellness vaccine to "adoptable" or "treatable" animals. The time study was performed from March 31, 2011, through April 3, 2011. The results of the time study show that it takes the shelter staff an average of 70.55 seconds (1.18 of a minute) to administer a wellness vaccine.

We applied 1.18 of a minute per vaccine to the eligible dogs and cats (as discussed below) by each employee's productive hourly rate and benefit rate and determined that \$10,620 is allowable for salary and benefit costs for the audit period.

### **Number of Eligible Animals**

During the course of the audit, we obtained the agency's raw animal data from its Paw Trax database. We determined the number of eligible dogs and cats who received the initial physical examination and the wellness vaccines from the Paw Trax raw data.

The parameters and guidelines specifically state that reimbursement is limited to "stray and abandoned animals . . . that die during the holding period or are ultimately euthanized." As noted in Finding 1, we determined the average holding period to be six days; therefore, reimbursement is limited to the following population of animals:

- Stray animals that died during the holding period: Died on days 2, 3, 4, 5, or 6
- Stray animals that were ultimately euthanized: Euthanized on day 7 and later

This calculation is consistent with the Appellate Court decision in the case of *Purifoy v. Howell*, which determined that Saturday is not considered a business day for the purposes of this mandated program.

We filtered the animal data provided by the agency using this criterion and determined the following numbers of animals are reimbursable:

<u>Fiscal Year</u>	<u>Eligible Dogs</u>	<u>Eligible Cats</u>	<u>“Other” Animals</u>	<u>Total</u>
2001-02	2,196 *	3,795 *	145 *	6,136
2002-03	2,196 *	3,795 *	145 *	6,136
2006-07	1,904	3,084	121	5,109
2007-08	2,099	3,679	192	5,970
2008-09	2,585	4,623	123	7,331
Total	<u>10,980</u>	<u>18,976</u>	<u>726</u>	<u>30,682</u>

\* For FY 2001-02 and FY 2002-03, the agency did not provide animal data; therefore, we calculated an average of the eligible animals for FY 2006-07 through FY 2008-09 and applied the result to FY 2001-02 and FY 2002-03.

### **Allowable Wellness Vaccine Costs**

The agency provided support for the cost of wellness vaccines for four fiscal years. We noted that dogs were administered one vaccine (Duramune Max) for FY 2001-02 and FY 2002-03, but two wellness vaccines (Duramune Max and Bronchi Shield) for FY 2006-07 and forward. Cats are administered one wellness vaccine (Fel-O-Guard). The cost per vaccine for dogs and cats is applied only to the eligible number of dogs and cats (as discussed above).

The following table details the allowable cost for vaccines and the eligible number of dogs and cats treated:

<u>Description</u>	<u>Fiscal Year</u>					<u>Amount Allowable</u>
	<u>2001-02</u>	<u>2002-03</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	
Dog vaccines	\$1.95	\$1.95	\$3.37	\$3.69	\$3.89	
Eligible dogs	× 2,196 *	× 2,196 *	× 1,904	× 2,099	× 2,585	
Subtotal	\$ 4,282	\$ 4,282	\$ 6,416	\$ 7,745	\$ 10,056	
Cat vaccine	\$1.54	\$1.54	\$1.43	\$1.60	\$1.69	
Eligible cats	× 3,795 *	× 3,795 *	× 3,084	× 3,679	× 4,623	
Subtotal	\$ 5,844	\$ 5,844	\$ 4,410	\$ 5,886	\$ 7,813	
Amount allowable	\$ 10,126	\$ 10,126	\$ 10,826	\$ 13,631	\$ 17,869	\$ 62,578

\* For FY 2001-02 and FY 2002-03, the agency did not provide animal data; therefore, we calculated an average of the eligible animals for FY 2006-07 through FY 2008-09 and applied the result to FY 2001-02 and FY 2002-03.

### **Recommendation**

We recommend that the agency ensure that claimed costs include only eligible costs, are based on actual cost, that are properly supported.

### **Agency’s Response**

The methodology SEAACA used to calculate the reimbursable Veterinary costs was identical to the method used to calculate Care and Maintenance Costs. The costs of the VETERINARY Division were included in the total pool of costs that were divided by total animal days of service provided. The number of eligible days for the Stray/Euthanized population was used as the basis for calculating the costs that were attributable to the mandate based on the percentage of appropriate number of eligible animal days.

While this method wasn't specifically enumerated in the instructions as available calculation method for this cost component, it mirrors the "Actual Cost" method allowed in the claiming instructions for Care and Maintenance. Using it for this component appeared to be a fair and rational method in this component as well. Locating and reviewing thousands of veterinary medical records dating back years to determine which procedures were eligible and which were not, was not a cost effective or viable method.

### SCO's Comments

As a result of the agency's response to Finding 6—Misstated Indirect Costs, we have reclassified a position to the indirect cost pool on the agency's indirect cost rate plan for each fiscal year in the audit period, which slightly reduced the direct benefit rates for each fiscal year in the audit period. Consequently, allowable costs decreased by \$67, from \$82,554 to \$82,487.

The agency acknowledges in its response that it did not use a method prescribed in the parameters and guidelines for claiming costs under this cost component. Based on the agency's methodology, all costs incurred within its Veterinary Division would not be reimbursable under the mandated program.

The parameters and guidelines prescribe that only the costs incurred "during the holding periods specified in Statutes of 1998, Chapter 752 are eligible for reimbursement." Veterinary costs that were incurred outside of these periods would not be eligible for reimbursement. The parameters and guidelines then identify the four veterinary procedures that are reimbursable. In addition, the parameters and guidelines specify distinct populations of animals that would not be eligible for reimbursement under this cost component as well as certain specified veterinary procedures that are not eligible for reimbursement. It is not reasonable to state that all costs incurred in the agency's Veterinary Division excluded ineligible populations of animals and veterinary procedures and/or that all veterinary procedures were performed during the specified holding periods.

