
Performance Audit of the Animal Services Agreement Between the City of San Diego and the County of San Diego

UNFAVORABLE CONTRACTUAL PROVISIONS NEGATIVELY IMPACT
THE CITY WHILE OPPORTUNITIES FOR OPERATIONAL
ENHANCEMENTS EXIST

JUNE 2011

Audit Report
Office of the City Auditor
City of San Diego



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THE CITY OF SAN DIEGO

June 24, 2011

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is an audit report on the Animal Services Agreement between the City and the County's Department of Animal Services. This report is presented in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. The Administration's response to our audit recommendations can be found after page 42 of the report.

If you need any further information please let me know. We would like to thank Police Department's Fiscal Division staff, as well as representatives from the County's Department of Animal Services for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff responsible for this audit report are Efrem Bycer, Chris Constantin, and Kyle Elser.

Respectfully submitted,

Eduardo Luna
City Auditor

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Table of Contents

Results in Brief	1
Introduction	4
Background	5
Objectives, Scope, and Methodology	13
Audit Results	15
Finding 1: Contractual Provisions of the Animal Services Agreement with the County are Unfavorable Toward the City	15
Finding 2: Opportunities Exist for Operational Enhancements that Can Improve Animal Services	21
Finding 3: The City Should Evaluate Policy Options to Enhance Public Safety Regarding Feline Activity	33
Conclusion	37
Recommendations	39
Appendix A: Definition of Audit Recommendation Priorities	42

Results in Brief

The Animal Services Agreement with the County of San Diego (County) costs the City of San Diego (City) approximately \$7.5 million annually from the General Fund. City residents pay another \$1.5 million annually in user fees making the gross annual cost of the contract approximately \$9 million. The County's Department of Animal Services (Animal Services) is responsible for sheltering animals in its three shelters throughout the County and enforcing animal-related laws and regulations. In accordance with the contract, the County remits funds to the City for registration and sheltering fees collected from City residents. Implemented by the County's Department of Animal Services and overseen by staff in the Police Department's Fiscal Division, this contract can become a high risk agreement for the City given the impact it has on both public health within the City and the City's bottom line.

During our audit, we found that the Animal Services Agreement itself contains numerous provisions that are unfavorable to the City. As a result of the County's financial shortcomings in the 1990s, the contract now strongly favors the County at the City's expense. These unfavorable contract provisions cost the City about \$1.9 million from fiscal year 2008 through fiscal year 2010. The first unfavorable provision, the formula that assigns costs to Animal Services' seven contract jurisdictions based on proportional shares of population and service requests, cost the City over \$1.1 million for services provided to the Unincorporated County. The second, a provision that applies the formula to Animal Services' budgeted costs and does not take into account Animal Services' actual expenditures, means the City expends funds used to offset the County's own payment liability. This second provision cost the City about \$750,000 over three years.

Furthermore, we found numerous opportunities for operational enhancements on both the County's side and the City's contract management side that could improve Animal Services. Given the rising costs of the contract, the City needs to consider strategies to improve its cost recovery rate. Additionally, the City needs to engage in more robust contract oversight to ensure adequate performance and make strategic decisions that will improve both public health and cost recovery for the City.

The overall purpose of Animal Services is to provide for the safe interaction of animals with humans and other animals. That purpose goes unfulfilled when Animal Services and the City cannot ensure all companion animals at risk of being exposed to rabies are properly vaccinated. Current law requires that only dogs be properly vaccinated and registered with Animal Services as of the way to verify the vaccination. With more cats in the County than dogs, and with cats retaining a greater risk of rabies, pet owners should also be required to vaccinate and register their feline companions. National organizations and local veterinary and animal services professionals believe that vaccinating cats against rabies is important to protecting the health of both the animal and human populations. Beyond improving public health and safety, cat registration also provides an opportunity to more equitably distribute the burden of paying for the Animal Services Agreement.

Our interactions with Animal Services and City staff indicate an understanding of the issues facing both the County and City sides of the contract. Animal-related issues can quickly become politically contentious. Animal Services and City staff are focused on animal save rates, service request response time, and customer satisfaction. As a result, there is significant room for improvement in implementation and oversight of the Agreement. Based on our audit research and communication with other organizations, we believe our recommendations will yield important public health and financial benefits for the City.

We provide ten recommendations directed to the Police Department's Fiscal Division and the City Administration to

improve both the management and implementation of the Animal Services Agreement. In its written response, the City agreed or partially agreed with nine of the recommendations and disagreed with one.

Introduction

In accordance with the City Auditor’s Fiscal Year 2011 Audit Work Plan, we have completed an Audit of the Animal Services Agreement between the City of San Diego and the County of San Diego. We conducted this 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 work to those areas specified in the “Objective, Scope, and Methodology” section of this report.

Background

The County of San Diego has provided animal services to the City of San Diego since 1971. Currently, the City and County are engaged in the third year of a five-year contract for fiscal year 2009 through fiscal year 2013. The provision of animal services revolves around three basic functions:

- protecting people from animals,
- protecting animals from people, and
- putting people and animals together for the benefit of both

In 1997, the County streamlined many of Animal Services' activities and began offering only longer-term agreements with its contract cities. The most important adjustment from this reorganization was a new funding methodology. The new funding methodology calculates each contract city's gross cost by dividing the shared costs from the Animal Services budget in half. The formula allocates one half by each jurisdiction's share of the total Animal Services-covered population and the other half by each jurisdiction's proportional share of total service requests. Exhibit 1 shows the Fiscal Year 2010 gross cost for each contract jurisdiction.

Exhibit 1

Fiscal Year 2010 Gross Cost by Animal Services Contract Jurisdiction

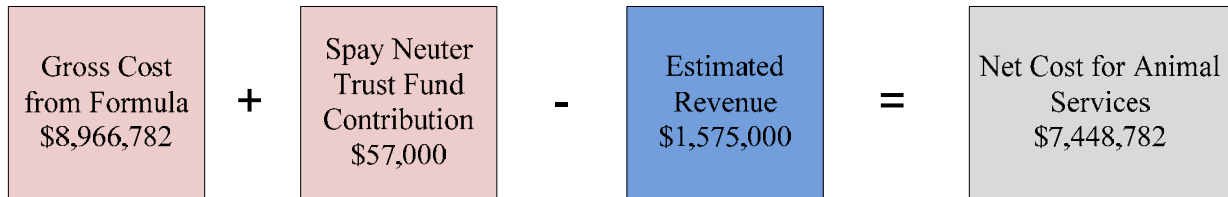
Contract Jurisdiction	Population Share	Cost from Population	Service Requests Share	Cost from Service Request	Gross Cost
Unincorporated County	23.75%	\$ 1,711,481	29.71%	\$ 2,140,733	\$ 3,852,214
Carlsbad	5.01	361,292	4.43	319,430	680,722
Del Mar	0.22	15,940	0.24	17,279	33,219
Encinitas	3.08	222,265	2.51	181,194	403,460
San Diego	64.57	4,652,678	59.87	4,314,104	8,966,782
Santee	2.71	195,133	2.86	205,914	401,046
Solana Beach	0.65	46,984	0.38	27,119	74,103
Total	100.00%	\$ 7,205,774	100.00%	\$ 7,205,774	\$14,411,547

Source: Fiscal Year 2010 Joint Operational and Financial Plan

Revenue generated from license and other fees offsets the City's cost for Animal Services. Additionally, a portion of the revenue is placed in a trust fund for spay and neuter services. As such, the funding methodology also requires the City and County agree to an estimated revenue figure used to offset the City's Animal Services cost. The County calculates the City's net cost by subtracting the estimated revenue from and adding the Spay Neuter Trust Fund contribution to the gross cost¹. Exhibit 2 shows the City of San Diego's net cost for Fiscal Year 2010.

Exhibit 2

City of San Diego Fiscal Year 2010 Net Cost for Animal Services



Source: Fiscal Year 2010 Joint Operational and Financial Plan

Each contract city makes four quarterly payments based on its respective net cost. The City's annual gross costs and net costs have steadily risen between fiscal year 2008 and fiscal year 2010 without equivalent or proportional increases to estimated revenue. Exhibit 3 shows the City's gross costs and net costs for fiscal year 2008 through fiscal year 2010.

¹ The Spay Neuter Trust Fund allows Animal Services to provide financial incentives to encourage residents to spay/neuter their pets.

