

SILICON VALLEY ANIMAL CONTROL AUTHORITY

Audit Report

ANIMAL ADOPTION PROGRAM

Chapter 752, Statutes of 1998,
and Chapter 313, Statutes of 2004

July 1, 2001, through June 30, 2007



JOHN CHIANG
California State Controller

August 2009



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California State Controller

August 31, 2009

Jane Kennedy, Chairperson
Board of Directors
Silicon Valley Animal Control Authority
3370 Thomas Road
Santa Clara, CA 95054

Dear Ms. Kennedy:

The State Controller's Office audited the costs claimed by the Silicon Valley Animal Control Authority for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004) for the period of July 1, 2001, through June 30, 2007.

The authority claimed \$1,473,350 for the mandated program. Our audit disclosed that \$356,119 is allowable and \$1,117,231 is unallowable. The costs are unallowable primarily because the authority used the wrong formula to claim construction of new facilities and did not support the costs related to the care and maintenance of dogs, cats, and other animals. The State paid the authority \$1,166,495. The State will offset \$810,376 from other mandated-program payments due the authority. Alternatively, the authority may remit this amount to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Dan Soszynski, Executive Director
 Silicon Valley Animal Control Authority
Heidi Springer, Executive Assistant
 Silicon Valley Animal Control Authority
Todd Jerue, Program Budget Manager
 Corrections and General Government
 Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Silicon Valley Animal Control Authority for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004) for the period of July 1, 2001, through June 30, 2007.

The authority claimed \$1,473,350 for the mandated program. Our audit disclosed that \$356,119 is allowable and \$1,117,231 is unallowable. The costs are unallowable primarily because the authority used the wrong formula to claim construction of new facilities and did not support the costs related to the care and maintenance of dogs, cats, and other animals. The State paid the authority \$1,166,495. The State will offset \$810,376 from other mandated-program payments due the authority. Alternatively, the authority may remit this amount to the State.

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. It expressly identifies 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 and 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 (CSM) determined that Chapter 752, Statutes of 1998, imposed a state mandate reimbursable under Government Code section 17561.

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

For fiscal year (FY) 2003-04, the Legislature suspended the Animal Adoption Program.

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, 2001, through June 30, 2007.

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.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the authority'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 authority'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 disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Silicon Valley Animal Control Authority claimed \$1,473,350 for costs of the Animal Adoption Program. Our audit disclosed that \$356,119 is allowable and \$1,117,231 is unallowable.

For the FY 2001-02 claim, the State made no payment to the authority. Our audit disclosed that \$45,946 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$45,946, contingent upon available appropriations.

For the FY 2002-03 claim, the State made no payment to the authority. Our audit disclosed that \$45,739 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$45,739, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the authority \$139,924. Our audit disclosed that \$65,567 is allowable. The State will offset \$74,357 from other mandated program payments due the authority. Alternatively, the authority may remit this amount to the State.

For the FY 2005-06 claim, the State paid the authority \$539,088. Our audit disclosed that \$79,919 is allowable. The State will offset \$459,169 from other mandated program payments due the authority. Alternatively, the authority may remit this amount to the State.

For the FY 2006-07 claim, the State paid the authority \$487,483. Our audit disclosed that \$118,948 is allowable. The State will offset \$368,535 from other mandated program payments due the authority. Alternatively, the authority may remit this amount to the State.

Views of Responsible Officials

We issued a draft audit report on May 8, 2009. Dan Soszynski, Executive Director, responded by letter dated June 15, 2009 (Attachment), disagreeing with Findings 1 and 2 and agreeing with Finding 3. In its response, the authority indicated that we understated the numbers for dogs and cats when calculating the reimbursable portion for the care and maintenance of dogs and cats for FY 2004-05. We reviewed the animal census data and agreed with the authority that we understated the animal count by 163.

Consequently, we corrected the error and updated Findings 1 and 2. Based on these adjustments, unallowable costs decreased by \$12,801, from \$1,130,032 to \$1,117,231.

We discussed the revisions to the draft report with Heidi Springer, Executive Assistant, on July 10, 2009. In an e-mail dated July 13, 2009, Ms. Springer agreed with the revised results that were achieved using the increased animal census data. In addition, Ms. Springer also stated that the authority "will continue to disagree with the findings regarding the formula used to determine the building cost reimbursement and the disallowance of cost."