The agency elected to perform time studies to capture the amount of time required to perform an initial physical exam of an animal and the amount of time required to administer wellness vaccines. We reviewed the agency's time study proposal and the subsequent results of its time study for this cost component. We applied the allowable costs as appropriate, based on the employees involved, their productive hourly rates, the reimbursable activities performed, and the actual time required to perform them. The agency also provided its expenditures for the associated materials and supplies costs related to these activities.

If the agency subsequently identifies veterinary care that was provided for the reimbursable procedures of "stabilize and/or relieve the suffering of a "treatable" animal" and/or "remedy any applicable disease, injury, or congenital or hereditary condition . . . until the animal becomes adoptable" and can identify that the activities occurred during the specified holding periods, we will adjust the audit results as appropriate.

**FINDING 6—  
Misstated indirect costs**

The agency did not directly claim reimbursement for indirect costs for any fiscal year in the audit period. Instead, the agency included a portion of its overhead costs in both the Care and Maintenance (Finding 1) and Holding Period (Finding 2) cost components. We determined that \$336,205 in indirect costs is allowable.

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
2001-02	\$ —	\$ 61,321	\$ 61,321
2002-03	—	63,426	63,426
2006-07	—	63,777	63,777
2007-08	—	73,396	73,396
2008-09	—	74,285	74,285
Total	\$ —	\$ 336,205	\$ 336,205

The parameters and guidelines (section V.B–Indirect Costs) state:

Compensation for indirect costs is eligible for reimbursement. Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. Indirect costs may include both (1) overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to other departments based on a systematic and rational basis through a cost allocation plan.

Claimants have the option of using 10% of direct labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate claimed exceeds 10%.

The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.

In calculating the ICRP, the claimant shall have the choice of one of the following methodologies:

1. The allocation of allowable indirect costs (as defined and described in OMB Circular A-87 Attachments A and B) shall be accomplished by (1) classifying a department's total costs for the base period as either direct or indirect, and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount allowable indirect costs bears to the base selected; or,
2. The allocation of allowable indirect costs (as defined and described in OMB Circular A-87 Attachments A and B) shall be accomplished by (1) separating a department into groups, such as divisions or sections, and then classifying the division's or section's total costs for the base period as either direct or indirect, and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate that is used to distribute

indirect costs to mandates. The rate should be expressed as a percentage which the total amount allowable indirect costs bears to the base selected.

### Overhead Costs

The agency did not directly claim reimbursement of indirect costs on the Mandated Cost claims. Instead, the agency included \$2,458,387 in both the Care and Maintenance (Finding 1) and Holding Period (Finding 2) cost components.

The agency calculated \$2,458,387 in overhead costs for the audit period, as shown in the following table:

Category	Fiscal Year					Total
	2001-02	2002-03	2006-07	2007-08	2008-09	
Shelter expenditures	\$ 438,664	\$ 472,352	\$ 474,578	\$ 699,343	\$ 874,672	
Kennel expenditures	181,458	198,616	223,490	105,620	2,646	
Veterinary expenditures	—	—	462,174	534,339	625,775	
A Subtotal	620,122	670,968	1,160,242	1,339,302	1,503,093	
B Total expenditures	2,611,919	2,761,831	1,995,567	2,473,177	2,916,332	
C Percentage (A ÷ B)	23.7420%	24.2943%	58.1410%	54.1531%	51.5405%	
D Administrative support	874,896	984,532	1,165,920	1,235,017	1,289,872	
Overhead calculated (C × D)	\$ 207,718	\$ 239,185	\$ 677,877	\$ 668,800	\$ 664,807	\$2,458,387

Merely including a calculated overhead cost into the Care and Maintenance formula and the Holding Period cost element is incorrect. The parameters and guidelines clearly state that if the agency wishes to claim indirect costs in excess of 10%, an Indirect Cost Rate Proposal must be prepared and a percentage be calculated.

### Allowable Indirect Cost Rate

For each fiscal year in the audit period, we calculated the following indirect cost rates, which were applied to all allowable direct costs.

Category	Fiscal Year				
	2001-02	2002-03	2006-07	2007-08	2008-09
Indirect costs:					
Administrative support (Division 2510)*	\$ 874,901	\$ 984,533	\$1,165,918	\$1,235,016	\$1,289,873
Utility expenses	57,436	70,481	76,425	71,942	86,455
Office supplies	922	900	1,213	624	1,789
Small tools and implements	57	2,004	207	121	—
Building rental	31,986	8,624	—	—	—
Building and computer maintenance	19,062	10,908	11,923	74,990	(6,708)
Staff development	2,985	1,478	4,727	5,856	5,166
Front office supervisor salaries and benefits	55,870	50,100	52,581	53,520	52,809
A Total indirect costs	\$1,043,219	\$1,129,028	\$1,312,994	\$1,442,069	\$1,429,384
B Direct salaries and benefits	\$1,252,535	\$1,324,215	\$1,471,493	\$1,689,597	\$1,871,419
Allowable indirect cost rate (A ÷ B)	83.29%	85.26%	89.23%	85.35%	76.38%

\*Includes salaries, benefits, materials, and supplies.

### Recommendation

We recommend that the agency ensure that indirect costs are properly calculated.

### Agency's Response

As discussed in Finding 1, SEAACA originally did not prepare ICRP rates because they elected to use the ACTUAL COST METHOD of calculating the Care and Maintenance cost per animal per day. Indirect costs were included in the total division expenditures, so did not have to be calculated separately. The only overhead factored into our original claims was to add a prorated share of the ADMINISTRATIVE Division charges to the SHELTER & VETERINARY department costs.

As a result of this audit and the SCO's request to recalculate costs based on the time study method, SEAACA has prepared ICRP rates that we believe are correct and should be added to the eligible direct costs. These calculations have been submitted to your audit staff via email attachment and it is our understanding that it is being reviewed by your staff. We request that the SCO accept the rate calculations and increase the applicable allowable costs accordingly.

#### **ATTACHMENT 1 - ICRPS**

##### Understated Indirect Costs:

1) We request the allocation base used to calculate and apply overhead to Salaries and Benefits, rather than total direct costs, as is standard.

2) We added the staff overhead costs for supervisory and support positions from all divisions since the rate is an overall agency wide rate.

