

TOWN OF APPLE VALLEY

Reissued Audit Report

ANIMAL ADOPTION PROGRAM

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

July 1, 2007, through June 30, 2009



BETTY T. YEE
California State Controller

January 2021



BETTY T. YEE
California State Controller

January 13, 2021

Sydney Harris, Director of Finance
Town of Apple Valley
14955 Dale Evans Parkway
Apple Valley, CA 92307

Dear Ms. Harris:

The State Controller's Office audited the costs claimed by the Town of Apple Valley for the legislatively mandated Animal Adoption Program for the period of July 1, 2007, through June 30, 2009.

This report is a reissue of the August 15, 2016 final audit report. The previous report identified \$2,040,601 in unallowable direct costs for fiscal year (FY) 2007-08 and FY 2008-09. On July 27, 2020, the Commission on State Mandates (Commission) issued a decision in response to the town's Incorrect Reduction Claim for the Animal Adoption Program. In its decision, the Commission directed the SCO to reinstate care and maintenance costs that were incorrectly reduced as a result of adjusted percentages allocated to the employee classifications performing care and maintenance duties during the audit period. As a result, allowable costs increased by \$28,276, from \$215,608 to \$243,884.

The town claimed \$2,256,209 for costs of the mandated program. Our audit found that \$243,884 is allowable and \$2,012,325 is unallowable. The costs are unallowable because the town overstated allowable costs, claimed unallowable costs and unsupported costs, claimed misclassified costs and ineligible animals, and misstated animal census data. The State made no payments to the town. The State will pay allowable costs claimed, totaling \$243,884, contingent upon available appropriations.

Following issuance of this audit report, the Local Government Programs and Services Division of the State Controller's Office will notify the town of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

MR/ac

cc: The Honorable Curt Emick, Mayor
Town of Apple Valley
Doug Robertson, Town Manager
Town of Apple Valley
Adrianna Atteberry, Animal Services Supervisor
Town of Apple Valley
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
Steven Pavlov, Finance Budget Analyst
Local Government Unit
California Department of Finance
Debra Morton, Manager
Local Reimbursement Section
State Controller's Office

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Reissued Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Town of Apple Valley for the legislatively mandated Animal Adoption Program for the period of July 1, 2007, through June 30, 2009.

The town claimed \$2,256,209 for costs of the mandated program. Our audit found that \$243,884 is allowable and \$2,012,325 is unallowable. The costs are unallowable because the town overstated allowable costs, claimed unallowable costs and unsupported costs, claimed misclassified costs and ineligible animals, and misstated animal census data. The State made no payments to the town. The State will pay allowable costs claimed, totaling \$243,884, contingent upon available appropriations.

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. The statutes expressly identify the State policy that no adoptable animal should be euthanized if it can be adopted into a suitable home and that no treatable animal should be euthanized. The legislation increases the holding period for stray and abandoned dogs, cats, and other specified animals. It also requires public or private shelters to:

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

On January 25, 1981, the Commission on State Mandates (Commission) 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 Commission 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.

The California State Legislature suspended the Animal Adoption Program in the Budget Acts for fiscal year (FY) 2010-11 through FY 2020-21.

Objective, Scope, and Methodology

The objective of our audit was to determine whether costs claimed represent increased costs resulting from the legislatively mandated Animal Adoption Program. Specifically, we conducted this audit to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.¹

The audit period was July 1, 2007, through June 30, 2009.

To achieve our audit objective, we:

- Reviewed the annual mandated cost claims filed by the town for the audit period and identified the significant cost components of each claim as salaries, benefits, materials and supplies, contract services, and indirect costs. Determined whether there were any errors or unusual or unexpected variances from year to year. Reviewed the activities claimed to determine whether they adhered to the SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing key town staff. Discussed the claim preparation process with town staff to determine what information was obtained, who obtained it, and how it was used;
- Interviewed town staff to determine what employee classifications were involved in performing the reimbursable activities;
- Calculated productive hourly rates (PHRs) for all employee classifications performing the mandated activities;
 - For FY 2007-08, we used salary information from the town's Earnings History report and the standard 1,800 productive annual hours to calculate PHRs. We then combined employees of the same classification together to arrive at an average PHR for each classification. Three of the town's employees worked part-time, so we obtained the number of productive hours they worked from the town's Finance Department and calculated their individual PHRs; and
 - For FY 2008-09, the town did not provide salary information for its employees. We used the calculated average PHR for each employee classification from FY 2007-08 as a base and multiplied the product by the FY 2008-09 Consumer Price Index (CPI) of 1.01%. The resulting amounts were the allowable average PHRs for FY 2008-09;
- Calculated employee benefit rates using year-to-date expenditure reports from the Animal Control Department and the Animal Shelter Department. For both FY 2007-08 and FY 2008-09, we divided total benefits by total salaries for each department to arrive at a respective benefit rate for each year. We combined the two benefit rates to arrive at an average benefit rate for both fiscal years;

¹ Unreasonable and/or excessive costs include ineligible costs that are not identified in the programs parameters and guidelines as a reimbursable cost.

- Determined whether costs claimed for the acquisition of additional space and/or construction of new facilities were properly supported through a Board Agenda or other similar supporting documentation showing that the construction was a direct result of the increased holding period requirements of the program;
- Determined the animal census data for each fiscal year:
 - Verified the validity of the town’s raw animal data by working with shelter staff to correct data error entries such as animal data showing negative days impounded, zeroes shown for the number of animals impounded, and other obvious inconsistencies in the raw data;
 - Applied exclusions per the Parameters and Guidelines to the animal data, including removing animals classified as “dead on arrivals”;
 - Added up all of the days that the animals were housed for the given year;
- Determined the number of “eligible” animals for each fiscal year by adjusting the animal census data to include only animals whose outcome was “died” during the increased holding period or “euthanized” after the required holding period (day 7 or later);
- Determined the average number of increased holding days per week (“reimbursable days”) for dogs and cats and other eligible animals;
- Recalculated allowable costs for the Care and Maintenance cost component using the actual cost method:
 - We first calculated allowable costs for labor. To do so, we requested the duty statements of the employee classifications that provide care and maintenance to estimate the percentage of the daily workload that each classification devoted to care and maintenance activities. We then applied these percentages to employees' actual salaries and benefits to arrive at eligible salaries and benefits for this cost component;
 - We then used supporting documentation provided by the town to determine allowable costs for materials and supplies and contract services; and
 - We completed the re-calculation by applying the care and maintenance formula to all allowable costs. Specifically, we divided allowable costs by the animal census to arrive at a cost per animal per day. We performed this re-calculation separately for dogs and cats and then other eligible animals by multiplying the cost per day by the number of eligible animals and the number of reimbursable days to arrive at total care and maintenance costs.
- Recalculated allowable costs for the Increased Holding Period cost component using the town’s supporting documentation showing the shelter’s increased hours of operation and staffing requirements to make animals available for owner redemption on one weekend day per week;

- Calculated allowable costs for the Lost and Found Lists cost component using the town's supporting documentation for contract services (animal data software) that it purchased to comply with the requirements of the program;
- Calculated allowable salaries and benefits and contract services costs for the Maintaining Non-Medical Records cost component using data obtained from a time study the town performed during the audit and invoices provided by the town supporting the purchase of animal data software that is necessary to comply with the requirements of the program;
- Identified allowable costs for the Procuring Equipment cost component in the Capital Equipment and Communications Equipment expense accounts for the animal shelter, and in the Capital Outlay expense account for animal control provided by the town during the audit. Interviewed shelter management and staff to confirm that the equipment purchased was necessary to comply with the requirements of this program and that the town used it solely for mandated activities;
- Calculated indirect costs for all applicable cost components using the ten percent default rate, which we applied to all allowable direct labor costs, excluding fringe benefits; and
- Inquired whether the town realized any offsetting savings or reimbursements from the statutes which created the mandated program.

GC sections 12410, 17558.5, and 17561 provide the legal authority to conduct this audit. We conducted this performance 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review of the town's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations. We did not audit the town's financial statements.

Conclusion

As a result of performing the audit procedures, we found instances of noncompliance with the requirements described in our audit objective. We found that the town did not claim costs funded by another source; however, the unallowable costs are ineligible and unsupported, as quantified in the Summary of Program Costs (Revised Schedule 1), Summary of Care and Maintenance Costs (Revised Schedule 2), and in the Revised Findings and Recommendations section of this report.

For the audit period, the Town of Apple Valley claimed \$2,256,209 for costs of the Animal Adoption Program. Our audit found that \$243,884 is allowable and \$2,012,325 is unallowable. The State made no payments to

the town. The State will pay allowable costs, totaling \$243,884, contingent upon available appropriations.

Following issuance of this audit report, the SCO's Local Government Programs and Services Division will notify the town of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

Views of Responsible Officials

This report is a reissue of the August 15, 2016 final audit report. We informed Sydnie Harris, Director of Finance, of the revisions to this audit report via email on August 7, 2020. Ms. Harris responded by email on August 11, 2020, stating that "The Town agrees to the corrections provided and has no further response to include with the final report."

