



BETTY T. YEE
California State Controller

June 25, 2015

Mark Roberts, Director of Finance
City of National City
1243 National City Boulevard
National City, CA 91950

Dear Mr. Roberts:

The State Controller's Office performed a desk review of costs claimed by the City of National City for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998; and Chapter 313, Statutes of 2004) for the period of July 1, 2001, through June 30, 2002; and July 1, 2007, through June 30, 2009. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. We performed our review to determine whether claimed costs represented increased costs resulting from the Animal Adoption Program. We limited our review to gaining an understanding of the animal service contract National City had with the service provider, the City of Chula Vista. We determined reimbursable costs based on information provided in our audit of costs claimed by the City of Chula Vista for the Animal Adoption Program for the period of July 1, 2001, through June 30, 2002; and July 1, 2007, through June 30, 2009. We also shared a copy of that audit report with National City and solicited input from the city's staff.

The city claimed \$102,363 for the mandated program. Our review found that \$78,612 is allowable and \$23,751 is unallowable. The costs are unallowable because the contracting city, the City of Chula Vista, determined that all funds received from National City were for general operating expenses of the city's animal shelter rather than for its mandated costs, as described in the attached Summary of Program Costs and the Review Results.

For the fiscal year (FY) 2001-02 claim, the State made no payment to the city. Our review found that \$37,229 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2007-08 claim, the State made no payment to the city. Our review found that \$14,309 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 \$27,074 is allowable. 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 (Commission). The IRC must be filed within three years following the date of this letter. You may obtain IRC information at the Commission'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/lis

Attachments

RE: S15-MCC-9022

cc: Evelyn Suess, 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, 2001, through June 30, 2002;
and July 1, 2007, through June 30, 2009**

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment ¹
<u>July 1, 2001, through June 30, 2002</u>			
Direct costs:			
Training	\$ 31	\$ 31	\$ -
Lost and found lists	25,538	25,538	-
Care and maintenance of dogs and cats	5,249	-	(5,249)
Care and maintenance of other animals	1,923	-	(1,923)
Total direct costs	32,741	25,569	(7,172)
Indirect costs	11,660	11,660	-
Total program costs:	<u>\$ 44,401</u>	37,229	<u>\$ (7,172)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 37,229</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Lost and found lists	\$ 14,309	\$ 14,309	\$ -
Care and maintenance of dogs and cats	15,393	-	(15,393)
Care and maintenance of other animals	637	-	(637)
Feral cats	549	-	(549)
Total direct costs	30,888	14,309	(16,579)
Indirect costs	-	-	-
Total program costs:	<u>\$ 30,888</u>	14,309	<u>\$ (16,579)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 14,309</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Lost and found lists	\$ 25,512	\$ 25,512	\$ -
Total direct costs	25,512	25,512	-
Indirect costs	1,562	1,562	-
Total program costs:	<u>\$ 27,074</u>	27,074	<u>\$ -</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 27,074</u>	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment ¹
<u>July 1, 2001, through June 30, 2002</u>			
<u>Summary: July 1, 2001, through June 30, 2002;</u>			
<u>and July 1, 2007, through June 30, 2009</u>			
Direct costs:			
Training	\$ 31	\$ 31	\$ -
Lost and found lists	65,359	65,359	-
Care and maintenance of dogs and cats	20,642	-	(20,642)
Care and maintenance of other animals	2,560	-	(2,560)
Feral cats	549	-	(549)
Total direct costs	89,141	65,390	(23,751)
Indirect costs	13,222	13,222	-
Total program costs:	<u>\$ 102,363</u>	78,612	<u>\$ (23,751)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 78,612</u>	

¹ See Attachment 2, Review Results.

Attachment 2— Review Results July 1, 2001, through June 30, 2002; and July 1, 2007, through June 30, 2009

BACKGROUND—

On January 25, 2001, the Commission on State Mandates (Commission) adopted the statement of decision for the Animal Adoption Program. The Commission determined that the test claim legislation imposes a state mandate 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 Commission adopted the parameters and guidelines on February 28, 2002, corrected them on March 29, 2002, and last amended them on January 26, 2006. In compliance with Government Code section 17558, the State Controller's Office (SCO) issued claiming instructions to assist local agencies in claiming mandated program reimbursable costs.

FINDING— Unallowable Program Costs

The city claimed \$102,363 under the Animal Adoption Program during the review period. We found that \$78,612 is allowable and \$23,751 is unallowable. The costs are unallowable because the contracting city (Chula Vista) determined that all funds received from National City funded general operating expenditures of its animal shelter rather than mandate-related expenditures.

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

Fiscal Year	Amount Claimed	Amount Allowable	Review Adjustment
2001-02	\$ 44,401	\$ 37,229	\$ (7,172)
2007-08	30,888	14,309	(16,579)
2008-09	27,074	27,074	-
	<u>\$ 102,363</u>	<u>\$ 78,612</u>	<u>\$ (23,751)</u>

On March 25, 2015, the SCO issued a final report for our audit of the City of Chula Vista's claims for July 1, 2001, through June 30, 2002; and 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. During this audit, we determined that the City of Chula Vista did not report any offsetting revenues in its claims for the review period relating to funds received from National City for providing animal care services. We found that the City of Chula Vista's offsets were properly stated, and there was no audit finding relating to offsetting revenues.