- Since the rates proposed are an Overall Agency-wide rate, not specific to a division, all supervisory and support staff should be included. Support staff positions (such as Dispatchers and Clerks) do not work directly with the animals, but support those direct staff who do. Support activities include: interacting with the public, answering calls, typing, filing, paperwork, etc. (Note : job descriptions for all overhead staff can be provided if required). Direct time charged to the claim was omitted from indirect cost pool liberally.
- 20% for division head administrative time is included, as discussed – however, we believe that the Office Supervisor is virtually all support (see her job description attached) so left her in at 95% allowable indirect.
- Lead and Senior Animal Control Technicians also perform eligible support and administrative activities. As noted in the "Draft Audit" on page 13, "However, only a percentage of shelter staff is devoted to care and maintenance of animals because staff members also perform non-mandated activities such as recruiting, training, and scheduling." We contend that these activities are all legitimate support or overhead costs necessary to proving shelter care and maintenance services, and should be taken into account, if not in the direct costs, than in the indirect cost rates.

4) Allowable supplies and services which were clear indirect costs and allowable under OMB A-87 guidelines were included.

- **Office Supplies** – all division staff utilizes and consume office supplies for various functions. Shelter staff get kennel and

animal reports printed on paper, all shelter staff use time sheets, pens etc.

- **Clothing** - SEAACA stated that uniforms are required for health and safety reasons. They must be washed in bleach to kill germs and prevent the spread of disease, thus street clothes would not be a viable option. This line item was included in the indirect cost rate for all division staff that work with animals.
- **Building & Equipment Maintenance** – these costs are necessary for operating the shelter
- **Staff Development** – training costs for shelter staff is a necessary and an allowable overhead item.
- **Office Equipment** – also used by all division staff, allowable under OMB A-87.
- **Contract Services** – MOC – includes items such as janitorial services, fire security services, and HVAC maintenance costs.

#### SCO's Comment

As a result of the agency's response to the finding, we have increased the indirect cost rates, which increased the allowable indirect costs by \$58,241, from \$277,964 to \$336,205.

In its response, the agency requested that we revise the following:

- Revise the allocation base to salaries and benefits as opposed to direct costs.
- Include salaries and benefits for supervisory and support positions from all divisions in the indirect cost labor pool.
- Reclassify additional services and supplies to the indirect cost pool.

We will address the agency's response in the same order that they were presented.

*Revise the allocation base to salaries and benefits as opposed to direct costs.*

We agree. Accordingly, we recalculated the indirect costs using a base of direct salaries and benefits. Therefore, the revised indirect cost rates were applied only to allowable salaries and benefits.

*Include salaries and benefits for supervisory and support positions from all divisions in the indirect cost labor pool.*

We partially agree. We agree that the Front Office Supervisor is a support position and have included the classification's salaries and benefits in the indirect cost labor pool for each fiscal year audit period.

For the other supervisory and support positions (Animal Control Corporal, Veterinarian, Licensing Clerk Supervisor, and the Lead Animal Control Technician), the agency provided duty statements indicating that some activities performed may be administrative and incurred for a common or joint purpose. Specifically, the agency suggested an estimated 20% be included in the indirect cost labor pool.

However, the agency did not provide actual time records supporting this allocation. Therefore, we made no changes to the indirect cost labor pool to include these classifications. If the agency is able to provide actual time records supporting a 20% indirect cost allocation, we will revise the indirect cost rates accordingly.

In addition, the agency has requested that the clerks and dispatch also be included in the indirect cost labor pool. However, after reviewing the duty statements, we believe that these positions perform a direct function specific to their division.

*Reclassify additional services and supplies to the indirect cost pool.*

We partially agree. We agree and have reclassified the following service and supply costs as indirect:

- Office supplies
- Small tools and instruments
- Building rental
- Building and computer maintenance
- Staff development

The agency has requested that we reclassify both Clothing (account 180) and Contract Services (account 700) as indirect costs. We believe that clothing is a direct expense benefiting only the division in which the expense was incurred. With regards to Contract Services, we reviewed the agency's FY 2008-09 adopted budget and noted that Contract Service costs incurred in the Administrative Support Division include costs that clearly support the agency as a whole, such as pest control, fire protection, janitorial services, and storage. However, these costs have already been classified in the indirect cost pool through the Administrative Support Division (#2510).

While reviewing the Contract Service costs in the Veterinarian Division, we noted that the costs incurred serve a direct function to the Veterinarian Division only. For example, such costs include laboratory services, medical waste disposal, after-hours emergency hospital expenses, and outside veterinary services.

We also reviewed the Contract Service costs in the Licensing Services Division and noted that these costs also serve a direct function to the Licensing Services Division. For example, these costs include mailing service for licensing renewal forms.

The agency did not provide documentation supporting what Contract Service costs were incurred in either the Animal Control Division or the Shelter Operations Division. As a result, we did not reclassify the Contract Service costs incurred in either the Animal Control Division, Shelter Operations Division, Veterinary Division, or the Licensing Services Division.

**FINDING 7—  
Overstated offsetting  
reimbursements**

The agency reported offsetting reimbursement totaling \$230,293 on its mandated cost claims. We determined that the agency should have offset only \$72,087 on its mandated cost claims for the audit period. The agency overstated offsetting revenues by \$158,206 because the Animal Adoption program costs were overstated; therefore, the proportionate amount in offsetting reimbursements received from the contracting cities was also overstated.

The following table summarizes audit adjustments for offsetting revenues by fiscal year:

<u>Fiscal Year</u>	<u>Claimed Offset</u>	<u>Allowable Offset</u>	<u>Audit Adjustment</u>
2001-02	\$ (19,137)	\$ (10,602)	\$ 8,535
2002-03	(22,500)	(10,813)	11,687
2006-07	(43,943)	(11,715)	32,228
2007-08	(50,551)	(14,719)	35,832
2008-09	(94,162)	(24,238)	69,924
Total	<u>\$ (230,293)</u>	<u>\$ (72,087)</u>	<u>\$ 158,206</u>

The parameters and guidelines (section VII—Offsetting Savings and Other Reimbursements) state the following:

Any offsetting savings that the claimant experiences as a direct result of this mandate must be deducted from the costs claimed. Additionally, reimbursement for this mandate received from any source shall be identified and deducted from this claim.