Reason for Reissuance

On July 27, 2020, the Commission issued a decision in response to the town's incorrect reduction claim. In its decision, the Commission concluded that the SCO's reduction in costs claimed are correct as a matter of law, except for one portion of care and maintenance costs. The Commission concluded that the SCO's recalculation of care and maintenance costs is partially incorrect because we required that the sum of percentages of time devoted by various employee classifications to care and maintenance be limited to 100% when recalculating total annual labor costs of care and maintenance. The Commission directed the SCO to reinstate care and maintenance costs that were incorrectly reduced as a result of adjusted percentages allocated to the classifications performing care and maintenance duties during the audit period. In compliance with the Commission's decision, we reinstated \$26,413 in care and maintenance costs and \$1,863 in related indirect costs. As a result, allowable costs increased by \$28,276, from \$215,608 to \$243,884.

Restricted Use

This audit report is solely for the information and use of the Town of Apple Valley, the California Department of Finance, and 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 audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

January 13, 2021

Revised Schedule 1— Summary of Program Costs July 1, 2007, through June 30, 2009

| Cost Elements | Actual Costs Claimed | Allowable Per Audit | Audit Adjustments | Reference ¹ |
|--|-------------------------|------------------------|-----------------------|------------------------|
| <u>July 1, 2007, through June 30, 2008</u> | | | | |
| Direct costs: | | | | |
| Acquiring space/facilities | \$ 745,135 | \$ - | \$ (745,135) | Finding 1 |
| Care and maintenance of dogs, cats, and other animals ² | 76,034 | 34,152 | (41,882) | Finding 2 |
| Increased holding period | 57,566 | 45,483 | (12,083) | Finding 3 |
| Maintaining non-medical records | - | 31,065 | 31,065 | Finding 5 |
| Procuring equipment | - | 5,252 | 5,252 | Finding 6 |
| Total direct costs | 878,735 | 115,952 | (762,783) | |
| Indirect costs | - | 7,670 | 7,670 | Finding 7 |
| Total program costs | <u>\$ 878,735</u> | 123,622 | <u>\$ (755,113)</u> | |
| Less amount paid by the State ³ | | - | | |
| Allowable costs claimed in excess of amount paid | | <u>\$ 123,622</u> | | |
| <u>July 1, 2008, through June 30, 2009</u> | | | | |
| Direct costs: | | | | |
| Acquiring space/facilities | \$ 1,233,364 | \$ - | \$ (1,233,364) | Finding 1 |
| Care and maintenance of dogs, cats, and other animals ² | 77,199 | 25,845 | (51,354) | Finding 2 |
| Increased holding period | 66,911 | 46,496 | (20,415) | Finding 3 |
| Lost and found lists | - | 995 | 995 | Finding 4 |
| Maintaining non-medical records | - | 31,912 | 31,912 | Finding 5 |
| Procuring Equipment | - | 8,113 | 8,113 | Finding 6 |
| Total direct costs | 1,377,474 | 113,361 | (1,264,113) | |
| Indirect costs | - | 6,901 | 6,901 | Finding 7 |
| Total program costs | <u>\$ 1,377,474</u> | 120,262 | <u>\$ (1,257,212)</u> | |
| Less amount paid by the State ³ | | - | | |
| Allowable costs claimed in excess of amount paid | | <u>\$ 120,262</u> | | |

¹ See the Revised Findings and Recommendations section.

² See Revised Schedule 2—Summary of Care and Maintenance Costs.

Revised Schedule 1 (continued)

| Cost Elements | Actual Costs Claimed | Allowable Per Audit | Audit Adjustments | Reference ¹ |
|---|-------------------------|------------------------|-----------------------|------------------------|
| <u>Summary: July 1, 2007, through June 30, 2009</u> | | | | |
| Direct costs: | | | | |
| Acquiring space/facilities | \$ 1,978,499 | \$ - | \$ (1,978,499) | Finding 1 |
| Care and maintenance of dogs, cats, and other animals ² | 153,233 | 59,997 | (93,236) | Finding 2 |
| Increased holding period | 124,477 | 91,979 | (32,498) | Finding 3 |
| Lost and found lists | - | 995 | 995 | Finding 4 |
| Maintaining non-medical records | - | 62,977 | 62,977 | Finding 5 |
| Procuring equipment | - | 13,365 | 13,365 | Finding 6 |
| Total direct costs | <u>2,256,209</u> | <u>229,313</u> | <u>(2,026,896)</u> | |
| Indirect costs | - | 14,571 | 14,571 | Finding 7 |
| Total direct and indirect costs | <u>\$ 2,256,209</u> | <u>243,884</u> | <u>\$ (2,012,325)</u> | |
| Less amount paid by the State ³ | | - | | |
| Allowable costs claimed in excess of amount paid | | <u>\$ 243,884</u> | | |
| <u>Summary by Object Account: July 1, 2007, through June 30, 2009</u> | | | | |
| Direct Costs: | | | | |
| Salaries and benefits | \$ - | \$ 206,807 | \$ 206,807 | |
| Materials and supplies | 2,256,209 | 16,977 | (2,239,232) | |
| Contract services | - | 5,529 | 5,529 | |
| Total direct costs | <u>2,256,209</u> | <u>229,313</u> | <u>(2,026,896)</u> | |
| Indirect costs | - | 14,571 | 14,571 | |
| Total direct and indirect costs | <u>\$ 2,256,209</u> | <u>243,884</u> | <u>\$ (2,012,325)</u> | |
| Less amount paid by the State ³ | | - | | |
| Allowable costs claimed in excess of amount paid | | <u>\$ 243,884</u> | | |

³ Payment amount current as of December 10, 2020.

Revised Schedule 2— Summary of Care and Maintenance Costs July 1, 2007, through June 30, 2009

| Category | Total Costs Claimed (Services & Supplies) | Allowable per Audit | | | | Total Costs Allowable | Audit Adjustment |
|---|---|---------------------|------------|-------------------------|----------------------|-----------------------------|---------------------|
| | | Salaries | Benefits | Materials & Supplies | Contract Services | | |
| <u>July 1, 2007, through June 30, 2008</u> | | | | | | | |
| Total care and maintenance costs | \$ 610,549 | \$ 265,852 | \$ 109,316 | \$ 17,884 | \$ 11,510 | | |
| Total animal census | ÷ 47,666 | ÷ 57,701 | ÷ 57,701 | ÷ 57,701 | ÷ 57,701 | | |
| Cost per day | \$ 12.81 | \$ 4.61 | \$ 1.89 | \$ 0.31 | \$ 0.20 | | |
| Care and maintenance of dogs and cats: | | | | | | | |
| Cost per day | \$ 12.81 | \$ 4.61 | \$ 1.89 | \$ 0.31 | \$ 0.20 | | |
| Number of eligible dogs and cats | × 2,844 | × 1,622 | × 1,622 | × 1,622 | × 1,622 | | |
| Reimbursable days | × 2 | × 3 | × 3 | × 3 | × 3 | | |
| Total care and maintenance costs for dogs and cats ¹ | \$ 72,857 | \$ 22,432 | \$ 9,197 | \$ 1,508 | \$ 973 | \$ 34,110 | \$ (38,747) |
| Care and maintenance of other 'eligible' animals: | | | | | | | |
| Cost per day | \$ 12.81 | \$ 4.61 | \$ 1.89 | \$ 0.31 | \$ 0.20 | | |
| Number of eligible other animals | × 62 | × 1 | × 1 | × 1 | × 1 | | |
| Reimbursable days | × 4 | × 6 | × 6 | × 6 | × 6 | | |
| Total care and maintenance costs for other animals | \$ 3,177 | \$ 28 | \$ 11 | \$ 2 | \$ 1 | \$ 42 | \$ (3,135) |
| Total care and maintenance costs | \$ 76,034 | \$ 22,460 | \$ 9,208 | \$ 1,510 | \$ 974 | \$ 34,152 | \$ (41,882) |
| <u>July 1, 2008, through June 30, 2009</u> | | | | | | | |
| Total care and maintenance costs | \$ 694,234 | \$ 222,857 | \$ 95,473 | \$ 28,925 | \$ 11,617 | | |
| Total animal census | ÷ 58,669 | ÷ 57,233 | ÷ 57,233 | ÷ 57,233 | ÷ 57,233 | | |
| Cost per day | \$ 11.83 | \$ 3.89 | \$ 1.67 | \$ 0.51 | \$ 0.20 | | |
| Care and maintenance of dogs and cats: | | | | | | | |
| Cost per day | \$ 11.83 | \$ 3.89 | \$ 1.67 | \$ 0.51 | \$ 0.20 | | |
| Number of eligible dogs and cats | × 3,098 | × 1,366 | × 1,366 | × 1,366 | × 1,366 | | |
| Reimbursable days | × 2 | × 3 | × 3 | × 3 | × 3 | | |
| Total care and maintenance costs for dogs and cats ¹ | \$ 73,318 | \$ 15,941 | \$ 6,844 | \$ 2,090 | \$ 820 | \$ 25,695 | \$ (47,623) |
| Care and maintenance of other 'eligible' animals: | | | | | | | |
| Cost per day | \$ 11.83 | \$ 3.89 | \$ 1.67 | \$ 0.51 | \$ 0.20 | | |
| Number of eligible other animals | × 82 | × 4 | × 4 | × 4 | × 4 | | |
| Reimbursable days | × 4 | × 6 | × 6 | × 6 | × 6 | | |
| Total care and maintenance costs for other animals ¹ | \$ 3,881 | \$ 93 | \$ 40 | \$ 12 | \$ 5 | \$ 150 | \$ (3,731) |
| Total care and maintenance costs | \$ 77,199 | \$ 16,034 | \$ 6,884 | \$ 2,102 | \$ 825 | \$ 25,845 | \$ (51,354) |
| <u>Summary: July 1, 2007, through June 30, 2009</u> | | | | | | | |
| Care and maintenance: | | | | | | | |
| Dogs and cats | \$ 146,175 | \$ 38,373 | \$ 16,041 | \$ 3,598 | \$ 1,793 | \$ 59,805 | \$ (86,370) |
| Other 'eligible' animals | 7,058 | 121 | 51 | 14 | 6 | 192 | (6,866) |
| Total care and maintenance costs | \$ 153,233 | \$ 38,494 | \$ 16,092 | \$ 3,612 | \$ 1,799 | \$ 59,997 | \$ (93,236) |

¹ Differences in Total Costs Claimed column are due to rounding.