Exhibit 3

City of San Diego Annual Costs from Joint Operational and Financial Plans

Fiscal Year	Gross Cost	Estimated Total Revenue	Spay/Neuter Trust Fund Contribution	Net Cost
2008	\$ 7,613,010	\$ 1,525,800	\$ 57,000	\$ 6,144,210
2009	8,401,400	1,525,800	57,000	6,932,600
2010	8,966,782	1,575,000	57,000	7,448,782
2011	9,275,855	1,575,000	57,000	7,757,855

Source: Fiscal year 2008 through fiscal year 2010 Joint Operational and Financial Plans

City staff report the Animal Services reorganization resulted in significant improvements in the quality of services provided, available resources, and the relationship between the City and County. Since then, Animal Services has maintained a high customer satisfaction rating and achieved one of the lowest overhead rates in the County. Animal Services also built new facilities for the Central (San Diego) and North County (Carlsbad) Shelters and renovated the South County Shelter in Bonita.

Animal Services Budget, Staffing, and Governance

As part of the County's Community Services Group, the Department of Animal Services is a General Fund department. This means the County uses general tax revenue in addition to payments from the contract cities to cover the annual costs of the department. Exhibit 4 shows Animal Services' annual staffing and budget for fiscal year 2008 through fiscal year 2011.

Exhibit 4

Department of Animal Services Staffing and Budget, Fiscal Year 2008 through Fiscal Year 2011

Fiscal Year	Staffing (FTE)	Adopted Budget	Actual Expenditure
2008	124.00	\$ 13,239,289	\$ 13,194,186
2009	126.00	14,233,601	14,173,016
2010	125.00	14,458,148	14,031,202
2011	123.00	14,621,920	N/A

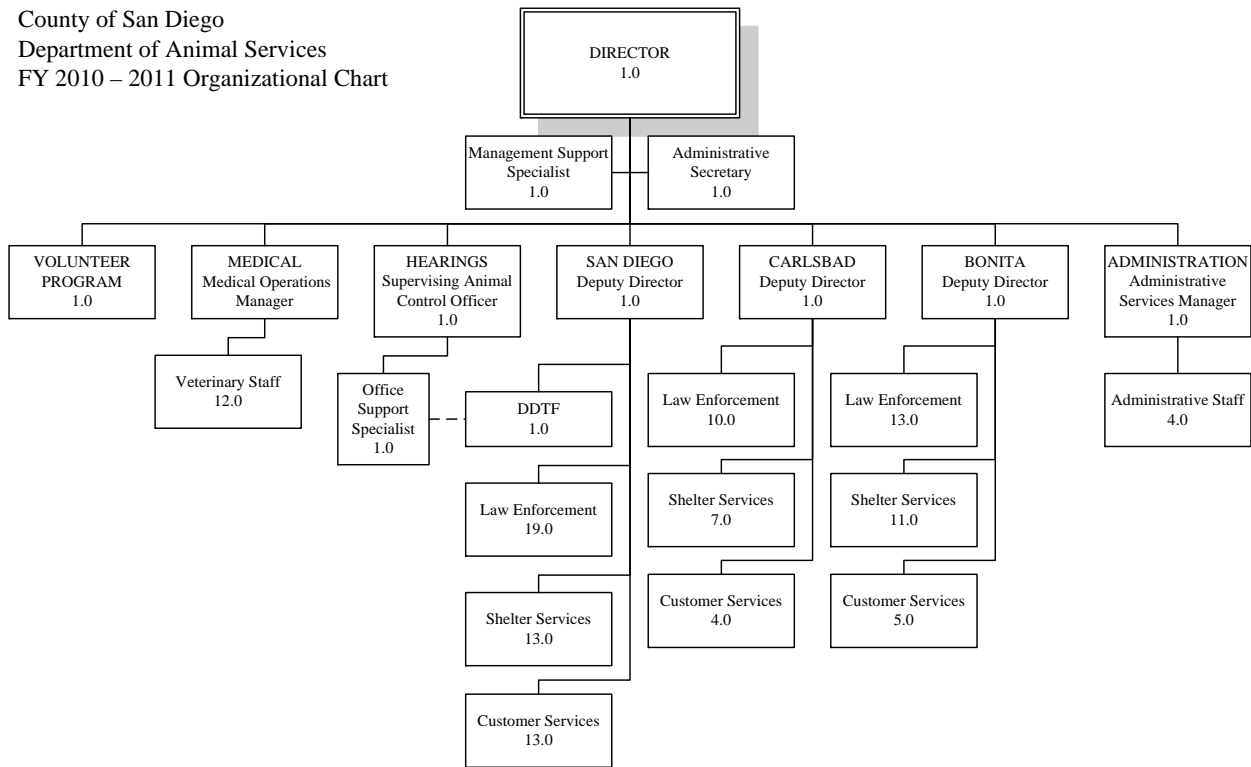
Source: County Adopted Operational Plans

Based in the Central Shelter in San Diego, the Animal Services Director oversees all operations of the department. Exhibit 5 shows how Animal Services staff are divided amongst the department's different functional areas for fiscal year 2011.

Exhibit 5

Department of Animal Services Organizational Chart

County of San Diego
 Department of Animal Services
 FY 2010 – 2011 Organizational Chart



Source: Department of Animal Services Fiscal Year 2011 Organization Chart

City Contract Oversight

At the same time the County reorganized Animal Services in the late 1990s, the City transferred responsibility for administration of the contract to the San Diego Police Department. Currently, the Police Department's Fiscal Operations Division staff oversee the Animal Services Agreement. Staff review reports from Animal Services regarding animal intake, service request response, and revenue collection. They also participate in quarterly meetings with the other contract jurisdictions where Animal Services staff provide

an update on Department-wide changes, initiatives, and programs.

Services and Performance

Section 4 of the current Service Agreement divides the animal-related services provided to the City into four categories²:

- shelter management services,
- veterinary medical services,
- field services, and
- licensing services

In addition, the County is required to implement a marketing strategy to promote responsible pet ownership. The services outlined in the contract make up the basic level of services Animal Services provides to the City. The City must negotiate with the County for the provision of additional animal-related services. The increased level of services and additional costs must be mutually defined in the annually-approved Joint Operating and Financial Plan. Currently, the City does not utilize any additional services.

Shelter Management Services

The contract requires the County to operate a shelter for the City's lost, abandoned, and impounded animals 24 hours per day and seven days per week. Animal Services operates three animal shelters throughout the county. Animal Services must provide shelter services for adoption services, humane euthanasia of animals, public nuisance hearings, general impoundment, and dangerous dog hearings for a minimum of five days per week, with at least one weekend day. The shelters are open Tuesdays through Saturdays from 9:30 a.m. to 5:30 p.m. Animal Services uses intake and disposition indicators as performance metrics for shelter services. Exhibit 6 shows Animal Services intake and disposition statistics.

² Section 4 also states dead animal pick-up is excluded from the agreement. The City's Department of Environmental Services handles dead animal pick-up in the public right-of-way throughout the City of San Diego.

Exhibit 6

Intake and Disposition of Sheltered Animals

	FY 2008	FY 2009	FY 2010
Intake			
Strays	20,356	22,031	22,254
Impounded	1,376	1,097	1,395
Owner Relinquished	4,346	3,281	2,974
Total	26,078	26,409	26,623
Disposition			
Adoption/Transfers to Adoption Partners	11,614	11,523	11,350
% of Dispositions	48.48%	47.68%	46.72%
Renuned With Owners	4,771	4,396	4,633
% of Dispositions	19.92%	18.19%	19.07%
Live Releases	16,385	15,919	15,983
% of Dispositions	68.40%	65.87%	65.79%
Euthanasia	7,570	8,248	8,312
% of Dispositions	31.60%	34.13%	34.21%

Source: San Diego County Department of Animal Services

Veterinary Medical Services

Animal Services maintains on-site veterinarian services at each of its shelters and contracts with local veterinarians to provide 24-hour emergency medical treatment for injured animals. Animal Services also develops and disseminates rabies control information and resources to City residents.

Local veterinarians also play an important role in the dog licensing process. If an animal is vaccinated at a veterinarian's office, the veterinarian is required to certify the animal received a vaccination by submitting a "license application – rabies certificate form." The San Diego County Code of Regulatory Ordinances states that veterinarians who vaccinate dogs against rabies must submit their rabies certificate forms at least once a month to Animal Services. Animal Services requires these certificates before sending a dog license and tag to a pet owner.

Field Services

Outside of the three shelters, the County is required to provide field services, which includes:

- rescuing injured animals,
- impounding stray animals,

- returning lost animals to their owners,
- investigating cases of animal cruelty, and
- issuing citations when its officers find state and local law violations.

