

COUNCIL AGENDA: 10-27-09
ITEM: 3.8

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Lee Price, MMC
City Clerk

SUBJECT: AUDIT OF ANIMAL CARE
AND SERVICES

DATE: 10-23-09

RECOMMENDATION

As recommended by the Public Safety, Finance and Strategic Support Committee on October 15, 2009 and outlined in the attached memo previously submitted to the Public Safety, Finance and Strategic Support Committee, accept the audit of Animal Care and Services.



Office of the City Auditor

**Report to the City Council
City of San José**

**AUDIT OF ANIMAL CARE AND
SERVICES**

**Increasing the Percent of Animals Licensed
Would Improve ACS' Cost Recovery and
Better Ensure Public Health**

**ACS Should Establish Cost-Recovery Goals
to Minimize Its General Fund Subsidy of at
Least \$4.3 Million**

**ACS Field Officers Oftentimes Cannot
Respond to All San José Calls**

**The City Has Collected Less Than 30
Percent of Animal Care Administrative
Citation Amounts Owed**

**Report 09-09
October 2009**

October 7, 2009

Honorable Mayor and Members
of the City Council
200 East Santa Clara Street
San Jose, CA 95113

Transmitted herewith is the report *Audit of Animal Care and Services*. This report is in accordance with City Charter Section 805. An Executive Summary is presented on the blue pages in the front of this report. The City Administration's response is shown on the yellow pages before Appendix A.

This report will be presented at the October 15, 2009 meeting of the *Public Safety, Finance & Strategic Support Committee*. If you need any additional information, please let me know. The City Auditor's staff members who participated in the preparation of this report are Steve Hendrickson, Gitanjali Mandrekar and Carolyn Huynh.

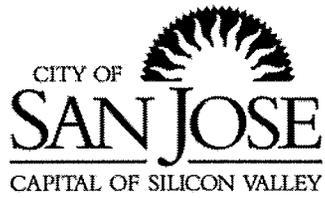
Respectfully submitted,

Sharon W. Erickson

Sharon W. Erickson
City Auditor

finaltr
SE:bh

cc: Peter Jensen
Debra Figone
Deanna Santana
Jon Cicirelli
Scott Johnson
Dottie Barney
David McPherson
Rosa Tsongtaarii



Office of the City Auditor

**Report to the City Council
City of San José**

**AUDIT OF ANIMAL CARE AND
SERVICES**

Table of Contents

Executive Summary	i
Introduction	1
Background	1
Audit Scope and Methodology	6
Finding I	
Increasing the Percent of Animals Licensed Would Improve ACS' Cost Recovery and Better Ensure Public Health	7
Currently Only About 11.5 Percent of San José Dogs and Cats Are Licensed	7
ACS Wants to Increase Licensing Rates Because Licensing Ensures That Owners Have Vaccinated Their Pet Against Rabies.....	9
Increasing the Percent of Animals Licensed Would Help Improve ACS' Cost Recovery	10
ACS Should Implement On-Line Licensing and Encourage Veterinarians to Enter Vaccination Information Online.....	12
ACS Needs to Improve Its Efforts to Ensure Full Compliance with the City's Municipal Code Requirements	14
Other Regional Jurisdictions Outsource Some Licensing Services to Third Party Vendors.....	14
Finding II	
ACS Should Establish Cost-Recovery Goals to Minimize Its General Fund Subsidy of at Least \$4.3 Million.....	17
ACS Has a General Fund Subsidy of at Least \$4.3 Million	17
ACS Has Cost Recovery Targets for Various Fee Services	18
ACS' Goal Is to Increase Its Cost-Recovery; However, It Has Not Set Program-Wide Targets	19
The City Should Establish a Separate Fund to Account for ACS Activities	20
Animal Care Citations Revenue Should Be Included In Cost-Recovery Calculations.....	22
ACS Should Improve Cost-Recovery of Outside Contracts.....	22
Finding III	
ACS Field Officers Oftentimes Cannot Respond to All San José Calls	25
ACS Standard Response Times	25
San José Priority 3 Calls Are Backlogged	26
Contract Cities Receive a Higher Level of Response	27

San José Has a Significantly Higher Number of Calls Than Some Other
Jurisdictions 28

Other Cities Frequently Respond to Low Priority Calls by Way of Letter..... 29

Finding IV

**The City Has Collected Less Than 30 Percent Of Animal Care Administrative
Citation Amounts Owed 31**

The Finance Department Has Not Routinely Sent Delinquent Accounts to
Collections 31

