

# **CITY OF HAYWARD**

Reissued Audit Report

## **ANIMAL ADOPTION PROGRAM**

Chapter 725, Statutes of 1998;  
and Chapter 313, Statutes of 2004

*July 1, 1998, through June 30, 2008,  
excluding July 1, 2003, through June 30, 2005*



**BETTY T. YEE**  
California State Controller

December 2017



**BETTY T. YEE**  
California State Controller

December 29, 2017

The Honorable Barbara Halliday  
Mayor of the City of Hayward  
777 "B" Street  
Hayward, CA 94541-5007

Dear Mayor Halliday:

The State Controller's Office (SCO) audited the costs claimed by the City of Hayward for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998; and Chapter 313, Statutes of 2004) for the period of July 1, 1998, through June 30, 2008, excluding July 1, 2003, through June 30, 2005.

This report is a reissue of the May 6, 2011 final audit report. The previous report identified \$1,339,152 in unallowable direct and indirect costs for fiscal year (FY) 1998-99 through FY 2002-03, and FY 2005-06 through FY 2007-08. On January 11, 2017, the Commission on State Mandates (Commission) issued a proposed decision in response to the city's Incorrect Reduction Claim for the Animal Adoption Program. In its proposed decision, the Commission directed the SCO to reinstate \$56,694 in direct costs. As a result, allowable costs increased by \$56,694, from \$1,024,131 to \$1,080,825.

The city claimed \$2,363,283 for the mandated program. Our audit found that \$1,080,825 is allowable and \$1,282,458 is unallowable. The costs are unallowable because the city claimed unallowable costs, estimated costs, misclassified costs, claimed ineligible employees, claimed ineligible animals and incorrect pro rata percentages, misstated animal census data, and overstated offsetting revenues. The State paid the city \$900,805. The SCO's Local Government Program and Services Division will send a separate notification letter to resolve the amount paid in excess of allowable costs, totaling \$180,020. The letter will be sent within 30 days from the issuance date of this report.

If you have any questions, please contact Jim L. Spano, CPA, Assistant Division Chief, by telephone at (916) 323-5849.

Sincerely,

*Original signed by*

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

JVB/as

cc: Dustin Claussen, Director of Finance  
City of Hayward  
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City of Hayward  
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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Hayward for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998; and Chapter 313, Statutes of 2004) for the period of July 1, 1998, through June 30, 2008, excluding July 1, 2003, through June 30, 2005.

The city claimed \$2,363,283 for the mandated program. Our audit found that \$1,080,825 is allowable and \$1,282,458 is unallowable. The costs are unallowable primarily because the city claimed unallowable costs, estimated costs, misclassified costs, claimed ineligible employees, claimed ineligible animals and incorrect pro rata percentages, misstated animal census data, and overstated offsetting revenues. The state paid the city \$900,805. The SCO's Local Government Programs and Services Division (LGPSD) will send the city a separate notification letter to resolve the allowable costs in excess of the amount paid, totaling \$180,020. The letter will be sent within 30 days from the issuance date of this report.

## Background

Food and Agriculture Code sections 31108, 31752-31753, 32001, and 32003 (added and amended by Chapter 752, Statutes of 1998) attempted to end the euthanasia of adoptable and treatable animals. The statutes expressly identify the State policy that no adoptable animal should be euthanized if it can be adopted into a suitable home, and that no treatable animal should be euthanized. The legislation increases the holding period for stray and abandoned dogs, cats, and other specified animals. It also requires public or private shelters to:

- Verify the temperament of feral cats;
- Post lost-and-found lists;
- Maintain records for impounded animals; and
- Ensure that impounded animals receive necessary and prompt veterinary care.

On January 25, 1981, the Commission on State Mandates (Commission) determined that Chapter 752, Statutes of 1998, imposed a state mandate reimbursable under Government Code (GC) section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The Commission 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 GC section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

The California State Legislature suspended the Animal Adoption Program in the Budget Acts for fiscal year (FY) 2010-11 through FY 2015-16.

**Objective, Scope,  
and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Animal Adoption Program for the period of July 1, 1998, through June 30, 2008, excluding July 1, 2003, through June 30, 2005.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

To achieve our audit objective, we performed the following procedures:

- Reviewed annual claims filed with the SCO in order to identify any mathematical errors, and performed analytical procedures to determine if there were any unusual or unexpected variances from year to year;
- Completed an internal control questionnaire and performed a walkthrough of the claim preparation process to determine what information was used, who obtained it, and how it was obtained;
- Interviewed city staff to determine employee classifications involved in performing the reimbursable activities during the audit period;
- Verified the validity of the claimant's raw data on animals and corrected any data error entries;
- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities;
- Traced productive hourly rate calculations for city employees to supporting documentation in the city's payroll system;
- Determined whether indirect costs claimed were properly supported and applied;
- Inquired whether the claimant realized any offsetting savings or reimbursements from the statutes which created the mandated program; and
- Recalculated allowable costs claimed using audited data.

We conducted this performance audit under the authority of GC sections 12410, 17558.5, and 17561. We did not audit the city's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## Conclusion

Our audit found instances of noncompliance with the requirements outlined in the Objective section. These instances are described in the accompanying Summary of Program Costs (Revised Schedule 1) and in the Revised Findings and Recommendations section of this report.

For the audit period, the City of Hayward claimed \$2,363,283 for costs of the Animal Adoption Program. Our audit found that \$1,080,825 is allowable and \$1,282,458 is unallowable.

For the FY 1998-99 claim, the State paid the city \$15,262. Our audit found that \$55,647 is allowable. The SCO's LGPSD will send the city a separate notification letter to resolve allowable costs in excess of the amount paid, totaling \$40,385. The letter will be sent within 30 days from the issuance date of this report.

For the FY 1999-2000 claim, the State paid the city \$284,582. Our audit found that \$285,034 is allowable. The SCO's LGPSD will send the city a separate notification letter to resolve allowable costs in excess of the amount paid, totaling \$452. The letter will be sent within 30 days from the issuance date of this report.

For the FY 2000-01 claim, the State paid the city \$192,239. Our audit found that \$191,787 is allowable. The SCO's LGPSD will send the city a separate notification letter to resolve the amount paid in excess of allowable costs, totaling \$452. This letter will be sent within 30 days from the issuance date of this report.

For the FY 2001-02 and FY 2002-03 claims, our audit found that \$177,358 is allowable. The State paid this amount to the city.

For the FY 2005-06 claim, the State paid the city \$104,181. Our audit found that \$120,490 is allowable. The SCO's LGPSD will send the city a separate notification letter to resolve allowable costs in excess of the amount paid, totaling \$16,309. The letter will be sent within 30 days from the issuance date of this report.

For the FY 2006-07 claim, our audit found that \$127,183 is allowable. The State paid this amount to the city.

For the FY 2007-08 claim, the State made no payment to the city. Our audit found that \$123,326 is allowable. The SCO's LGPSD will send the city a separate notification letter to resolve allowable costs in excess of the amount paid, totaling \$123,326. The letter will be sent within 30 days from the issuance date of this report.

## Views of Responsible Officials

The SCO issued a draft audit report on January 28, 2011. Susan M. Stark, Interim Finance Director, responded by letter dated March 3, 2011, disagreeing with the audit results for Findings 2 and 4, and the retroactive application of an Appellate Court decision affecting Findings 2, 3, 8, and 9. The city did not respond to the other findings. We issued the final audit report on May 6, 2011. The city subsequently filed an Incorrect Reduction Claim (IRC) on March 8, 2012. Subsequently, we revised our audit report to reinstate \$56,694. We advised Dustin Claussen, Director of Finance, of the revision on January 23, 2017.

**Reason for  
Reissuance**

On January 11, 2017, the Commission issued a proposed decision in response to the city's filed IRC. In its proposed decision, the Commission concluded that the city should receive partial reimbursement for certain costs. The hearing on the proposed decision was set for January 27, 2017. However, on January 24, 2017, the city filed a Request to Withdraw the IRC. The city withdrew the IRC because it came to an agreement with the SCO to reinstate construction costs in FY 1998-99 and equipment procurement costs in FY 2005-06. As a result, allowable costs for the audit period increased by \$56,694, from \$1,024,131 to \$1,080,825.

**Restricted Use**

This report is solely for the information and use of the City of Hayward, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

December 29, 2017

**Revised Schedule 1—  
Summary of Program Costs  
July 1, 1998, through June 30, 2008  
(Excluding July 1, 2003, through June 30, 2005)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 1998, through June 30, 1999</u>				
Direct and indirect costs:				
Policies and procedures	\$ 333	\$ 333	\$ -	
Training	486	486	-	
Acquiring space and facilities	40,633	40,633	-	
Care and maintenance of other animals	850	589	(261)	Finding 3
Holding period	72,594	1,075	(71,519)	Finding 4
Feral cats	-	767	767	Finding 5
Lost and found lists	9,101	2,275	(6,826)	Finding 6
Non-medical records	10,679	3,944	(6,735)	Finding 7
Veterinary care	18,686	5,545	(13,141)	Finding 8
Total program costs	<u>\$ 153,362</u>	55,647	<u>\$ (97,715)</u>	
Less amount paid by the State		(15,262)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 40,385</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Direct and indirect costs:				
Training	\$ 4,093	\$ 4,093	\$ -	
Computer software	16,854	4,483	(12,371)	Finding 1
Acquiring space and facilities	354,735	195,191	(159,544)	Finding 2 (Revised)
Care and maintenance of dogs and cats	105,094	11,032	(94,062)	Finding 3
Care and maintenance of other animals	1,529	1,027	(502)	Finding 3
Holding period	138,657	43,824	(94,833)	Finding 4
Feral cats	-	1,495	1,495	Finding 5
Lost and found lists	9,768	5,145	(4,623)	Finding 6
Non-medical records	-	7,659	7,659	Finding 7
Veterinary care	-	10,633	10,633	Finding 8
Procuring equipment	-	452	452	Finding 9 (Revised)
Total program costs	<u>\$ 630,730</u>	285,034	<u>\$ (345,696)</u>	
Less amount paid by the State		(284,582)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 452</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct and indirect costs:				
Training	\$ 260	\$ 260	\$ -	
Computer software	11,345	-	(11,345)	Finding 1
Acquiring space and facility	124,984	100,228	(24,756)	Finding 2 (Revised)
Care and maintenance of dogs and cats	99,787	14,293	(85,494)	Finding 3
Care and maintenance of other animals	1,715	467	(1,248)	Finding 3
Holding period	148,621	47,594	(101,027)	Finding 4
Feral cats	-	1,279	1,279	Finding 5
Lost and found lists	11,859	5,545	(6,314)	Finding 6
Non-medical records	-	8,382	8,382	Finding 7
Veterinary care	-	10,776	10,776	Finding 8
Procuring equipment	-	2,963	2,963	Finding 9 (Revised)
Total direct and indirect costs	398,571	191,787	(206,784)	
Less offsetting savings/reimbursements	(6,897)	-	6,897	Finding 10
Total program costs	<u>\$ 391,674</u>	191,787	<u>\$ (199,887)</u>	
Less amount paid by the State		(192,239)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (452)</u>		

## Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Direct and indirect costs:				
Training	\$ 1,157	\$ 1,157	\$ -	
Care and maintenance of dogs and cats	130,269	16,855	(113,414)	Finding 3
Care and maintenance of other animals	3,122	1,381	(1,741)	Finding 3
Holding period	169,216	48,633	(120,583)	Finding 4
Feral cats	-	1,828	1,828	Finding 5
Lost and found lists	18,900	5,665	(13,235)	Finding 6
Non-medical records	-	8,812	8,812	Finding 7
Veterinary care	-	10,918	10,918	Finding 8
Total direct and indirect costs	322,664	95,249	(227,415)	
Less offsetting savings/reimbursements	(7,922)	-	7,922	Finding 10
Total program costs	<u>\$ 314,742</u>	95,249	<u>\$ (219,493)</u>	
Less amount paid by the State		(95,249)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct and indirect costs:				
Training	\$ 588	\$ 588	\$ -	
Care and maintenance of dogs and cats	31,717	12,568	(19,149)	Finding 3
Care and maintenance of other animals	1,667	1,398	(269)	Finding 3
Holding period	117,533	41,338	(76,195)	Finding 4
Feral cats	3,513	1,949	(1,564)	Finding 5
Lost and found lists	23,934	5,893	(18,041)	Finding 6
Non-medical records	-	9,096	9,096	Finding 7
Veterinary care	-	9,279	9,279	Finding 8
Total direct and indirect costs	178,952	82,109	(96,843)	
Less offsetting savings/reimbursements	(26,485)	-	26,485	Finding 10
Total program costs	<u>\$ 152,467</u>	82,109	<u>\$ (70,358)</u>	
Less amount paid by the State		(82,109)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct and indirect costs:				
Training	\$ 522	\$ 522	\$ -	
Computer software	1,008	-	(1,008)	Finding 1
Care and maintenance of dogs and cats	42,261	18,844	(23,417)	Finding 3
Care and maintenance of other animals	1,901	2,015	114	Finding 3
Holding period	104,216	46,920	(57,296)	Finding 4
Feral cats	977	2,340	1,363	Finding 5
Lost and found lists	9,319	6,719	(2,600)	Finding 6
Non-medical records	36,968	10,061	(26,907)	Finding 7
Veterinary care	17,389	13,452	(3,937)	Finding 8
Procuring equipment	19,617	19,617	-	Finding 9 (Revised)
Total program costs	<u>\$ 234,178</u>	120,490	<u>\$ (113,688)</u>	
Less amount paid by the State		(104,181)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 16,309</u>		

## Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2006, through June 30, 2007</u>				
Direct and indirect costs:				
Training	\$ 152	\$ 152	\$ -	
Computer software	3,637	-	(3,637)	Finding 1
Care and maintenance of dogs and cats	46,362	32,788	(13,574)	Finding 3
Care and maintenance of other animals	12,340	4,952	(7,388)	Finding 3
Holding period	142,151	54,139	(88,012)	Finding 4
Feral cats	931	2,496	1,565	Finding 5
Lost and found lists	10,790	7,710	(3,080)	Finding 6
Non-medical records	15,301	12,600	(2,701)	Finding 7
Veterinary care	21,792	12,346	(9,446)	Finding 8
Total direct and indirect costs	253,456	127,183	(126,273)	
Less offsetting savings/reimbursements	-	-	-	
Total program costs	<u>\$ 253,456</u>	127,183	<u>\$ (126,273)</u>	
Less amount paid by the State		(127,183)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct and indirect costs:				
Care and maintenance of dogs and cats	\$ 15,219	\$ 27,087	\$ 11,868	Finding 3
Care and maintenance of other animals	925	2,111	1,186	Finding 3
Holding period	157,647	57,259	(100,388)	Finding 4
Feral cats	3,382	2,056	(1,326)	Finding 5
Lost and found lists	12,300	8,090	(4,210)	Finding 6
Non-medical records	18,198	11,840	(6,358)	Finding 7
Veterinary care	25,003	14,883	(10,120)	Finding 8
Total program costs	<u>\$ 232,674</u>	123,326	<u>\$ (109,348)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 123,326</u>		
<u>Summary: July 1, 1998, through June 30, 2008</u> <u>(excluding FY 2003-04 and FY 2004-05)</u>				
Direct and indirect costs:				
Policies and procedures	\$ 333	\$ 333	\$ -	
Training	7,258	7,258	-	
Computer software	32,844	4,483	(28,361)	
Acquiring space and facilities	520,352	336,052	(184,300)	
Care and maintenance of dogs and cats	470,709	133,467	(337,242)	
Care and maintenance of other animals	24,049	13,940	(10,109)	
Holding period	1,050,635	340,782	(709,853)	
Feral cats	8,803	14,210	5,407	
Lost and found lists	105,971	47,042	(58,929)	
Non-medical records	81,146	72,394	(8,752)	
Veterinary care	82,870	87,832	4,962	
Procuring equipment	19,617	23,032	3,415	
Total direct and indirect costs	2,404,587	1,080,825	(1,323,762)	
Less offsetting savings/reimbursements	(41,304)	-	41,304	
Total program costs	<u>\$ 2,363,283</u>	1,080,825	<u>\$ (1,282,458)</u>	
Less amount paid by the State <sup>2</sup>		(900,805)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 180,020</u>		

<sup>1</sup> See the Revised Findings and Recommendations section.

<sup>2</sup> Payment information current as of October 12, 2017.

**Schedule 2—  
Summary of Care and Maintenance Costs  
July 1, 1998, through June 30, 2008  
(Excluding July 1, 2003, through June 30, 2005)**

Category	Actual Costs Claimed <sup>1,4</sup>	Allowable per Audit <sup>1</sup>		Audit Adjustments
		Salaries and Benefits <sup>2</sup>	Materials and Supplies	
<u>July 1, 1998, through June 30, 1999</u>				
Care and maintenance of other “eligible” animals:				
Total care and maintenance costs	\$ 62,065	\$ 209,718	\$ 69,780	
Total annual census	÷ 2,190	÷ 76,830	÷ 76,830	
Cost per “eligible” animal per day	\$28.34	\$2.73	\$0.91	
Number of other “eligible” animals	× 7.5	× 54	× 54	
Reimbursable days <sup>3</sup>	× 4	× 3	× 3	
Total care and maintenance costs for other “eligible” animals	<u>\$ 850</u>	<u>\$ 442</u>	<u>\$ 147</u>	<u>\$ (261)</u>
<u>July 1, 1999, through June 30, 2000</u>				
Care and maintenance of dogs and cats:				
Total care and maintenance costs	\$ 2,161,262	\$ 173,631	\$ 69,780	
Percentage of dogs and cats to total animals	× 94.96%	× 91.94%	× 91.94%	
Total care and maintenance costs for dogs and cats	2,052,334	159,636	64,156	
Total dog and cat kennel days	÷ 78,739	÷ 70,641	÷ 70,641	
Cost per dog and cat per day	\$26.06	\$2.26	\$0.91	
Number of eligible dogs and cats	× 2,016	× 1,160	× 1,160	
Reimbursable days	× 2	× 3	× 3	
Total care and maintenance costs for dogs and cats	<u>105,094</u>	<u>7,865</u>	<u>3,167</u>	<u>\$ (94,062)</u>
Care and maintenance of other “eligible” animals:				
Total care and maintenance costs	2,161,262	173,631	69,780	
Percentage of other “eligible” animals to total animals	× 5.04%	× 8.06%	× 8.06%	
Total care and maintenance costs for other “eligible” animals	108,928	13,995	5,624	
Total other “eligible” animal kennel days	÷ 21,375	÷ 6,189	÷ 6,189	
Cost per other “eligible” animal per day	\$5.10	\$2.26	\$0.91	
Number of other “eligible” animals	× 75	× 54	× 54	
Reimbursable days	× 4	× 6	× 6	
Total care and maintenance costs for other “eligible” animals	<u>1,529</u>	<u>732</u>	<u>295</u>	<u>(502)</u>
Total care and maintenance costs	<u>\$ 106,623</u>	<u>\$ 8,597</u>	<u>\$ 3,462</u>	<u>\$ (94,564)</u>
<u>July 1, 2000, through June 30, 2001</u>				
Care and maintenance of dogs and cats:				
Total care and maintenance costs	\$ 345,325	\$ 179,297	\$ 69,780	
Percentage of dogs and cats to total animals	× 96.94%	× 94.11%	× 94.11%	
Total care and maintenance costs for dogs and cats	334,758	168,736	65,670	
Total dog and cat kennel days	÷ 13,922	÷ 57,206	÷ 57,206	
Cost per dog and cat per day	\$24.04	\$2.95	\$1.15	
Number of eligible dogs and cats	× 2,075	× 1,162	× 1,162	
Reimbursable days	× 2	× 3	× 3	
Total care and maintenance costs for dogs and cats	<u>99,787</u>	<u>10,284</u>	<u>4,009</u>	<u>\$ (85,494)</u>

**Schedule 2 (continued)**

Category	Allowable per Audit <sup>1</sup>			Audit Adjustments
	Actual Costs Claimed <sup>1,4</sup>	Salaries and Benefits <sup>2</sup>	Materials and Supplies	
<u>July 1, 2000, through June 30, 2001 (continued)</u>				
Care and maintenance of other “eligible” animals:				
Total care and maintenance costs	\$ 345,325	\$ 179,297	\$ 69,780	
Percentage of other “eligible” animals to total animals	× 3.06%	× 5.89%	× 5.89%	
Total care and maintenance costs for other “eligible” animals	10,567	10,561	4,110	
Total other “eligible” animal kennel days	÷ 1,947	÷ 3,583	÷ 3,583	
Cost per other “eligible” animal per day	\$5.43	\$2.95	\$1.15	
Number of other “eligible” animals	× 79	× 19	× 19	
Reimbursable days	× 4	× 6	× 6	
Total care and maintenance costs for other “eligible” animals	1,715	336	131	(1,248)
Total care and maintenance costs	<u>\$ 101,502</u>	<u>\$ 10,620</u>	<u>\$ 4,140</u>	<u>\$ (86,742)</u>
<u>July 1, 2001, through June 30, 2002</u>				
Care and maintenance of dogs and cats:				
Total care and maintenance costs	Unknown	\$ 228,023	\$ 69,780	
Percentage of dogs and cats to total animals	Unknown	× 91.03%	× 91.03%	
Total care and maintenance costs for dogs and cats	Unknown	207,569	63,521	
Total dog and cat kennel days	Unknown	÷ 65,986	÷ 65,986	
Cost per dog and cat per day	\$28.05	\$3.15	\$0.96	
Number of eligible dogs and cats	× 2,322	× 1,367	× 1,367	
Reimbursable days	× 2	× 3	× 3	
Total care and maintenance costs for dogs and cats	130,269	12,918	3,937	\$ (113,414)
Care and maintenance of other “eligible” animals:				
Total care and maintenance costs	Unknown	\$ 228,023	\$ 69,780	
Percentage of other “eligible” animals to total animals	Unknown	× 8.97%	× 8.97%	
Total care and maintenance costs for other “eligible” animals	Unknown	20,454	6,259	
Total other “eligible” animal kennel days	Unknown	÷ 6,506	÷ 6,506	
Cost per other “eligible” animal per day	\$7.50	\$3.15	\$0.96	
Number of other “eligible” animals	× 104	× 56	× 56	
Reimbursable days	× 4	× 6	× 6	
Total care and maintenance costs for other “eligible” animals	3,122	1,058	323	(1,741)
Total care and maintenance costs	<u>\$ 133,391</u>	<u>\$ 13,976</u>	<u>\$ 4,260</u>	<u>\$ (115,155)</u>
<u>July 1, 2002, through June 30, 2003</u>				
Care and maintenance of dogs and cats:				
Total care and maintenance costs	\$ 267,443	\$ 288,976	\$ 69,780	
Percentage of dogs and cats to total animals	× 96.89%	× 95.13%	× 95.13%	
Total care and maintenance costs for dogs and cats	259,121	274,903	66,382	
Total dog and cat kennel days	÷ 24,820	÷ 73,283	÷ 73,283	
Cost per dog and cat per day	\$10.44	\$3.75	\$0.91	
Number of eligible dogs and cats	× 1,519	× 899	× 899	
Reimbursable days	× 2	× 3	× 3	
Total care and maintenance costs for dogs and cats	31,717	10,114	2,454	(19,149)