**Claimed Offset**

During the audit period, the agency offset \$230,293 on its Animal Adoption claims, which accounts for the proportionate share of mandated costs claimed for the City of Buena Park and the City of Lakewood. We verified that these two contracting cities also filed Animal Adoption mandated cost claims with the State totaling \$230,293.

**Allowable Offset**

So that we could calculate the amount to be offset, the agency provided us with a percentage to be offset against total allowable Animal Adoption costs as a result of the audit. The percentage represents the number of animals from each city that were present in the overall population of animals impounded at the agency's animal shelter. We did not audit the percentage.

The following table summarizes the percentages to be offset from the contracting cities for each fiscal year, as determined by the agency:

<u>Fiscal Year</u>	<u>City of Buena Park</u>	<u>City of Lakewood</u>
2001-02	0.00%	7.09%
2002-03	0.00%	7.13%
2006-07	0.00%	7.73%
2007-08	0.00%	8.15%
2008-09	6.38%	5.81%

As a result of the audit, we multiplied the indicated percentages by the allowable Animal Adoption costs and offset \$12,686 for the City of Buena Park and \$59,401 for the City of Lakewood, as shown in the following table:

Fiscal Year	SEAACA	City of Buena Park		City of Lakewood		Total
	Allowable Animal Adoption Costs	Percent- age	Amount to Offset	Percent- age	Amount to Offset	Subject To Offset
2001-02	\$ 149,528	0.00%	\$ —	7.09%	\$ (10,602)	\$ (10,602)
2002-03	151,658	0.00%	—	7.13%	(10,813)	(10,813)
2006-07	151,550	0.00%	—	7.73%	(11,715)	(11,715)
2007-08	180,607	0.00%	—	8.15%	(14,719)	(14,719)
2008-09	198,835	6.38%	(12,686)	5.81%	(11,552)	(24,238)
Total	<u>\$ 832,178</u>		<u>\$ (12,686)</u>		<u>\$ (59,401)</u>	<u>\$ (72,087)</u>

Accordingly, we will issue a review letter to adjust both the City of Buena Park and the City of Lakewood’s Animal Adoption claims as follows:

Fiscal Year	City of Buena Park			City of Lakewood		
	Amount Claimed	Amount Allowable	Audit Adjustment	Amount Claimed	Amount Allowable	Audit Adjustment
2001-02	\$ —	\$ —	\$ —	\$ 19,114	\$ 10,602	\$ (8,512)
2002-03	—	—	—	22,500	10,813	(11,687)
2006-07	—	—	—	43,943	11,715	(32,228)
2007-08	—	—	—	50,551	14,719	(35,832)
2008-09	49,272	12,686	(36,586)	44,890	11,552	(33,338)
Total	<u>\$ 49,272</u>	<u>\$ 12,686</u>	<u>\$ (36,586)</u>	<u>\$ 180,998</u>	<u>\$ 59,401</u>	<u>\$ (121,597)</u>

Recommendation

We recommend that the agency offset all reimbursements received from the contracting cities for mandated activities on its Animal Adoption Mandated Cost claims.

Agency’s Response

The agency did not respond to the finding.

SCO’s Comment

As identified in the finding, offsetting revenues is determined by multiplying SEAACA’s total direct and indirect costs by the contracting cities percentages, as provided by SEAACA. As a result of the changes made in Findings 1 through 6, the allowable offset for the contracting cities increased by \$5,315, from \$66,772 to \$72,087.

Specifically, the allowable offset for the City of Buena Park increased by \$871, from \$11,815 to \$12,686, and the allowable offset for the City of Lakewood increased by \$4,444, from \$54,957 to \$59,401.

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

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June 4, 2012

DAN MORRISON  
Executive Director

Mr. James Spano  
Chief, Mandated Cost Audits Bureau  
State Controller's Office  
P.O. Box 942850  
Sacramento, CA 94250-5874

RE: RESPONSE TO SCO DRAFT AUDIT OF SEACCA ANIMAL ADOPTION CLAIMS

Dear Mr. Spano,

Attached are Southeast Area Animal Control Authority (SEAACA) responses to the Draft Audit issued by your office. We contest the following findings:

**FINDING 1 – CARE AND MAINTENANCE COSTS**

The claiming instructions allow agencies to choose one of two methods for calculating costs for Care and Maintenance:

The first is the **ACTUAL COST METHOD**. Under this method, an agency would determine the total annual cost for care and maintenance for all dog and cats impounded at the facility, then divides this amount by the total annual census to calculate and average daily cost per animal.

The second method is the **TIME STUDY METHOD** where an agency would conduct time studies to determine the amount of time to provide care and maintenance during a reimbursable day. Then this time/cost would be applied to the eligible animal population.

SEAACA chose to calculate their claim based on the **ACTUAL** cost method. SEAACA's accounting system separates their costs by functional units: SHELTER OPERATIONS, FIELD OPERATIONS, LICENSING, VETERINARY SERVICES and ADMINISTRATION. Since the purpose of the SHELTER division is to care and maintain the animals, the costs of the SHELTER OPERATIONS division were taken as the base for calculating total care and maintenance costs. From the total expenditure of that division, unallowable items, such as euthanasia supplies, were deleted and additional agency wide overhead costs from the ADMINISTRATIVE division were added. That total was divided by the total number of animal days of service to calculate a cost per animal per day of service. The resulting animal daily care rates claimed ranged from \$7.77\* in FY 2001-02 to \$14.72\* in FY 2008-09. (\* It should be noted that this rate also included an allocation for Veterinary Service costs provided to the stray euthanized animal population.)