Revised Findings and Recommendations

**FINDING 1—
Unallowable
Acquisition of
Additional Space
and/or Construction
of New Facilities costs**

The town claimed services and supplies costs totaling \$1,978,499 during the audit period under the Acquisition of Additional Space and/or Construction of New Facilities cost component. We found that the entire amount is unallowable because the town did not support, through a Board Agenda or other similar supporting documentation, that the construction was a direct result of the increased holding period requirements of this mandated program.

In its fiscal year (FY) 2008-09 claim, the town provided supporting documentation for the expenditures that it incurred in the form of a Transaction Detail Report for RDA Project Area #2 – Capital Projects. The town’s detail report listed expenditures for both the land acquisition and the related expenses for the construction of the new animal shelter. The report was dated July 1, 2006, through October 25, 2010. The audit period is July 1, 2007, through June 30, 2009. Therefore, many of the expenses listed in the report are outside of the audit period.

In its claims, the town states that prior to March 2005, the town contracted with the City of Hesperia for animal shelter services. In FY 2005-06, the town established its own animal care facility. The facility was intended to be temporary; therefore, temporary capital improvements were made to an existing building to allow for the housing of animals in the town’s own jurisdiction. We obtained online a “special meeting workshop” document dated February 16, 2007, wherein the Deputy Town Manager discusses “public facilities priorities.” In this workshop, town officials mention that the town experienced population growth and that the existing animal shelter was only a temporary solution. We also obtained online a Town Council Meeting Agenda dated July 10, 2007, approving the award of professional service agreements for the design of the new animal shelter facility. The agenda authorized staff to “commence the process of issuing redevelopment tax allocation bonds for the Public Works and Animal Shelter facilities....” We also obtained online flyers/media releases stating that “Apple Valley’s sound budget and conservative financial management have positioned the town for growth, even in the current economy. Infrastructure planning is a top priority at a time when we can get the most for our money.”

Based on this information, we determined that the town’s animal shelter was constructed in FY 2007-08 through FY 2008-09 because of population growth, the temporary nature of the existing shelter, and the cost-effectiveness of taking on the project at that time. However, the town did not provide documentation that complies with the requirements contained in the parameters and guidelines, stating that “constructing new facilities is necessary for the increased holding period required by Statutes of 1998, Chapter 752 and that existing facilities do not reasonably accommodate impounded stray or abandoned dogs, cats, and other specified animals that are ultimately euthanized.” In other words, that the construction of new facilities was necessitated as a result of the legislative requirements of the Hayden Bill, which extended the required holding period of stray dogs, cats, and other animals.

Additionally, reimbursement for this component is limited to the proportionate share of actual costs required to plan, design, acquire, and/or build facilities in a given fiscal year based on the pro-rata representation of impounded stray or abandoned dogs, cats, and other animals that are held during the increased holding period and either die during the increased holding period or are euthanized after the increased holding period to the total population of animals housed in the facility during the entire holding period. In its claims, the town pro-rated the costs at 51.8% for FY 2007-08 and 12.9% for FY 2008-09; however, it did not provide calculations to show how it arrived at these percentages.

The parameters and guidelines (section IV.B.1–Acquisition of Additional Space and/or Construction of New Facilities) identify the following reimbursable activities:

Beginning January 1, 1999, for acquiring additional space by purchase or lease and/or construction of new facilities to provide appropriate or adequate shelter necessary to comply with the mandated activities during the increased holding period for impounded stray or abandoned dogs, cats, and other animals specified in Statutes of 1998, chapter 752 that die during the increased holding period or are ultimately euthanized.

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

Supporting Documentation Submitted with the Initial and Subsequent Reimbursement Claims

Acquiring additional space and/or construction of new facilities is reimbursable only to the extent that an eligible claimant submits, with the initial and/or subsequent reimbursement claim, documentation reflecting the following:

A determination by the governing board that acquiring additional space and/or constructing new facilities is necessary for the increased holding period required by Statutes of 1998, Chapter 752 because the existing facilities do not reasonably accommodate impounded stray or abandoned dogs, cats, and other specified animals that are ultimately euthanized. The determination by the governing board shall include all of the following findings:

- The average daily census of impounded stray or abandoned dogs, cats, and other animals specified in Statutes of 1998, Chapter 752 that were impounded in 1998. For purposes of claiming reimbursement under section IV.B.1, average Daily Census is defined as the average number of impounded stray or abandoned dogs, cats, and other animals specified in Statutes of 1998, Chapter 752 housed on any given day, in a 365-day period;

- The average daily census of impounded stray or abandoned dogs, cats, and other animals specified in Statutes of 1998, Chapter 752 that were impounded in a given year under the holding periods required by Food and Agriculture Code sections 31108, 31752, and 31753, as added or amended by Statutes of 1998, Chapter 752;
- Existing facilities are not appropriately configured and/or equipped to comply with the increased holding period required by Statutes of 1998, Chapter 752;
- Remodeling existing facilities is not feasible or is more expensive than acquiring additional space and/or constructing new facilities to comply with the increased holding period required by Statutes 1998, chapter 752; and
- Contracting with existing private or public shelters in the area to house the increase of impounded stray or abandoned dogs, cats, or other animals specified in Statutes 1998, chapter 752 is not feasible or is more expensive than acquiring additional space and/or contracting new facilities to comply with the increased holding period required by Statutes 1998, chapter 752. This finding should include the cost to contract with existing shelters.

Documentation requirements may be satisfied in whole or in part by staff agenda items, staff reports, minutes of governing board meetings, transcripts of governing board meetings, certification by the governing board describing the finding and determination and/or a resolution adopted by the governing board pursuant to Food and Agriculture Code section 31755, as added by Statutes of 1999, Chapter 81 (Assembly Bill 1482).

The parameters and guidelines (section IV – Reimbursable Activities) state that:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documentation to show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2020-21 Budget Acts. If the program becomes active, we recommend that the town ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

REVISED FINDING 2— Overstated Care and Maintenance costs

The town claimed direct costs totaling \$153,233 (\$146,175 for dogs and cats and \$7,058 for other animals) during the audit period for the Care and Maintenance cost component. We found that \$59,997 is allowable and \$93,236 is unallowable. The costs are unallowable because the town claimed unallowable services and supplies costs; misclassified costs; did not correctly calculate the annual census and the eligible number of dogs, cats and other animals; and did not correctly apply the care and maintenance formula.

The following table summarizes the claimed, allowable, and audit adjustment amounts for care and maintenance costs for the audit period. Refer to Revised Schedule 2 (Summary of Care and Maintenance Costs) for further details.

| Fiscal Year | Amount Claimed | | | Amount Allowable | | | Audit Adjustment |
|--------------|-------------------|---------------|-------------------|------------------|---------------|------------------|--------------------|
| | Dogs/Cats | Other Animals | Total Claimed | Dogs/Cats | Other Animals | Total Allowable | |
| 2007-08 | \$ 72,857 | \$ 3,177 | \$ 76,034 | \$ 34,110 | \$ 42 | \$ 34,152 | \$ (41,882) |
| 2008-09 | 73,318 | 3,881 | 77,199 | 25,695 | 150 | 25,845 | (51,354) |
| Total | \$ 146,175 | 7,058 | \$ 153,233 | \$ 59,805 | \$ 192 | \$ 59,997 | \$ (93,236) |

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 measured 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 Agriculture Code section 31753 that Die During the Increased Holding Period or Are Ultimately Euthanized) also state:

Beginning January 1, 1999 – For 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.

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 when 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.

The parameters and guidelines state that claimants may elect to use either 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. The town elected to use the Actual Cost Method to claim these costs.

The parameters and guidelines specify the following steps for claiming costs using the Actual Cost Method:

Actual Cost Method – 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. For purposes of claiming reimbursement under IV.B.3, average daily census is defined as the average number of all dogs and cats at a facility housed on any given day, in 365-day period and the average number of all other animals at a facility housed on any given day, in a 365-day period.
- c) Multiply the average daily census of dogs, cats and other animals by 365 = 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 stray or abandoned dogs, cats and other animals that die during the increased holding period or are ultimately euthanized by each reimbursable day.