All calls for field services requested by the public are divided into four categories based on the imminence of the threat. Each priority level has an associated response objective ranging from Priority 1, where residents and animals are in imminent danger (i.e. possible biter/rabid animal, suspected instance of animal cruelty, etc.), and the less severe Priority 2 (i.e. minor animal injury) to Priority 3 and Priority 4 where the threat is less imminent and an immediate response is not warranted (i.e. confined stray animal, miscellaneous patrol services, etc.).

Exhibit 7

Department of Animal Services Response Rates for the City of San Diego

<i>Service Requests</i>		<i>FY 1998</i>	<i>FY 2003</i>	<i>FY 2008</i>
<i>Priority 1</i>	Number	2,791	2,766	3,313
Within 1 hour	% Timely	88.8%	94.4%	95.4%
<i>Priority 2</i>	Number	2,736	2,303	3,038
Within 12 hours	% Timely	83.0%	96.6%	97.1%
<i>Priority 3</i>	Number	13,088	10,267	11,366
Within 24 hours	% Timely	60.4%	84.3%	88.2%
<i>Priority 4</i>	Number	80	780	351
Within 72 hours	% Timely	68.5%	91.7%	97.3%

Source: City of San Diego

Licensing Services

Licensing services refers to the various activities to ensure dog owners properly license and vaccinate their dogs. The County is responsible for issuing new and renewed licenses. The City's average dog license compliance rate of about 25.6 percent is the lowest among all of Animal Services' contract jurisdictions. Some of the contract jurisdictions, namely Santee and the Unincorporated County, have compliance rates approaching or exceeding 40 percent. Exhibit 8 shows the estimated dog license compliance rates in each of Animal Services' contract jurisdictions.³

³ The estimated dog license compliance rate is calculated by dividing the number of licensed dogs by the estimated total dog population. The estimated dog population in each jurisdiction is calculated by dividing the human population by its average household size and multiplying the quotient by the average number of dogs per household. This formula is used by the Humane Society of the United States.

Exhibit 8

Dog License Compliance Percentage



Source: San Diego County Department of Animal Services Annual Activity Reports

To aid in getting City dogs licensed and vaccinated, the County holds rabies vaccination clinics every Thursday from 1:00 p.m. to 3:00 p.m. at its shelters. Animal Services also holds low-cost vaccination and microchipping clinics on weekends throughout its coverage area. These clinics take place in the community as opposed to the shelter. However, since 2005, clinics in the City only occur at the shelter rather than at the popular dog parks or in the City’s various neighborhoods due to concerns that such clinics were an unlawful use of dedicated park and recreation land.

Objectives, Scope, and Methodology

The City Auditor's Fiscal Year 2011 Audit Work Plan approved by the City Council included an audit of the Animal Services Agreement between the City of San Diego (the City) and the County of San Diego (the County). The main objectives of the audit were 1) to determine the extent to which the County and City comply with the contract and 2) to assess the extent to which the contract represents a fair agreement between the County and the City. Our audit focused on oversight and implementation of the agreement in fiscal years 2008 through 2010, unless otherwise noted. After analyzing preliminary information, we decided to focus our audit efforts on these risks the City faces:

- The appropriateness of the cost allocation methodology given the use of both proportional shares of the population and service requests to drive costs.
- The accuracy and appropriateness of costs and revenue allocated to the City by the County.
- The extent to which the Department of Animal Services provides the City with all relevant information necessary to make contract management decisions.
- The extent to which all fee waivers and adjustments are granted with proper authorization and documentation.
- The efficiency and effectiveness of Department of Animal Services delinquent account follow-up procedures.
- The strength of controls in place to prevent fraudulent cash handling when Animal Control Officers accept money for fees in the field.

To determine if Animal Services accurately and appropriately allocated cost and revenue to the City, we reviewed budgetary and financial documents used in cost calculations. To ensure

accuracy of the data Animal Services uses to calculate the City's annual cost, we conducted data verification analysis on statistical samples of 383 service request entries and 384 license application entries from the Chameleon database system. For these statistical samples, we ensured the proper jurisdiction was included in the entry for the purpose of allocating cost and revenue.

To determine the appropriateness of the current funding methodology, we reviewed population and service demand figures for each contract jurisdiction. We benchmarked the Animal Services Agreement with similar agreements between other jurisdictions for the provision of animal services, including both animal control and animal sheltering, for how costs and revenue were allocated to contract jurisdictions. In addition, we reviewed model animal control policies from recognized national organizations in the field of veterinary medicine, shelter management, and city management.

To ensure the County fulfilled its contractual requirements, we reviewed reports prepared by City contract management staff and reports from the County on service call response time and animal intake/disposition. We interviewed City and County staff responsible for the production and review of performance and financial reports. To determine if the County dispensed its best effort in executing the contract, we conducted spatial analyses of license activity and service demand, evaluated current policies and procedures for delinquent accounts, and analyzed dog license compliance information.

To determine if Animal Services has the necessary internal controls for cash handling and fee waiver/adjustments, we reviewed Animal Services written policies and procedures and interviewed County staff responsible for transaction receipt and processing. In addition to our review of these internal controls, we searched for indicators of fraud and abuse.

Audit Results

Finding 1: Contractual Provisions of the Animal Services Agreement with the County are Unfavorable Toward the City

The City of San Diego contracts with the County of San Diego for animal services. The Agreement between the City and County outlines specific provisions regarding cost allocations, scope of services, and other required activities. We found key weaknesses which result in the City paying for Unincorporated County activities. Specifically, we found:

- The current cost allocation formula results in the City subsidizing Animal Services activity in the unincorporated areas of San Diego County and
- While the County pays only a fraction of Animal Services' costs, it realizes 100% of Departmental mid-year cost savings.

These two contractual weaknesses result in the City paying about \$1.9 million for costs not directly attributable to the City of San Diego. We recommend the City take action to stop subsidizing the Animal Services activity of the County.

The current cost allocation formula results in the City subsidizing Animal Services activity in the unincorporated areas of San Diego County

We found the current Animal Services cost allocation formula penalizes the City of San Diego for not utilizing services in equal proportion with the City's population served by County Animal Services. Specifically, we found that from July 2007 through June 2010, the City used 59.1 percent of County Animal Services by service requests; however, the City paid 64.8 percent of the actual shared cost. The use of population as a major factor in allocating costs means the Animal Services cost paid by the City is not based on the City's actual demand for Animal Services but rather the potential for residents to use the services. Consequently, during this three year period, the City paid over \$1.1 million for services not received by City residents, while non-City residents benefited. County Animal

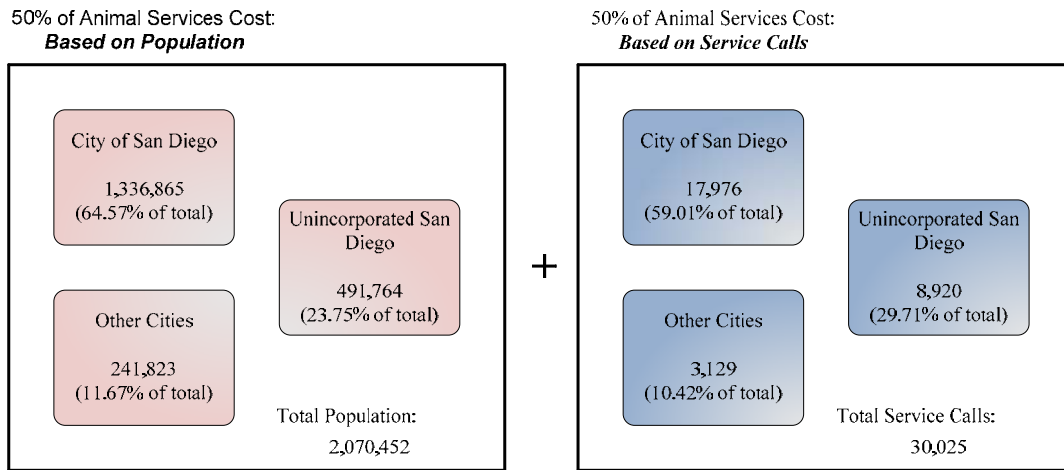
Services provides services to seven contract jurisdictions:

- City of San Diego
- City of Solana Beach
- City of Santee
- City of Carlsbad
- City of Del Mar
- City of Encinitas
- Unincorporated San Diego County

In order to pay for the full cost of Animal Services, the County entered into agreements with each city. These agreements specify a cost allocation formula splitting costs among all contract jurisdictions based on two proportional factors: 1) the population of the jurisdiction and 2) the number of service calls provided to that jurisdiction. Exhibit 9 outlines the formula and calculations for fiscal year 2010.