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When these rates were compared to those of comparable neighboring jurisdictions, it was determined that SEAAACA's cost for Care and Maintenance were in line with the others (LA City and LA County are probably the most similar in the region based on size of the area served) (SEAAACA provides animal services to approximately a dozen cities in the LA metropolitan area). In addition, SEAAACA felt confident the rates claimed were conservative because the agency opted not to claim for any other related costs such as: **Maintaining Lost and Found Lists, Maintaining Non-Medical Records, Feral Cat review** since these activities were performed in the same division (SHELTER), it was determined that the agency was already being compensated for those activities and thus no request for reimbursement was submitted for those components.

When the SCO audit staff conducted their initial "Entrance Conference" SEAAACA was told that it would not be allowed to use option 1 – ACTUAL COST METHOD to calculate Care and Maintenance costs as they did in an aggregate fashion. SCO audit staff recalculated the cost component and determined that SEAAACA's reimbursable daily care and maintenance rates ranging from \$1.03 to \$1.63 per animal during the audit period. This amount represented approximately 25% of the amount calculated and requested by SEAAACA.

SCO provided the following information comparing other audited agency's cost per animal per day:

*Salaries and Benefits – cost per animal per day allowed after SCO Audits:*

1. El Dorado County – varied from \$2.62 to \$7.42
2. Contra Costa County – varied from \$2.95 to \$11.99
3. City/County of San Francisco – varied from \$5.48 to \$7.67
4. Sacramento County – varied from \$3.79 to \$5.33
5. Riverside County – varied from \$3.22 to \$4.75
6. City of Los Angeles – varied from \$9.17 to \$13.81
7. City of Hayward – varied from \$2.88 to \$9.12
8. SEAAACA – varied from \$1.03 to \$1.63

The rates calculated by the SCO auditors are unreasonably low primarily because direct costs were very narrowly interpreted and appropriate overhead (ICRPS) and benefit costs were not calculated or applied properly. Overhead or ICRP rates should be based on salaries and benefits (as is the industry standard), not total direct costs, since allowable direct costs are predominantly labor related for this program.

Also, benefit rates were understated (0% benefits were allowed) for Fiscal Years 2001-02 and 2002-03 since the agency did not have detail benefit data per position, it was provided for the entire division. In those two years, we feel it would be appropriate to use a portion – or percentage of the benefits for the direct staff involved. We calculated a rate of 22% in FY 2001-02 and 20% in 2002-03 and request this be applied to the Care and Maintenance Formulas used by the State.

In addition, the cost for care and maintenance of an animal is not just the time and cost to feed and warehouse the animals, but also must consider the administrative and support costs associated with running operating a shelter. These support costs include supervisory oversight, review, scheduling,

purchasing supplies, etc; and support functions such as receptionists and clerical duties. These departmental indirect charges were not fully captured in the SCO Draft findings.

We request that the SCO audit staff update their ICRP rate calculations to match ours and update the reimbursable cost accordingly. (See separate attachments with our proposed ICRP rates).

**A) WE DISAGREE WITH THE SCO'S RETROACTIVE APPLICATION OF PURIFOY V. HOWELL DECISION TO PRIOR YEAR CLAIMS**

During the audit, the State Controller representatives announced that they would be applying a recent court decision (Purifoy v Howell published in March, 2010) to the claims being audited (FY 2001-02 being the oldest reviewed). This decision alters the definition of a business day for purposes of the animal holding period under the Hayden Bill. The retroactive application of a recent legal interpretation to activities that have already occurred is unfair and inequitable. Particularly when the rules pertain to animals already euthanized.

**AUDIT PARAMETERS:** According to claiming instructions, under Audit of Costs,

*"All claims submitted to the SCO are reviewed to determine if costs are related to the mandate, are reasonable and not excessive, and the claim was prepared in accordance with the SCO's claiming instructions and the P's and G's adopted by the Commission."*

Based on this language – the SCO must review the claims to the Parameters and Guidelines (Ps and Gs) and instructions applicable at that time. The SCO does not have the authority to audit to a "new" set of guidelines and rules after the fact and without proper notice and approval of those new guidelines.

Local agencies complied with the requirements of the law mandated by the legislature in 1998. They made a good faith effort to comply with the parameters and to claim costs as instructed. They incurred additional costs to comply with the mandate legislation as it was written. The SCO is exceeding its legal authority to audit claims to a new set of guidelines. The recent court action should only have an impact on activities and claims after the date of the finding and then only after Ps and Gs are amended pursuant State Mandate regulations.

The application of "new" rules to activities which have already occurred (animals being euthanized), has resulted in substantial disallowances to our legitimate claims for State reimbursement. The claims were calculated and filed based upon the law and the Parameters and Guidelines in place at the time of filing. Changing the "rules of the game" years later is unreasonable and robs local agencies of legitimately incurred costs.

One of the main goals of the Hayden Bill was to extend the period an animal was held and to ensure shelters extended their business hours so that residents could more easily retrieve their pets. The bill instructed that shelters stay open until at least 7pm on a weeknight, or on Saturday. However, the Purifoy case basically renders the option of keeping the shelter open on a Saturday void. Those agencies that made good faith efforts to implement the State legislation and kept the shelters open even longer by offering a Saturday option are now being punished by having their claims reduced by more than half.

Shelters that opted to stay open on Saturdays are being told that the option offered by the legislature was not really a legal option and that by choosing to stay open on a Saturday would render all their calculations on when an animal could be legally euthanized invalid. It is obviously impossible to go backward in time and resurrect animals that were euthanized based upon the recent 'Saturday as a business day' interpretations. The SCO's decision to apply the Purifoy decision retroactively to its audits violates the basic rules of law and the provisions of Ex Post Facto law.

It should be noted that to the best of our knowledge, ALL agencies followed the same method of calculation of holding periods prior to the 2010 court order. SEAACA was no different in its understanding or interpretation of the law at the time.

1. The Purifoy decision itself did not confirm that Saturday is not a business day
2. The SCO took this decision to decide itself that Saturday is not a business day (their interpretation)

California Civil Code Section 9, states that Saturday is a business day to which shelters would calculate their holding periods according to the code. Using the SCO's interpretation of business day then would technically make all of the shelters calculations incorrect because "technically" they were not holding animals the required holding periods, regardless of Hayden Bill. This would decrease reimbursable costs because it would reduce the number of eligible animals.