Restricted Use

This report is solely for the information and use of the Silicon Valley Animal Control Authority, 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

August 31, 2009

**Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2007**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference</u> ¹
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Materials and supplies ²	\$ 2,044	\$ 2,044	\$ —	
Contract services ³	<u>119,260</u>	<u>43,902</u>	<u>(75,358)</u>	Finding 2
Total program costs	<u>\$ 121,304</u>	45,946	<u>\$ (75,358)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 45,946</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Materials and supplies	\$ 1,008	\$ 1,008	\$ —	
Contract services	<u>184,543</u>	<u>44,731</u>	<u>(139,812)</u>	Finding 2
Total program costs	<u>\$ 185,551</u>	45,739	<u>\$ (139,812)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 45,739</u>		
<u>July 1, 2003, through June 30, 2004</u> ³				
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Materials and supplies	\$ 1,008	\$ 1,008	\$ —	
Contract services	<u>138,916</u>	<u>64,559</u>	<u>(74,357)</u>	Finding 1, 2
Total program costs	<u>\$ 139,924</u>	65,567	<u>\$ (74,357)</u>	
Less amount paid by the State		<u>(139,924)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (74,357)</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries	\$ 574	\$ 574	\$ —	
Benefits	113	113	—	
Material and supplies ⁴	1,008	1,008	—	
Contract services ⁴	<u>537,336</u>	<u>78,167</u>	<u>(459,169)</u>	Finding 1, 2
Total direct costs	539,031	79,862	(459,169)	
Indirect costs	<u>57</u>	<u>57</u>	<u>—</u>	
Total program costs	<u>\$ 539,088</u>	79,919	<u>\$ (459,169)</u>	
Less amount paid by the State		<u>(539,088)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (459,169)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries	\$ 31,280	\$ 31,280	\$ —	
Benefits	7,976	7,976	—	
Contract services	<u>433,650</u>	<u>72,560</u>	<u>(361,090)</u>	Finding 1,2
Total direct costs	472,906	111,816	(361,090)	
Indirect costs	<u>14,577</u>	<u>7,132</u>	<u>(7,445)</u>	Finding 3
Total program costs	<u>\$ 487,483</u>	118,948	<u>\$ (368,535)</u>	
Less amount paid by the State		<u>(487,483)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (368,535)</u>		
<u>Summary: July 1, 2001, through June 30, 2007</u>				
Direct costs:				
Salaries	\$ 31,854	\$ 31,854	\$ —	
Benefits	8,089	8,089	—	
Materials and supplies	2,016	2,016	—	
Contract services	<u>1,416,757</u>	<u>306,971</u>	<u>(1,109,786)</u>	
Total direct costs	1,458,716	348,930	(1,109,786)	
Indirect costs	<u>14,634</u>	<u>7,189</u>	<u>(7,445)</u>	
Total program costs	<u>\$ 1,473,350</u>	356,119	<u>\$ (1,117,231)</u>	
Less amount paid by the State		<u>(1,166,495)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (810,376)</u>		

¹ See the Findings and Recommendations section.

² The authority incorrectly reported a portion of its contract services as materials and supplies on its FY 2001-02 claim. We reclassified the amount for reporting purposes.

³ The Animal Adoption Program was suspended for FY 2003-04.

⁴ The authority incorrectly reported materials and supplies totaling \$1,008 as contract services on its FY 2004-05 claim. We reclassified the amount for reporting purposes.

Findings and Recommendations

**FINDING 1—
Unallowable costs for remodeling/renovating an existing facility and understated costs for construction of a new facility**

The Silicon Valley Animal Control Authority claimed \$889,575 in unallowable contract services related to the Remodeling/Renovating Existing Facilities cost component for fiscal year (FY) 2004-05 through FY 2006-07, and understated contract services related to the Acquisition of Additional Space and/or Construction of New Facilities cost component totaling \$20,714 for FY 2004-05.

These two cost components have different formulas. The activities claimed by the authority related to the construction of a new facility. Therefore, we recalculated the allowable costs using the correct formula. As a result, only \$20,714 is reimbursable for FY 2004-05, and no costs are reimbursable for FY 2005-06 and FY 2006-07.

