



**BETTY T. YEE**  
**California State Controller**

June 25, 2015

Cathleen Till, Finance Director  
City of Lemon Grove  
3232 Main Street  
Lemon Grove, CA 91945

Dear Ms. Till:

The State Controller's Office performed a desk review of costs claimed by the City of Lemon Grove 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 the City of Lemon Grove 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 the City of Lemon Grove and solicited input from the city's staff.

The city claimed \$49,627 for the mandated program. Our review found that the entire amount is unallowable. The costs are unallowable because the contracting city, the City of Chula Vista, determined that all funds received from the City of Lemon Grove 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 paid the city \$11,622. Our review found that the claimed costs are unallowable. The State will offset \$11,622 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 found that claimed costs are unallowable.

For the FY 2008-09 claim, the State made no payment to the city. Our review found that 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 (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](http://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-9021

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,**

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>			
Care and maintenance of dogs and cats	\$ 8,717	\$ -	\$ (8,717)
Care and maintenance of other animals	875	-	(875)
Procuring equipment	8,883	-	(8,883)
Total program costs:	<u>\$ 18,475</u>	-	<u>\$ (18,475)</u>
Less amount paid by the State		(11,622)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (11,622)</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Care and maintenance of dogs and cats	\$ 17,035	\$ -	\$ (17,035)
Care and maintenance of other animals	649	-	(649)
Total program costs:	<u>\$ 17,684</u>	-	<u>\$ (17,684)</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 and maintenance of dogs and cats	\$ 12,950	\$ -	\$ (12,950)
Care and maintenance of other animals	518	-	(518)
Total program costs:	<u>\$ 13,468</u>	-	<u>\$ (13,468)</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, 2002; and July 1, 2007, through June 30, 2009</u>			
Care and maintenance of dogs and cats	\$ 38,702	\$ -	\$ (38,702)
Care and maintenance of other animals	2,042	-	(2,042)
Procuring equipment	8,883	-	(8,883)
Total program costs:	<u>\$ 49,627</u>	-	<u>\$ (49,627)</u>
Less amount paid by the State		(11,622)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (11,622)</u>	

<sup>1</sup> 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 \$49,627 under the Animal Adoption Program during the review period. We found that the entire amount is unallowable. The costs are unallowable because the contracting city (Chula Vista) determined that all funds received from the City of Lemon Grove 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	\$ 18,475	\$ -	\$ (18,475)
2007-08	17,684	-	(17,684)
2008-09	13,468	-	(13,468)
	<u>\$ 49,627</u>	<u>\$ -</u>	<u>\$ (49,627)</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](http://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 contract revenues received from the City of Lemon Grove 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.

The City of Lemon Grove's mandated cost claims for FY 2001-02, FY 2007-08, and FY 2008-09 stated that the city claimed costs pursuant to its contract with the City of Chula Vista. The city claimed contract services costs for the cost components of care and maintenance of dogs and cats, and care and maintenance of other animals, based on the percentages of dogs, cats, and other animals housed in the City of Chula Vista's animal shelter that originated from the City of Lemon Grove during those years. The City of Lemon Grove also included contract services costs for the procuring equipment cost component in its claim for FY 2001-02. An external mandated-cost consultant determined the claimed amounts and prepared the Animal Adoption Program claims for the city. As a result, the City of Lemon Grove filed Animal Adoption claims totaling \$49,627 for the review period while under contract with the City of Chula Vista for 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 the City of Lemon Grove 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 the City of Lemon Grove 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 the City of Lemon Grove stating that their reimbursement claims filed under the Animal Adoption Program were ineligible for reimbursement and that we will be reducing the claim to \$0.

For the review period, the City of Lemon Grove claimed \$49,627 for the Animal Adoption Program. Our review found that the entire amount is unallowable. For the FY 2001-02 claim, the State paid the city \$11,622. The State will offset \$11,622 from other mandated program payments due the city. Alternatively, the city may remit this amount to the state.

We informed Cathleen Till, Finance Director, of the review finding via email on May 5, 2015. The city did not provide a response 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.