Exhibit 9

Calculating the City’s Fiscal Year 2010 Gross Cost for Animal Services



Source: Fiscal year 2010 Joint Operational and Financial Plan

We found that other jurisdictions use an alternative cost allocation formula for assigning animal service costs. Specifically, the City of San Jose, the City of Chula Vista, and the County of Los Angeles all provide animal services to nearby

cities and towns, but none of them include population in the formula used to determine each contract city's cost. Their contracts use only proportional share of service requests, proportional share of impounded animals, or some combination of the two direct service measures. According to City staff, population serves as a proxy for a jurisdiction's potential need for service. However, Animal Services was unable to provide any research or analysis to support their claims or to show that population is an appropriate cost driver for Animal Services.

Based on our review of Animal Services data, the City's proportional share of the population is consistently above its proportional share of the total service requests. We found the opposite is true for the Unincorporated County; its proportional share of the service requests is consistently higher than its share of the population. While the Unincorporated County made up only 23.5 percent of the population from fiscal year 2008 to fiscal year 2010, it was responsible for 30.5 percent of the service requests. Exhibit 10 highlights the City of San Diego's contribution for Animal Services.

Exhibit 10

City of San Diego's Gross Cost with 50/50 Cost Allocation Methodology

Fiscal Year	Animal Services Total Shared Costs	City Population %	City Service Call %	City Contribution from Population	City Contribution from Service Calls	Total City Gross Cost
2008	\$ 12,308,899	65.21%	58.49%	\$ 4,013,295	\$ 3,599,735	\$ 7,613,030
2009	13,584,554	64.68	59.01	4,393,575	4,007,825	8,401,400
2010	14,411,547	64.57	59.87	4,652,678	4,314,104	8,966,782
Total				\$ 13,059,548	\$ 11,921,664	\$ 24,981,212

Source: Fiscal year 2008 through fiscal year 2011 Joint Operational and Financial Plans

Between fiscal year 2008 and fiscal year 2010, the City paid about \$25 million for Animal Services. Under the current formula, the City pays more than it would if costs were based solely on the actual services used. Exhibit 11 shows the impact of basing cost solely on a service measure such as service calls—a net savings for the City of approximately \$1.1 million between fiscal year 2008 and fiscal year 2010.

Exhibit 11

City's Annual Gross Cost with 100 Percent of Cost Determined by Service Requests

Fiscal Year	Animal Services Total Shared Costs	City Population %	City Service Call %	Calculated City Gross Cost	City Gross Cost from 50/50 Formula	Difference from Current Formula
2008	\$ 12,308,899	65.21%	58.49%	\$ 7,199,470	\$ 7,613,030	\$ 413,560
2009	13,584,554	64.68	59.01	8,015,649	8,401,400	385,751
2010	14,411,547	64.57	59.87	8,628,209	8,966,782	338,574
			Total	\$ 23,843,328	\$ 24,981,212	\$ 1,137,884

Source: Fiscal year 2008 through fiscal year 2011 Joint Operational and Financial Plans

To end the City's subsidy to the County for services to the Unincorporated County:

Recommendation #1

The City Administration should enter into negotiations with the County for a new cost allocation formula that reflects the City's actual use of services. (Priority 3)

While the County pays only a fraction of Animal Services' costs, it realizes 100 percent of Departmental mid-year savings

We found the Animal Services budget process and cost allocation procedures allow the County to realize 100% of all mid-year cost savings in Animal Services, despite paying for only about one-third of departmental costs. As a result, the City of San Diego and other contract cities subsidize the County's share of actual cost for Animal Services. Specifically, for fiscal year 2008 through fiscal year 2010, we found the City paid nearly \$750,000 which the County used to pay down its contribution rather than cover the costs of services provided to the City.

In approving the Joint Operating and Financial Plan, the County and contract cities agree to a total operating cost representing the Animal Services budget for the coming year. Each contract city pays the County in four equal quarterly payments for their respective share of the total budgeted operating costs. The County, on the other hand, pays an advance from its general fund, and then covers any shortfalls not covered by the payments from the contract cities.

During our analysis, we compared the budgeted operating costs from the Joint Operating and Financial Plan with the actual departmental costs from the County's Operational Plan. Each year, the County spent considerably less than it budgeted to provide Animal Services. Exhibit 12 shows the annual variance between budgeted and actual expenditure for fiscal year 2008 through fiscal year 2010, a total of over \$1.6 million.

Exhibit 12

Expenditures from Joint v. County Operational Plans

Fiscal Year	Animal Services Total Shared Costs	City Population %	City Service Call %	Calculated City Gross Cost	City Gross Cost from 50/50 Formula	Difference from Current Formula
2008	\$ 12,308,899	65.21%	58.49%	\$ 7,199,470	\$ 7,613,030	\$ 413,560
2009	13,584,554	64.68	59.01	8,015,649	8,401,400	385,751
2010	14,411,547	64.57	59.87	8,628,209	8,966,782	338,574
			Total	\$ 23,843,328	\$ 24,981,212	\$ 1,137,884

Source: Fiscal year 2008 through fiscal year 2011 Joint Operational and Financial Plans and San Diego County Operational Plans

While Animal Services expended fewer funds than it budgeted, it does not credit the contract cities for their share of those savings. Instead, the County benefits from 100 percent of the annual savings when it only represents 31.0 percent of activity. We found that the County uses the excess funds from contract city payments to reduce its own Animal Services cost. From fiscal year 2008 to fiscal year 2010, the City paid for 58.5 percent of the Animal Services budget; as a result, the City should have received an equivalent portion of the savings.

The effect of the County's practice is two-fold. First, the City pays for a greater share of Animal Services costs than it should according to the contractual formula. From July 2007 through June 2010, the City actually paid for 64.67 percent of Animal Services' actual expenditure when it should have only paid 58.6 percent according to the Joint Operational and Financial Plans. Second, the City directly pays for a portion of the County's contribution for Animal Services. For fiscal year 2008 through fiscal year 2010, we found the City paid \$748,147 toward the County's Animal Services cost. Exhibit 13 shows how much

each contract city would be credited if the County paid its fair share and credited the contract cities for their shares of the savings.

Exhibit 13

County Savings Owed by Contract Area, Fiscal Year 2008 – Fiscal Year 2010

Contract Jurisdiction	Overall % of Departmental Costs FY 2008 through FY 2010	Variance Owed
Unincorporated County	31.04%	\$ 396,783
Carlsbad	4.45	56,876
Del Mar	0.23	2,889
Encinitas	2.66	34,060
San Diego	58.54	748,147
Santee	2.58	33,006
Solana Beach	0.50	6,333
Total	100.00%	\$ 1,278,094
(1) Calculated by dividing the sum of annual gross cost by sum of total Animal Services budgeted expenditure (includes both shared and unshared costs)		

Source: Fiscal year 2008 through fiscal year 2010 Joint Operational and Financial Plans

To recover City funds used to pay down the County’s Animal Services liability rather than cover costs of Animal Services to the City:

Recommendation #2

The Police Department should obtain an opinion from the City Attorney’s Office regarding the feasibility of recovering surplus payments and seek full reimbursement from the County for the City’s overpayment during fiscal years 2008 through 2010. (Priority 3)

To ensure all contract jurisdictions make payments in compliance with the contractually-specified formula:

Recommendation #3

The City Administration should renegotiate the Animal Services Agreement to ensure the Agreement clearly delineates the allocation of actual savings based on the same formula to allocate cost to contract jurisdictions. (Priority 3)

Finding 2: Opportunities Exist for Operational Enhancements that Can Improve Animal Services

The City contracts with the County for the provision of Animal Services. The City's contract management staff overseeing this agreement are part of the Police Department's Fiscal Division. We found weaknesses in the City's oversight and the County's execution of the Animal Services Agreement that potentially impact public health and limit cost recovery for the City. More specifically, we found:

- San Diego County Animal Services has not given its best effort to increase the rate of licensed dogs in the City of San Diego,
- The City's General Fund subsidizes cost increases in Animal Services,
- The County's delinquent dog license follow-up procedures are inadequate to promote public health and maintain the City's cost recovery, and
- City oversight is not sufficient for strategic decision-making with regard to the Animal Services Agreement,

Making improvements along our findings could yield important improvements to public health within the City. These same improvements may increase cost recovery for the City and decrease subsidy from the City's General Fund.

San Diego County Animal Services has not given its best effort to increase the rate of licensed dogs in the City of San Diego

We found Animal Services does not employ policies and techniques that could help increase the rate of licensed dogs in the City. Our analysis indicates the City has the lowest license compliance rate of the seven contract jurisdictions. Since Animal Services uses dog registration as its method to verify dogs are properly vaccinated, City residents face a greater public health and safety risk from unlicensed dogs. First, the County discharges the majority of delinquent accounts for dog licenses without making its best effort to collect or verify residents' compliance with the County Code. Second, the County underutilizes animal points-of-contact, such as kennels,

to ensure residents maintain licensed dogs. Third, Animal Services has not completed sufficient analysis to identify at-risk neighborhoods within its coverage area.