The following table summarizes the unallowable and understated costs:

	Fiscal Year			Total
	2004-05	2005-06	2006-07	
Contract services:				
Remodeling/renovating existing facilities	\$ (44,559)	\$(474,412)	\$(370,604)	\$(889,575)
Acquisition of additional space and/or construction of new facilities	20,714	—	—	20,714
Audit adjustment	\$ (23,845)	\$(474,412)	\$(370,604)	\$(868,861)

The program’s parameters and guidelines state:

Eligible claimants are only 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 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 (including those animals that are excluded from reimbursement, as specified in Section 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

We recommend that the authority use the correct formula when calculating reimbursable costs.

Authority’s Response

SVACA disagrees with the State Controller’s findings as they are based upon the use of an inappropriate formula for calculating reimbursable costs. The Controller opted to use the formula for construction of new facilities. Use of this formula does not fit the situation faced by SVACA.

The Parameters and Guidelines (Ps & Gs), adopted February 8, 2002, addressed the issue of establishing only those costs associated with compliance with the new mandate regarding the housing of a larger animal population due to the mandated increased holding period. Two situations were identified: Acquisition of Additional Space and/or Construction of New Facilities and Remodeling/Renovating Existing Facilities. In both cases, claimants were advised that they were “only entitled to reimbursement for the proportionate share of actual costs required” to comply with the mandate. Each claimant had to, on the facts, establish this share of costs for its unique circumstance. On January 26, 2006, newly adopted Ps & Gs took away any interpretation for these two options and established formula for calculating the share of costs. The formula for Acquisition of Additional Space and/or Construction of New Facilities turned on the ability to quantify the situation in 1998 and, comparing it with the current situation, to establish, in mathematical terms, the incremental difference between the two. The formula for Remodeling/Renovating Existing Facilities, on the other hand, eliminates the use of prior year figures concentrating only current year information to complete the calculation. As precise as these formulae were, they created, in a manner of speaking, two round holes and no place for square peg SVACA to fit.

SVACA had contracted with the Humane Society for animal housing services for years and did not have any 1998 figures as they did not have a facility for that year. SVACA had a contract but that agreement did not guarantee space to SVACA in the Humane Society’s facility. In time, the Humane Society was no longer going to contract out services and SVACA, along with others who had contracted with the Humane Society, was left to create its own solution from scratch. SVACA purchased an existing building and renovated it for its use. SVACA complied with the mandate but gone were the days when SVACA could have pled its unique circumstance and used the data it had to support its calculations. There are only two formulae available but which formula to use?

The Controller’s Office has posited the use of the Additional Space and/or Construction of New Facilities formula. At first blush, this seems the better of the two formulae. But, as the Controller’s Office found out, without data from 1998, the formula is useless. What SVACA has from 1998 is a contract which demonstrates costs but without guaranteed shelter space there is no way to translate these costs into floor space and numbers of animals. SVACA could have taken the approach advocated by the Controller’s Office: estimating and projecting figures to make use of the formula. But SVACA notes that were the Controller’s Office to audit its own use of the formula, it would conclude that it cannot be supported.

This left SVACA with the second formula for Remodeling/Renovating Existing Facilities. There is a certain logic to its use: SVACA had to renovate the building it purchased. To use this formula would bar SVACA from claiming any reimbursement for the purchase of the building. Certainly this was quite a cost to bear without reimbursement of the state’s rightful share of the cost but SVACA was stuck. Since this formula does not rely on the 1998 figures, the calculation was clear and simple.

Of course, the best solution would have been to not use either formula and to find a way to compare the cost of contracting with the costs of setting up business for themselves and calculating the state's share. Hemmed in by the constraints of the Ps & Gs as recreated in 2006, however, this was not an option for SVACA. Rather than divine the costs from 6 years ago, SVACA skipped reimbursement for the building and worked with the hard data available to create a reliable, provable and reasonable result.

SCO's Comment

We updated our finding based on the authority's response to Finding 2. We reviewed the animal census data for FY 2004-05 and agree with the authority that there were more dogs and cats than we originally reported in the formula used to compute the reimbursable portion related to the Acquisition of Additional Space and/or Construction of New Facilities. This reduced the unallowable costs for FY 2004-05. Consequently, we updated the finding to reflect a reduction in net unallowable costs by \$4,107, from \$872,968 to \$868,861.

The authority, however, used the improper formula when it acquired a new building. Instead of using the Acquisition of Additional Space and/or Construction of New Facilities formula, it used the Remodeling/Renovating Existing Facilities formula.

