



**JOHN CHIANG**  
California State Controller

April 3, 2012

Christine Vuletich  
Director of Finance  
City of South Lake Tahoe  
1901 Airport Road, Suite 210  
South Lake Tahoe, CA 96150

Dear Ms. Vuletich:

The State Controller's Office (SCO) reviewed the costs claimed by the City of South Lake Tahoe for the legislatively mandated Animal Adoption Program (Civil Code Sections 1834 and 1846 and Food and Agriculture Code Sections 31108, 31752, 31752.5, 31753, 32001, and 32003 (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004)) for the period of July 1, 2001, through June 30, 2010, excluding July 1, 2003, through June 30, 2004. Our review was performed to determine whether costs claimed represented increased costs resulting from the Animal Adoption Program. We validated the extent of the animal service contract that the City of South Lake Tahoe had with the service provider, El Dorado County. We determined reimbursable costs based on information provided in our audit of costs claimed by El Dorado County for the Animal Adoption Program for the period of July 1, 2001, through June 30, 2009, excluding July 1, 2003, through June 30, 2006. We also shared a copy of that audit report with the city and solicited input from the city's staff.

The city claimed \$84,588 (\$85,131 less a \$543 penalty for filing a late claim) for the mandated program. Our review disclosed that all of the costs are unallowable because the contracting county, El Dorado County, determined that all funds received from the City of South Lake Tahoe were for general operating expenses of the county's animal shelter, as described in the attached Summary of Program Costs and Finding and Recommendation.

For the fiscal year (FY) 2001-02 claim, the State made no payment to the city. Our review disclosed that the claimed costs are unallowable.

For the FY 2002-03 claim, the State made no payment to the city. Our review disclosed that the claimed costs are unallowable.

For the FY 2004-05 claim, the State paid the city \$13,843. Our review disclosed that the claimed costs are unallowable. The State will offset \$13,843 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2005-06 claim, the State paid the city \$13,446. Our review disclosed that the claimed costs are unallowable. The State will offset \$13,446 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2006-07 claim, the State paid the city \$14,916. Our review disclosed that the claimed costs are unallowable. The State will offset \$14,916 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

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

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

For the FY 2009-10 claim, 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 website at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

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

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/sk

Attachments

RE: S12-MCC-922

cc: Mary Anne Brand, Revenue Division Manager  
City of South Lake Tahoe  
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, 2001, through June 30, 2010,  
excluding July 1, 2003, through June 30, 2004**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>			
Care of dogs, cats, and other animals	\$ 654	\$ —	\$ (654)
Holding period	4,779	—	(4,779)
Subtotal	5,433	—	(5,433)
Less late filing penalty	(543)	—	543
Total program costs	<u>\$ 4,890</u>	—	<u>\$ (4,890)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 2002, through June 30, 2003</u>			
Care of dogs, cats, and other animals	\$ 1,093	\$ —	\$ (1,093)
Holding period	5,476	—	(5,476)
Total program costs	<u>\$ 6,569</u>	—	<u>\$ (6,569)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Care of dogs, cats, and other animals	\$ 1,281	\$ —	\$ (1,281)
Holding period	12,562	—	(12,562)
Total program costs	<u>\$ 13,843</u>	—	<u>\$ (13,843)</u>
Less amount paid by the State		(13,843)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (13,843)</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Care of dogs, cats, and other animals	\$ 1,640	\$ —	\$ (1,640)
Holding period	11,806	—	(11,806)
Total program costs	<u>\$ 13,446</u>	—	<u>\$ (13,446)</u>
Less amount paid by the State		(13,446)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (13,446)</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Care of dogs, cats, and other animals	\$ 1,027	\$ —	\$ (1,027)
Holding period	13,889	—	(13,889)
Total program costs	<u>\$ 14,916</u>	—	<u>\$ (14,916)</u>
Less amount paid by the State		(14,916)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (14,916)</u>	

## Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment <sup>1</sup>
<u>July 1, 2007, through June 30, 2008</u>			
Care of dogs, cats, and other animals	\$ 940	\$ —	\$ (940)
Holding period	13,048	—	(13,048)
Total program costs	<u>\$ 13,988</u>	—	<u>\$ (13,988)</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>			
Care of dogs, cats, and other animals	\$ 713	\$ —	\$ (713)
Holding period	14,810	—	(14,810)
Total program costs	<u>\$ 15,523</u>	—	<u>\$ (15,523)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Care of dogs, cats, and other animals	\$ 131	\$ —	\$ (131)
Holding period	1,282	—	(1,282)
Total program costs	<u>\$ 1,413</u>	—	<u>\$ (1,413)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>Summary: July 1, 2001, through June 30, 2010, excluding July 1, 2003, through June 30, 2004</u>			
Care of dogs, cats, and other animals	\$ 7,479	\$ —	\$ (7,479)
Holding period	77,652	—	(77,652)
Subtotal	85,131	—	(85,131)
Less late filing penalty	(543)	—	543
Total program costs	<u>\$ 84,588</u>	—	<u>\$ (84,588)</u>
Less amount paid by the State		(42,205)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (42,205)</u>	

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

**Attachment 2—  
Finding and Recommendation  
July 1, 2001, through June 30, 2010,  
excluding fiscal year 2003-04**

**FINDING—  
Unallowable  
legislatively mandated  
animal adoption  
program costs**

The City of South Lake Tahoe claimed \$84,588 for the legislatively mandated Animal Adoption Program for the period beginning July 1, 2001, through June 30, 2010, excluding July 1, 2003, through June 30, 2004. We determined that the costs are unallowable because the contracting county (El Dorado County) determined that all funds received from the City of South Lake Tahoe funded general operating expenses of the county's animal shelter rather than mandate-related expenditures.

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

Fiscal Year	Amount Claimed	Amount Allowable	Review Adjustment
2001-02	\$ 4,890	\$ —	\$ (4,890)
2002-03	6,569	—	(6,569)
2004-05	13,843	—	(13,843)
2005-06	13,446	—	(13,446)
2006-07	14,916	—	(14,916)
2007-08	13,988	—	(13,988)
2008-09	15,523	—	(15,523)
2009-10	1,413	—	(1,413)
Total	<u>\$ 84,588</u>	<u>\$ —</u>	<u>\$ (84,588)</u>

Note: The mandated program was suspended by the Legislature for fiscal year [FY] 2003-04.

On July 22, 2011, the State Controller's Office (SCO) issued a final report for our audit of El Dorado County's Animal Adoption claims for July 1, 2001, through June 30, 2009, excluding July 1, 2003, through June 30, 2006. During this audit, we determined that El Dorado County offset \$3,070 in its FY 2001-02 claim for funds received from the City of South Lake Tahoe for providing animal services to the city. Page 48 of El Dorado County's Animal Adoption audit report contains information regarding our "Finding 12—Overstated Offsetting Revenues." In that finding, we addressed El Dorado County's overstated savings/reimbursements of \$3,070 for FY 2001-02. This total represents 4.69% of contract revenues received from the City of South Lake Tahoe that fiscal year.

The City of South Lake Tahoe's mandated cost claims stated that the city was claiming costs based on 4.69% of mandated costs incurred by El Dorado County for FY 2001-02. The percentage was based on the number of animals in the county's animal shelter originating from the City of South Lake Tahoe. The amounts were determined by an external mandated-cost consultant who prepared the Animal Adoption Program claims for the city. As a result, the City of South Lake Tahoe filed Animal Adoption claims totaling \$84,588 while under contract with

El Dorado County for animal control services. The county and the city had two different mandated cost consultants preparing their respective Animal Adoption Program claims. We informed El Dorado County about the claims filed by the City of South Lake Tahoe and explained that the claims were based on a percentage of mandated costs incurred by the county. However, management representatives from El Dorado County indicated that they were unaware of the claims filed by the City of South Lake Tahoe.