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 days from the day after impoundment.

Care and Maintenance Formula

The town 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 and 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(s). This total is divided by the annual census of animals housed in the shelter(s) 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 plus 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 *Purifoy v. Howell* dated March 26, 2010.

The mandate reimburses claimants for costs associated with animals that were not relinquished, redeemed, adopted, or released to a nonprofit agency—and for animals for which the local agency was unable to assess fees to recover such costs. Costs incurred by the town for care and maintenance consisted of salaries and benefits, materials and supplies, contract services, and related indirect costs (related indirect costs are addressed separately in Finding 7).

Claimed

The town used an incorrect methodology to claim costs for care and maintenance during the audit period. The town calculated care and maintenance costs by taking total expenditures incurred within Department 2130 (Animal Shelter), subtracting costs for the Spay/Neuter Program (account 8988), adding in a 40% overhead factor for the Municipal Services Director, and dividing the overall total of this calculation by the annual census of animals to determine the cost per animal per day. The cost per animal per day was then multiplied by the number of dogs and cats, and other animals euthanized during the year. The number of dogs and cats euthanized during the year was multiplied by a factor of two to correspond to the number of extra days in the holding period, and the number of other animals had been multiplied by a factor of four.

This methodology is incorrect for a number of reasons. First, using the total of costs incurred within the animal shelter less costs for the spay and neuter program assumes that *all* of the remaining costs were 100% related to the care and maintenance of animals. This is an incorrect assumption, as certain non-reimbursable activities take place within the animal shelter, such as animal licensing and adoption. In addition, certain activities take place that are not related to care and maintenance, such as employee education and training, meetings and conferences, office-related expenditures, and costs for veterinary medical services. Allowable costs for these activities are claimable under a different cost component. There is no language in the parameters and guidelines permitting claimants the option to claim costs for multiple cost components using the Actual Cost Method option prescribed for care and maintenance activities. In addition, the factors unique to claiming costs for care and maintenance are not found within the other cost components.

Allowable

We worked with town representatives to determine which employee classifications performed care and maintenance activities and to what extent. We also obtained actual cost data for materials and supplies and contract services costs that were directly related to care and maintenance activities. The town provided its animal census database for the audit period; we used the database to determine the annual census of animals,

as well as the numbers of eligible animals. We calculated indirect costs related to care and maintenance activities separately within Finding 7. Revised Schedule 2 (Summary of Care and Maintenance Costs) summarizes the adjustments that we made to claimed costs for animal care and maintenance. These adjustments consisted of changes to total annual costs incurred by the town for animal care and maintenance (salaries, benefits, materials and supplies, and contract services) and animal census data used to determine the cost per animal per day. The schedule also shows the changes to the number of eligible animals and the number of reimbursable days that we used to determine reimbursable costs for each year of the audit period.

Salaries and Benefits

The town did not claim salaries and benefits for the audit period. Rather, it claimed costs for salaries and benefits, materials and supplies, contract services, and indirect costs under the category of services and supplies, resulting in misclassified costs.

During the course of the audit, we requested that the town provide the actual salary amounts paid to those employee classifications directly involved with the care and maintenance function. Due to record-retention and software issues, the town provided salary information for FY 2007-08 only. In the absence of supporting documentation for FY 2008-09 salary amounts, we proposed and the town agreed to use FY 2007-08 salary amounts as a base and applied the 2008-09 CPI index of 1.01%. Refer to Finding 8 for further information on the analysis of salaries and benefits.

We also requested the duty statements for such classifications to assist in determining the percentage of the daily workload that was devoted to caring for and maintaining animals. Animal shelter management provided a list of personnel who participate in the care and maintenance functions. Management also provided information relating to the level of involvement of each classification according to the employee's job duty description and staffing requirements during the audit period.

The following table details the percent of animal care and maintenance per employee classification for the town's animal shelter for the audit period, as determined by shelter management.

Employee Classification

| | |
|----------------------------------|-----|
| Animal Shelter Attendant | 80% |
| Animal Control Technician | 25% |
| Animal Control Officer | 10% |
| Animal Control Supervisor | 5% |
| Registered Veterinary Technician | 85% |
| Animal Shelter Supervisor | 10% |

Animal Shelter Attendant/Assistant

Based on discussions with shelter management, the Animal Shelter Attendant/Assistant classification performed the bulk of the care and maintenance activities during the audit period. The town determined that this classification performed 80% of the care and maintenance

activities. The remaining duties included reviewing applications for adoptions, counseling citizens, assisting with screening calls, overseeing volunteer and work release, and other duties as assigned.

Animal Control/Customer Service Technician

Based on discussions with shelter management, the Animal Control/Customer Service Technician classification performed a minimal amount of care and maintenance activities during the audit period, as the classification is mostly administrative in nature. The town determined that this classification performed 25% of the care and maintenance activities. The remaining duties included staffing the front counter, clerical tasks, issuing dog licenses, screening calls, and dispatching.

Animal Control Officer

Based on discussions with shelter management, the Animal Control Officer classification performed a minimal amount of care and maintenance activities during the audit period, as the classification is mostly in the field, retrieving stray dogs and cats and working with citizens. The town determined that this classification performed 10% of the care and maintenance activities, including morning cleaning and feeding of dogs. The remaining duties included running citizen calls, paperwork follow-up, door-to-door canvassing, and administrative hearings.

Animal Control Supervisor

Based on discussions with shelter management, the Animal Control Supervisor classification performed minimal amounts of care and maintenance activities during the audit period. Similar to the Animal Control Officer, this classification is mostly in the field with some administrative duties. The town determined that this classification performed 5% of the care and maintenance activities, including morning cleaning and feeding of dogs. The remaining duties included running calls, paperwork follow-up, door-to-door canvassing, administrative hearings, and employee evaluations.

Registered Veterinary Technician

Based on discussions with shelter management, we determined that the Registered Veterinary Technician classification performed many of the care and maintenance activities during the audit period. Due to a shortage of Animal Shelter Attendants during both fiscal years, the Registered Veterinary Technician was required to absorb more of the general care and maintenance duties. The town determined that the employee in this classification spent 85% of their daily time on care and maintenance activities, including routine animal care. The remaining duties included paraprofessional veterinary medical care and other duties as assigned.

Animal Shelter Supervisor

Based on discussions with shelter management, we determined that the Animal Shelter Supervisor classification performed a minimal amount of care and maintenance activities during the audit period, as this

classification is mostly supervisory and administrative. The town determined that this classification performed 10% of the care and maintenance activities. The remaining duties included assisting management, conducting facility inspections, creating reports, and overseeing personnel.

Calculation

Based on our inquiries, we concurred with the above percentages of employee classification involvement as determined by the town. Once we determined the employee classifications involved in the care and maintenance of animals and the extent of their involvement, we calculated allowable costs for labor, including the applicable percentages of actual salaries and benefits costs incurred by the town for this cost component.

The following table summarizes the salaries and benefits amounts that we used in the care and maintenance formula by fiscal year:

| <u>Fiscal Year</u> | <u>Amount Claimed</u> | <u>Amount Supported</u> | <u>Difference</u> |
|------------------------|---------------------------|-----------------------------|-------------------|
| Salaries and benefits: | | | |
| 2007-08 | \$ - | \$ 375,168 | \$ 375,168 |
| 2008-09 | - | 318,330 | 318,330 |
| Total | <u>\$ -</u> | <u>\$ 693,498</u> | <u>\$ 693,498</u> |

Materials and Supplies

The town claimed materials and supplies costs totaling \$153,233 during the audit period (\$146,175 for dogs and cats and \$7,058 for other animals). As detailed above, the town used an incorrect methodology to claim care and maintenance costs. The town misclassified all of the costs as services and supplies rather than materials and supplies. It also co-mingled estimated salaries and benefits, materials and supplies, contract services, and various other expenditures. These co-mingled costs included items that are not reimbursable under the Care and Maintenance cost component.

In order to determine allowable material and supplies costs, we worked in conjunction with shelter management to identify materials and supplies costs eligible for reimbursement for the Care and Maintenance cost component. The town provided expenditure reports and line item descriptions of the costs for both the Animal Shelter Department (2130) and the Animal Control Department (2120). We identified materials and supplies costs related to the care and maintenance of all animals in the following accounts:

- Account 7305 – Animal Food Supplies
- Account 7370 – Special Department Expense
- Account 9026 – Equipment Maintenance (parts)
- Account 7265 – Office Supplies
- Account 7277 – Printing
- Account 7655 – Cleaning Service and Sanitary Supplies

We excluded certain expenditures posted to these accounts that were not used for care and maintenance activities.

Dogs and Cats

The town claimed \$72,857 in materials and supplies costs for dogs and cats for FY 2007-08 and \$73,318 for FY 2008-09. As mentioned above, these costs consisted of various expenditures that were co-mingled and misclassified as services and supplies. We worked with shelter staff to determine the actual amounts of materials and supplies costs incurred for care and maintenance activities of all animals for each year of the audit period.