Expired Licenses Routinely Turn Into Administrative Citations..... 31

Administration’s Response..... 33

Appendix A

Definition Of Priority 1, 2, And 3 Audit Recommendations A-1

Table of Exhibits

Exhibit 1: Animal Care Center	1
Exhibit 2: 2009-10 ACS Organization Chart	4
Exhibit 3: ACS 2005-06 to 2009-10 Operating Budget	5
Exhibit 4: Estimated Percentage of the City of San José’s Licensed Dog/Cat Population	8
Exhibit 5: Estimate of Other Jurisdictions’ Dog & Cat Population	8
Exhibit 6: San José Dog and Cat Licenses Issued from 2003-04 to 2008-09	9
Exhibit 7: Licensing Revenues from 2003-04 to 2008-09	10
Exhibit 9: Licensing Process	12
Exhibit 10: 2008-09 General Fund Subsidy	18
Exhibit 11: Cost-Recovery for Contract Cities for 2008-09	23
Exhibit 12: Percent of Priority 3 Calls Backlogged to Completed June-December 2008	27
Exhibit 13: June 2008–December 2008 Response Times of San José and Contracting Cities Including Monthly Average of Backlogged Calls	28
Exhibit 14: Comparable Jurisdictions’ Field Call Services	29

Executive Summary

In accordance with the City Auditor's 2009-10 Audit Workplan, we have completed an Audit of the Animal Care & Services Division (ACS) of the General Services Department (GSD). 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. We limited our review to the work specified in this report. The Office of the City Auditor thanks staff from the ACS, Finance Department (Finance) and the City Attorney's Office (CAO) for their time, information and cooperation during the audit process.

Finding I Increasing the Percent of Animals Licensed Would Improve ACS' Cost Recovery and Better Ensure Public Health

Licensing ensures that animals are adequately vaccinated, thus ensuring the health and safety of its residents and is mandated by the State of California. We found that:

- Currently only about 11.5 percent of San José dogs and cats are licensed;
- San José's licensing rates are lower than several other jurisdictions;
- ACS wants to increase licensing rates because licensing ensures that owners have vaccinated their pets against rabies;
- Increasing the percent of animals licensed would help improve ACS' cost recovery;
- ACS should implement on-line licensing and allow veterinarians to enter vaccination information online;
- ACS needs to improve its efforts to ensure full compliance with the City's municipal code requirements; and
- Other regional jurisdictions outsource some licensing services to third party vendors.

In our opinion, ACS should increase its public education outreach efforts in order to increase animals licensed and vaccinated. Also, ACS should take steps, to increase the compliance rate to the City's ordinance on rabies vaccination

reporting and either enhance its current database to include online licensing and veterinarian reporting or outsource its licensing services to a vendor that offers those services.

RECOMMENDATIONS

We recommend ACS:

- Recommendation #1** **Increase its public education outreach efforts in order to increase animals licensed and vaccinated. (Priority 2)**
- Recommendation #2** **Either enhance its current database to include online licensing and veterinarian reporting or outsource its licensing services to a vendor that offers those services. (Priority 3)**
- Recommendation #3** **Improve efforts, such as additional follow-up with non-compliant veterinarians, to increase the compliance rate to the City's ordinance on rabies vaccination reporting. (Priority 2)**

Finding II ACS Should Establish Cost-Recovery Goals to Minimize Its General Fund Subsidy of at Least \$4.3 Million

ACS program only recovers about 38 percent of its cost. This translates to a dependence on the General Fund of at least \$4.3 million. Further, ACS relies on surveying other jurisdictions to determine certain types of fees instead of relying on a cost-analysis. ACS' goal is to increase its cost-recovery, but has not set specific targets. Having such goals and targets would facilitate ACS in setting fees and determining its threshold for recovering costs. We should also note that a significant portion of ACS's fee revenue is from pet licensing (about 60 percent) but as shown in Finding I, nearly 90 percent of San José's cats and dogs are still unlicensed. In addition to increasing the number of animals licensed, we recommend the City establish a separate fund to account for ACS activities, include animal citation revenue in cost recovery calculations to offset the cost of enforcement, and improve the cost recovery of outside Animal Services contracts.

