



JOHN CHIANG
California State Controller

February 24, 2014

Stefani Daniell, Finance Director
City of Citrus Heights
Finance Department
6237 Fountain Square Drive
Citrus Heights, CA 95621

Dear Ms. Daniell:

The State Controller's Office reviewed the costs claimed by the City of Citrus Heights for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998; and Chapter 313, Statutes of 2004) for the period of July 1, 2007, through June 30, 2009. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to gaining an understanding of the animal service contract that the City of Citrus Heights has with its service provider, Sacramento County. We determined reimbursable costs based on information provided in our audit of the costs claimed by Sacramento County under the Animal Adoption Program during the same period. Our final report for that audit was issued on November 7, 2013.

The city claimed \$81,362 for the mandated program. Our review found that \$51,291 is allowable (\$53,929 less a \$2,638 penalty for filing a late claim) and \$30,071 is unallowable. The costs are unallowable because the city claimed reimbursement for costs it did not incur, as described in the attached Summary of Program Costs and the Finding and Recommendation.

For the fiscal year (FY) 2007-08 claim, the State made no payment to the city. Our review found that \$27,547 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2008-09 claim, the State made no payment to the city. Our review found that \$23,744 is allowable (\$26,382 less a \$2,638 penalty for filing a late claim). The State will pay that amount, contingent upon available appropriations.

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

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

Attachments

RE: S13-MCC-943

cc: Michael Byrne, Principal Program Budget Analyst
Mandates Unit, California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

**Attachment 1—
Summary of Program Costs
July 1, 2007, through June 30, 2009**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Care and maintenance of dogs and cats	\$ 14,300	\$ 9,873	\$ (4,427)
Care and maintenance of other animals	1,135	227	(908)
Increased holding period	23,765	11,457	(12,308)
Feral cats	1,656	683	(973)
Lost-and-found list costs	342	342	—
Maintaining non-medical records	3,964	3,866	(98)
Necessary and prompt veterinary care	—	1,099	1,099
Total program costs	<u>\$ 45,162</u>	<u>27,547</u>	<u>\$ (17,615)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 27,547</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Care and maintenance of dogs and cats	\$ 8,859	\$ 8,980	\$ 121
Care and maintenance of other animals	130	49	(81)
Increased holding period	21,720	11,679	(10,041)
Feral cats	1,428	667	(761)
Lost-and-found list costs	300	300	—
Maintaining non-medical records	3,763	3,676	(87)
Necessary and prompt veterinary care	—	1,031	1,031
Subtotal	36,200	26,382	(9,818)
Less late filing penalty ²	—	(2,638)	(2,638)
Total program costs	<u>\$ 36,200</u>	<u>23,744</u>	<u>\$ (12,456)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 23,744</u>	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>Summary: July 1, 2007, through June 30, 2009</u>			
Direct costs:			
Care and maintenance of dogs and cats	\$ 23,159	\$ 18,853	\$ (4,306)
Care and maintenance of other animals	1,265	276	(989)
Increased holding period	45,485	23,136	(22,349)
Feral cats	3,084	1,350	(1,734)
Lost-and-found list costs	642	642	—
Maintaining non-medical records	7,727	7,542	(185)
Necessary and prompt veterinary care	—	2,130	2,130
Subtotal	81,362	53,929	(27,433)
Less late filing penalty	—	(2,638)	(2,638)
Total program costs	<u>\$ 81,362</u>	51,291	<u>\$ (30,071)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 51,291</u>	

¹ See Attachment 2, Finding and Recommendation.

² The district filed its Fiscal Year 2008-09 annual reimbursement claim after the due date specified in Government Code section 17560. Pursuant to Government Code section 17568, the State assessed a late filing penalty equal to 10% of allowable costs, not to exceed \$10,000 (for claims filed on or after August 24, 2007).

Attachment 2— Finding and Recommendation July 1, 2007, through June 30, 2009

**FINDING—
Unallowable program
costs**

The city claimed \$81,362 for the Animal Adoption Program for the review period. We determined that \$53,929 is allowable and \$27,433 is unallowable. The costs are unallowable because of the corresponding audit adjustments made during our mandated cost audit of Sacramento County's Animal Adoption claims.