The following table shows the amount of materials and supplies claimed, the amount supported, and the difference by fiscal year:

| Fiscal Year | Expenditure Category | Amount Claimed | Amount Supported | Difference |
|-------------------------------|---|-------------------|------------------|--------------------|
| 2007-08 | | | | |
| | Co-mingled animal shelter costs | \$ 72,857 | \$ - | \$ (72,857) |
| | 7305 - Animal Food Supplies | - | 10,222 | 10,222 |
| | 7370 - Special Dept. Expense | - | 7,016 | 7,016 |
| | 9026 - Equipment Maintenance (parts) | - | 294 | 294 |
| | 7265 - Office Supplies | - | 8 | 8 |
| | 7277 - Printing | - | 344 | 344 |
| | | <u>\$ 72,857</u> | <u>\$ 17,884</u> | <u>\$ (54,973)</u> |
| 2008-09 | | | | |
| | Co-mingled animal shelter costs | \$ 73,318 | \$ - | \$ (73,318) |
| | 7305 - Animal Food Supplies | - | 12,464 | 12,464 |
| | 7370 - Special Dept. Expense | - | 11,704 | 11,704 |
| | 7655 - Cleaning Service & Sanitary Supplies | - | 4,108 | 4,108 |
| | 9026 - Equipment Maintenance (parts) | - | 649 | 649 |
| | | <u>\$ 73,318</u> | <u>\$ 28,925</u> | <u>\$ (44,393)</u> |
| Total, materials and supplies | | <u>\$ 146,175</u> | <u>\$ 46,809</u> | <u>\$ (99,366)</u> |

Other Animals

The town claimed \$3,177 in materials and supplies costs for other animals for FY 2007-08 and \$3,881 for FY 2008-09. These costs consisted of various expenditures that were co-mingled and misclassified as services and supplies. We worked with shelter staff to determine the actual amounts of materials and supplies costs incurred for care and maintenance of all animals for each year of the audit period. Allowable costs for other animals are already included in the table above.

The following table shows the amount of materials and supplies costs claimed, the amount supported, and the difference by fiscal year:

| Fiscal Year | Expenditure Category | Amount Claimed | Amount Supported | Difference |
|-------------------------------|---------------------------------|-----------------|------------------|-------------------|
| 2007-08 | | | | |
| | Co-mingled animal shelter costs | \$ 3,177 | \$ - | \$ (3,177) |
| 2008-09 | | | | |
| | Co-mingled animal shelter costs | \$ 3,881 | \$ - | \$ (3,881) |
| Total, materials and supplies | | <u>\$ 7,058</u> | <u>\$ -</u> | <u>\$ (7,058)</u> |

The following table summarizes the gross amount of materials and supplies costs claimed, the amount supported, and the difference by fiscal year. We used the totals in the amount supported column in the care and maintenance formula for both dogs and cats and other animals for each fiscal year of the audit period.

| Fiscal Year | Gross Amount of Materials and Supplies | | |
|-------------|--|------------------|---------------------|
| | Amount Claimed | Amount Supported | Difference |
| 2007-08 | \$ 76,034 | \$ 17,884 | \$ (58,150) |
| 2008-09 | 77,199 | 28,925 | (48,274) |
| Total | <u>\$ 153,233</u> | <u>\$ 46,809</u> | <u>\$ (106,424)</u> |

Contract Services

The town did not claim contract services costs during the audit period, as all costs were co-mingled and claimed as services and supplies. During the course of the audit, the town provided expenditure reports and line item descriptions for utilities costs incurred during the audit period.

FY 2007-08

Per shelter management, all of the town's utilities were billed to the Public Services Account through one master bill. Costs could not be broken down for the animal shelter, except for the water bill. The water company was able to provide a breakdown of the amount paid by the town for services to the animal shelter address. Using utility cost data that was available for FY 2008-09, we allocated electricity and natural gas costs applicable to FY 2007-08 based on animal census data for the two fiscal years. The percent difference in the animal census for FY 2007-08 compared to FY 2008-09 was 1.01. Therefore, we multiplied the electricity and natural gas costs in FY 2008-09 by a factor of 1.01% to arrive at costs for FY 2007-08.

FY 2008-09

Beginning with FY 2008-09, the town started billing utilities separately to each department, with the exception of phone and trash. Therefore, we were able to identify utilities costs for electricity, natural gas, and water in the town's expenditure reports for the animal shelter (Department 2130).

We held discussions with shelter management, who determined that the following pro-rata percentages should be applied to utility costs as they relate to the care and maintenance of animals:

- Water at 85% – the town reasoned that almost all of the water consumed by the shelter is a direct result of care and maintenance of the animals—for example, providing water, washing down and sanitizing the kennels and stalls, and washing bedding. There was no landscaping to water, only one restroom for staff, and a small kitchen sink.

- Electricity and natural gas at 85% – the town reasoned that during the audit period, staff and animals were housed at the old shelter, where staff had to continually keep swamp coolers running in the summer and heaters running during the winter to keep the animals comfortable. The facility also has a gas-powered laundry dryer.

We reviewed the town’s assessment of utility costs incurred for care and maintenance activities and found that the town’s determination of the pro-rata percentages is reasonable.

The following table summarizes the actual costs, the costs claimed, the allowable pro-rata percentage, the allowable costs, and audit adjustment amounts for contract services by fiscal year:

| Fiscal Year | Expenditure | Actual Cost | Amount Claimed | Pro-Rata Percentage Allowable | Amount Allowable | Audit Adjustment |
|--------------------------|-------------|------------------|----------------|-------------------------------|------------------|------------------|
| 2007-08 | | | | | | |
| | Electricity | \$ 7,456 | \$ - | 85% | \$ 6,338 | \$ 6,338 |
| | Natural Gas | 5,248 | - | 85% | 4,461 | 4,461 |
| | Water | 837 | - | 85% | 711 | 711 |
| | | <u>\$ 13,541</u> | <u>\$ -</u> | | <u>\$ 11,510</u> | <u>\$ 11,510</u> |
| 2008-09 | | | | | | |
| | Electricity | \$ 7,395 | \$ - | 85% | \$ 6,286 | \$ 6,286 |
| | Natural Gas | 5,205 | - | 85% | 4,425 | 4,425 |
| | Water | 1,066 | - | 85% | 906 | 906 |
| | | <u>\$ 13,666</u> | <u>\$ -</u> | | <u>\$ 11,617</u> | <u>\$ 11,617</u> |
| Total, contract services | | <u>\$ 27,207</u> | <u>\$ -</u> | | <u>\$ 23,127</u> | <u>\$ 23,127</u> |

Animal Census Data

The yearly animal census refers to the total number of days that all animals were housed in the town’s shelter. The actual cost formula requires the eligible cost of care to be divided by the yearly census to arrive at an average cost per animal per day. The cost per animal per day is then multiplied by the number of “eligible” animals (defined further) and the number of increased days.

The town provided the actual animal census information from its Shelter Pro database system for the audit period. We worked in conjunction with shelter management to determine the allowable animal census per fiscal year. Management verified the validity of the raw data and corrected any data entry errors. For example, staff corrected animal data showing negative days impounded, zeroes shown for the number of animals impounded, and other obvious inconsistencies in the raw data. We applied the exclusions per the parameters and guidelines to the raw animal data provided by the town.

The following table summarizes the claimed and allowable animal census information by fiscal year:

| Fiscal Year | Animal Census | | |
|-------------|----------------|------------------|------------|
| | Census Claimed | Census Allowable | Difference |
| 2007-08 | 47,666 | 57,701 | 10,035 |
| 2008-09 | 58,669 | 57,233 | (1,436) |
| Total | 106,335 | 114,934 | 8,599 |

Eligible Dogs, Cats, and Other Animals

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

Eligible dogs and cats:

- Died of natural causes during the increased holding period: died on days 4, 5, and 6
- Ultimately euthanized: euthanized on day 7 of the holding period and beyond

Eligible Other Animals:

- Died of natural causes during the increased holding period: died on 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 on day 7 of the holding period and beyond

The town overstated the number of eligible dogs, cats, and other animals for each year of the audit period. In order to determine the correct number of eligible animals for each fiscal year of the audit period, we requested animal data from the town. We applied the number of eligible animals to the actual cost formula for all years of the audit period. We consistently applied the exclusions per the parameters and guidelines to the raw animal data provided by the town.

The following table summarizes the claimed and allowable eligible animals used in the care and maintenance formula for the audit period by fiscal year:

| Fiscal Year | Eligible Animals Claimed | | | Eligible Animals Allowable | | |
|-------------|--------------------------|---------------|---------------|----------------------------|---------------|-----------------|
| | Dogs/Cats | Other Animals | Total Claimed | Dogs/Cats | Other Animals | Total Allowable |
| 2007-08 | 2,844 | 62 | 2,906 | 1,622 | 1 | 1,623 |
| 2008-09 | 3,098 | 82 | 3,180 | 1,366 | 4 | 1,370 |
| Total | 5,942 | 144 | 6,086 | 2,988 | 5 | 2,993 |

Reimbursable Days

For both fiscal years of the audit period, the town claimed two reimbursable days for dogs and cats and four reimbursable days for other animals. The town's claims state that the mandate added two extra holding days for dogs and cats and four extra holding days for other animals. In fact, the mandate required shelters to keep dogs and cats and other animals for four business days after the day of impoundment, excluding Saturdays, Sundays, and legal holidays. Prior to this mandated program, the law stated that dogs and cats must be kept for 72 hours from the time of impoundment, and there was no requirement for other animals. As a result of the "four business days" holding requirement, the average number of increased holding days per week for dogs and cats is three days and for other animals is six days. The town did not correctly apply the increased holding period requirement of this mandate when calculating the number of reimbursable days.