National City filed a reimbursement claim with the State for each fiscal year of the audit period under the Animal Adoption Program. However, not all of the costs claimed relate to its contract with the City of Chula Vista for animal care services. The following provides a breakdown of the costs claimed by National City:

FY 2001-02

The city claimed training costs and lost-and-found lists costs for time spent by its own staff to perform these mandated activities. For training costs, the city's reimbursement claim states that three new Dispatchers were trained. For lost-and-found list costs, the claim states that ten Dispatchers and two Animal Control Officers spent time taking phone calls from the public regarding lost animals, shelter directions, hours, location and phone numbers for shelters in the vicinity, and holding periods. As these costs were performed by National City staff and not Chula Vista staff, they were not considered in this review. The city also claimed costs for care and maintenance of dogs and cats, and care and maintenance of other animals, both of which are directly related to its contract with the City of Chula Vista for animal care services, and were part of this review.

FY 2007-08

The city claimed lost-and-found lists costs for time spent by its own staff to perform the mandated activity. The city's reimbursement claim states one Animal Control Officer and seven Dispatchers spent time updating lost-and-found lists and other information provided to owners of lost animals; and spent time responding to calls from the public regarding lost animals, shelter directions, hours, phone numbers, etc. As these activities were performed by National City staff and not Chula Vista staff, they were not considered in this review. The city also claimed costs for care and maintenance of dogs and cats, care and maintenance of other animals, and feral cat testing, all of which are directly related to its contract with the City of Chula Vista for animal care services, and were part of this review.

FY 2008-09

The city claimed lost-and-found lists costs for FY 2008-09 only for time spent by its own staff to perform the mandated activity. The city's reimbursement claim states that one Animal Control Officer and seven Dispatchers spent time updating lost-and-found lists and other information provided to owners of lost animals; and spent time responding to calls from the public regarding lost animals, shelter directions, hours, phone numbers, etc. As these activities were performed by National City staff and not Chula Vista staff, they were not considered in this review. The city did not claim any costs related to its contract with the City of Chula Vista for animal care services.

An external mandated-cost consultant determined the claimed amounts and prepared the Animal Adoption Program claims for the city. As a result, National City filed Animal Adoption claims totaling \$102,363 while under contract with the City of Chula Vista for some of its animal care services.

The following table summarizes the total expenditures incurred by the City of Chula Vista to operate its animal shelter, the claim amounts filed for the Animal Adoption Program, and the percentage of mandate-related and general operating (non-mandate related) expenditures for the audit period, based on our audit of the city's claims.

Fiscal Year	City of Chula Vista's Total Expenditures	City of Chula Vista's Animal Adoption Costs Claimed	Mandate-Related Expenditures Allowable Based on Audit	Mandate-Related Percentage	General Operating Expenditures
2001-02	\$ 690,138	\$ 114,962	59,326	8.60%	91.40%
2007-08	1,831,049	218,348	113,697	6.21%	93.79%
2008-09	1,910,718	210,904	121,308	6.35%	93.65%
		<u>\$ 544,214</u>	<u>\$ 294,331</u>		

During our audit of the City of Chula Vista's Animal Adoption claims, we did not analyze whether any of the contract revenues received from National City funded mandated activities or funded the general operating expenditures incurred to operate the city's animal shelter. As the City of Chula Vista incurred all of the costs (both mandated and non-mandated) to operate its animal shelter, we relied on the city's determination as to whether the city's contract revenues funded a percentage of its mandated costs or a percentage of its general operating expenditures. Reimbursement for mandated costs incurred by a local agency is limited to mandated costs incurred. Either the City of Chula Vista is entitled to 100% of its mandated costs, or a portion of its reimbursements should be shared with its contracting partner. The City of Chula Vista and its contracting partner must resolve this issue.

The City of Chula Vista concluded that all funds received from its contract with National City were for the general operating expenditures of its animal shelter. Therefore, we did not report any offsetting revenues in our audit report of the City of Chula Vista's animal adoption claims. The city provided this determination to us in writing. We informed the city that, subsequent to the issuance of the city's final audit report, we would issue a letter to National City stating that the portions of its reimbursement claims that relate to its contract with the City of Chula Vista for animal care services were ineligible for reimbursement and would be reduced to \$0.

Accordingly, we have adjusted the city's Animal Adoption claims for FY 2001-02 and FY 2007-08. The city's claim for FY 2008-09 was not adjusted, as none of the costs claimed relate to costs incurred by the City of Chula Vista. Therefore, the review has limited the amount allowable for FY 2001-02 and FY 2007-08 to the costs that the city itself incurred (\$78,612) and reflects a review adjustment amount (\$23,751) to represent the portion of costs claimed that were costs incurred by the City of Chula Vista.

For the review period, National City claimed \$102,363 for the Animal Adoption Program. Our review found that \$78,612 is allowable and \$23,751 is unallowable. The State has not made any payments to the city. The State will pay allowable costs claimed that exceed the amount paid, totaling \$78,612, contingent upon available appropriations.

We informed Mark Roberts, Director of Finance, of the review finding via email on May 5, 2015. The city did not respond to the finding.

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2013-14 Budget Acts. If the program becomes active, we recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.