Exhibit 14

Estimated Dog License Compliance by Jurisdiction, Fiscal Year 2008 – Fiscal Year 2010

	City of San Diego			Unincorporated County			Department-wide		
	FY 2008	FY 2009	FY 2010	FY 2008	FY 2009	FY 2010	FY 2008	FY 2009	FY 2010
City Population	1,311,162	1,316,837	1,336,865	465,553	481,216	491,764	2,010,697	2,035,773	2,070,452
Estimated Dog Population (1)	310,464	311,808	316,551	102,545	105,995	108,319	470,249	475,970	484,041
Licensed Dogs at end of FY (2)	79,512	80,290	80,287	41,965	41,404	40,764	142,264	142,778	141,989
License Compliance %	25.61%	25.75%	25.36%	40.92%	39.06%	37.63%	30.25%	30.00%	29.33%

(1) Estimated dog population calculated from formula endorsed by the Humane Society of the United States

(2) The activity reports use the following dates: 7/14/2008, 7/7/2009, and 7/8/2010.

Source: Annual Animal Services Activity Reports; SANDAG Population and Housing Estimates

Over the scope of the audit, more than 20,500 dog licenses expired because residents did not renew dog licenses or update the Department as to the status of their dog (i.e. sold, lost, dead). The County maintains files of current and expired dog licenses for dogs living in the City through its Chameleon database. The County uses this computer system to implement its delinquent account follow-up process. Animal Services sends renewal notices to dog owners six weeks in advance of the license expiring and two delinquency notices one and two months, respectively, after the license expires. License applications sent out with renewal and delinquency notices allow residents to inform Animal Services about the status of their dog. Residents are required to inform Animal Services if they have transferred ownership of their dog.

If the license is not renewed within sixty days, the County Controller’s office discharges the delinquent account. The Controller’s policy is to discharge all Animal Services delinquent accounts under \$200. We should note that no delinquent license account is greater than \$72.⁴ Once an account is discharged, follow-up with the resident essentially stops. Consequently, a resident’s failure to pay essentially results in a free pass.

⁴ The \$200 threshold has been in place since 1992 when the County’s Office of Revenue and Recovery said it is not cost effective enough to pursue collection on accounts under the threshold.

Animal Services can discharge delinquent accounts through the County Controller's office, but it cannot discharge a citation issued for failing to license a dog. Failure to license a dog is punishable by a correctable ticket where the charge is dismissed only when the owner registers the dog or can otherwise prove they do not have to license a dog in San Diego County (i.e. dog died). Animal Services should send such citations to all delinquent accounts with valid addresses. This will require residents to either register their dog and provide proof of vaccination or update Animal Services as to the dog's current status.

Animal points-of-contact across the County could play an important role in increasing license compliance. For example, the County could strengthen its policy for the requirements a resident must meet in order to board their dog at a local kennel. The County Code of Regulatory Ordinances currently requires owners to provide proof of vaccination to the kennel prior to boarding. Vaccinations are important to protecting both the animals boarded at the kennel and the kennel staff who care for them. While requiring owners to show proof of vaccination promotes health and safety, it does not ensure owners comply with dog registration laws and have therefore paid the required registration fees. If the applicable County Code section were made consistent with the licensing regulations, residents would need to display proof of a valid license if they wanted to board their dog at a local kennel. This would encourage more residents to follow the law and improve cost recovery for the City.

Furthermore, Animal Services has not conducted sufficient analysis to identify neighborhoods in which Animal Services may not be making a best effort. Animal Services staff acknowledge areas exist within contract jurisdictions where license and vaccination compliance may be lower and indicated their database systems has the capability to map data. We conducted such an analysis comparing service requests to license activity.

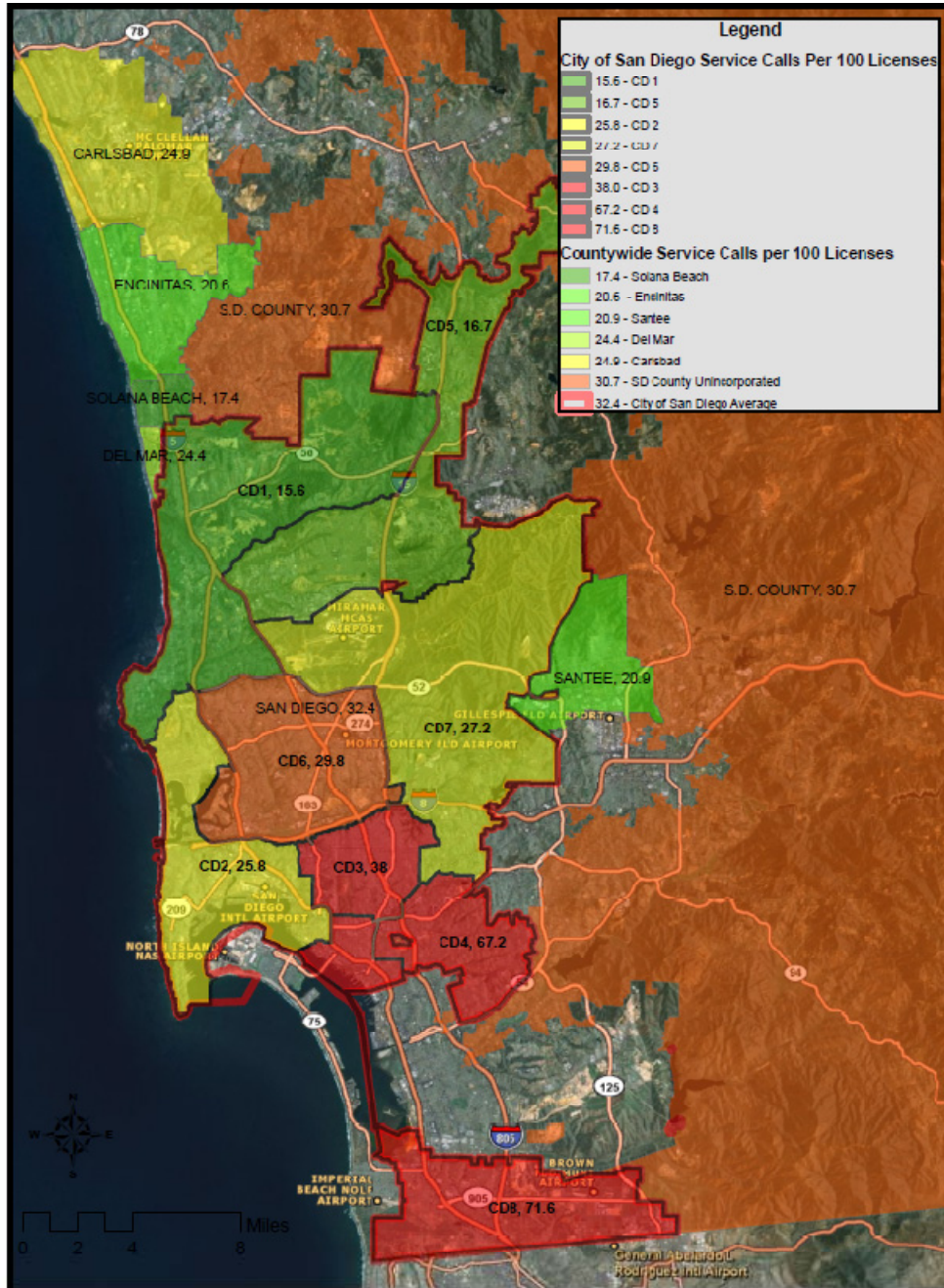
Exhibit 15 shows the results of our analysis by San Diego City Council districts and Animal Services' contract jurisdictions.⁵

Our analysis shows great disparity in the ratio of service requests to license activity among San Diego City Council districts. It appears the areas of the City with the greatest animal-related public health risk are in southeast quadrant of the City. Furthermore, when these neighborhoods are compared against the other contract jurisdictions, our analysis suggests these neighborhoods may be the most at-risk communities in all of Animal Services' coverage area. By not conducting this type of analysis, Animal Services cannot quantitatively identify these at-risk areas, explain why these areas are at a greater risk than others, and develop appropriate programming to improve public health and compliance within them. Exhibit 15 presents the ratios of service calls to licenses—the higher the number, the more likely the area is at risk.