The county originally entered into an agreement with the City of South Lake Tahoe for animal control services in 1997. This contract and subsequent contracts through FY 2001-02 contained a revenue clause. The revenue clause states, "City and County agree that any and all revenue derived from said program belongs solely to the COUNTY and may be used as COUNTY determines." Subsequent animal services contracts for FY 2002-03 through FY 2005-06 include no provision concerning the use of revenues received by El Dorado County. However, contracts between the city and county for FY 2006-07 and beyond include this statement in the Compensation for Services section: "The parties acknowledge that this amount does not reflect the full cost of operations associated with services provided by County to City during this period."

We determined that El Dorado County's allowable mandate-related expenditures comprised 2.01% of total expenditures incurred to operate its animal shelter during FY 2001-02. Mandate-related expenditures comprised 4.76% of the county's total expenditures for FY 2002-03, 3.26% for FY 2006-07, 3.07% for FY 2007-08, and 3.04% for FY 2008-09. Accordingly, general operating expenditures incurred by the county amounted to 97.99%, 95.24%, 96.74%, and 88.4% of its total expenditures incurred for FY 2000-01, FY 2001-02, FY 2002-03, and FY 2004-05, respectively.

The following table summarizes the total expenditures incurred by El Dorado County 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 based on our audit:

Fiscal Year	El Dorado County's Total Expenditures	El Dorado County's Animal Adoption Costs Claimed	Mandate-Related Expenditures Allowable Based on Audit	Mandate-Related Percentage	General Operating Expenditures
2001-02	\$ 2,121,299	\$ 62,378	\$ 42,711	2.01%	97.99%
2002-03	1,228,294	127,258	58,485	4.76%	95.24%
2004-05				*	
2005-06				*	
2006-07	2,284,034	1,008,595	74,353	3.26%	96.74%
2007-08	2,934,854	2,741,320	90,208	3.07%	96.93%
2008-09	2,277,157	364,542	69,243	3.04%	96.96%
2009-10				*	
		<u>\$ 4,304,093</u>	<u>\$ 335,000</u>		

\* The SCO did not audit the El Dorado County's Animal Adoption claims for FY 2004-05, FY 2005-06, and FY 2009-10

During our audit of El Dorado County's Animal Adoption claims, we did not analyze whether any of the contract revenues received from the City of South Lake Tahoe funded mandated activities or funded the general operating expenses incurred to operate the county's animal shelter. As El Dorado County provided all of the services, incurred all of the costs, and was the contractor for the City of South Lake Tahoe, we relied on the county's determination as to whether the city's contract revenues funded the part of the percentages identified above that it incurred for mandated activities or part of the larger percentages identified above that it incurred for general operational costs. 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 its reimbursements should be shared with its contracting partner. The city and the county must resolve this issue.

We asked El Dorado County to identify, in writing, what portions of its mandated costs were funded by contract revenues received from the City of South Lake Tahoe. The county concluded that all funds received from its contracts with the city were for the general operating expenses of the county's shelter. Therefore, we did not report any offsetting revenues in our audit report of the county's animal adoption claims. County representatives initially agreed to provide this determination in writing on county letterhead. However, the county subsequently decided not to respond in writing regarding the use of contract revenues received from its contracting partners.

El Dorado County agreed to our audit finding regarding offsetting revenues in its response to our draft audit report. The county's response did not dispute its verbal confirmation that the contract revenues received from the City of South Lake Tahoe were used to fund the general operating expenses of the county's animal shelter. We informed the county that, subsequent to the issuance of the county's final audit report, we would issue a letter to the city stating that city's reimbursement claims filed under the Animal Adoption Program (including FY 2009-10) were ineligible for reimbursement and that we will be reducing these claims to \$0.

On January 18, 2012, we contacted Christine Vuletich, Director of Finance for the City of South Lake Tahoe via e-mail. We provided her a copy of El Dorado County's Animal Adoption Audit Report and a copy of the county's response to the audit report findings signed by the county's Auditor-Controller. Ms. Vuletich responded by e-mail on the same day and did not raise any questions, comments, or concerns about the finding. She provided contact information for the Revenue Division Manager as the main contact for the City of South Lake Tahoe review.

We clarified that if El Dorado County subsequently advises us that all or a portion of the contract revenues it received from the City of South Lake Tahoe were used for mandated activities, we will revise the review results as appropriate.

Recommendation

We recommend that the City of South Lake Tahoe ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.