## Schedule 2 (continued)

Category	Allowable per Audit <sup>1</sup>			Audit Adjust- ments
	Actual Costs Claimed <sup>1,4</sup>	Salaries and Benefits <sup>2</sup>	Materials and Supplies	
<u>July 1, 2002, through June 30, 2003 (continued)</u>				
Care and maintenance of other "eligible" animals:				
Total care and maintenance costs	267,443	\$ 288,976	\$ 69,780	
Percentage of other "eligible" animals to total animals	× 3.11%	× 4.87%	× 4.87%	
Total care and maintenance costs for other "eligible" animals	8,323	14,073	3,398	
Total other "eligible" animal kennel days	÷ 1,278	÷ 3,748	÷ 3,748	
Cost per other "eligible" animal per day	\$6.51	\$3.75	\$0.91	
Number of other "eligible" animals	× 64	× 50	× 50	
Reimbursable days	× 4	× 6	× 6	
Total care and maintenance costs for other "eligible" animals	1,667	1,125	\$ 273	(269)
Total care and maintenance costs	<u>\$ 33,384</u>	<u>\$ 11,239</u>	<u>\$ 2,727</u>	<u>\$ (19,418)</u>
<u>July 1, 2005, through June 30, 2006</u>				
Care and maintenance of dogs and cats:				
Total care and maintenance costs	\$ 429,269	\$ 394,992	\$ 59,233	
Percentage of dogs and cats to total animals	× 90.28%	× 88.45%	× 88.45%	
Total care and maintenance costs for dogs and cats	387,544	349,370	52,392	
Total dog and cat kennel days	÷ 26,190	÷ 84,890	÷ 84,890	
Cost per dog and cat per day	\$14.80	\$4.11	\$0.62	
Number of eligible dogs and cats	× 1,428	× 1,328	1,328	
Reimbursable days	× 2	× 3	× 3	
Total care and maintenance costs for dogs and cats	42,261	16,374	2,470	\$ (23,417)
Care and maintenance of other "eligible" animals:				
Total care and maintenance costs	429,269	394,992	59,233	
Percentage of other "eligible" animals to total animals	× 9.72%	× 11.55%	× 11.55%	
Total care and maintenance costs for other "eligible" animals	41,725	45,622	6,841	
Total other "eligible" animal kennel days	÷ 22,561	÷ 11,087	÷ 11,087	
Cost per other "eligible" animal per day	\$1.85	\$4.11	\$0.62	
Number of other "eligible" animals	× 257	× 71	× 71	
Reimbursable days	× 4	× 6	× 6	
Total care and maintenance costs for other "eligible" animals	1,901	1,751	264	114
Total care and maintenance costs	<u>\$ 44,162</u>	<u>\$ 18,125</u>	<u>\$ 2,734</u>	<u>\$ (23,303)</u>
<u>July 1, 2006, through June 30, 2007</u>				
Care and maintenance of dogs and cats:				
Total care and maintenance costs	\$ 508,117	\$ 605,864	\$ 89,812	
Percentage of dogs and cats to total animals	× 91.77%	× 91.73%	× 91.73%	
Total care and maintenance costs for dogs and cats	466,294	555,759	82,385	
Total dog and cat kennel days	÷ 21,765	÷ 70,338	÷ 70,338	
Cost per dog and cat per day	\$21.42	\$7.90	\$1.17	
Number of eligible dogs and cats	× 1,082	× 1,205	× 1,205	
Reimbursable days	× 2	× 3	× 3	
Total care and maintenance costs for dogs and cats	46,362	28,558	4,230	\$ (13,574)

## Schedule 2 (continued)

Category	Allowable per Audit <sup>1</sup>			Audit Adjust- ments
	Actual Costs Claimed <sup>1,4</sup>	Salaries and Benefits <sup>2</sup>	Materials and Supplies	
<u>July 1, 2006, through June 30, 2007 (continued)</u>				
Care and maintenance of other "eligible" animals:				
Total care and maintenance costs	508,117	605,864	89,812	
Percentage of other "eligible" animals to total animals	× 8.23%	× 8.27%	× 8.27%	
Total care and maintenance costs for other "eligible" animals	41,823	50,105	7,427	
Total other "eligible" animal kennel days	÷ 1,952	÷ 6,338	÷ 6,338	
Cost per other "eligible" animal per day	\$21.42	\$7.90	\$1.17	
Number of other "eligible" animals	× 144	× 91	× 91	
Reimbursable days	× 4	× 6	× 6	
Total care and maintenance costs for other "eligible" animals	12,340	4,313	639	(7,388)
Total care and maintenance costs	<u>\$ 58,702</u>	<u>\$ 32,871</u>	<u>\$ 4,869</u>	<u>\$ (20,962)</u>
<u>July 1, 2007, through June 30, 2008</u>				
Care and Maintenance of Dogs and Cats:				
Total care and maintenance costs	\$ 516,069	\$ 620,142	\$ 83,763	
Percentage of dogs and cats to total animals	× 94.601%	× 92.47%	× 92.47%	
Total care and maintenance costs for dogs and cats	488,206	573,445	77,456	
Total dog and cat kennel days	÷ 72,562	÷ 72,140	÷ 72,140	
Cost per dog and cat per day	\$6.73	\$7.95	\$1.07	
Number of eligible dogs and cats	× 1,131	× 1,001	× 1,001	
Reimbursable days	× 2	× 3	× 3	
Total care and maintenance costs for dogs and cats	15,219	23,874	3,213	\$ 11,868
Care and maintenance of other "eligible" animals:				
Total care and maintenance costs	516,069	620,142	83,763	
Percentage of other "eligible" animals to total animals	× 5.40%	× 7.53%	× 7.53%	
Total care and maintenance costs for other "eligible" animals	27,863	46,697	6,307	
Total other "eligible" animal kennel days	÷ 4,098	÷ 5,872	÷ 5,872	
Cost per other "eligible" animal per day	\$6.80	\$7.95	\$1.07	
Number of other "eligible" animals	× 34	× 39	× 39	
Reimbursable days	× 4	× 6	× 6	
Total care and maintenance costs for other "eligible" animals	925	1,861	250	1,186
Total care and maintenance costs	<u>\$ 16,144</u>	<u>\$ 25,735</u>	<u>\$ 3,463</u>	<u>\$ 13,054</u>
<u>Summary: July 1, 1998, through June 30, 2003 and July 1, 2005, through June 30, 2008</u>				
Care and maintenance of dogs and cats	\$ 470,709	\$ 109,987	\$ 23,480	\$ (337,242)
Care and maintenance of other "eligible" animals	24,049	11,618	2,322	(10,109)
Total care and maintenance costs	<u>\$ 494,758</u>	<u>\$ 121,605</u>	<u>\$ 25,802</u>	<u>\$ (347,351)</u>

<sup>1</sup> Minor calculation variances occur due to rounding of the percentages/amounts to two decimal points.

<sup>2</sup> Includes related indirect costs.

<sup>3</sup> Costs were reimbursable for other animals beginning on January 1, 1999. Therefore, the number of reimbursable days was changed from six days to three days. Costs of dogs and cats were not reimbursable until July 1, 1999.

<sup>4</sup> Difference due to rounding.

# Revised Findings and Recommendations

## **FINDING 1— Unallowable and misclassified computer software costs**

The city claimed \$32,844 to procure computer software. We determined that \$4,483 is allowable, and \$28,361 is unallowable: \$9,491 is unallowable, \$10,405 was reclassified to the Non-Medical Records cost component (see Finding 7), and \$8,465 was reclassified to the Procuring Equipment cost component (see Finding 9).

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

<u>Category</u> <u>Fiscal Year</u>	<u>Amount</u> <u>Claimed</u>	<u>Amount</u> <u>Allowable</u>	<u>Audit</u> <u>Adjustment</u>
Salaries and benefits:			
1999-2000	\$ 650	\$ 650	\$ —
Total salaries and benefits	650	650	—
Related indirect costs:			
1999-2000	120	120	—
Total related indirect costs	120	120	—
Materials and supplies:			
1999-2000	16,084	3,713	(12,371)
2000-01	11,345	—	(11,345)
Total materials and supplies	27,429	3,713	(23,716)
Contract services:			
2005-06	1,008	—	(1,008)
2006-07	3,637	—	(3,637)
Total contract services	4,645	3,713	(4,645)
Total	\$ 32,844	\$ 4,483	\$ (28,361)

### **Salaries and Benefits**

The city claimed \$650 in salaries and benefits for FY 1999-2000 and \$120 in related indirect costs. The costs were incurred for the Animal Shelter Manager to research various computer software systems and negotiate with the vendor. We determined that these costs are allowable.

### **Overstated/Misclassified Materials and Supplies**

The city claimed \$27,429 in material and supply costs (\$16,084 for FY 1999-2000 and \$11,345 for FY 2000-01). We determined that \$3,713 was allowable, \$9,491 was unallowable, \$5,760 was reclassified to the Non-Medical Records cost component, and \$8,465 was reclassified to the Procuring Equipment cost component.

In FY 1999-2000, the city acquired the Chameleon software system for its animal shelter operations and paid fees totaling \$10,609. The city included the entire amount in its claim. However, the city determined that only 35% of the software system was used for mandated activities. Accordingly, \$3,713 of the initial fee is reimbursable as the pro rata share applicable to the mandated program and the remaining \$6,896 is unallowable.

The unallowable costs occurred because the city claimed training costs twice (\$2,400), claimed unsupported costs (\$195), and claimed costs greater than the pro rata share for software acquisition costs (\$6,896). The

unallowable training costs were already claimed and allowable under the cost component of training for FY 1999-2000. The \$195 of unsupported costs appears to be a calculation error made in the city's claim for FY 1999-2000.

The misclassified costs occurred because the city claimed annual licensing fees of \$2,880 for both FY 1999-2000 and FY 2000-01 under this cost component that should have been claimed under the cost component of Non-Medical Records. In addition, the city claimed \$8,465 for the purchase of computer equipment under this cost component for FY 2000-01 that should have been claimed under the cost component of Procuring Equipment.

#### **Misclassified Contract Services**

The city claimed \$4,645 in contract services costs (\$1,008 for FY 2005-06 and \$3,637 for FY 2006-07) under this cost component. We determined that these costs should have been claimed under the cost component of Non-Medical Records.

The parameters and guidelines (Section IV.A.3–One Time Activities) identify the following one-time reimbursable activity:

Develop or procure computer software for the maintenance of records on animals specified in Section IV (B) (8). If the computer software is utilized in some way that is not directly related to the maintenance of records specified in Section IV (B) (8), only the pro rata portion of the activity that is used for compliance with Section IV (B) (8) is reimbursable.

#### **Recommendation**

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**REVISED  
FINDING 2—  
Overstated space and  
facilities acquisition  
costs**

The city claimed \$520,352 under this cost component. We found that \$336,052 is allowable and \$184,300 is unallowable. The misstated costs occurred because the city claimed reimbursement using pro-rata percentages that were misstated, claimed ineligible and unsupported costs, misclassified costs, and understated allowable costs.

Allowable costs for this cost component are based on a formula that includes all costs incurred by the city applicable to animal shelter construction multiplied by a ratio of animals euthanized after the required holding period, to the number of animals housed at the shelter during the required holding period. We made adjustments to gross construction costs incurred and the pro rata animal population information.