⁵ Some of the data obtained from Animal Services could not be mapped because the GIS software could not locate the address. The table includes the data the GIS software could locate on the map.

Exhibit 15

Ratio of Service Requests to License Activity by Jurisdiction and San Diego City Council District, Fiscal Year 2008 – Fiscal Year 2010



Data Sources: ESRI, SanGIS, SANDAG, County of San Diego Animal Services

As shown in Exhibit 15, the two areas in the southern quadrant of the City experience far higher ratios of service requests to number of recorded licenses. Currently, Animal Services does not track these statistics, attempt to ascertain what these mean, nor develop programming to address the wide disparity between these areas and other areas in the Animal Services coverage area.

In the past, Animal Services could hold low-cost vaccination and microchipping clinics in various City neighborhoods until 2005 when a preliminary City Attorney review indicated the clinics were not a permissible use of dedicated park land. As a result, Animal Services has fewer opportunities to promote public health through vaccinations and conduct responsible pet ownership outreach in the community. Without being able to hold clinics in neighborhood parks and recreation centers, Animal Services is restricted to holding low-cost clinics within the City at the Central Shelter in Linda Vista.

Animal Services offers these low-cost clinics at all three shelters on Thursday afternoons from 1:00pm to 3:00pm, but these times are inconvenient for the majority of the working population. Once a month, Animal Services has clinics on a weekend with some of those clinics occurring at the Central Shelter in San Diego. Exhibit 16 shows that from January 1, 2008 through December 31, 2010, Animal Services held ten times more Thursday clinics than weekend clinics but only vaccinated and registered about three times as many dogs. This suggests the weekend public clinics are better attended and lead to more vaccinations than the weekday clinics held at the shelters.

Exhibit 16

Licenses, Vaccinations, and Microchips Sold at Thursday Low-Cost Clinics

Calendar Year	Location	Number of Clinics	Licenses Sold Per Clinic	Vaccinations Sold Per Clinic	Microchips Sold Per Clinic
2008	Shelter	150	16.7	13.2	8.1
2009	Shelter	153	17.5	12.8	5.1
2010	Shelter	150	20.8	17.4	9.2
Total		453			

Calendar Year	Location	Number of Clinics	Licenses Sold Per Clinic	Vaccinations Sold Per Clinic	Microchips Sold Per Clinic
2008	Public	13	64.7	56.1	20.4
2009	Public	13	85.2	67.2	20.5
2010	Public	12	72.0	59.9	21.7
Total		38			

Source: San Diego County Department of Animal Services

Weekend clinics could be more attractive for a few simple logistical reasons. First, the clinics often take place in an area of the community (in North and South County regions) that is more accessible to the people seeking access to the low-cost services. Second, more pet owners are available to bring their dog to a clinic not held during typical working hours.

While many factors may contribute to the City's lower license compliance rate relative to other contract jurisdictions, strengthening delinquent license account follow-up procedures, updating the kenneling policy, and holding weekend clinics throughout the City could help vaccinate and license a significant number of dogs. The Humane Society of the United States' formula predicts 200,000 dogs in the City are unlicensed and presumably unvaccinated. Not taking additional steps to improve the City's dog vaccination and license rate increases the risk of human and animal exposure to a rabid dog.

To strengthen license follow-up procedures and encourage dog vaccination and registration:

Recommendation #4

The City Administration should request that Animal Services send “failure to license” citations to each resident who does not inform Animal Services of a change in the status of their dog or does not submit a renewal license application following the second delinquency notice. (Priority 3)

Recommendation #5

The City Administration should request the County to identify opportunities to increase dog license compliance through other points of animal contact. (Priority 3)

To more effectively use low-cost vaccination clinics to promote public health and responsible pet ownership:

Recommendation #6

The Police Department should request the City Attorney’s Office to provide a formal opinion on the permissibility of low-cost clinics on City recreation lands. (Priority 3)

Recommendation #7

If clinics are permissible on City recreation lands, the Police Department should communicate the availability of that public space to County Animal Services. (Priority 3)

The City’s General Fund subsidizes cost increases in Animal Services

We found that City staff do not consistently evaluate the City’s Animal Services cost and the appropriateness of its user fees. As a result, the City’s gross cost for Animal Services increases each year without matching or proportional increases in revenue. More specifically, the City’s costs increased 21.8 percent from fiscal year 2008 through fiscal year 2011, but expected revenue only increased 3.2 percent.

The County Board of Supervisors approves all changes to Animal Services fees, and the Board approved the most recent fee resolution on September 26, 2006. Despite large increases in the cost of Animal Services since 2006, the County has not

assessed the appropriateness of Animal Services' user fees. According to the Animal Services Agreement, the City has the option to set its own fees but defers to the County's fee schedule. Neither the City nor County have explicit cost recovery goals related to revenue brought in through license and shelter services fees, as is required under the City's General Fund User Fee Policy.

Animal Services fees are considered Category II fees under the policy because the fees are set to recover less than 100 percent of the cost. The policy requires the responsible department to provide rationale for setting fees below 100 percent cost recovery. The fees must be updated annually by a standard index (i.e. Consumer Price Index) or changed upon the recommendation of the responsible department. The fees should be adjusted to maintain the cost recovery level from year to year. In March 2011, the City Administration conducted a cost and fee study on expenses and revenue associated with the Animal Services Agreement. The report included a number of recommendations that would decrease the City's net cost. However, the Administration has not made any fee adjustments or requested the County Board of Supervisors adjust Animal Services fees.

The lack of a fee adjustment allows costs to increase without corresponding increases in revenue. When costs increase and revenue remains stagnant, a greater share of the payment liability is subsidized by the City's General Fund. Matching fees to cost can improve cost recovery. Animal Services staff claim license fees are extremely elastic and that any increase in fees would result in a decrease in total revenue; however Animal Services could not provide any economic analysis to support this assertion.

Not setting a cost recovery goal had a significant impact on the annual net cost of the agreement. Had the City decided to set fees to maintain the fiscal year 2008 cost recovery rate through fiscal year 2010, it would have received more than \$380,000 in additional cost recovery revenue.

To improve cost recovery through compliance with the City's General Fund User Fee Policy:

Recommendation #8

The City Administration should review the Animal Services Fee Schedule and negotiate changes to bring the Agreement in compliance with the General Fund User Fee Policy. This should include:

- Providing analysis and justification for not recovering 100% of the Animal Services Agreement,
- Establishing a standardized and regular fee review to ensure fees match applicable costs,
- Increasing cost recovery targets each year to maintain or improve the cost recovery rate, and
- Providing analysis and justification for not increasing revenue when costs increase. (Priority 3)

**City Oversight of the
Animal Services
Agreement Can be
Enhanced**

We found City contract management staff review a number of reports and documents throughout the year allowing them to track Animal Services performance by response rate, animal disposition, and licenses sold. Revenue reports allow the contract cities to see if they are on track to reach their respective contractual revenue estimates. The Annual Joint Operational and Financial Plan shows the basis for the coming year's Animal Services costs. Additionally, the contract administrators from each of the contract cities meet quarterly to discuss various issues and initiatives related to animal services.

City contract management staff conduct only cursory analysis related to the Animal Services Agreement. They review a limited number of performance and financial reports provided by Animal Services and do not request other information pertinent to execution of the agreement. As a result, the City is unable to work with the County to take a strategic approach in mitigating risk to improve public health and ensure cost recovery from the Animal Services program.

From a contractual perspective, Animal Services is not neglecting to report information to the City. However, the City does not engage in comprehensive contract management. The City's contract management staff perform cursory reviews to verify the information in the Animal Services-provided reports. City staff are unable to verify revenue figures are accurate or understand the extent to which Animal Services staff discharge City residents' accounts and waive or reduce fees that would contribute to cost recovery for the City. Since the County reconciles the City's account each year with actual revenue collected, City staff need to be able to verify revenue generated from license and shelter activity. Given the contract costs over \$9 million, the City should conduct more in-depth analysis of Animal Services activity.

Historically, City contract management staff relied on the Audit Division of the Department of the Auditor and Comptroller to complete biannual revenue and account reconciliation audits as their mechanism for review. Following City Charter changes in July 2008, the City Comptroller ceased to conduct this review. To date, the Police Department has not conducted such a review as part of their regular contract oversight procedure. According to the Police Department, the most recent biannual review was released in March 2003.

More in-depth review requires deeper analysis of the information already provided and requesting additional information from Animal Services. This additional analysis will equip contract management staff with the data they need to make strategic decisions about how to improve public health and cost recovery revenue.