The standard protocol for changing the instructions is to have any involved party file a request to amend Ps and Gs with the CSM. These revisions, if approved by the CSM after proper noticing of all parties, would then be applicable for the subsequent filing deadline. The SCO has been auditing the Animal Adoption claims for over three years now; however, it does not appear that they have made any requests to revise the Ps &Gs or claiming instructions. Local agencies were still preparing their FY 2010-11 "27-Day claims" for the Animal Adoption as recently as in 2011, but the instructions on the SCO website are still identical to those originally released.

#### **B) A NUMBER OF SCO'S INTERPRETATIONS CONSTITUTE ARBITRARY RULE MAKING**

The SCO audit creates rules and definitions of eligibility that do not appear in the instructions, Ps and Gs, or Statement of Decision (SOD). These "interpretations" or "new rules" they are imposing are harming local agencies by greatly reducing the number of animals that they deemed to be eligible for reimbursement. When there is a gray area, the stated intent of the Statutes, CSM Statements of Decision, and Ps and Gs should be followed.

##### **1) Defining "Ultimately Euthanized" animals eligible for "Care and Maintenance" reimbursement.**

"Ultimately Euthanized" means those stray animals whose final action resulted in euthanasia.

The mandate's intent was to provide reimbursement for the care and maintenance of stray animals during the extra holding days required by the law. Nowhere in the instructions, Ps and Gs, or SOD does it state that reimbursement is ONLY available IF and only IF THE ENTIRE holding period is satisfied.

The language of the Ps and Gs instruct that the SCO review costs to ensure that they are related to the mandate. If an agency incurs cost for providing one extra day of care and maintenance cost for an eligible animal, then the portion of the eligible cost should be reimbursed.

The intent of the legislation was to keep the animals for the entire holding period, when possible. However, there are various reasons why an animal might not be held the entire 2-3 day holding period prior to euthanasia. Actions taken related to care for animals are by their nature, complex and unpredictable. Medical conditions are not always readily apparent; diagnosis can be subjective; treatment decisions are varied and complex; and outcomes not guaranteed. Because of these facts, it is impossible for any agency to guarantee that an animal will be able to be held (or should be held) for the entire mandated period.

A once apparently healthy animal's condition can rapidly decline. An animal can be gravely injured by other animals during their holding period in the shared and often overcrowded kennels. Unforeseen events can occur – and because of that – even an agency with the best intentions and highest levels of care cannot guarantee that an animal will – or should be kept alive for the entire mandated time period.

The issue of timing of events and the unpredictability of animal's circumstances was addressed in a related request by Fresno County to the CSM.

Fresno County recommends that reimbursements apply to animals that are ultimately euthanized also apply to those animals that die while being held pending adoption or euthanization. If the animal dies pending adoption, obviously no adoption fees can be paid, and thus there is no revenue pertaining to that animal. If the animal dies pending euthanasia, the animal still has to be held until its untimely demise.

CSM staff noted that the Statement of Decision does not specifically address animals that die during the increased holding period, but that the county's request is consistent with the Statement of Decision. First, CSM staff addressed reimbursement for euthanized animals:

If a stray or abandoned animal dies during the time an agency is required to hold that animal, the agency would still be required by the state to incur costs to care and maintain the animal, and to provide "necessary and prompt veterinary care" for the animal before the animal died. The agency cannot recover those costs from the adoptive owner since the animal was never adopted or released to a nonprofit adoption organization. Thus, staff agrees with the County that these costs are eligible for reimbursement.

However, the same reimbursement limitations apply to the stray and abandoned animals that die during the holding period. For example, reimbursement for the care and maintenance of these animals is limited to the costs incurred during the *increased* holding period, as calculated by the proposed Parameters and Guidelines.

Accordingly, CSM staff added language to the parameters and guidelines to address animals that die during the increased holding period.

This action by the CSM indicates determining whether the activity was eligible should hinge on whether the activity was required by the State and whether the local agency had the ability to recovery costs for the animal population in question.

This discussion did not mention another likely occurrence – that in some cases an animal might have to be euthanized during the mandated holding period.

**So if a STRAY Dog or Cat WAS EUTHANIZED on:**

**Day 3.5 = .5 days of eligible care and maintenance cost should be eligible for reimbursement**

**Day 4 = 1.5 days.... should be reimbursable**

**Day 5 = 2.5 days.... should be reimbursable**

**Day 6 = 3.5 days.... should be reimbursable**

**Any day after day 6 = max of 3.5 days should be reimbursable.**

The SCO's interpretation is if a stray animal is euthanized prior to completion of the entire holding, the extra holding days the animal WAS held are NOT eligible for reimbursement –even though the agency incurred legitimate costs for a portion of the holding period. Basically – there is no "Partial Credit" for partial compliance.

It is our belief that local agencies should be reimbursed for the actual costs incurred for providing care and maintenance of eligible animals as stated in mandate language. SCO limitation of reimbursement for only those animals that stayed the entire time is an unfair interpretation that robs agencies of actual costs incurred. Though they would not qualify to receive full reimbursement for all animals, partial credit should be granted for the portion eligible of service provided.

This "all or nothing" SCO standard is most particularly unfair since the main reason a majority of animals were not kept the entire required holding period was because the SCO's application of the "new" 2010 court decisions holding periods alters method by which the holding period is calculated and disallows a substantial portion of the population of animals. By moving the target after the fact, many animals are now being denied even partial credit for the days of service they did provide. Agencies complied with the holding periods as were written in the law and should not completely lose reimbursement for those eligible animals because the SCO's has decided to apply the 2010 court decision on holding day calculations retroactively.

It appears that the SCO auditors is "moving the target" so they can obtain the maximum cost savings to the State at the expense of fairness and equity to local agencies. Some of this "reinterpretation" benefits local agency's slightly by requiring additional holding days, however, it is clear by the net result, that the State benefits by this determination in the final analysis. If the reinterpretation was such a great deal, there would not be many complaints from local agencies in their Response to the Audits.