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

<u>Category</u> <u>Fiscal Year</u>	<u>Amount</u> <u>Claimed</u>	<u>Amount</u> <u>Allowable</u>	<u>Audit</u> <u>Adjustment</u>
Salaries and benefits:			
1999-2000	\$ 2,206	\$ 2,206	\$ —
2000-01	2,069	2,069	—
Total salaries and benefits	<u>4,275</u>	<u>4,275</u>	<u>—</u>
Related indirect costs:			
1999-2000	408	408	—
2000-01	412	412	—
Total related indirect costs	<u>820</u>	<u>820</u>	<u>—</u>
Materials and supplies:			
1998-99	40,633	40,633	—
1999-2000	352,121	192,577	(159,544)
2000-01	122,503	97,747	(24,756)
Total materials and supplies	<u>515,257</u>	<u>330,957</u>	<u>(184,300)</u>
Total	<u>\$ 520,352</u>	<u>\$ 336,052</u>	<u>\$ (184,300)</u>

*Background—Construction of Additional Shelter Space*

On November 9, 1999, the City Council approved plans and specifications for construction of 6,700 square feet of additional kennel space, an adoption gallery, a night deposit area, a get-acquainted room, and grooming and laundry rooms. The project also included an outside concrete pad for the freezer unit and filling the existing loading ramp to provide better access and additional parking spaces. On January 4, 2000, the city awarded the project to Sevan Construction, Inc. of San Mateo in the amount of \$869,000. Additional costs budgeted for the project included \$140,000 for city-furnished equipment (cages, kennels, etc.), \$135,000 for design and administration, and \$76,000 for inspection. The total estimated costs for the project were \$1,200,000. The project was completed during FY 2000-01.

### *Construction Costs Incurred*

Costs incurred for construction were adjusted for the following reasons:

- The city applied offsetting revenues totaling \$64,550 against gross construction costs for FY 2000-01. We determined that no offset was required.
- The city did not use the correct pro rata representation of impounded stray or abandoned dogs, cats, and other animals held during the increased holding period that died or were ultimately euthanized to the total population of animals housed in the facility during the required holding period.

### **Overstated Materials and Supplies**

#### *Gross Construction Costs*

Gross construction costs incurred were adjusted upwards by \$64,550 for FY 2000-01. The city applied offsetting revenues totaling \$64,550 against gross construction costs incurred totaling \$354,155. We determined that no offset was required.

#### *Pro Rata Representation of Animals*

The parameters and guidelines adopted on February 28, 2002, state that reimbursement is based on the number of animals that “die during the increased holding period or are ultimately euthanized (numerator) to the total population of animals housed at the facility (denominator).” For the purposes of this calculation, the term “animals that are held and die during the increased holding period” means that they died of natural causes and the term “are ultimately euthanized” means only animals that were euthanized *after* the required holding period.

The parameters and guidelines (Section III–Period of Reimbursement) also state that costs incurred for Food and Agriculture Code sections 31108 (stray dogs) and 31752 (stray cats), as amended by Statutes of 1998, Chapter 752, are eligible for reimbursement on or after July 1, 1999.

We used the animal census data that was provided by the city to determine the total number of animals housed at the facility during the required holding period, the number of stray and abandoned animals that died of natural causes during the required holding period, and the number of stray and abandoned animals that were ultimately euthanized after the required holding period.

For FY 1998-99, we determined that the city’s materials and supplies were allowable as claimed.

For FY 1999-2000, we used an average of the last six years of the audit period to determine both the number of eligible animals (the number of eligible euthanized or dead dogs, cats, and other animals) and the total population of animals (total number of animals that came into the shelter, excluding those dead on arrival). We used an average because the shelter’s animal database information for FY 1999-2000 was incomplete.

For FY 2000-01, we extracted the required animal census data from the city's Chameleon software system database.

Based on the changes that we made to the pro rata percentages of animals, the following table summarizes the claimed and allowable materials and supplies costs by fiscal year:

<u>Fiscal Year</u>	<u>Eligible No. of Animals</u>	<u>Total No. of Animals</u>	<u>Ratio</u>	<u>Total Construction Costs</u>	<u>Reimburs- able Amount</u>
Claimed:					
1998-99	—	—	100.00%	\$ 40,633	\$ 40,633
1999-2000	2,091	4,177	50.10%	702,837	352,121
2000-01	2,075	4,908	42.30%	289,605	122,503
Total claimed costs				<u>1,033,075</u>	<u>515,257</u>
Allowable:					
1998-99	4,431	4,431	100.00%	40,633	40,633
1999-2000	1,214	4,431	27.40%	702,837	192,577
2000-01	1,181	4,279	27.60%	354,155	97,747
Total allowable costs				<u>\$1,097,625</u>	<u>330,957</u>
Audit adjustment					<u>\$ (184,300)</u>

The program's parameters and guidelines (Section IV.B.1–Acquisition of Additional Space and/or Construction of New Facilities) identify the following reimbursable activities:

Beginning January 1, 1999 – acquiring additional space by purchase or lease and/or construction of new facilities to provide appropriate or adequate shelter necessary to comply with the mandated activities during the increased holding period for impounded stray or abandoned dogs, cats, and other animals specified in Statutes of 1998, Chapter 752 that die during the increased holding period or are ultimately euthanized.

Eligible claimants are entitled to reimbursement for the proportionate share of actual costs required to plan, design, acquire, and/or build facilities in a given fiscal year based on the pro rata representation of impounded stray or abandoned dogs, cats, and other animals specified in Statutes of 1998, Chapter 752 that are held during the increased holding period specified in Sections IV (B) (3) and (4) of these parameters and guidelines and die during the increased holding period or are ultimately euthanized, to the total population of animals housed in the facility. The population of animals housed in the facilities includes those animals that are excluded from reimbursement, as specified in Sections IV (B)(3) and (4) of these parameters and guidelines during the entire holding period required by Food and Agriculture Code sections 31108, 31752, and 31753.

### Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 3—  
Unallowable care and  
maintenance costs**

The city claimed \$494,758 during the audit period for the care and maintenance of stray and abandoned animals (\$470,709 for dogs and cats and \$24,049 for other animals) that died during the increased holding period or were ultimately euthanized. We determined that \$147,407 was allowable and \$347,351 was unallowable. The costs are unallowable because the city misstated animal census data, co-mingled costs for veterinary care and lost-and-found lists within the actual cost formula, and claimed salaries and benefits costs for ineligible employees. We also determined that the city understated costs for food and supplies and salaries and benefits.

The following table summarizes the claimed, allowable, and unallowable care and maintenance costs for the audit period separately for dogs and cats and other animals by fiscal year. Refer to Schedule 2 (Summary of Care and Maintenance Costs) for further details.

Fiscal Year	Dogs and Cats			Other Animals		
	Claimed	Allowable	Adjustment	Claimed	Allowable	Adjustment
1998-99	\$ —	\$ —	\$ —	\$ 850	\$ 589	\$ (261)
1999-2000	105,094	11,032	(94,062)	1,529	1,027	(502)
2000-01	99,787	14,293	(85,494)	1,715	467	(1,248)
2001-02	130,269	16,855	(113,414)	3,122	1,381	(1,741)
2002-03	31,717	12,568	(19,149)	1,667	1,398	(269)
2005-06	42,261	18,844	(23,417)	1,901	2,015	114
2006-07	46,362	32,788	(13,574)	12,340	4,952	(7,388)
2007-08	15,219	27,087	11,868	925	2,111	1,186
Total	<u>\$ 470,709</u>	<u>\$ 133,467</u>	<u>\$ (337,242)</u>	<u>\$ 24,049</u>	<u>\$ 13,940</u>	<u>\$ (10,109)</u>

The following table summarizes the combined claimed, allowable, and unallowable costs for the care and maintenance cost component for the audit period:

Fiscal Year	Combined Dogs, Cats, and Other Animals		
	Claimed	Allowable	Adjustment
1998-99	\$ 850	\$ 589	\$ (261)
1999-2000	106,623	12,059	(94,564)
2000-01	101,502	14,760	(86,742)
2001-02	133,391	18,236	(115,155)
2002-03	33,384	13,966	(19,418)
2005-06	44,162	20,859	(23,303)
2006-07	58,702	37,740	(20,962)
2007-08	16,144	29,198	13,054
Total	<u>\$ 494,758</u>	<u>\$ 147,407</u>	<u>\$ (347,351)</u>

The parameters and guidelines (section IV.B.3–Care and Maintenance for Impounded Stray and Abandoned Dogs and Cats that Die During the Increased Holding Period or are Ultimately Euthanized) identify the following reimbursable activities:

Beginning July 1, 1999, for providing care and maintenance during the increased holding period for impounded stray or abandoned dogs and cats that die during the increased holding period or are ultimately euthanized. The increased holding period shall be measured by calculating the difference between the days from the day of capture and four or six business days from the day after impoundment.

The parameters and guidelines (section IV.B.4–Care and Maintenance for Impounded Stray or Abandoned Animals Specified in Food and

Agriculture Code Section 31753 that Die During the Increased Holding Period or are Ultimately Euthanized) identify the following reimbursable activities:

Beginning on January 1, 1999 for providing care and maintenance for stray or abandoned animals (specified in Food and Agriculture Code Section 31753) the die during the increased holding period or are ultimately euthanized.

Eligible claimants are not entitled to reimbursement for the care and maintenance of the following population of dogs, cats, and other animals:

- Stray or abandoned dogs, cats, and other animals that are irremediably suffering from a serious illness or severe injury;
- Newborn stray or abandoned dogs, cats, and other animals that need maternal care and have been impounded without their mothers;
- Stray or abandoned dogs, cats, and other animals too severely injured to move or where a veterinarian is not available and it would be more humane to dispose of the animal;
- Owner-relinquished dogs, cats, and other animals; and
- Stray or abandoned dogs, cats, and other animals that are ultimately redeemed, adopted, or released to a nonprofit animal rescue or adoption organization.

The parameters and guidelines state that claimants may elect to use either the Actual Cost Method or the Time Study Method to claim costs for the care and maintenance of impounded stray or abandoned dogs, cats, and other animals that die during the increased holding period or are ultimately euthanized. The city elected to use the actual cost method to claim these costs.

The parameters and guidelines specify the following steps for claiming costs using the Actual Cost Method:

Actual Cost Method – Under the actual cost method, actual reimbursable care and maintenance costs per animal per day are computed for an annual claim period, as follows:

- a) Determine the total annual cost of care and maintenance for all dogs, cats and other animals impounded at a facility. Total cost of care and maintenance includes labor, materials, supplies, indirect costs, and contract services.
- b) Determine the average daily census of all dogs, cats and other animals. For purposes of claiming reimbursement under IV.B.3, average daily census is defined as the average number of all dogs and cats at a facility housed on any given day, in 365-day period and the average number of all other animals at a facility housed on any given day in a 365-day period.
- c) Multiply the average daily census of dogs, cats and other animals by 365 to calculate the yearly census of dogs and cats and the yearly census of other animals.

- d) Divide the total annual cost of care by the yearly census of dogs and cats to calculate the cost per dog and cat per day and by the yearly census of other animals to calculate the cost per other animal per day.
- e) Multiply the cost per animal per day by the number of impounded stay or abandoned dogs, cats, and other animals that die during the increase holding period, or are ultimately euthanized, by each reimbursable day.

Reimbursable days for dogs and cats is the difference between three days from the day of capture, and four or six business days from the day after impoundment. The reimbursable days for other animals are four or six business days from the day after impoundment.

### **Care and Maintenance Formula**

The city elected to use the Actual Cost Method to claim costs; the parameters and guidelines provide for a formula-driven methodology to determine allowable mandated costs for the care and maintenance of dogs, cats, and other animals. The use of this method requires claimants to calculate the total amount of eligible costs incurred to provide care and maintenance for the animals housed in its shelter. This total is divided by the annual census of animals housed in the shelter to determine a cost per animal per day.

The next element of the formula is adding the number of stray and abandoned animals that died of natural causes during the holding period plus those animals that were euthanized after the required holding period. This total number of animals is then multiplied by the cost per animal per day. The resulting amount represents allowable costs for providing care and maintenance. Our calculations took into consideration that the required holding period does not include Saturday as a business day. This is consistent with an Appellate Court decision dated March 26, 2010.

The mandate reimburses claimants for costs associated with animals that were not relinquished, redeemed, adopted, or released to a nonprofit agency—animals for which the local agency was unable to assess fees to recover such costs.

Costs incurred by the city for care and maintenance consisted of salaries and benefits, materials and supplies, and related indirect costs. We made adjustments to the costs incurred by the city and to the animal data that was used to claim costs. As a result, we adjusted the costs per animal per day.