The parameters and guidelines state that claimants are entitled to reimbursement only for the proportionate share of actual costs required to plan, design, acquire, and/or build facilities in a given fiscal year.

The Acquisition of Additional Space and/or Construction of New Facilities formula, rather than the Remodeling/Renovating Existing Facilities formula, is the appropriate formula for calculating reimbursable costs. The authority acquired a building that was not originally used for the purpose of sheltering animals, as is mandated by the parameters and guidelines.

We obtained the shelter square footage and total animal daily census from the Humane Society in San Jose, as the authority contracted animal services with that organization until its shelter was acquired.

FINDING 2— Unsupported care and maintenance of dogs, cats, and other animals costs

The authority claimed \$224,640 in unsupported contract services related to the Care and Maintenance of Dogs and Cats cost component and \$16,285 in contract services related to the Care and Maintenance of Other Animals cost component for the audit period. The costs are unallowable because the authority did not support cost claimed with source documentation.

The formula for care and maintenance of dogs, cats, and other animals divides total costs by the daily animal census to produce a cost per animal per day. The product is multiplied by the number of dogs and cats and other animals that were euthanized and the number of reimbursable holding days.

The following table summarizes the unallowable costs related to care and maintenance of dogs, cats, and other animals:

	Fiscal Year					Total
	2001-02 ¹	2002-03	2004-05	2005-06	2006-07	
Contract services:						
Care and maintenance of dogs and cats	\$(70,225)	\$ (90,541)	\$(47,697)	\$(12,592)	\$ (3,585)	\$(224,640)
Care and maintenance of other animals	(5,133)	(49,271)	(2,815)	27,835	13,099	(16,285)
Audit adjustment	<u>\$(75,358)</u>	<u>\$(139,812)</u>	<u>\$(50,512)</u>	<u>\$ 15,243</u>	<u>\$ 9,514</u>	<u>\$(240,925)</u>

¹ The authority claimed FY 2001-02 contract services as materials and supplies in error.

The parameters and guidelines require that all costs claimed be traced to source documents that show evidence of and the validity of such costs and their relationship to the mandate.

The parameters and guidelines state that the increased holding period for dogs and cats is the difference between four or six business days from the day after impoundment and three days from the day of capture. The parameters and guidelines state that the increased holding period for other animals is four or six business days. Four rather than six business days are applicable, as the shelter was open on one weekend day. (See Food and Agricultural Code sections 31108, 31752, and 31753.)

The parameters and guidelines state that the following animal population is not reimbursable for care and maintenance:

- Stray or abandoned animals that are irremediably suffering from a serious illness or severe injury;
- Newborn stray or abandoned animals that need maternal care and have been impounded without their mothers;
- Stray or abandoned 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.

Recommendation

We recommend that the authority maintain source documents that support mandate-related costs.

Authority’s Response

SVACA disagrees with the State Controller’s findings. Upon reviewing the reports submitted to the auditor for review, we came up with a different number of eligible dogs and cats and reimbursable days. As an example, for fiscal year 04/05 the auditor came up with 359 eligible stray dogs and cats that’s were euthanized. However, we utilized the same reports and found that a total of 478 eligible dogs and cats were euthanized. This number would increase SVACA’s care and maintenance reimbursement as well as impact the reimbursable building costs for FY 04/05. We would be happy to compare all of the fiscal year reports and see where the difference in eligible dogs and cats occurs so that the correction can be made before the final audit report is released.

SCO's Comment

Based on the authority's response, we reviewed the animal census data for FY 2004-05 and agree with the authority that there were more dogs and cats than we originally reported in the formula used to compute the reimbursable costs. Our review indicated that we understated the number of dogs and cats by 163. We corrected the error and updated the finding. This reduced the unallowable costs for FY 2004-05. Consequently, we updated the finding to reflect a reduction of \$8,694 in unallowable costs, from \$249,619 to \$240,925. In addition, we made a minor edit to the audit criteria.

**FINDING 3—
Overstated indirect
costs**

The authority overstated indirect costs by \$7,445 for FY 2006-07. The costs were overstated because the authority incorrectly classified direct costs as indirect costs. The authority erroneously posted \$189,080 for a shelter-maintenance contract as an indirect cost instead of a direct cost, causing the indirect cost rate to decrease by 23.8%, from 46.6% to 22.8%.

The parameters and guidelines state "indirect costs include (a) the indirect costs originating in each department carrying out state mandated programs and (b) the costs of central government services distributed through the central service cost allocation plan and not otherwise treated as direct costs."