An Appellate Court decision in *Purifoy v. Howell* dated March 26, 2010, 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.

Assembly Bill 222

Assembly Bill 222 (Chapter 97, Statutes of 2011) was enacted on July 25, 2011, and 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. This bill was applicable beginning January 1, 2012 and does not affect the audit period covered in this audit.

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2020-21 Budget Acts. If the program becomes active, we recommend that the town ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

FINDING 3— Overstated Increased Holding Period costs

The town claimed a total of \$124,477 for services and supplies costs under the Increased Holding Period cost component. We found that \$91,979 is allowable and \$32,498 is unallowable. The costs are unallowable because the town claimed unallowable services and supplies costs, misclassified costs, and used an incorrect methodology for claiming costs.

The following tables summarize the claimed, allowable, and unallowable costs for the Increased Holding Period cost component for the audit period by fiscal year:

| <u>Fiscal Year</u> | <u>Amount Claimed</u> | <u>Amount Allowable</u> | <u>Audit Adjustment</u> |
|---------------------------------|---------------------------|-----------------------------|-----------------------------|
| Services and supplies: | | | |
| 2007-08 | \$ 57,566 | \$ - | \$ (57,566) |
| 2008-09 | 66,911 | - | (66,911) |
| Subtotal, services and supplies | <u>\$124,477</u> | <u>\$ -</u> | <u>\$(124,477)</u> |

| <u>Fiscal Year</u> | <u>Amount Claimed</u> | <u>Amount Allowable</u> | <u>Audit Adjustment</u> |
|---------------------------------|---------------------------|-----------------------------|-----------------------------|
| Salaries and benefits: | | | |
| 2007-08 | \$ - | \$ 45,483 | \$ 45,483 |
| 2008-09 | - | 46,496 | 46,496 |
| Subtotal, salaries and benefits | <u>\$ -</u> | <u>\$ 91,979</u> | <u>\$ 91,979</u> |

| <u>Fiscal Year</u> | <u>Amount Claimed</u> | <u>Amount Allowable</u> | <u>Audit Adjustment</u> |
|---------------------|---------------------------|-----------------------------|-----------------------------|
| Total direct costs: | | | |
| 2007-08 | \$ 57,566 | \$ 45,483 | \$ (12,083) |
| 2008-09 | 66,911 | 46,496 | (20,415) |
| Total | <u>\$124,477</u> | <u>\$ 91,979</u> | <u>\$ (32,498)</u> |

Services and Supplies

The town claimed \$124,477 for services and supplies for the audit period. We found that the entire amount is unallowable. Under this component, claimants are reimbursed for making animals available for owner redemption on either one weekday evening or one weekend day. The town made animals available for owner redemption during the audit period by staying open to the public for six hours on Saturdays.

The town claimed costs for this component by using total shelter costs incurred in animal shelter (Department 2130) less costs reported in account 8988 (Spay/Neuter Program). This revised total for shelter cost was then divided by 2,912, a number described as "total hours of facility operations" in the town's claims. The resulting amount was described as the "cost per hour" to operate the entire shelter, which was then multiplied by the number of hours that the town's shelter was open during the year on Saturdays (312) to calculate claimed costs.

The town's methodology for claiming costs under this component is incorrect. Using total costs incurred by the animal shelter (less spay and neuter costs) to determine an hourly amount to operate the animal shelter assumes that all of the remaining costs incurred to operate the shelter on Saturdays are reimbursable. This assumption is not consistent with the

requirements of this mandated program. For example, costs incurred for non-reimbursable activities such as animal licensing, adoption, and euthanasia are not reimbursable at any time. In addition, costs incurred for animal care and maintenance were claimed under that cost component, yet were not factored out in the town's calculations for this cost component. Moreover, the town misclassified the costs as "services and supplies" costs rather than as salary and benefit costs.

Salaries and Benefits

As mentioned above, the town did not claim salaries and benefits during the audit period. Instead, it used an incorrect methodology for calculating allowable costs and then misclassified them as services and supplies. We found that the town incurred a total of \$91,979 in allowable salaries and benefits for the audit period.

Hours of Operation

For each year of the audit period, the town provided support that its animal shelter was open to the public on Saturdays from 9:00 a.m. to 3:00 p.m., for a total of six hours per employee performing the reimbursable activities. The shelter met the requirements of the mandate by making animals available for owner redemption on the weekend day.

The shelter's hours of operation are essential in determining the allowable hours to comply with the Increased Holding Period cost component. For both fiscal years of the audit period, the town correctly claimed and was able to support that the shelter was open to the public on Saturdays from 9:00 a.m. to 3:00 p.m., for a total of six hours per allowable employee.

Staffing Requirements

We discussed with shelter management the staffing requirements to make animals available for owner redemption on Saturdays, when the shelter was open to the public, in comparison to Sundays, when the shelter was closed. We also obtained staffing schedules for the town's shelter to determine the number of increased positions necessary to perform the reimbursable activities.

The town did not claim employee classifications under this component. The staffing schedules for both fiscal years of the audit period show that on Sundays, when the shelter was closed to the public, the shelter was staffed with just one Animal Shelter Attendant/Assistant. However, when the shelter was open to the public on Saturdays, the shelter was staffed with the following:

- Two Animal Shelter Attendants/Assistants;
- One Shelter Supervisor;
- Two Animal Control/Customer Service Technicians; and
- Two Animal Control Officers in FY 2007-08 and one in FY 2008-09.

Based on the staffing schedules provided, the increased staff positions on Saturdays needed to perform the reimbursable activities consisted of one

Animal Shelter Attendant/Assistant, one Animal Shelter Supervisor, and two Animal Control/Customer Service Technicians. We excluded the Animal Control Officers, as this position would not be responsible for assisting owners with redeeming their pets but instead would be performing duties in the field.

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

| | Fiscal Year | | Totals |
|--|-------------|---------|--------|
| | 2007-08 | 2008-09 | |
| <u>Claimed</u> | | | |
| Hours claimed | 6 | 6 | |
| x Weeks per year | 52 | 52 | |
| Total hours claimed | 312 | 312 | 624 |
| <u>Allowable</u> | | | |
| Animal Shelter Supervisor | 1 | 1 | |
| Animal Shelter Attendant/Assistant | 1 | 1 | |
| Animal Control/Customer Service Technician | 2 | 2 | |
| Total employee positions | 4 | 4 | |
| x Hours allowed per position | 6 | 6 | |
| x Weeks per year | 52 | 52 | |
| Total hours allowable | 1,248 | 1,248 | 2,496 |

Indirect Costs

The indirect costs applicable for this cost component, totaling \$6,478 for the audit period, were calculated separately. See Finding 7, Allowable Indirect Costs, for the calculations.

The parameters and guidelines (section IV.B.4–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.

The parameters and guidelines (section IV – Reimbursable Activities) state that:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documentation to show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

The parameters and guidelines (section V.A.1 – Salaries and Benefits) state that:

Claimants must report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2020-21 Budget Acts. If the program becomes active, we recommend that the town ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

FINDING 4— Allowable Lost and Found Lists costs

The town did not claim any costs under the Lost and Found Lists cost component during the audit period. We found that \$995 is allowable under this cost component.

Contract Services

During the course of the audit, the town submitted invoices for various expenditures. Using these invoices, we found that the town incurred costs for the purchase of Multiple Options animal data software in FY 2008-09. The invoice details the various services and options provided with the software package, along with the associated costs. We found that under the “services” portion of the invoice, the option titled PetFinder Support is applicable to this component. The total cost for the PetFinder Support was \$995. We ultimately determined that the entire amount is related to this mandated activity and \$995 is allowable in contract services costs.

Salaries and Benefits

The town did not claim costs under this component and, therefore, did not claim salaries and benefits. During the course of the audit, the town was able to provide support that it complied with the five reimbursable activities outlined for this component. However, the town would have to perform a time study for the activities of providing lost and found information to the public in order to determine allowable salary and benefit costs. Though given the option, the town did not perform a time study during the course of the audit.

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

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

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2020-21 Budget Acts. If the program becomes active, we recommend that the town ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 5—
Allowable
Maintaining Non-
Medical Records costs**

The town did not claim costs under the Maintaining Non-Medical Records cost component. However, during the course of the audit, we found that the town incurred a total of \$62,977 in allowable costs (\$60,242 for salaries and benefits, and \$2,735 for contract services).

The following table summarizes the combined claimed, allowable, and adjusted direct costs for the Maintaining Non-Medical Records cost component by fiscal year:

| <u>Fiscal Year</u> | <u>Amount Claimed</u> | <u>Amount Allowable</u> | <u>Audit Adjustment</u> |
|---------------------|---------------------------|-----------------------------|-----------------------------|
| Total direct costs: | | | |
| 2007-08 | \$ - | \$ 31,065 | \$ 31,065 |
| 2008-09 | - | 31,912 | 31,912 |
| Total | <u>\$ -</u> | <u>\$ 62,977</u> | <u>\$ 62,977</u> |

Salaries and Benefits

The town did not claim salaries and benefits during the audit period. However, the town conducted a time study during the course of the audit to determine the average amount of time spent by various employee classifications processing non-medical animal records. We found that \$60,242 is allowable.

