



**JOHN CHIANG**  
California State Controller

August 31, 2011

The Honorable Rob Schroder  
Mayor of the City of Martinez  
525 Henrietta Street  
Martinez, CA 94553

Dear Mayor Schroder:

The State Controller's Office (SCO) reviewed the costs claimed by the City of Martinez for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004) for the period of July 1, 2006, through June 30, 2009. Our review was limited to validating the animal service contract the city has with Contra Costa County.

The city claimed \$148,132 for the mandated program. Our review disclosed that the claimed costs are unallowable. The costs are unallowable because the city claimed reimbursement for unallowable costs, as described in the attached Summary of Program Costs and Finding and Recommendation.

For the fiscal year (FY) 2006-07 claim, the State paid the city \$42,384. Our review disclosed that the claimed costs are unallowable. The State will offset \$42,384 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2007-08 and FY 2008-09 claims, the State made no payment to the city. Our review disclosed that the claimed costs are unallowable.

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 Web site at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

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

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/sk

Attachments

RE: S11-MCC-901

cc: Michael Chandler, Senior Management Analyst  
Administrative Services Department, City of Martinez  
Glen Howell, Director  
Animal Services Department, Contra Costa County  
Jeff Carosone, Principal Program Budget Analyst  
Cor-Gen Unit, Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

## Attachment 1— Summary of Program Costs July 1, 2006, through June 30, 2009

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Review</u>	<u>Review Adjustment <sup>1</sup></u>
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Acquiring space and facilities	\$ 42,384	\$ —	\$ (42,384)
Total program costs	<u>\$ 42,384</u>	—	<u>\$ (42,384)</u>
Less amount paid by the State		(42,384)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (42,384)</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Acquiring space and facilities	\$ 63,364	\$ —	\$ (63,364)
Total program costs	<u>\$ 63,364</u>	—	<u>\$ (63,364)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Acquiring space and facilities	\$ 42,384	\$ —	\$ (42,384)
Total program costs	<u>\$ 42,384</u>	—	<u>\$ (42,384)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>Summary: July 1, 2006, through June 30, 2009</u>			
Direct costs:			
Acquiring space and facilities	\$ 148,132	\$ —	\$ (148,132)
Total program costs	<u>\$ 148,132</u>	—	<u>\$ (148,132)</u>
Less amount paid by the State		(42,384)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (42,384)</u>	

<sup>1</sup> See Attachment 2, Finding and Recommendation.

## Attachment 2— Finding and Recommendation July 1, 2006, through June 30, 2009

**FINDING—  
Unallowable  
construction of new  
facility costs**

The city claimed \$148,132 for construction of new facilities during the period of fiscal year (FY) 2006-07 through FY 2008-09. We determined that the costs are unallowable because they are not reimbursable under the mandated program.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Review Adjustment</u>
2006-07	\$ 42,384	\$ —	\$ (42,384)
2007-08	63,364	—	(63,364)
2008-09	42,384	—	(42,384)
Total	<u>\$ 148,132</u>	<u>\$ —</u>	<u>\$ (148,132)</u>

On January 7, 2011, the State Controller's Office issued a final report for our audit of Contra Costa County's Animal Adoption claims for FY 1998-99 through FY 2007-08. During this audit, we learned that 18 cities within the county contracted with the county's Animal Control Department for their animal control services, including the City of Martinez. However, the City of Martinez was the only city that filed claims with the State under the Animal Adoption Program.

Contra Costa County bills its contracting cities based on a per capita rate. Therefore, we are unable to determine what percentage of the contract fees paid by the City of Martinez were used for mandated activities. We asked the county to identify, in writing, what portion of its mandated costs was funded by contract revenues received from the City of Martinez. The county's Animal Services Director responded in a letter dated April 15, 2010, that the contract revenues received from the City of Martinez were allocated for operations use only.

Language within the city's mandated cost claims stated that it was claiming reimbursement for its share of costs incurred by the county for the construction of a new animal shelter in Martinez. The county's newly built 38,000 square foot shelter in Martinez was opened in May 2005. However, the county did not claim any costs for construction of new facilities during FY 2006-07 through FY 2008-09. Therefore, it is inappropriate for the city to claim a percentage share of mandated costs under a cost component that the county did not include in its claims filed under the Animal Adoption Program for the same period.

We also noted that the city's mandated cost claims included an explanation stating "The amount claimed is the additional that was billed to the City of Martinez by the county for the increased space required by the Hayden Bill and the increased animal census." We obtained a copy of a letter dated May 5, 2006, that was sent to the City Manager by the director of the county's Animal Services Department. This letter included a detailed explanation of fee increases being proposed by the county in its City-County Animal Services Agreement for FY 2006-07. The explanation for the fee increase proposed by the county was not due to the costs incurred for the construction of a new animal shelter in Martinez. Instead, the letter explained that the fee increase was because "the current cost escalator does not provide reimbursement to the County sufficient to offset the County's growing cost for the cities' share of animal services. Because of the County's current fiscal condition, it is no longer possible to continue to subsidize the cost of providing services above and beyond those services required by statute." The State is not responsible for reimbursing the city for fee increases contained in its contract with the county for the operational costs of providing routine animal control services.

On June 16, 2011, we e-mailed the city's mandated cost consultant our audit adjustment of the city's Animal Adoption claims. We received a letter dated June 30, 2011, from Philip A. Vince, City Manager for the City of Martinez, questioning our position that the costs included in the city's mandated cost claims were unallowable. Mr. Vince indicated that:

- The entire basis of our finding was based on a letter we received from Contra Costa County's Animal Services Department Director stating that the city's contract revenues were used for non-mandated operations;
- The increase in the city's costs to contract with the county for animal control services was due to the extended holding period requirements of the Hayden Bill; and
- The city did not understand how the SCO could determine that costs for one local agency are unallowable based on the audit findings of another local agency.

We responded to the city in an e-mail dated July 5, 2011, as follows:

- During our audit of the county's Animal Adoption claims, we noted that costs claimed by the county comprised less than 10% of the total costs incurred each year to operate its animal shelter. As the county provides all of the services, incurs all of the costs, and is the contractor for the city, we relied on the county's determination as to whether the city's contract revenues funded part of the 10% that the county incurred for mandated activities or part of the 90% that the county incurred for general operational costs;

- We concur that the costs of operating animal shelters increased statewide due to the extended holding period requirements of the Hayden Bill, which became effective on September 22, 1998; however, the increased holding period requirement in itself is not the only factor in determining reimbursable costs for the city's FY 2006-07 through FY 2008-09 claims; and
- Reimbursement for mandated costs incurred by a local agency is limited to mandated costs incurred. Either the county is entitled to 100% of its mandated costs incurred or a portion of the reimbursements is shared with one or more of its contracting partners. The city and the county need to resolve this issue. All of the costs claimed by the city in its claims for FY 2006-07 through FY 2008-09 were under the cost component of Acquisition of Additional Space. However, the county did not claim any costs under this cost component during these fiscal years. The county claimed mandate reimbursements for the other cost components that were not claimed by the city.

If the county subsequently advises us that all or a portion of the contract revenues it received from the City of Martinez were used for mandated activities, we will revise the audit results for the county and the city reports, as appropriate.

#### Recommendation

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