## **2) Defining "Irremediably Suffering Animals"**

The SCO also informed SEAACA that if an animal was euthanized DURING the holding period, the entire reimbursement for eligible care and maintenance of days service during the additional holding days provided would be forfeit. They reason that animal was "irremediably suffering" and therefore not eligible

for reimbursement in the first place based on language that appears in the veterinary portion of the Ps and Gs. We question this application of the definition of "irremediably suffering" and believed the logic is flawed for the following reasons:

a) Local agencies are not required to provide veterinary care to animals that are "irremediably suffering from a serious illness or injury." Neither are they eligible to be reimbursed for this activity.

b) It is standard practice to conduct a physical examination and document the condition of each animal upon admission to the shelter. Local agencies are reimbursed for the cost of providing an initial physical examination of the animal to determine the animal's baseline health status and classification as "adoptable", treatable or non-rehabilitatable". At that time a "wellness vaccine" administered to those "treatable" or "adoptable" animals is also allowed for reimbursement as a component of "Necessary and Prompt Veterinary Care" mandated in Civ. Code Section 1834 and 1846. The initial decision is made at that time (initial exam) which animals are "treatable" and which are "irremediably suffering" and can, by law, be euthanized immediately.

A shelter is exempt from providing the mandated care and maintenance for those animals that are determined to be "irredeemably suffering". Logically, those animals, such as those hit by cars, would be put to sleep at their initial assessment and the segment of the population deemed "irremediably suffering" would be weeded out of the population prior to the commencement of the additional holding period.

c) If an animal has survived in the shelter to the 4<sup>th</sup> day or beyond, that animal must have been certainly been classified by shelter staff as "Treatable" and not "Irremediably Suffering" as it was added to the animal shelter inventory and given a wellness vaccine.

If an animal sickens or is injured in the shelter at a later date, that animal should not be excluded from obtaining the portion of reimbursement it is entitled to. As the SCD notes, "no adoptable/treatable animal shall be euthanized". Their thought process however is static and does not recognize the reality of the fact that the condition of an animal can change. An animal that has survived in the shelter to the mandated holding period (beyond 72 hours), is by definition a treatable animal. However at a later date, that same animal may be reclassified as "Irremediably suffering". However on the prior days when it was considered "treatable" – the care and maintenance time during that period should be reimbursed.

For example: an animal may be deemed:

Day 1 = Initial exams determines the animal is treatable

Day 2 = treatable & provided treatment

Day 3 = treatable & provided treatment

Day 4 = treatable & provided treatment

Day 5 = not getting better or declining, but still provided treatment

Day 6 = condition declines to a point that the vet believes euthanasia is the best action for the animal

Only on this final day is the animal determined to be non-adoptable and non-treatable

So under this scenario, local agencies believe that they should be reimbursed the care and maintenance for the additional mandated holding days (Day 4 and Day 5) during which time the animal was treated. Also the cost of providing the medical care should be reimbursed as ultimately the animal didn't respond to treatment and was ultimately euthanized.

As the CSM reasoned in other similar situations: "There is no other means by which the agency can recover their state mandated costs – and thus, they should be entitled to State reimbursement for these eligible costs".

The agency is charged with making "all reasonably necessary medical" interventions to make the animal "adoptable" They should not be punished for their compliance with the law and making the required efforts to treat an animal they believed in the beginning was treatable, but later found out that their efforts were not successful. If it is later determined that death is inevitable and that suffering and further costs can be avoided by euthanizing the animal, this should not preclude the agency from obtaining reimbursement for mandated costs incurred. To let the animal suffer and die slowly on its own, just to satisfy the SCO so that they may obtain reimbursement of their costs and efforts is not logical or ethical.

The only parties that should be able to determine the best treatment for an animal are the medical professionals at each local agency shelter. It should not be up to an auditor, consultant or accountant to determine if the action taken by a medical professional was warranted and proper. This is not the venue for such inquiry and discussion. Questioning the appropriateness of treatment decisions should not be within the realm of what the SCO should be reviewing in its audits.

Again, SCO is creating its own "interpretations" that result in the loss of eligible reimbursement for local agencies.

**3) SCO DETERMINATION THAT ONLY ANIMALS THAT DIE ON DAYS 4, 5, 6 AND 7 ARE REIMBURSABLE. THE SCO CLAIMS THAT IF THEY DIE ON DAY 8 OR BEYOND – THEY ARE NO LONGER ELIGIBLE FOR OBTAINING REIMBURSEMENT FOR ANY OF THEIR 2-3 DAYS OF ELIGIBLE CARE AND MAINTENANCE AND VET CARE PROVIDED.**

This interpretation makes no logical sense and we believe the situation was not foreseen during drafting and review of the Ps and Gs and instructions. Again the CSM's logic regarding the Fresno County request would apply. The CSM found...

*"...The agency cannot recover those (care and maintenance) costs from the adoptive owner since the animal was never adopted or released to a nonprofit adoption organization. Thus, staff agrees with the County that these costs are eligible for reimbursement.*

It makes no sense to deny reimbursement for eligible costs incurred in providing care and maintenance to a stray animal who happened to die a day or two later than the end of the holding period. This would directly contradict the intent of the law which is to: as stated in the first line of the Ps and Gs:

*"The test claim legislation was enacted in an attempt to end the euthanasia of adoptable and treatable animals."*

By saying the agency would forfeit the 2-3 days of eligible costs incurred by keeping the animal beyond the mandated holding period if it happened to die after day 7 would directly contradict the intent of the law and put a financial incentive on agencies to kill any animal recovering from treatment on its last holding day to avoid the possibility that it might die and preclude the agency of reimbursement for even those eligible costs incurred during the additional holding period.

**FINDING 2 - CALCULATION OF ELIGIBLE HOLDING PERIOD COSTS: KEEPING THE SHELTER OPEN ON SATURDAY.**

SEAACA objects to the method used by the SCO to calculate allowable costs related to the activity of keeping the shelter open for the extended hours. Food and Agriculture Code sections 31108, 31752 and 31753 state that the shelter be open on a weekday evening or a Saturday. SEAACA opted to keep the shelter open on Saturday.