The following table summarizes the claimed, allowable, and audit adjustment amounts for salaries and benefits for the Maintaining Non-Medical Records cost component by fiscal year:

| <u>Fiscal Year</u> | <u>Amount Claimed</u> | <u>Amount Allowable</u> | <u>Audit Adjustment</u> |
|------------------------------|---------------------------|-----------------------------|-----------------------------|
| Salaries and benefits: | | | |
| 2007-08 | \$ - | \$ 31,065 | \$ 31,065 |
| 2008-09 | - | 29,177 | 29,177 |
| Total, salaries and benefits | <u>\$ -</u> | <u>\$ 60,242</u> | <u>\$ 60,242</u> |

Time Study

During the course of the audit, the town conducted a time study for this cost component from April 16, 2016, through April 25, 2016. The town studied the time required to process records for incoming animals and the final disposition of animals. The six employee classifications of Animal Services Technician, Animal Control Officer, Animal Shelter Supervisor, Animal Health Technician, Office Assistant, and Shelter Specialist participated in the time study. However, three of the classifications that participated in the time study were not applicable during the audit period: Animal Health Technician, Office Assistant, and Shelter Specialist. The Animal Services Technician classification was called Animal Control Technician during the audit period; these two positions are considered the same classification.

Taking into consideration the classifications that actually existed during the audit period, we applied the following classifications to the audit period:

- Animal Services Technician (equivalent to Animal Control/ Customer Service Technician)
- Animal Control Officer
- Animal Shelter Supervisor

The time study determined that it takes an average of 3.51 minutes to process incoming animal records and an average of 4.55 minutes to process records for the final disposition of animals. However, three of the employee classifications that participated in the time study did not exist during the audit period, as previously noted. Regardless, we determined that the total amounts of time required to process animal records were adequately established by the town's time study and should not be revised. Therefore, we allocated the number of minutes spent by these three classifications in the town's time study to the three classifications that existed during the audit period.

Number of Animal Records Processed

During the course of the audit, we obtained the town's raw animal data for FY 2007-08 and FY 2008-09 from its animal tracking software system database. We applied the time study results to the number of animal

records processed based on this data. For purposes of the Maintaining Non-Medical Records cost component, the allowable number of animal records is the total number processed by the facility during the fiscal year, with no exclusions.

The following table summarizes the number of non-medical records processed for the audit period by fiscal year:

| | Fiscal Year | | Totals |
|-------------------|-------------|---------|--------|
| | 2007-08 | 2008-09 | |
| Intake | 5,961 | 5,480 | 11,441 |
| Final Disposition | 5,961 | 5,480 | 11,441 |

The following table identifies the involvement level of employee classifications that processed non-medical records during the audit period, based on the time study that the town conducted:

| Employee Classification | Percentage Involvement |
|-----------------------------------|------------------------|
| Incoming Animal Records: | |
| Animal Control Technician | 60% |
| Animal Control Officer | 36% |
| Animal Shelter Supervisor | 4% |
| | <u>100%</u> |
| Final Disposition Animal Records: | |
| Animal Control Technician | 56% |
| Animal Control Officer | 20% |
| Animal Shelter Supervisor | 24% |
| | <u>100%</u> |

To determine allowable salaries and benefits, we applied the results of the town's time study to the employee classifications that performed the activities. We determined that costs totaling \$60,242 were allowable for salaries and benefits.

Contract Services

The town did not claim costs under the Maintaining Non-Medical Records cost component. However, we found that the town incurred \$2,735 in contract services costs for the purchase of animal data software in FY 2008-09.

During the course of the audit, the town submitted invoices for various expenditures. Using these invoices, we found that the town incurred costs for the purchase of Multiple Options animal data software in FY 2008-09. The invoice details the various services and options provided with the software, along with the associated costs. Under the Shelter Management System Software portion of the invoice, the base cost for the SQL version of the software package was \$10,500. In addition, the total of the various options added together was \$21,695, for a subtotal of \$32,195. The town was then given a 10% discount, making the final total \$28,975.50. We

found that the option titled “kennel management” was applicable to this component. The other options listed, such as “point of sales,” “accounts receivable,” and “dispatching system,” among others, do not pertain to this component. The cost for the “kennel management” portion was \$2,000; we found the entire amount to be allowable, as the kennel management activities complied with the mandated activity of processing records for incoming animals and the final disposition of animals. We then calculated the pro-rata percent that the kennel management option represented out of all the options listed. We applied the resulting 7% to the base cost of the software package (\$10,500) in order to determine the proportionate share of that cost that was related to this component, totaling \$735. Allowable contract services consisted of \$2,000 for the kennel management portion of the software and \$735 for the proportionate share of the base software package cost, for a total of \$2,735.

Indirect Costs

The indirect costs applicable for this cost component, totaling \$4,244 for the audit period, were calculated separately. See Finding 7, Allowable Indirect Costs, for the calculations.

The 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.

The parameters and guidelines (section IV.B.8–Maintaining Non-Medical Records) identify the following reimbursable activity:

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

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2020-21 Budget Acts. If the program becomes active, we recommend that the town ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 6—
Allowable Procuring
Equipment costs**

The town did not claim any costs under the Procuring Equipment cost component during the audit period. However, we identified costs in the Capital Equipment and Communications Equipment expense accounts for the animal shelter, and in the Capital Outlay expense account for animal control. The town provided support for these costs and we classified them under both materials and supplies and fixed assets. We found that \$13,365 is allowable under this cost component.

The following table summarizes the claimed, allowable, and audit adjustment amounts for total direct costs for the audit period by fiscal year:

| Fiscal Year | Amount Claimed | Amount Allowable | Audit Adjustment |
|---------------|-------------------|---------------------|---------------------|
| Direct costs: | | | |
| 2007-08 | - | 6,630 | 6,630 |
| 2008-09 | - | 6,735 | 6,735 |
| Total | \$ - | \$ 13,365 | \$ 13,365 |

Materials and Supplies

The town did not include any materials and supplies costs under this cost component in its claims for the audit period. However, the town provided support for materials and supplies costs not claimed that are eligible for reimbursement under the mandated program. We found that \$5,252 in materials and supplies costs is allowable for this component.

The following table summarizes the costs claimed, the supported costs, the allowable pro-rata percentage, and the allowable costs for materials and supplies by fiscal year:

| Fiscal Year | Amount Claimed | Supported Costs | Pro-Rata Percentage Allowable | Amount Allowable | Audit Adjustment |
|----------------------------------|-------------------|--------------------|-------------------------------------|---------------------|---------------------|
| Materials and supplies: | | | | | |
| 2007-08 | - | \$ 4,170 | 100% | \$ 4,170 | \$ 4,170 |
| 2008-09 | - | 1,082 | 100% | 1,082 | 1,082 |
| Subtotal, materials and supplies | \$ - | \$ 5,252 | | \$ 5,252 | \$ 5,252 |

For FY 2007-08, the town incurred costs totaling \$4,170. The following costs came from animal shelter (Department 2130) expense accounts:

- A cat resting shelf for the cat area (\$953);
- Shelving/storage to keep animal food off of the floor and reduce rodent activity (\$446 and \$738);
- Benches/tools to keep food off of the floor (\$438); and
- Radios for shelter attendants to communicate with one another (\$287).

The following costs came from animal control (Department 2120) expense accounts:

- Feral cat dens for the feral cat area of the shelter (\$941); and
- A hutch to house rabbits (\$317).

For FY 2008-09, the town incurred costs totaling \$1,082. These costs came from animal shelter (Department 2130) expense accounts, and consisted of the following:

- Four compact refrigerators to store drugs and medications for the animals (\$916); and
- Radios for shelter attendants to communicate with one another (\$166).

We interviewed shelter management and staff, who provided a reasonable explanation of how this equipment was necessary to comply with the reimbursable activities of the mandated program. In addition, shelter management stated, and we accepted, that each piece of equipment was used solely for mandated activities.

Fixed Assets

The town did not include any fixed asset costs under this cost component in its claims for the audit period. However, the town provided support for fixed asset costs not claimed that are eligible for reimbursement under the mandated program. We found that \$8,113 is allowable in fixed asset costs for this component.

The following table summarizes the costs claimed, the supported costs, the allowable pro-rata percentage, and the allowable costs for fixed assets by fiscal year:

| Fiscal Year | Amount Claimed | Supported Costs | Percentage Allowable | Amount Allowable | Audit Adjustment |
|------------------------|----------------|-----------------|----------------------|------------------|------------------|
| Fixed assets: | | | | | |
| 2007-08 | \$ - | \$ 2,460 | 100% | \$ 2,460 | \$ 2,460 |
| 2008-09 | - | 5,653 | 100% | 5,653 | 5,653 |
| Subtotal, fixed assets | \$ - | \$ 8,113 | | \$ 8,113 | \$ 8,113 |

For FY 2007-08, the town incurred costs totaling \$2,460. The costs came from animal shelter (Department 2130) expense accounts and were for the purchase of a sloped dog, kennel hard roof. The town identified additional costs in the amount of \$5,980 for FY 2007-08 for purchase of of a nine-unit bank of stainless steel cages to house the animals. However, the town did not provide an invoice for this expense; therefore, the cost is unallowable because it is unsupported. For FY 2008-09, the town identified costs totaling \$5,653. This cost also came from the Department 2130 expense accounts and was for the purchase of stainless steel cages to house small dogs and puppies.