The table in Schedule 2 summarizes the changes made to claimed costs for animal care and maintenance. These changes consisted of changes to total annual costs incurred by the city for animal care and maintenance (salaries, benefits, indirect costs, and services and supplies) and animal census data used to determine the cost per animal per day. The table also shows changes to the number of eligible animals and the number of reimbursable days that were used to determine reimbursable costs for each year of the audit period.

*Labor—Salaries, Benefits, and Related Indirect Costs*

For all years of the audit period, the city claimed 80% of labor costs incurred for its full-time animal care attendants as time spent on care and maintenance. The city did so in consideration of the fact that costs for these employees were also included in other components of the city’s claims. We determined that the 80% amount claimed is reasonable. However, the city should have also included 80% of actual salaries paid to part-time animal care attendants in the computation of labor costs.

The city also claimed 30% of labor costs incurred for the Senior Animal Care Attendant/Animal Care Attendant Supervisor Position. The main duty of this employee classification is to provide supervisory assistance to animal care attendants. We concluded that the city did not support that the employee in this classification spent 30% of his time performing care and maintenance activities. Accordingly, all costs claimed for supervisory Animal Care Attendant positions are unallowable.

**Materials and Supplies**

*Food*

The city has a contract with a supplier that provides animal food to the shelter for a specified amount per year. The city determined its costs to be \$8,752 per year for FY 2005-06 through FY 2007-08. However, the city’s shelter staff was able to compile additional invoices for food that were not claimed. We determined that additional costs totaling \$23,470 are allowable (\$3,329 for FY 2005-06, \$14,127 for FY 2006-07, and \$6,014 for FY 2007-08); these costs will be included in the materials and supplies portion of the actual cost formula.

*Supplies*

The city claimed \$27,800 for supplies in every year of the audit period as “other stuff.” This amount was based on estimates and is unallowable. During the audit, shelter staff was able to compile invoices to adequately support costs incurred for supplies in the total amount of \$183,083 (\$47,152 for FY 2005-06, \$66,933 for FY 2006-07, and \$68,997 for FY 2007-08). We included these costs in the materials and supplies portion of the actual cost formula.

We used the average amount of supplies for these three years (\$61,028) as the allowable cost for supplies in the actual cost formulas for all five earlier years of the audit period.

The following table summarizes the claimed and allowable costs for materials and supplies:

Fiscal Year	Food			Supplies		
	Claimed	Allowable	Adjustment	Claimed	Allowable	Adjustment
1998-99	Unknown	\$ 8,752	\$ 8,752	Unknown	\$ 61,028	\$ 61,028
1999-2000	Unknown	8,752	8,752	Unknown	61,028	61,028
2000-01	Unknown	8,752	8,752	Unknown	61,028	61,028
2001-02	Unknown	8,752	8,752	Unknown	61,028	61,028
2002-03	Unknown	8,752	8,752	Unknown	61,028	61,028
2005-06	Unknown	12,081	12,081	36,552	47,152	10,600
2006-07	Unknown	22,879	22,879	36,552	66,933	30,381
2007-08	Unknown	14,766	14,766	36,552	68,997	32,445
Total	\$ —	\$ 93,486	\$ 93,486	\$ 109,656	\$ 488,222	\$ 378,566

### **Commingled Costs**

For FY 1999-2000 through FY 2002-03, the city included the costs of veterinary care related to the performance of initial physical exams and administration of wellness vaccinations into its actual cost formulas for care and maintenance. These costs are not reimbursable under this cost component and were removed from the actual cost formulas for those years.

### **Annual Census Data**

The yearly census refers to the total number of days that all animals were housed in the shelter. The actual cost formula requires the eligible cost of care to be divided by the yearly census to arrive at an average cost per animal per day. The cost per animal per day is then multiplied by the eligible number of animals and the number of increased days.

We determined the eligible number of animals to apply to the actual cost formula for all years of the audit period. We consistently applied the exclusions per the parameters and guidelines to the raw animal data provided by the animal shelter.

We applied costs per animal per day to the eligible number of dogs and cats impounded at the city's shelter for the two additional days required by the mandated program. We also applied costs per animal per day to the eligible number of "other animals" for all five days of the required holding period.

### **Increased Holding Period**

A recent Appellate Court ruling in the case of *Purifoy v. Howell* determined that Saturday is not considered a business day for the purposes of this mandated program. Therefore, we determined that the increased holding period for dogs and cats changed from two days to three days and the increased holding period for other animals increased from five days to six days.

### **Recommendation**

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

### **FINDING 4— Unallowable holding period costs**

The city claimed \$1,050,635 for the Holding Period component during the audit period. We determined that \$340,782 is allowable and \$709,853 is unallowable. The unallowable costs occurred because the city claimed employee classifications that were not reimbursable. The city also did not account for the animal shelter being closed on the last Saturday of the month in the last four years of the audit period. For these years, we allowed costs for the shelter being open an additional hour on 12 Wednesdays per year.

The following table summarizes the claimed, allowable, and unallowable holding period costs separately for salaries and benefits and related indirect costs for the audit period by fiscal year:

Fiscal Year	Salaries and Benefits			Indirect Costs		
	Claimed	Allowable	Adjustment	Claimed	Allowable	Adjustment
1998-99	\$ 58,686	\$ 869	\$ (57,817)	\$ 13,908	\$ 206	\$ (13,702)
1999-2000	117,010	36,982	(80,028)	21,647	6,842	(14,805)
2000-01	123,954	39,695	(84,259)	24,667	7,899	(16,768)
2001-02	141,367	40,629	(100,738)	27,849	8,004	(19,845)
2002-03	101,147	35,575	(65,572)	16,386	5,763	(10,623)
2005-06	89,653	40,363	(49,290)	14,563	6,557	(8,006)
2006-07	110,520	42,092	(68,428)	31,631	12,047	(19,584)
2007-08	138,490	49,878	(88,612)	19,157	7,381	(11,776)
Total	<u>\$ 880,827</u>	<u>\$ 286,083</u>	<u>\$ (594,744)</u>	<u>\$ 169,808</u>	<u>\$ 54,699</u>	<u>\$ (115,109)</u>

The following table summarizes total claimed, allowable, and unallowable costs for the Holding Period cost component by fiscal year:

Fiscal Year	Salaries, Benefits, and Indirect Costs		
	Claimed	Allowable	Adjustment
1998-99	\$ 72,594	\$ 1,075	\$ (71,519)
1999-2000	138,657	43,824	(94,833)
2000-01	148,621	47,594	(101,027)
2001-02	169,216	48,633	(120,583)
2002-03	117,533	41,338	(76,195)
2005-06	104,216	46,920	(57,296)
2006-07	142,151	54,139	(88,012)
2007-08	157,647	57,259	(100,388)
Total	<u>\$ 1,050,635</u>	<u>\$ 340,782</u>	<u>\$ (709,853)</u>

The parameters and guidelines (Section IV.B.5–Agencies Using the Holding Period of Four Business Days after the Day of Impoundment) identify the following reimbursable activities:

Beginning July 1, 1999, for impounded dogs and cats, and beginning January 1, 1999, for the impounded animals specified in Food and Agriculture Code section 31753 (“other animals”), for either:

1. Making the animal available for owner redemption on one weekday evening until at least 7:00 p.m., or one weekend day; or
2. For those local agencies with fewer than three full time employees or that are not open during all regular weekday business hours, establishing a procedure to enable owner to reclaim their animals by appointment at a mutually agreeable time when the agency would otherwise be closed.

**Hours of Operation**

The city’s current Notice of Impoundment (NOI) shows the hours of operation for the city’s animal shelter. The NOI is posted to disclose where and when owners can pick up their impounded animals. For the later years of the audit (FY 2002-03, FY 2005-06, FY 2006-07, and FY 2007-08), the animal shelter was closed on Sundays and Mondays. The shelter was open an extra hour on Wednesdays and was also open six hours on Saturdays in order to comply with the mandate. However, the shelter was closed on the last Saturday of every month. Therefore, allowable costs are for the extra animal shelter employees needed for owner redemption for 40 Saturdays

a year (at six hours per additional employee) as well as 12 Wednesday evenings a year (at one hour per additional employee).

For the earlier years of the audit period (FY 1998-99, FY 1999-2000, FY 2000-01, and FY 2001-02) the shelter was open for six hours on every Saturday of the year but was not open an extra hour on Wednesdays, as shown on an NOI dated October, 2001. According to shelter staff, this was also the animal shelter's schedule prior to October 2001. Therefore, allowable costs are for the extra animal shelter employees needed for owner redemption for 52 Saturdays a year (at six hours per additional employee) for these four years.

### **Staffing Requirements**

We determined that when the shelter is open to the public to make animals available for owner redemption, one additional Animal Care Attendant, two Police Records Clerks II, one "floating" Police Records Clerk II (may be on shelter staff on limited duty), and one Senior Police Records Clerk Supervisor or Acting Records Supervisor were on duty to perform the required mandated activities. Our calculations of allowable costs for each year of the audit period were based on the salaries and benefits and related indirect costs of these employees according to the hours of operation noted in the paragraph above.

As noted below, the city's claims included costs under this cost component for all shelter employees that were on duty during the holding period days. Only the employees noted above were on duty to make animals available for owner redemption. However, the additional employees on duty also performed reimbursable activities that are already included in other cost components of the city's claims (care and maintenance, feral cats, lost-and-found lists, non-medical records, and necessary and prompt veterinary care).

For FY 1998-99, the city claimed 2,808 hours for the six-month period allowable for seven Animal Care Attendants, three Police Records Clerks, one Animal Control Officer, and one Senior Animal Care Attendant for six hours per employee for every Saturday. For FY 1998-99, making dogs and cats available for owner redemption is not reimbursable. However, costs incurred for owner redemption of "other animals" was reimbursable beginning January 1, 1999. We determined that shelter employees worked 780 total hours during the 26 Saturdays that the shelter was open between January 1 and June 30, 1999. As "other animals" comprised 4.72% of the total animal population for FY 1998-99, that pro-rata percentage was applied to the 780 employee hours. Accordingly, we determined that 37 total hours were allowable.

For FY 1999-2000, FY 2000-01, and FY 2001-02, the city claimed 5,616 employee hours for each year for seven Animal Care Attendants, three Police Records Clerks, one Animal Control Officer, and one Senior Animal Care Attendant for six hours per employee for every Saturday. We calculated allowable costs based on the shelter schedule for these years and the additional employees required for this cost component. We determined that 1,560 employee hours were allowable for each of these fiscal years.

For FY 2002-03, the city claimed 3,744 employee hours for seven full-time Animal Care Attendants, two additional part-time Animal Care Attendants, three Police Records Clerks, and one Senior Animal Care Attendant for six hours per employee for every Saturday. We determined that 1,260 employee hours were allowable for this fiscal year.

For FY 2005-06, the city claimed 2,912 employee hours for five Animal Care Attendants, two Police Records Clerks, and one Senior Animal Care Attendant, one Acting Records Supervisor, and one Volunteer Coordinator for six hours per employee for every Saturday. We determined that 1,260 employee hours were allowable for this fiscal year.

For FY 2006-07 and FY 2007-08, the city claimed 3,432 employee hours for five Animal Care Attendants, four Police Records Clerks, one Senior Animal Care Attendant, one Senior Records Clerk, and one Animal Care Attendant Supervisor for six hours per employee for every Saturday. We determined that 1,260 employee hours were allowable for both years.