The SCO is not allowing SEAACA the reimbursement for their full actual costs incurred to implement this mandated activity. They argue that only a bare bones staffing level is reimbursable (only those that are specifically tasked with interacting with the public and animals to make the animal available to the public) despite the fact that this interpretation is not in any CSM approved document. This denies SEAACA of the supervisory and other support staff present on the weekend day and does not cover the full actual costs incurred for this eligible activity.

State Mandate claiming procedures requires that claimants be reimbursed their full "Actual Costs Incurred". There is no direction or limitation as to how that is to be accomplished. Local agencies are given the discretion of how to accomplish the State Mandate. Nowhere in the claiming instructions, Ps and Gs, or the SOD does it state that only certain positions are eligible for reimbursement and how staffing should be determined. SEAACA implementation of this mandate component includes supervisory staff and support staff be present on the extra holding day. Having supervisory and support staff present during hours of operation is a reasonable and common business practice. We do not believe those costs are excessive or unreasonable and should be restored.

If the SCO determines that the costs must be calculated in the method proposed by the auditors, we would request that the ICRP rates we developed for the Shelter Division be applied to these costs and that the allowable costs be increased to reflect the higher overhead rates proposed by SEAACA.

**FINDING 3 AND FINDING 4 (Unclaimed costs for Lost and Found Lists and Maintaining Non-Medical Records)**

As discussed above in Finding 1, SEAACA did not claim these components individual since they felt the rate for care and maintenance of the animal included these activities. If the SCO determines that the costs must be calculated in the method proposed by the auditors, we would request that the ICRP rates developed by SEAACA applied to these costs and that the allowable costs be increased to reflect the higher overhead rates proposed.

#### FINDING 5 – PROMPT AND NECESSARY VETERINARY CARE

The methodology SEAACA used to calculate the reimbursable Veterinary costs was identical to the method used to calculate Care and Maintenance Costs. The costs of the VETERINARY Division were included in the total pool of costs that were divided by total animal days of service provided. The number of eligible days for the Stray/Euthanized population was used as the basis for calculating the costs that were attributable to the mandate based on the percentage of appropriate number of eligible animal days.

While this method wasn't specifically enumerated in the instructions as available calculation method for this cost component, it mirrors the "Actual Cost" method allowed in the claiming instructions for Care and Maintenance. Using it for this component appeared to be a fair and rational method in this component as well. Locating and reviewing thousands of veterinary medical records dating back years to determine which procedures were eligible and which were not, was not a cost effective or viable method.

#### FINDING 6 – MIS-STATED INDIRECT COSTS.

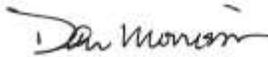
As discussed in Finding 1, SEAACA originally did not prepare ICRP rates because they elected to use the ACTUAL COST METHOD of calculating the Care and Maintenance cost per animal per day. Indirect costs were included in the total division expenditures, so did not have to be calculated separately. The only overhead factored into our original claims was to add a prorated share of the ADMINISTRATIVE Division charges to the SHELTER & VETERINARY department costs.

As a result of this audit and the SCO's request to recalculate costs based on the time study method, SEAACA has prepared ICRP rates that we believe are correct and should be added to the eligible direct costs. These calculations have been submitted to your audit staff via email attachment and it is our understanding that it is being reviewed by your staff. We request that the SCO accept the rate calculations and increase the applicable allowable costs accordingly.

In summary, we believe that the claims submitted by SEAACA complied with the *"claiming instruction, Statement of Decision, and the P's and G's adopted by the Commission."* We believe the SCO is acting in violation of regulation because they are not auditing to the required documents applicable at the time of claim submission. We request that the SCO recalculate SEAACA's eligible costs in light of the issues brought up in this letter.

Thank you for the opportunity to present our review and opinions of your Draft Audit Report. Please contact me at (562) 803-3301 with any questions.

Sincerely,



Dan Morrison  
Executive Director

## ATTACHMENT 1 - ICRPS

### Understated Indirect Costs:

1) We request the allocation base used to calculate and apply overhead to Salaries and Benefits, rather than total direct costs, as is standard.

2) We added the staff overhead costs for supervisory and support positions from all divisions since the rate is an overall agency wide rate.

- Since the rates proposed are an Overall Agency-wide rate, not specific to a division, all supervisory and support staff should be included. Support staff positions (such as Dispatchers and Clerks) do not work directly with the animals, but support those direct staff who do. Support activities include: interacting with the public, answering calls, typing, filing, paperwork, etc. (Note : job descriptions for all overhead staff can be provided if required). Direct time charged to the claim was omitted from indirect cost pool liberally.
- 20% for division head administrative time is included, as discussed – however, we believe that the Office Supervisor is virtually all support (see her job description attached) so left her in at 95% allowable indirect.
- Lead and Senior Animal Control Technicians also perform eligible support and administrative activities. As noted in the "Draft Audit" on page 13, "However, only a percentage of shelter staff is devoted to care and maintenance of animals because staff members also perform non-mandated activities such as recruiting, training, and scheduling." We contend that these activities are all legitimate support or overhead costs necessary to proving shelter care and maintenance services, and should be taken into account, if not in the direct costs, than in the indirect cost rates.

4) Allowable supplies and services which were clear indirect costs and allowable under OMB A-87 guidelines were included.

- **Office Supplies** – all division staff utilizes and consume office supplies for various functions. Shelter staff get kennel and animal reports printed on paper, all shelter staff use time sheets, pens etc.
- **Clothing** - SEAACA stated that uniforms are required for health and safety reasons. They must be washed in bleach to kill germs and prevent the spread of disease, thus street clothes would not be a viable option. This line item was included in the indirect cost rate for all division staff that work with animals.
- **Building & Equipment Maintenance** – these costs are necessary for operating the shelter
- **Staff Development** – training costs for shelter staff is a necessary and an allowable overhead item.
- **Office Equipment** – also used by all division staff, allowable under OMB A-87.
- **Contract Services** – MOC – includes items such as janitorial services, fire security services, and HVAC maintenance costs.











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