To enhance City contract oversight of the Animal Services Agreement:

Recommendation #9

The Police Department should instruct contract management staff to conduct more in-depth analysis related to Animal Services' performance, including:

- conducting testing to verify the County is accurately reconciling the City's revenue account on the second quarter bill,
- working with the County to verify the annual license and shelter revenue figures,
- requesting reports on the number and value of fee waivers/adjustments granted by Animal Services staff, and
- requesting reports on the number and value of accounts sent to the County Auditor and Controller for discharge. (Priority 3)

Finding 3: The City Should Evaluate Policy Options to Enhance Public Safety Regarding Feline Activity

We found that unvaccinated cats pose a significant health risk to residents and other pets in the City. Neither City nor County animal-related regulations require cats be properly vaccinated and registered to ensure against the spread of rabies. As a result, the current Animal Services Agreement does not maximize public health and safety. The Agreement also passes the cost of providing Animal Services to cats on to dog owners and City residents. With over 373,000 cats in the City⁶, Animal Services and the City have an opportunity to better protect the public and reduce taxpayer and General Fund subsidy for the costs of Animal Services.

According to the American Veterinary Medical Association (AVMA), the percentage of rabid dogs in the United States decreased by 19.4% from 2007 to 2008. In the same period, the percentage of rabid cats increased by 12.2%. Since 1992, cats are the most commonly reported rabid domestic animal; today, cases of rabies in domestic cats are four times more common than in domestic dogs. Additionally, cats are the leading domestic animal source of human exposure to rabies. The County's Veterinary Public Health Specialist stated cats are also more likely than dogs to interact with bats, the leading carrier of rabies in San Diego County. Moreover, the Specialist said terrestrial rabies is present in Mexico and fewer animals are properly vaccinated there. Given the City's proximity to the border with Mexico, this condition increases the threat of cat rabies in the City. Despite these risks, the City and County do not require the proper vaccination of cats within the City.

Not vaccinating and registering cats also reduces the equity of who bears the burden of paying for Animal Services. Animal Services operates a full service animal shelter that provides services to both cats and dogs, but only dog owners pay a license fee. Animal Services collects fees for services to both

⁶ This figure is an estimate based on the formula used by the Humane Society of the United States.

dogs and cats, but these fees make up a small portion of cost recovery relative to licenses. The remainder of the Animal Services budget is paid for through general fund taxpayer dollars. The result is that dog owners and general tax payers subsidize what would otherwise be the cat owners' cost.

A number of well respected national organizations that advocate for exemplary animal care and/or sound public management believe licensing cats is important. The Humane Society of the United States and the International City/County Managers considers the licensing and vaccination of both cats and dogs the foundation of any animal control ordinance.⁷ The AVMA recommends the licensing and vaccination of both cats and dogs to protect the human and animal populations against the spread of rabies.⁸ The County Veterinarian recommends all cats be vaccinated against rabies as does the National Association of State Public Health Veterinarians. Beyond government agencies, numerous private businesses require cats have a rabies vaccination before they will allow the owner to board the cat at their establishment. According to several private kennels, they have this policy to protect their staff and other animals in their care. Additionally, the International City/County Managers Association (ICMA) supports cat registration stating it ensures cat owners shoulder some of the financial responsibility for the costs associated with animal care and control programs.

By not requiring the vaccination of cats against rabies, there is a greater risk of rabies spreading among the animal population and to humans due to the close proximity of domestic cats to wild animals and humans. Moreover, not registering cats increases the difficulty of locating their owners and returning them to their homes if they are loose. This, in turn, can contribute to an increase in the number of animals euthanized by Animal Services.

⁷ The Humane Society of the United States published the *Guide to Cat Law: A Guide for Legislators and Humane Advocates* in 2002. The International City/County Managers Association published *Animal Control Management: A Guide for Local Governments* in 2001.

⁸ The American Veterinary Medical Association published its revised "Model Dog and Cat Control Ordinance" in June 2005. It is available online at http://www.avma.org/issues/policy/dog_cat_control.asp.

From the City’s cost perspective, not registering cats places the burden of paying for the City’s liability unfairly on dog owners and the general tax payer. Cat registration fees would play an important role in increasing the equity in who pays the bill for Animal Services. Furthermore, the City’s annual net cost would decrease since cat registration fees would improve the City’s cost recovery rate. In fact, had just five percent of cats been registered from fiscal year 2008 through fiscal year 2010, the City’s general taxpayer subsidy for Animal Services due to cats would have been reduced by more than \$530,000. Exhibit 17 shows the annual breakdown of cost recovery revenue.

Exhibit 17

Estimated Additional Revenue from Cat Licensing

	FY 2008	FY 2009	FY 2010
Population	1,311,162	1,316,837	1,336,865
Estimated Cat Population (1)	366,189	367,774	373,367
City license compliance rate	5%	5%	5%
Licensed Cats	18,309	18,389	18,668
New Licenses Sold (2)	10,067	9,692	10,298
Average revenue per license(3)	\$ 25.51	\$ 25.01	\$ 24.90
Additional City costs (4)	35,472	36,537	37,633
Additional cost recovery revenue	221,362	205,851	218,778
	Net Revenue		\$ 536,350
(1) Calculated from formula endorsed by the Humane Society of the United States			
(2) New licenses matches proportion of dog licenses sold to total licensed dogs in the City			
(3) Average revenue per license is a weighted average based on the quantity of each license type purchased.			
(4) Additional City costs are the City's proportion of the salary (\$37,570) and benefits (\$22,860) for an additional Animal Services Representative. Annual inflation is 3%.			

Source: San Diego County Department of Animal Services

To promote public health and safety while reducing the public subsidy and increasing cost recovery for the City:

Recommendation #10

The City Administration should consider requiring cats residing in the City be properly vaccinated against rabies and negotiate with the County for the addition of cat registration services to the portfolio of services provided to the City. The City Administration should bring before the appropriate City Council committee reports and actions to implement these vaccination and registration requirements. (Priority 3)

Conclusion

The quality of the provision of animal services to the City has important impacts on both the overall quality of life in the City and the City's financial condition. It is important for the City to work with the County to promote the proper vaccination of dogs and cats, so as to take greater steps in reducing the risk of rabies in both the animal and human populations. Given the current economic instability and the City's projected budget deficits, it is important for the City to ensure taxpayer dollars are appropriately expended.

Unfavorable contractual provisions mean the City continues to subsidize animal services provided to the Unincorporated County. Not only does the City pay for services it does not receive, but its net cost increases each year without equally significant increases in cost recovery placing additional burden on the City's non-pet owning residents. Weaknesses exist within both the City's oversight of the contract and County's dog licensing policies.

Our audit has identified those weaknesses, both contractually and operationally. Based on our findings, we recommend that City staff take the necessary steps to improve public health throughout the City, improve the equity in how the provision of animal services is paid for, and increase overall cost recovery for the City. More specifically, we recommend City staff work with County officials to renegotiate important provisions of the Animal Services Agreement that drive the City's annual cost, require the vaccination and registration of cats throughout the City, and develop a more robust contract management framework that will promote strategic decision-making.

Quantifying the City's potential savings from improved management and implementation of the Animal Services Agreement demonstrates the City can reduce its General Fund liability. Looking forward, the City stands to save

approximately \$3.2 million over the next five years through changes to the cost allocation formula and account reconciliation process. Adding in the financial benefit of licensing cats, cat owners would assume an additional \$0.9 million of the City's general fund liability. All together, our recommendations generate a total savings of more than \$4.1 million, all else equal, while also having the residents who benefit directly from the services shoulder a more equitable share of the cost. If the fees are reviewed and adjusted to maintain a targeted cost recovery percentage, the City could see even greater reductions in its annual net cost. When these financial benefits are combined with increases in public health and safety, our recommendations have important implications for increasing quality of life and improving City operations.