The following table summarizes the claimed and allowable hours for making animals available for owner redemption per the Holding Period cost component on Saturdays:

Fiscal Year	Hours		
	Claimed	Allowable	Adjustment
1998-99	\$ 2,808	\$ 37	\$ (2,771)
1999-2000	5,616	1,560	(4,056)
2000-01	5,616	1,560	(4,056)
2001-02	5,616	1,560	(4,056)
2002-03	3,744	1,260	(2,484)
2005-06	2,912	1,260	(1,652)
2006-07	3,432	1,260	(2,172)
2007-08	3,432	1,260	(2,172)
Total	\$ 33,176	\$ 9,757	\$ (23,419)

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 5—  
Understated feral cats costs**

The city claimed \$8,803 during the audit period under this cost component. We determined that \$14,210 was allowable. The costs were understated by \$5,407 because the actual costs incurred to perform the mandated activities required exceeded the costs that the city estimated for the first six years of the audit period, and because the number of cats tested was misstated.

The following table summarizes the claimed, allowable, and unallowable costs separately for salaries and benefits and related indirect costs for the audit period by fiscal year:

Fiscal Year	Salaries and Benefits			Indirect Costs		
	Claimed	Allowable	Adjustment	Claimed	Allowable	Adjustment
1998-99	\$ —	\$ 620	\$ 620	\$ —	\$ 147	\$ 147
1999-2000	—	1,262	1,262	—	233	233
2000-01	—	1,067	1,067	—	212	212
2001-02	—	1,527	1,527	—	301	301
2002-03	3,023	1,677	(1,346)	490	272	(218)
2005-06	840	2,013	1,173	137	327	190
2006-07	724	1,941	1,217	207	555	348
2007-08	2,971	1,791	(1,180)	411	265	(146)
Total	\$ 7,558	\$ 11,898	\$ 4,340	\$ 1,245	\$ 2,312	\$ 1,067

The following table summarizes total claimed, allowable, and unallowable costs for the Feral Cats cost component by fiscal year:

Fiscal Year	Salaries, Benefits, and Indirect Costs		
	Claimed	Allowable	Adjustment
1998-99	\$ —	\$ 767	\$ 767
1999-2000	—	1,495	1,495
2000-01	—	1,279	1,279
2001-02	—	1,828	1,828
2002-03	3,513	1,949	(1,564)
2005-06	977	2,340	1,363
2006-07	931	2,496	1,565
2007-08	3,382	2,056	(1,326)
Total	\$ 8,803	\$ 14,210	\$ 5,407

The city estimated costs for this component for the first six years of the audit period. In addition, the costs were not claimed under this cost component for the first four years of the audit period because they were commingled in the city's claims either as part of the non-medical records cost component or the care and maintenance cost component. The city also misstated the number of cats tested. The city conducted a time study in July of 2007, and used the results to claim costs for FY 2006-07 and FY 2007-08. We also used the time study results to determine allowable costs for the first six years of the audit period.

### Time Study

The city conducted a time study in July of 2007 to support the time it takes shelter staff to verify whether a cat is feral or tame. The city documented the time that it took Animal Care Attendants, Senior Animal Care Attendants, and Senior Police Records Clerks II to conduct a feral cat test. The time study determined that the above employees spent an average of one minute, 54 seconds (1.9 minutes) per cat to determine if the cat was feral or tame.

We analyzed the time study results and applied them to the entire audit period, including the first four audit years when the city did not have any support for this component. Although the calculations of the time study were correct, the percentages of time spent by an Animal Care Attendant (46.48% of the feral cat tests) and the Senior Police Records Clerk II (12.67% of the feral cat tests) were transposed. As noted above, the time study showed that employees spent an average of 1.9 minutes per cat to

determine if the cat was feral or tame, but the city applied the time study results with the transposed percentages.

The city's Kennel Statistics Reports provided the maximum eligible number of cats that may have had feral cat tests. These reports detailed the number of cats and kittens and their final outcome per fiscal year. We interviewed the Senior Records Clerk to determine which categories of cats and kittens might have received a feral cat test. The Kennel Statistics Report and the interview were essential because there is no current system in place to track exactly which cats were given a feral cat test and which were not.

The following table summarizes the claimed and allowable number of eligible cats which may have had a feral cat test during the audit period:

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Adjustment</u>
1998-99	\$ —	\$ 806	\$ 806
1999-2000	—	1,611	1,611
2000-01	769	1,302	533
2001-02	769	1,836	1,067
2002-03	1,060	1,811	751
2005-06	703	1,798	1,095
2006-07	694	1,661	967
2007-08	2,234	1,260	(974)
Total	<u>\$ 6,229</u>	<u>\$ 12,085</u>	<u>\$ 5,856</u>

The program's parameters and guidelines (Section IV.B.6–Feral Cats) identify the following reimbursable activity:

Beginning January 1, 1999, for verifying whether a cat is feral or tame by using a standardized protocol within the first three days of the required holding period, if an apparently feral cat has not been reclaimed by its owner or caretaker.

#### Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

#### **FINDING 6— Unallowable lost-and- found lists costs**

The city claimed \$105,971 during the audit period for the maintenance of lost-and-found lists. We determined that \$47,042 is allowable and \$58,929 is unallowable. The unallowable costs occurred because the city claimed costs based on estimates. Allowable costs were based on a time study that the city conducted during the course of the audit.

The following table summarizes the claimed, allowable, and unallowable costs separately for salaries and benefits and related indirect costs for the audit period for the Lost and Found Lists cost component by fiscal year:

Fiscal Year	Salaries and Benefits			Indirect Costs		
	Claimed	Allowable	Adjustment	Claimed	Allowable	Adjustment
1998-99	\$ 7,357	\$ 1,839	\$ (5,518)	\$ 1,744	\$ 436	\$ (1,308)
1999-2000	8,243	4,342	(3,901)	1,525	803	(722)
2000-01	9,891	4,625	(5,266)	1,968	920	(1,048)
2001-02	15,789	4,733	(11,056)	3,111	932	(2,179)
2002-03	20,597	5,071	(15,526)	3,337	822	(2,515)
2005-06	8,017	5,780	(2,237)	1,302	939	(363)
2006-07	8,389	5,994	(2,395)	2,401	1,716	(685)
2007-08	10,805	7,047	(3,758)	1,495	1,043	(452)
Total	<u>\$ 89,088</u>	<u>\$ 39,431</u>	<u>\$ (49,657)</u>	<u>\$ 16,883</u>	<u>\$ 7,611</u>	<u>\$ (9,272)</u>

The following table summarizes total claimed, allowable, and unallowable costs for the Lost and Found Lists cost component by fiscal year:

Fiscal Year	Salaries, Benefits, and Indirect Costs		
	Claimed	Allowable	Adjustment
1998-99	\$ 9,101	\$ 2,275	\$ (6,826)
1999-2000	9,768	5,145	(4,623)
2000-01	11,859	5,545	(6,314)
2001-02	18,900	5,665	(13,235)
2002-03	23,934	5,893	(18,041)
2005-06	9,319	6,719	(2,600)
2006-07	10,790	7,710	(3,080)
2007-08	12,300	8,090	(4,210)
Total	<u>\$ 105,971</u>	<u>\$ 47,042</u>	<u>\$ (58,929)</u>

**Time Study**

All costs claimed were initially unallowable because the city estimated costs claimed for this cost component. During the audit period, the city conducted a time study to determine the time required to comply with the mandated activities for this cost component. The time study results are based on time captured during a typical four week period. The time study determined that shelter employees spent a total of 183.52 hours a year to comply with all five requirements of the Lost and Found Lists component (125.23 hours by the Police Records Clerks II, 51.35 hours by the Animal Care Attendants, and 6.94 hours by the Acting Records Supervisor). Allowable hours for the classifications of Police Records Clerk II and Animal Care Attendants were applied to one employee per classification per year.

For FY 1998-99, this portion of the mandate began on January 1, 1999. Accordingly, we divided total hours allowable per the time study in half.

The program’s parameters and guidelines (Section IV.B.7–Lost and Found Lists) identify the follow reimbursable activities:

Beginning January 1, 1999, for providing owners of lost animals and those who find lost animals with all of the following:

- Ability to list the animals they have lost or found on “lost and found” lists maintained by the local agency;

- Referrals to animals listed that may be the animals the owner or finders have lost or found;
- The telephone numbers and addresses of other pounds and shelters in the same vicinity;
- Advice as to means of publishing and disseminating information regarding lost animals; and
- The telephone numbers and addresses of volunteer groups that may be of assistance in locating lost animals.

**Recommendation**

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 7—  
Unallowable non-  
medical records costs**

The city claimed \$81,146 for costs to maintain non-medical records. We determined that \$72,394 is allowable and \$8,752 is unallowable. The unallowable costs occurred because the city claimed costs based on estimates, misstated the number of animals processed, made calculation errors in its time study, and misclassified costs.

The following tables summarize the claimed, allowable, and unallowable costs separately for salaries and benefits and the related indirect costs, materials and supplies, and contract services for the audit period for the Non-Medical Records cost component by fiscal year:

Fiscal Year	Salaries and Benefits			Indirect Costs		
	Claimed	Allowable	Adjustment	Claimed	Allowable	Adjustment
1998-99	\$ —	\$ 2,781	\$ 2,781	\$ —	\$ 659	\$ 659
1999-2000	—	5,613	5,613	—	1,038	1,038
2000-01	—	6,150	6,150	—	1,224	1,224
2001-02	—	6,520	6,520	—	1,284	1,284
2002-03	—	6,960	6,960	—	1,128	1,128
2005-06	31,802	7,788	(24,014)	5,166	1,265	(3,901)
2006-07	11,896	6,969	(4,927)	3,405	1,994	(1,411)
2007-08	12,777	7,131	(5,646)	1,767	1,055	(712)
<b>Total</b>	<b>\$ 56,475</b>	<b>\$ 49,912</b>	<b>\$ (6,563)</b>	<b>\$ 10,338</b>	<b>\$ 9,647</b>	<b>\$ (691)</b>

Fiscal Year	Materials and Supplies		
	Claimed	Allowable	Adjustment
1998-99	\$ 10,679	\$ —	\$ (10,679)

Fiscal Year	Contract Services				
	Claimed	Supported Costs	Pro Rata Percentage	Allowable Costs	Audit Adjustment
1998-99 *	\$ —	\$ 2,880	35.00%	\$ 504	\$ 504
1999-2000	—	2,880	35.00%	1,008	1,008
2000-01	—	2,880	35.00%	1,008	1,008
2001-02	—	2,880	35.00%	1,008	1,008
2002-03	—	2,880	35.00%	1,008	1,008
2005-06	—	2,880	35.00%	1,008	1,008
2006-07	—	10,392	35.00%	3,637	3,637
2007-08	3,654	10,440	35.00%	3,654	—
<b>Total</b>	<b>\$ 3,654</b>	<b>\$ 38,112</b>		<b>\$ 12,835</b>	<b>\$ 9,181</b>

\*Costs for FY 1998-99 are reimbursable beginning on January 1, 1999

The following table summarizes the combined claimed, allowable, and unallowable costs for the Non-Medical Records cost component for the audit period by fiscal year.

Fiscal Year	Combined Costs		
	Claimed	Allowable	Adjustment
1998-99	\$ 10,679	\$ 3,944	\$ (6,735)
1999-2000	—	7,659	7,659
2000-01	—	8,382	8,382
2001-02	—	8,812	8,812
2002-03	—	9,096	9,096
2005-06	36,968	10,061	(26,907)
2006-07	15,301	12,600	(2,701)
2007-08	18,198	11,840	(6,358)
Total	<u>\$ 81,146</u>	<u>\$ 72,394</u>	<u>\$ (8,752)</u>

### Time Study

All costs claimed were initially unallowable because the city estimated all costs claimed for this cost component. The city conducted a time study for a one-month period in October of 2007 to determine the time required to maintain non-medical animal records. The city studied the time required to process the status of incoming animals and the final disposition of animals. These activities were performed by various employees. The city's time study results showed that 3.38 minutes were spent processing incoming animals and 0.93 minutes were spent processing the final disposition of animals.

However, during our review of the time study results, we noted that the city made several calculation errors. First, the time spent by one employee was entered as five hours and two minutes instead of two minutes. Secondly, the percentages of time spent by an Animal Records Supervisor and Animal Care Attendants to perform mandated activities were transposed. When we adjusted for these calculation errors, we determined that the time study supported 1.55 minutes to process incoming animal records and 0.94 minutes to process final disposition records.