The following table summarizes the claimed, allowable, and unallowable costs by reimbursable component:

Reimbursable Component	Amount Claimed	Amount Allowable	Review Adjustment
Direct costs:			
Care and maintenance of dogs and cats	\$ 23,159	\$ 18,853	\$ (4,306)
Care and maintenance of other animals	1,265	276	(989)
Increased holding period	45,485	23,136	(22,349)
Feral cats	3,084	1,350	(1,734)
Lost-and-found lists	642	642	—
Maintaining non-medical records	7,727	7,542	(185)
Necessary and prompt veterinary care	—	2,130	2,130
Total program costs	\$ 81,362	\$ 53,929	\$ (27,433)

On January 25, 1981, the Commission on State Mandates (CSM) adopted the statement of decision for the Animal Adoption Program. The CSM determined that Chapter 752, Statutes of 1998, imposed a state mandate reimbursable upon local agencies reimbursable under Government Code section 17561.

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

On November 7, 2013, the SCO issued a final report for our audit of Sacramento County's Animal Adoption claims for the period of July 1, 2007, through June 30, 2009. A copy of the audit report is on the SCO's website (www.sco.ca.gov) under the "State Mandate Information" quick link. The audit report identifies the criteria used in determining reimbursable costs.

For the review period, the city filed Animal Adoption claims with the State totaling \$81,362. However, the City of Citrus Heights does not own or operate an animal shelter. Instead, the city contracted with Sacramento County for animal services. In turn, the county billed the city for these services.

Sacramento County incurs all of the costs (both mandated and non-mandated) to operate its animal shelter. Allowable animal adoption costs incurred by the county for mandated activities comprised, on average, approximately 7% of the total costs incurred each year to operate its animal shelter. Accordingly, the county filed Animal Adoption claims with the State in order to receive reimbursement for these costs. The Animal Adoption Program claims for both the City of Citrus Heights and Sacramento County were prepared by an external mandated cost consultant. The city and the county used different consultants to prepare their claims; however, the city's consultant used amounts reported by the county's consultant to claim the mandate-related costs. The city's claims were based on the premise that the costs billed from its contract with the county funded a portion of the county's mandated costs.

In its Animal Adoption Program claims, Sacramento County determined the extent of mandate-related expenditures that it incurred to provide animal services to the city by calculating the percentage of animals that originated from the city compared with the animal population in the county's shelter as a whole. In turn, the county used this percentage and multiplied it times the mandated costs claimed to determine the amount of offsetting revenue that it received from the city, and offset this amount on its claims.

Reimbursement from the State for mandated costs incurred by a local agency cannot be more than the mandated costs incurred. Either the county is entitled to reimbursement for 100% of its mandated costs incurred or it shares a portion of the reimbursement with one or more of its contracting partners. Our audit of the costs claimed by Sacramento County for the Animal Adoption Program for the same period determined that the city incurred Animal Adoption program costs of \$53,929. Accordingly, that same amount was offset against the county's allowable costs in our audit report.

Calculation of Allowable Percentages of the County's Costs

We used a consistent methodology to determine allowable costs for the claims filed by the cities that contracted with the county during the audit period. We first reviewed the methodology that was used by the county to determine the applicable percentage of animals housed at the county's shelter that originated within the various cities for each fiscal year. We determined that the percentage used by the county in its claims were materially correct.

In order to determine the percentage of offsets to be reduced for the contracting cities, we performed an analysis of the percentage of allowable costs for each cost component of the county's claims for FY 2007-08 and FY 2008-09. We did this by simply dividing allowable costs into claimed costs for each cost component to determine the percentage of costs claimed that were ultimately allowable.

The following table summarizes the analysis of the percentage of allowable costs for Sacramento County's claims by fiscal year:

<u>Reimbursable Component</u>	Amount Claimed by Sacramento County ¹	Amount Allowable per Audit ¹	Percentage Allowable
<u>FY 2007-08</u>			
Care and maintenance of dogs and cats	\$ 188,970	\$ 130,456	69.04%
Care and maintenance of other animals	16,709	3,337	19.97%
Increased holding period	180,081	86,816	48.21%
Feral cats	12,546	5,178	41.27%
Lost-and-found lists	2,589	2,589	100.00%
Maintaining non-medical records	30,040	29,299	97.53%
Necessary and prompt veterinary care	—	10,718	n/a
<u>FY 2008-09</u>			
Care and maintenance of dogs and cats	\$ 121,328	\$ 122,987	101.37%
Care and maintenance of other animals	5,902	2,220	37.61%
Increased holding period	189,962	102,143	53.77%
Feral cats	12,488	5,835	46.72%
Lost-and-found lists	2,623	2,623	100.00%
Maintaining non-medical records	32,915	32,151	97.68%
Necessary and prompt veterinary care	—	10,053	n/a

¹ Related indirect costs have been included in each reimbursable component.

We adjusted the City of Citrus Height's Animal Adoption Program claims based on the results of the Sacramento County Animal Adoption audit. We discussed the adjustment with Stefani Daniell, Finance Director. Ms. Daniell did not comment on the adjustment.

Recommendation

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