We interviewed shelter management and staff, who provided a reasonable explanation of how this equipment was necessary to comply with the reimbursable activities of the mandated program. In addition, shelter management stated, and we accepted, that each piece of equipment was used solely for mandated activities.

The parameters and guidelines (section IV.B.10) identify the following reimbursable activity:

Beginning January 1, 1999 for procuring medical, kennel, and computer equipment necessary to comply with the reimbursable activities listed in Section IV (B) for the parameters and guidelines, to the extent these costs are not claimed as an indirect cost under Section V (B) of the parameters and guidelines. If the medical, kennel, and computer equipment is utilized in some way not directly related to the mandated program or the population of animals listed in Section IV (B), only the pro rata portion of the activity that is used for the purposes of the mandated program is reimbursable.

The parameters and guidelines (section IV – Reimbursable Activities) state that:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documentation to show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2020-21 Budget Acts. If the program becomes active, we recommend that the town ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**REVISED
FINDING 7—
Allowable indirect**

The town did not claim reimbursement for indirect costs for the audit period. However, the town incorporated overhead costs into the Care and Maintenance (Finding 2) cost component. We found that \$14,571 in indirect costs is allowable.

| Fiscal Year | Claimed Indirect Costs | Allowable Indirect Costs | Audit Adjustment |
|----------------|------------------------------|--------------------------------|---------------------|
| 2007-08 | \$ - | \$ 7,670 | \$ 7,670 |
| 2008-09 | - | 6,901 | 6,901 |
| Total | \$ - | \$ 14,571 | \$ 14,571 |

Overhead costs

As stated, the town did not claim indirect costs for the audit period. The town did, however, incorporate overhead costs into the Care and Maintenance cost component by adding in a 40% overhead factor for the Municipal Services Director when computing total annual shelter costs. Including a calculated overhead cost into the care and maintenance formula is incorrect. The parameters and guidelines state that claimants either have the option of using 10% of direct labor, excluding fringe benefits, or preparing an ICRP if the indirect cost rate claimed exceeds 10%.

Indirect cost rate

During the course of the audit, the town elected to use the option of using 10% of direct labor, excluding fringe benefits, to claim indirect costs for the audit period. The Assistant Director of Finance decided this was the best option because the town's record-retention period had expired and because the town switched software during the audit period, making many records unavailable.

Allowable Salaries

As a result of our audit, we determined allowable salaries and benefits for the audit period. As noted above, the town elected to use the 10% of direct labor option to claim indirect costs. Accordingly, allowable indirect costs for the audit period are based solely on allowable salaries.

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

| Fiscal Year | Total Claimed Salaries | Total Allowable Salaries | Total Adjustment to Salaries |
|-------------|------------------------|--------------------------|------------------------------|
| 2007-08 | \$ - | \$ 76,703 | \$ 76,703 |
| 2008-09 | - | 69,011 | 69,011 |
| Total | \$ - | \$ 145,714 | \$ 145,714 |

Allowable indirect costs for the audit period were computed by applying the 10% indirect cost rate to total allowable salaries shown in the table above.

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

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. After direct costs have been determined and assigned to other activities, as appropriate, indirect costs are those remaining to be allocated to benefited cost objectives. A cost

may not be allocated as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been claimed as a direct cost.

Claimants have the option of using 10% of direct labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) pursuant to the Office of Management and Budget (OMB) Circular A-87.

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2020-21 Budget Acts. If the program becomes active, we recommend that the town ensure that its indirect cost rates are properly calculated and are applied to the same direct cost base that was used to calculate the rate.

FINDING 8— Allowable productive hourly rates and benefit rates

For both fiscal years of the audit period, the town did not claim salaries or benefits. Instead, it claimed all costs under services and supplies. Therefore, we calculated allowable productive hourly rates for the audit period.

Allowable Productive Hourly Rates

During the course of the audit, the town did not provide payroll reports for either of the two fiscal years of the audit period. Town management explained that the town record retention policy is seven years. The start of our audit was right at the seven-year mark. Additionally, the town switched software sometime during the audit period, so many records could not be retrieved. However, the town was able to provide a report titled “Earnings History by GL#” for FY 2007-08, which was found in town files and had previously been generated from the town’s payroll system. The report provided town employee names, employee ID numbers, and total salaries paid for the fiscal year. Management confirmed that the totals do not include any kind of benefits. Along with this report, the town submitted a table that was not generated from the town’s system, but rather compiled by the mandated cost consultant, listing employee names and their hourly productive rate. We explained to town management that the hourly rates listed in this table could not be used to calculate allowable costs, as the table was created outside of the district’s system and was not accompanied by supporting documentation showing how the rates were calculated.

FY 2007-08

For FY 2007-08, we performed our own calculations of productive hourly rates using the information that was available in the town’s FY 2007-08 Earnings History report. Because this report was not as comprehensive as a typical payroll report, we had to obtain certain information from other sources. We matched employee names shown on the report to the productive hourly rate table mentioned above in order to identify employee classifications/titles. In the absence of actual annual productive hours for each employee, we defaulted to the SCO’s claiming instructions and used 1,800 productive hours in our calculations. We divided each employee’s total salary amount by 1,800 hours to arrive at a productive hourly rate. We then grouped employees of the same classification

together to arrive at an average productive hourly rate for each classification for the fiscal year. However, in three instances we did not use 1,800 hours, as it was evident from the employees' yearly salary amounts that they were not full-time. We asked the town's Assistant Director of Finance to clarify these items. He was able to work with the town's personnel department to identify the approximate hours worked by each of these three employees based on information from their personnel files.

FY 2008-09

Because the town was able to provide salary information only for FY 2007-08, we devised an alternative methodology to determine allowable productive hourly rates for FY 2008-09. We used the calculated average productive hourly rates per classification from FY 2007-08 as a base, and multiplied these figures by the FY 2008-09 CPI Index (1.01%). The resulting figures were the allowable average productive hourly rates per classification for FY 2008-09. We obtained the CPI Index from the California Department of Finance's website under Financial and Economic Data, CPI and Deflators. We discussed this methodology with the town's Assistant Director of Finance, and he agreed that in the absence of supporting documentation, this was the best approach.

We applied the calculated average productive hourly rates per classification to the various cost components to determine allowable salary and benefit costs.

Benefit Rates

As mentioned previously, for both fiscal years of the audit period, the town did not claim salaries or benefits. Instead, it claimed all costs under services and supplies. Therefore, we calculated allowable benefit rates for the audit period.

Allowable Benefit Rates

We calculated the allowable benefit rate for both fiscal years of the audit period by obtaining the year-to-date expenditure reports for both the Animal Control Department (2120) and the Animal Shelter Department (2130). For both fiscal years, we calculated total salaries and total benefits separately. To determine each fiscal year's applicable employee benefit rate, we used data from the year-to-date expenditure reports and divided total benefits by total salaries to arrive at a benefit rate. We performed this calculation for both departments. Due to record-retention issues and changes in software during the audit period, the town was able to provide payroll information only for FY 2007-08. In the payroll information provided, employees of the same classification appeared under both the 2120 account and the 2130 account, making it difficult to apply the applicable benefit rate to each classification when calculating allowable salary and benefit amounts. Therefore, for both fiscal years, we calculated the average benefit rate of the two departments as follows:

FY 2007-08

Animal Control Department calculated benefit rate: 39.64%
Animal Shelter Department calculated benefit rate: 42.6%
Average benefit rate for fiscal year: 41.12%

FY 2008-09

Animal Control Department calculated benefit rate: 42.76%
Animal Shelter Department calculated benefit rate: 42.92%
Average benefit rate for fiscal year: 42.82%

We applied the average benefit rates to the allowable productive hourly rates to arrive at salary and benefit costs for the audit period. The exception is the Care and Maintenance cost component, wherein the average benefit rates were applied to actual salaries.

The parameters and guidelines (section V–Claim Preparation and Submission–Direct Cost Reporting–Salaries and Benefits) state that, for salaries and benefits, claimants are required to:

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the reimbursable activities performed and the hours devoted to each reimbursable activity performed.

The SCO's claiming instructions state that one of three options may be used to compute productive hourly rates:

- Actual annual productive hours for each employee;
- The weighted-average annual productive hours for each job title; or
- 1,800 annual productive hours for all employees. (The 1,800 annual productive hours excludes time for paid holidays, vacation earned, sick leave taken, informal time off, jury duty, and military leave taken.)

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through 2020-21 Budget Acts. If the program becomes active, we recommend that the town ensure that productive hourly rates and benefit rates are calculated in accordance with the guidance provided in the SCO's claiming instructions.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

<http://www.sco.ca.gov>