### Number of Animal Records Processed

For FY 1998-99, the city claimed salaries and benefits for this cost component under materials and supplies. For FY 1999-2000 through FY 2002-03, the city's claims commingled costs for this component under care and maintenance. We were unable to determine how many animal records were used to claim these costs.

During the course of the audit, we obtained the city's raw animal data from its Chameleon system database, analyzed the outcome reports containing the animal data, and performed a count for the number of animal records that appeared in each year's database. The city was unable to provide any animal database information for FY 1998-99 and FY 1999-2000. We used an average of animal records from the last six years of the audit period to determine an average number of animal records processed during these two fiscal years.

The following table summarizes the number of non-medical records processed during the audit period:

Fiscal Year	Claimed Incoming Records	Allowable Incoming Records	Adjustment	Claimed Outcome Records	Allowable Outcome Records	Adjustment
1998-99*	1,731	2,872	1,141	—	2,872	2,872
1999-2000*	—	5,745	5,745	—	5,745	5,745
2000-01	—	6,112	6,112	—	6,112	6,112
2001-02	—	6,341	6,341	—	6,341	6,341
2002-03	—	6,210	6,210	—	6,210	6,210
2005-06	6,200	6,007	(193)	—	6,007	6,007
2006-07	4,841	5,214	373	4,841	5,214	373
2007-08	4,060	4,585	525	4,060	4,585	525
Totals	16,832	43,086	26,254	8,901	43,086	34,185

\* Records for FY 1998-99 and FY 1999-2000 represent an average of the last six years of the audit period. For FY 1998-99, reimbursement began on January 1, 1999, so the average was divided in half.

### Contract Services—Cost of Chameleon License Renewal

The city claimed \$3,654 under this cost component for software license renewal costs. We determined that \$12,835 is allowable. The costs were understated by \$9,181 because allowable costs were commingled with costs for other cost components.

#### *Allowable License Renewal Costs*

The city determined that 35% of the license renewal fee was for mandate-related activities.

For 1998-99, we determined that \$504 is allowable for software license renewal fees. The animal shelter maintained an animal database called “Records Management System” (RMS) for this fiscal year. However, the city did not have any information concerning costs incurred for maintaining the RMS system. To determine allowable costs, we used an average based on Chameleon system database costs for the last three years of the audit period ( $\$2,880 \times 35\% \div 2$ ).

For FY 1999-2000 through FY 2005-06, \$1,008 is allowable per year for software license renewal fees ( $\$960$  for three workstations =  $\$2,880 \times$  the pro rata percentage of 35%). The city claimed the full license fee amount of \$2,880 for FY 1999-2000 and FY 2000-01 under the Computer Software cost component. We reclassified these costs to this cost component and applied the applicable pro-rata percentage. The city also claimed \$1,008 for FY 2005-06 under the Computer Software cost component, which we reclassified under this cost component.

For FY 2006-07, we determined that \$3,637 is allowable for software license renewal fees for one server plus nine workstations ( $\$960$  for 10 total workstations  $\times .0825$  tax  $\times$  the 35% pro rata percentage). The city claimed \$3,637 under the Computer Software cost component, which we reclassified under this cost component.

For FY 2007-08, we determined that \$3,654 is allowable for software license renewal fees for one server plus nine work stations ( $\$960$  for 10 total workstations  $\times 0.0875$  tax  $\times$  the 35% pro rata portion).

The program’s parameters and guidelines (section IV.B.8–Maintaining Non-Medical Records) identify the following reimbursable activities:

Beginning January 1, 1999, for maintaining non-medical records on animals that are either taken up, euthanized after the holding period, or impounded. Such records shall include the following:

- The date the animal was taken up, euthanized, or impounded;
- The circumstances under which the animal is taken up, euthanized, or impounded;
- The names of the personnel who took up, euthanized, or impounded the animal; and
- The final disposition of the animal, including the name of the person who euthanized the animal or the name and address of the adopting party.

The parameters and guidelines (section IV.B.8–Maintaining Non-Medical Records) identify the following reimbursable activity:

The cost of software license renewal contracts, to the extent these cost are not claimed as an indirect cost under these parameters and guidelines, is eligible for reimbursement under Section V (A) (2) of the parameters and guidelines. If the computer software is utilized in some way that is not directly related to the maintenance of records specified in this section, only the pro rata portion of the software license renewal contract that is used for compliance with this section is reimbursable.

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 8—  
Misstated necessary and prompt veterinary care costs**

The city claimed \$82,870 for necessary and prompt veterinary care. We determined that \$87,832 is allowable and costs were underclaimed by \$4,962. The costs were misstated because costs were unsupported, were misclassified within other cost components, and were claimed incorrectly.

The following table summarizes the claimed, allowable, and unallowable costs separately for salaries and benefits, related indirect costs, materials and supplies, and contract services for the Necessary and Prompt Veterinary Care cost component for the audit period by fiscal year:

Fiscal Year	Salaries and Benefits			Indirect Costs		
	Claimed	Allowable	Adjustment	Claimed	Allowable	Adjustment
1998-99	\$ —	\$ 478	\$ 478	\$ —	\$ 113	\$ 113
1999-2000	—	970	970	—	179	179
2000-01	—	988	988	—	197	197
2001-02	—	1,051	1,051	—	207	207
2002-03	—	780	780	—	126	126
2005-06	—	1,385	1,385	—	225	225
2006-07	—	1,389	1,389	—	398	398
2007-08	—	1,313	1,313	—	194	194
Total	\$ —	\$ 8,354	\$ 8,354	\$ —	\$ 1,639	\$ 1,639

Fiscal Year	Materials and Supplies			Contract Services		
	Claimed	Allowable	Adjustment	Claimed	Allowable	Adjustment
1998-99	\$ 18,686	\$ 1,170	\$ (17,516)	\$ —	\$ 3,784	\$ 3,784
1999-2000	—	1,905	1,905	—	7,579	7,579
2000-01	—	2,259	2,259	—	7,332	7,332
2001-02	—	2,373	2,373	—	7,287	7,287
2002-03	—	1,776	1,776	—	6,597	6,597
2005-06	14,836	4,421	(10,415)	2,553	7,421	4,868
2006-07	—	1,800	1,800	21,792	8,759	(13,033)
2007-08	7,708	1,920	(5,788)	17,295	11,456	(5,839)
Total	<u>\$ 41,230</u>	<u>\$ 17,624</u>	<u>\$ (23,606)</u>	<u>\$ 41,640</u>	<u>\$ 60,215</u>	<u>\$ 18,575</u>

The following table summarizes the combined claimed, allowable, and unallowable costs for the Necessary and Prompt Veterinary Care cost component for the audit period by fiscal year:

Fiscal Year	Combined Costs		
	Claimed	Allowable	Adjustment
1998-99	\$ 18,686	\$ 5,545	\$ (13,141)
1999-2000	—	10,633	10,633
2000-01	—	10,776	10,776
2001-02	—	10,918	10,918
2002-03	—	9,279	9,279
2005-06	17,389	13,452	(3,937)
2006-07	21,792	12,346	(9,446)
2007-08	25,003	14,883	(10,120)
Total	<u>\$ 82,870</u>	<u>\$ 87,832</u>	<u>\$ 4,962</u>

Basically, allowable costs for this cost component consist of costs incurred for the administration of a wellness vaccine and the conduct of an initial physical exam, as well as certain necessary and prompt care services. The city's claims had costs for veterinary care scattered throughout various cost components.

#### **Allowable Costs—Administration of Wellness Vaccine**

Administering a wellness vaccine constitutes a two-part reimbursable cost. The first part relates to the labor costs associated with administering the wellness vaccine to eligible animals. The Animal Care Attendants administer the wellness vaccine and the time spent is supported by a time study. The second part is the actual cost of the wellness vaccines given to eligible animals.

#### *Labor Costs*

The city conducted a time study from July 21, 2009, through August 28, 2009. The Animal Care Attendants who perform this function recorded the time spent to administer a wellness vaccine to cats and dogs, which averaged 2.54 minutes per eligible cat and dog. We applied the results of the time study to all years of the audit period. The table above details allowable salaries, benefits, and related indirect costs based on the time study results.

### *Animal Census Data*

We used the city's raw animal data in order to determine the eligible number of animals that may have received a wellness vaccine. The number of eligible animals was based on the population exclusions for this cost component as outlined in the parameters and guidelines.

### *Materials and Supplies—Cost of Wellness Vaccines*

The costs, as originally claimed, were unallowable because the city totaled the cost of vaccinations and other medications administered to all animals and applied percentages. This methodology is not consistent with the requirements of the parameters and guidelines. Animal shelter representatives advised that two wellness vaccines are given to dogs and one wellness vaccine is given to cats. The city provided adequate support for the costs of vaccines per fiscal year. To determine allowable costs, the cost per vaccine was multiplied by the number of eligible dogs and cats treated.

### *Materials and Supplies Costs Claimed*

The city claimed \$41,230 during the audit period for materials and supplies costs (\$18,686 for FY 1998-99, \$14,836 for FY 2005-06, and \$7,708 for FY 2007-08).

For FY 1998-99, the city claimed \$18,686 using the following calculation:  $(\$10.92 \text{ veterinary cost} \times 1,701 \text{ eligible dogs and cats}) + (\$3.69 \text{ veterinary cost} \times 30 \text{ eligible "other" animals})$ . The methodology used to claim these costs is not consistent with the parameters and guidelines. Also, "other animals" do not receive a wellness vaccine, according to city representatives.

For FY 1999-2000 through FY 2002-03, the city did not claim any costs under this cost component. However, we determined that the city claimed veterinary care costs by comingling them as part of the care and maintenance cost component.

For FY 2005-06 through FY 2007-08, the city used the same methodology to determine the amount of costs claimed. For each year, the city determined the total cost of vaccinations and other medications administered for necessary and prompt veterinary care. The city applied a formula to these costs based on a pro rata percentage of dogs and cats that were strays and the number that were euthanized after the required holding period. However, this formula is inconsistent with the requirements of the parameters and guidelines.

For FY 2005-06, the city claimed \$14,836 based on total medication costs of \$54,420. To determine claimed costs, the city used the following formula:  $(\$54,420 \times 44.35\%) \times 61.47\% = \$14,836$ . The 44.35% represents the percentage of dogs and cats that were strays and the 61.47% represents the percentage of dogs and cats that were euthanized after the holding period.

For FY 2006-07, the city claimed \$1,584 based on total medication costs of \$6,374. The city used the following formula:  $(\$6,373.62 \times 88.42\%) \times 28.11\% = \$1,584$ . The 88.42% represents the percentage of dogs and cats that were strays, and the 28.11% represents the percentage of dogs and cats that were euthanized after the holding period. For this fiscal year, the city claimed costs for materials and supplies as contract services costs. We reclassified the allowable costs as materials and supplies costs in the table above.

For FY 2007-08, the city claimed \$7,708 based on total medication costs of \$25,740.36. The city used the following formula:  $(\$25,740) \times (91.05\%) \times (32.89\%) = \$7,708$ . The 91.05% represents the percentage of dogs and cats that were strays, and the 32.89% represents the percentage of dogs and cats that were euthanized after the holding period.

*Analysis of Allowable Costs—Wellness Vaccines*

We determined that allowable costs totaled \$17,624 for the audit period based on the cost of wellness vaccines incurred by the city for each fiscal year and the number of eligible animals treated. Our calculations included the following adjustments:

- For FY 1998-99, this component was reimbursable beginning on January 1, 1999. To calculate the correct amount of allowable costs, we divided by half the amount incurred for vaccines.
- The city did not acquire the Chameleon database until FY 1999-2000, and the data was incomplete for that year. To determine the number of eligible dogs and cats for FY 1998-99 and FY 1999-2000, we used an average based on the number of eligible dogs and cats from the last six years of the audit period.