Recommendations

To end the City's subsidy for services to the Unincorporated County:

1. The City Administration should enter into negotiations with the County for a new cost allocation formula that reflects the City's actual use of services. (Priority 3)

To recover the City funds kept by the County over the previous three fiscal years:

2. The Police Department should obtain an opinion from the City Attorney's Office regarding the feasibility of recovering surplus payments and seek full reimbursement from the County for the City's overpayment during fiscal years 2008 through 2010. (Priority 3)

To ensure all contract jurisdictions make payments, including the County's payment for the Unincorporated County, that are in line with the contractually specified formula:

3. The City Administration should renegotiate the Animal Services Agreement to ensure the Agreement clearly delineates the allocation of actual savings based on the same formula to allocate cost to contract jurisdictions. (Priority 3)

To strengthen license follow-up procedures and encourage dog vaccination and registration:

4. The City Administration should request that Animal Services send "failure to license" citations to each resident who does not inform Animal Services of a change in the status of their dog or does not submit a renewal license application following the second delinquency notice. (Priority 3)
5. The City Administration should request the County to identify opportunities to increase dog license compliance through other points of animal contact. (Priority 3)

To more effectively use low-cost vaccination clinics to promote public health and responsible pet ownership:

6. The Police Department should request the City Attorney's Office to provide a formal opinion on the permissibility of low-cost clinics on City recreation lands. (Priority 3)
7. If clinics are permissible on City recreation lands, the Police Department should communicate the availability of that public space to County Animal Services. (Priority 3)

To improve cost recovery through compliance with the City's General Fund User Fee Policy:

8. The City Administration should review the Animal Services Agreement and negotiate changes to bring the Agreement into compliance with the General Fund User Fee Policy. This should include:
 - Providing analysis and justification for not recovering 100% of the Animal Services Agreement, (Priority 3)
 - Establishing a standardized and regular fee review to ensure fees match applicable costs, (Priority 3)
 - Increasing cost recovery targets each year to maintain or improve the cost recovery rate, and (Priority 3)
 - Providing analysis and justification for not increasing revenue when costs increase. (Priority 3)

To enhance City contract oversight of the Animal Services Agreement:

9. The Police Department should instruct contract management staff to conduct more in-depth analysis related to Animal Services' performance, including:
 - conducting testing to verify the County is accurately reconciling the City's revenue account on the second quarter bill, (Priority 3)
 - working with the County to verify the annual license and shelter revenue figures, (Priority 3)
 - requesting reports on the number and value of fee waivers/adjustments granted by Animal Services staff, and (Priority 3)

- requesting reports on the number and value of accounts sent to the County Auditor and Controller for discharge. (Priority 3)

To promote public health and safety while reducing the public subsidy and increasing cost recovery for the City:

10. The City Administration should consider requiring cats residing in the City be properly vaccinated against rabies and negotiate with the County for the addition of cat registration services to the portfolio of services provided to the City. The City Administration should bring before the appropriate City Council committee reports and actions to implement these vaccination and registration requirements. (Priority 3)

Appendix A: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ⁹	Description ¹⁰	Implementation Action ¹¹
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

⁹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

¹⁰ For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

¹¹ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.



**THE CITY OF SAN DIEGO
M E M O R A N D U M**

DATE: June 23, 2011

TO: Eduardo Luna - City Auditor

FROM: William Lansdowne, Chief of Police via, Wally Hill, Assistant Chief Operating Officer

SUBJECT: Management Responses to City Auditor's Audit of the Animal Services Agreement between the City of San Diego and the County of San Diego

This memorandum is in response to the City Auditor's Audit of the Animal Services Agreement (Agreement) between the City of San Diego and the County of San Diego. The Audit provided 10 recommendations directed to the San Diego Police Department and the City Administration. The San Diego Police Department (Department) has provided responses to the recommendations directed toward the Department and has deferred to the City Administration for all other responses.

The Department would like to take this opportunity to thank the City Auditor's staff for conducting an audit of the Agreement. The Department would also like to thank the San Diego County Department of Animal Services for their participation with this audit and for their continued dedication to the citizens of the City of San Diego.

The Department does not diminish the importance of cost benefit when receiving services via contract. The City of San Diego and the County of San Diego have had an on-going relationship in the area of animal services for over three decades and the Department has served as the contract administrator for most of that time. Recognizing there are always opportunities to review and adjust to meet the needs of our citizens, the Department is committed to making changes when possible and to continue looking for alternative solutions.

POLICE DEPARTMENT RESPONSES

Recommendation 2:

The Department should obtain an opinion from the City Attorney's Office regarding the feasibility of recovering surplus payments and seek full reimbursement from the County for the City's overpayment during fiscal years 2008 through 2010. (Priority 3)

RESPONSE: Agree. The Department will request an opinion from the City Attorney's Office regarding the alleged surplus payments by August 31, 2011. If the City Attorney

opines in favor of the City, the collection of said payments will be referred to the City Treasurer's office.

Recommendation 6:

The Department should request the City Attorney's Office to provide a formal opinion on the permissibility of low-cost clinics on City recreation lands. (Priority 3)

RESPONSE: Agree. The Department will send a written request to the City Attorney by August 31, 2011.

Recommendation 7

If clinics are permissible on City recreation lands, the Department should communicate the availability of that public space to County Animal Services. (Priority 3)

RESPONSE: Agree. Pending determination by the City Attorney the Department will communicate options to County Animal Services. The Department can not commit internal resources or any other City department resources to assist in any possible efforts. It will rely on County Animal Services to determine the feasibility and cost benefit of expanding or adjusting any vaccination programs.

Recommendation 9

The Department should instruct contract management staff to conduct more in depth analysis related to Animal Services' performance, including:

- conducting testing to verify the County is accurately reconciling the City's revenue account on the second quarter bill, (Priority 3)
- working with the County to verify the annual license and shelter revenue figures, (Priority 3)
- requesting reports on the number and value of fee waivers/adjustments granted by DAS staff (Priority 3), and;
- requesting reports on the number and value of accounts sent to the County Auditor and Controller for discharge. (Priority 3)

RESPONSE: Agree. Previously, these functions were the responsibility of the City Auditor and Comptroller's Office. Subsequent to the City's reorganization the Department was not made aware that the responsibility of verification and reconciling of said revenue was no longer being performed. The Department recognizes the importance of verification of revenue and will train appropriate staff to reconcile revenue received from the County by January 1, 2012. Additionally, the Department will request the information referenced in Recommendation 9 and forward to respective City departments as necessary.

CITY ADMINISTRATION RESPONSE

Recommendation 1

The City Administration should enter into negotiations with the County for a new cost allocation formula that reflects the City's actual use of services. (Priority 3)

RESPONSE: Partially Agree. By August 31, 2011, the City Administration will request a meeting with the County of San Diego to discuss the feasibility and willingness to determine a different cost allocation. However, absent the County's willingness to participate, the City is contractually obligated to abide by the existing allocation formula for a minimum of one year. At which time the City could notify the County that it no longer wishes to continue with the agreement.

Recommendation 3

The City Administration should renegotiate the Animal Services Agreement to ensure the Agreement clearly delineates the allocation of actual savings based on the same formula to allocate cost to contract jurisdictions. (Priority 3)

RESPONSE: See Response to Recommendation 1. It should be noted that this could also enjoin the City to be liable for losses which have previously been borne by the County such as during the Wildfires in 2005 and 2007.

Recommendation 4

The City Administration should instruct Animal Services to send "failure to license" citations to each resident who does not inform Animal Services of a change in the status of their dog or does not submit a renewal license application following the second delinquency notice. (Priority 3)

RESPONSE: Partially agree. By August 31, 2011, the City Administration will request Animal Services to send "failure to license" citations as prescribed. However, if such request presents additional cost to the City without offsetting increase in revenue, the City will need to determine if it is generally beneficial.

Recommendation 5

The City Administration should request the County identify opportunities to increase dog license compliance through other points of animal contact. (Priority 3)

RESPONSE: Agree. The Department will send a written request to the County to consider the feasibility of increasing dog license compliance by August 31, 2011.

Recommendation 8

The City Administration should review the Animal Services Agreement and negotiate changes to bring the Agreement into compliance with the General Fund User Fee Policy. This should include:

- Providing analysis and justification for not recovering 100% of the Animal Services Agreement, (Priority 3)
- Establishing a standardized and regular fee review to ensure fees match applicable costs, (Priority 3)
- Increasing cost recovery targets each year to maintain or improve the cost recovery rate, (Priority 3)
- Providing analysis and justification for not increasing revenue when costs increase. (Priority 3)

RESPONSE: Agree. The City's Business Office has conducted preliminary analysis of Animal Services Fees and will be analyzing the practicality and legality of adjusting City of San Diego fees in correlation to County fees. There is a noted impact that the County's other contract cities may be required to complete similar actions and as such may impact the City's ability to effect changes to the fees. Additionally, the City Attorney's office will be required to determine any restrictions presented under Proposition 26. The Business Office analysis is tentatively scheduled to be completed by October 31, 2011.

Recommendation 10

The City Administration should consider requiring cats residing in the City be properly vaccinated against rabies and negotiate with the County for the addition of cat registration services to the portfolio of services provided to the City. The City Administration should bring before the appropriate City Council committee reports and actions to implement these vaccination and registration requirements. (Priority 3)

RESPONSE: Disagree. The City does not have the resources to fund additional registration services and cannot be assured it could be done on a cost recoverable basis.