The following table summarizes the overstated indirect costs:

	<u>Fiscal Year 2006-07</u>
Indirect costs:	
Allowable salaries	\$ 31,280
Allowable indirect cost rate	× 22.8%
Allowable indirect costs	7,132
Less indirect costs claimed	<u>(14,577)</u>
Audit adjustment	<u>\$ (7,445)</u>

Recommendation

We recommend that the authority ensure that direct and indirect costs are correctly classified in its indirect cost rate calculation.

Authority's Response

SVACA agrees with the State Controller's findings and will work to ensure that future indirect cost rates are correctly computed.

**Attachment—
Authority's Response to
Draft Audit Report**

Silicon Valley Animal Control Authority



June 15, 2009

Jim L. Spano, Chief
Mandated Cost Audits Bureau
California State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Serving
Campbell
Monte Sereno
Santa Clara

Dear Mr. Spano:

Please accept this letter as the Silicon Valley Animal Control Authority's (SVACA) response to the State Controller's Office (SCO) Draft Audit Report of the legislatively mandated Animal Adoption Program for the period of July 1, 2001 through June 30, 2007.

Finding 1 – Unallowable costs for remodeling/renovating an existing facility and understated costs for construction of a new facility

Recommendation: SCO recommends that the authority maintain source documents that support the mandate-related costs.

Response: SVACA disagrees with the State Controller's findings as they are based upon the use of an inappropriate formula for calculating reimbursable costs. The Controller opted to use the formula for construction of new facilities. Use of this formula does not fit the situation faced by SVACA.

The Parameters and Guidelines (Ps & Gs), adopted February 8, 2002, addressed the issue of establishing only those costs associated with compliance with the new mandate regarding the housing of a larger animal population due to the mandated increased holding period. Two situations were identified: Acquisition of Additional Space and/or Construction of New Facilities and Remodeling/Renovating Existing Facilities. In both cases, claimants were advised that they were "only entitled to reimbursement for the proportionate share of actual costs required" to comply with the mandate. Each claimant had to, on the facts, establish this share of costs for its unique circumstance. On January 26, 2006, newly adopted Ps & Gs took away any interpretation for these two options and established formula for calculating the share of costs. The formula for Acquisition of Additional Space and/or Construction of New Facilities turned on the ability to quantify the situation in 1998 and, comparing it with the current situation, to establish, in mathematical terms, the incremental difference between the two. The formula for

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Of course, the best solution would have been to not use either formula and to find a way to compare the cost of contracting with the costs of setting up business for themselves and calculating the state's share. Hemmed in by the constraints of the Ps & Gs as recreated in 2006, however, this was not an option for SVACA. Rather than divine the costs from 6 years ago, SVACA skipped reimbursement for the building and worked with the hard data available to create a reliable, provable and reasonable result.

Finding 2 – Unsupported care and maintenance of dogs, cats, and other animals costs

Recommendation: SCO recommends that the authority maintain source documents that support the mandate-related costs.

Response: SVACA disagrees with the State Controller's findings. Upon reviewing the reports submitted to the auditor for review, we came up with a different number of eligible dogs and cats and reimbursable days. As an example, for fiscal year 04/05 the auditor came up with 359 eligible stray dogs and cats that were euthanized. However, we utilized the same reports and found that a total of 478 eligible dogs and cats were euthanized. This number would increase SVACA's care and maintenance reimbursement as well as impact the reimbursable building costs for FY 04/05. We would be happy to compare all of the fiscal year reports and see where the difference in eligible dogs and cats occurs so that the correction can be made before the final audit report is released.

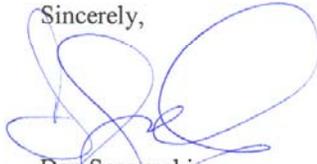
Finding 3 – Overstate indirect costs

Recommendation: SCO recommends that the authority claim indirect cost based on indirect cost rates calculated according to the SCO's claiming instructions.

Response: SVACA agrees with the State Controller's findings and will work to ensure that future indirect cost rates are correctly computed.

We would like to thank the State Controller's Office in advance for their time to consider the reasons behind our disagreement with findings 1 and 3. We welcome any further discussion on the issue prior to the release of the final audit report.

Sincerely,



Dan Soszynski
Executive Director

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>