The following table summarizes the calculations of allowable materials and supplies costs for wellness vaccines by fiscal year:

Fiscal Year	Dogs			Cats		
	Vaccine Costs	Eligible Dogs	Allowable Costs	Vaccine Costs	Eligible Cats	Allowable Costs
1998-99	\$ 1.79 ×	468	\$ 838	\$ 0.64 ×	519	\$ 332
1999-2000	3.04 ×	468	1,423	0.93 ×	519	483
2000-01	3.04 ×	623	1,894	0.93 ×	393	365
2001-02	3.05 ×	647	1,973	0.97 ×	412	400
2002-03	3.27 ×	440	1,439	1.15 ×	293	337
2005-06	5.82 ×	472	2,747	2.62 ×	639	1,674
2006-07	3.05 ×	327	997	1.05 ×	764	802
2007-08	3.79 ×	296	1,122	1.30 ×	614	798
Totals			<u>\$ 12,433</u>			<u>\$ 5,191</u>
Total allowable costs						<u>\$ 17,624</u>

**Allowable Costs—Initial Physical Exam and Veterinary Care Services**

The city claimed \$41,640 as contract services costs under the Necessary and Prompt Veterinary Care cost component during the audit period. We determined that \$60,215 is allowable (\$23,435 for conducting initial physical exams and \$36,780 for itemized medical services performed during the holding period). The costs were understated by \$18,575 because costs were claimed incorrectly, were comingled with various other cost

components, and were not properly segregated based on the specifications of the parameters and guidelines.

*Contract Services—Initial Physical Examination*

The city contracts with a private veterinarian for various medical services. We interviewed the Veterinarian, who stated that she performs the initial physical examination of animals. Although the Animal Care Attendants perform a visual inspection of the animal, the veterinarian emphasized that the Animal Care Attendants do not have the authority to classify an animal as “adoptable,” “treatable,” or “non-rehabilitatable.”

We noted that the Veterinarian visits the shelter on Mondays and Thursdays and the city pays a fixed fee per month for various medical services, including emergency vet care. In addition, the veterinarian bills the shelter separately for any services provided outside of the shelter contract. These bills are itemized and contain the date that services were performed, an animal ID number, and the specific services performed.

To determine allowable costs for the conduct of initial physical exams, the city’s shelter management proposed, and we accepted, that we use the annual contract amount for veterinary services and divide it by the total number of animals that came into the shelter for the year to arrive at a cost per animal. The cost per animal would then be multiplied by the number of animals that may have received an initial physical examination. In addition, allowable costs include the number of initial physical examinations that were performed at the veterinarian’s office. These out-of-shelter examinations are billed separately at \$27 per exam.

The table below summarizes the calculation of allowable costs for initial physical examinations:

Fiscal Year	Contract Amount	Incoming Animals	Cost per Animal	Eligible Animals	Subtotal	Offsite Exams and Exam Fee <sup>1</sup>	Allowable Costs
1998-99	\$ 6,000 ÷	4,431 =	\$ 1.35 ×	987 =	\$ 1,332 +	\$ — =	\$ 1,332
1999-2000	12,000 ÷	4,431 =	2.71 ×	987 =	2,675 +	— =	2,675
2000-01	12,000 ÷	5,024 =	2.39 ×	1,016 =	2,428 +	— =	2,428
2001-02	12,000 ÷	5,327 =	2.25 ×	1,059 =	2,383 +	— =	2,383
2002-03	12,000 ÷	5,196 =	2.31 ×	733 =	1,693 +	— =	1,693
2005-06	12,000 ÷	5,460 =	2.20 ×	1,111 =	2,444 +	— =	2,444
2006-07 <sup>2</sup>	8,000 ÷	3,129 =	2.56 ×	719 =	1,841 +	— =	1,841
2006-07 <sup>2</sup>	8,000 ÷	1,564 =	5.12 ×	360 =	1,843 +	324 =	2,167
2007-08	24,000 ÷	4,016 =	5.98 ×	861 =	5,149 +	1,323 =	6,472
Totals					<u>\$ 21,788</u>	\$ 1,647	<u>\$ 23,435</u>

<sup>1</sup> Includes 12 offsite exams for FY 2006-07 and 49 exams for FY 2007-08 at a fee of \$27 per exam.

<sup>2</sup> The city contracted with a different veterinarian eight months into FY 2006-07.

*Contract Services—Itemized Necessary and Prompt Veterinary Care Invoices*

The city submitted itemized invoices with its claims for specific medical services performed by a veterinarian. However, the claimed amount included services for animals that were excluded per the provisions of the parameters and guidelines. We advised shelter management that costs

were reimbursable only for eligible medical services performed for eligible animals during the required holding period. We requested that the city properly determine which invoices met these criteria. Accordingly, shelter staff reviewed each invoice and provided a spreadsheet of reimbursable veterinary costs per year. As itemized invoices were not available for FY 1998-99 through FY 2002-03, we used an average of allowable medical services costs for the last three years of the audit period and applied this amount as allowable costs for those years.

The table below summarizes the allowable costs by fiscal year for the Necessary and Prompt Veterinary Care cost component:

<u>Fiscal Year</u>	<u>Amount Allowable</u>
1998-99	\$ 2,452
1999-2000	4,904
2000-01	4,904
2001-02	4,904
2002-03	4,904
2005-06	4,977
2006-07	4,751
2007-08	4,984
Total allowable	<u>\$ 36,780</u>

The parameters and guidelines (section IV.B.9–Necessary and Prompt Veterinary Care) identify the following reimbursable activities:

Beginning January 1, 1999 – Providing “necessary and prompt veterinary care” for stray and abandoned animals, other than injured cats and dogs given emergency treatment that die during the holding period or are ultimately euthanized during the holding periods specified in Statutes of 1998, Chapter 752.

Necessary and prompt veterinary care” means all reasonably necessary medical procedures performed by a veterinarian or someone under the supervision of a veterinarian to make stray or abandoned animals “adoptable.” The following veterinary procedures, if conducted, are eligible for reimbursement:

- An initial physical examination of the animal to determine the animal’s baseline health status and classification as “adoptable,” “treatable,” or “non-rehabilitatable.”
- A wellness vaccine administered to “treatable” or “adoptable” animals.
- Veterinary care to stabilize and or relieve the suffering of a “treatable” animal.
- Veterinary care intended to remedy any applicable disease, injury, or congenital or hereditary condition that adversely affects the health of a “treatable” animal or that is likely to adversely affect the animal’s health in the future, until the animal becomes “adoptable.”

#### Population Exclusions

Eligible claimants are not entitled to reimbursement for providing “necessary and prompt veterinary care” to the following population of animals:

- Animals that are irremediably suffering from a serious illness or severe injury,
- Newborn animals that need maternal care and have been impounded without their mothers,

- Animals too severely injured to move or where a veterinarian is not available and it would be more humane to dispose of the animal,
- Owner relinquished animals, and
- Stray or abandoned animals that are ultimately redeemed, adopted, or released to a nonprofit animal rescue or adoption organization.

Veterinary Care Exclusions

Eligible claimants are not entitled to reimbursement for providing the following veterinary procedures:

- Emergency treatment given to injured cats and dogs,
- Administration of rabies vaccination to dogs,
- Implantation of microchip identification;
- Spay or neuter surgery and treatment; and
- Euthanasia

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**REVISED  
FINDING 9—  
Understated  
equipment  
procurement costs**

The city claimed materials and supplies costs totaling \$19,617 for the Procuring Equipment cost component. The costs claimed were for the procurement of kennel equipment in FY 2005-06. We found that the entire amount is allowable. The city understated costs for FY 1999-2000 by \$452 because it did not claim the allowable pro-rate share of eligible computer equipment costs. The city understated costs by \$2,963 for FY 2000-01 because it misclassified the allowable pro-rata share of computer equipment costs and claimed them under the Computer Software cost category instead.

The following table summarizes the calculation of allowable costs for kennel equipment claimed for FY 2005-06:

<u>Fiscal Year</u>	<u>Supported Costs</u>	<u>Pro-rata Percentage Claimed</u>	<u>Amount Claimed</u>	<u>Pro-rata Percentage Allowable</u>	<u>Allowable Costs</u>
2005-06	\$ 71,958	27.262%	\$ 19,617	27.262%	\$ 19,617
Total	\$ 71,958		\$ 19,617		\$ 19,617

The following table summarizes the calculation of allowable costs for computer equipment purchases during the audit period:

	<u>Fiscal Year</u>		<u>Totals</u>
	<u>1999-2000</u>	<u>2000-01</u>	
Computer equipment	\$ 1,292	\$ 8,465	\$ 9,757
Pro-rata percentage	× 35%	× 35%	× 35%
Allowable costs	\$ 452	\$ 2,963	\$ 3,415

The parameters and guidelines (section IV.B.10) identify the following reimbursable activity:

Beginning January 1, 1999, procuring medical, kennel, and computer equipment necessary to comply with the reimbursable activities listed in Section IV (B) of these parameters and guidelines, to the extent these costs are not claimed as an indirect cost under Section V (B) of these parameters and guidelines. If the medical, kennel, and computer equipment is utilized in some way not directly related to the mandated program or the population of animals listed in Section IV (B), only the pro rata portion of the activity that is used for the purpose of the mandated program is reimbursable.

#### Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

#### **FINDING 10— Overstated offsetting savings/reimbursements**

The city overstated offsetting savings/reimbursements by \$41,304 during the audit period. Costs were overstated because the city offset \$14,819 received for dog license fees and \$26,485 claimed by the City of San Leandro under the Animal Adoption Program. However, we determined that the amount of offsetting savings/reimbursements applicable to the city's claims was \$0.

	Fiscal Year			Totals
	2000-01	2001-02	2002-03	
Claimed offsets:				
Dog license revenues	\$ (6,897)	\$ (7,922)	\$ —	\$ (14,819)
San Leandro contract	—	—	(26,485)	(26,485)
Claimed offset	<u>\$ (6,897)</u>	<u>\$ (7,922)</u>	<u>\$ (26,485)</u>	<u>\$ (41,304)</u>
Allowable offsets:				
Dog license revenues	\$ —	\$ —	\$ —	\$ —
San Leandro contract	—	—	—	\$ —
Allowed offset	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Audit adjustment	<u>\$ (6,897)</u>	<u>\$ 7,922</u>	<u>\$ 26,485</u>	<u>\$ 41,304</u>

#### **Contract with the City of San Leandro**

The City of Hayward had a contract with the City of San Leandro during FY 2001-02 through FY 2002-03 to provide animal shelter services. San Leandro also filed mandated cost claims with the State for the Animal Adoption Program totaling \$36,468 (\$5,014 for FY 2000-01, \$5,829 for FY 2001-02, and \$25,625 for FY 2002-03). The City of Hayward did not offset the amounts claimed by San Leandro as offsetting revenues in its claims for FY 2000-01 and FY 2001-02, although \$26,485 was offset in the city's claim for FY 2002-03.

We were unable to determine if any contract revenues received by the City of Hayward were for mandated activities. Therefore, we requested, and the City of Hayward provided, a written statement that all of the contract revenues received from the City of San Leandro for FY 2000-01 through FY 2004-05 were for general operating expenditures incurred by the city for the operation of its animal shelter. Accordingly, as none of the contract

revenues received was used for mandated activities, the City of San Leandro's Animal Adoption claims will be reduced to \$0.

**License Fees**

The city claimed offsetting savings/reimbursements for dog license fees for FY 2000-01 (\$6,897) and FY 2001-02 (\$7,922). We determined that these revenues were not mandate-related.

Recommendation

The Animal Adoption Program was suspended in the FY 2010-11 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city establish and implement procedures to ensure that offsetting savings/reimbursements are included in the city's claims to the extent that revenues received from contracting cities were used to fund mandated activities.

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