RECOMMENDATIONS

We recommend that ACS:

- Recommendation #4** Determine the entire cost of the program, including an accurate overhead rate and number of FTEs while calculating its cost recovery ratio. (Priority 2)
- Recommendation #5**
- Develop a policy to determine ACS program wide cost-recovery goals; and
 - Annually review and update a program wide cost recovery (similar to that provided by the City Auditor's Office) prior to setting fees. (Priority 3)
- Recommendation #6** Determine the feasibility of establishing a separate fund to account for all ACS costs. (Priority 2)
- Recommendation #7** Should count all monies collected from animal care citations as ACS revenues for purposes of ACS's calculation of its cost-recovery. (Priority 3)
- Recommendation #8**
- Continue to review and document contract city costs for a pre-determined time period; and
 - Explore the possibility of either increasing the reimbursement rates or reducing the level of service to the contract cities if the costs continue to be higher than the reimbursements. (Priority 2)

Finding III ACS Field Officers Oftentimes Cannot Respond to All San José Calls

ACS field service responds to complaints and requests for field services from residents of San José and contracted cities residents. We found that:

- ACS has standard response times;
- San José's Priority 3 calls are backlogged;
- Contract cities receive a higher level of response;
- San José has a significantly higher number of calls than some comparable cities; and
- Other cities frequently respond to low priority calls by letter.

ACS is in the process of developing a policy to respond to some of the Priority 3 calls by letter. In our opinion, ACS should review and determine the staffing impact of responding to Priority 3 calls by letter or phone, and develop formal policies and procedures on responding to calls for service including calls that are handled by letter or phone.

RECOMMENDATION

We recommend that ACS:

- Recommendation #9**
- Review and determine the staffing impact of responding to Priority 3 calls by letter or phone; and
 - Develop formal policies and procedures on responding to calls for service, including calls that are handled by letter or phone. (Priority 3)

Finding IV The City Has Collected Less Than 30 Percent of Animal Care Administrative Citation Amounts Owed

As of April 2009, the City had collected only \$763,168 out of a total of \$2,794,976 billed since 1999, or less than 30 percent of animal care administrative citations, including penalties and interest. In our opinion, Finance should routinely send delinquent accounts to a collections agency for enforcement. Further, ACS should reconsider whether expired licenses should routinely turn into administrative citations.

RECOMMENDATIONS

We recommend that Finance:

- Recommendation #10** Routinely send delinquent accounts to a collections agency for enforcement. (Priority 2)

We recommend that ACS:

- Recommendation #11** Reconsider whether expired licenses should routinely turn into administrative citations, and/or whether to suspend collection efforts for expired licenses. (Priority 3)

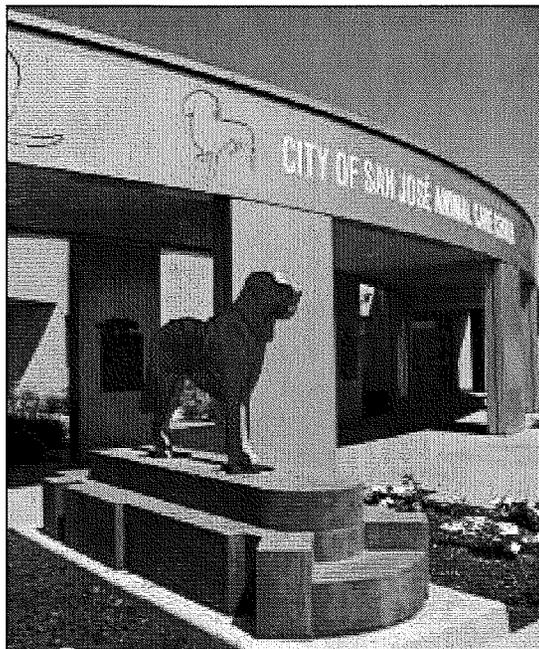
Introduction

In accordance with the City Auditor's 2009-10 Audit Workplan, we have completed an Audit of the Animal Care & Services Division (ACS) of the General Services Department (GSD). 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. We limited our review to the work specified in this report. The Office of the City Auditor thanks staff from the ACS, Finance Department (Finance) and the City Attorney's Office (CAO) for their time, information and cooperation during the audit process.

Background

The Animal Care and Services Program (ACS) is part of the General Services Department (GSD). Its mission is to *"promote and protect the health, safety, and welfare of animals and people in the City of San Jose."* ACS was transferred to GSD from the Parks, Recreation and Neighborhood Services Department (PRNS) in 2008-09. The Animal Care Center is a 50,000 sq ft facility located on 2750 Monterey Highway, San José built for a total cost of about \$20 million including cost of land.

Exhibit 1: Animal Care Center



The shelter is open to the public Tuesday-Saturday from 11am to 7pm and Sundays from 11 am to 5 pm.

Animal Care & Services

The Animal Care and Services Division (ACS) was established in July 2001 to satisfy State of California (State) mandates concerning rabies control, increased holding periods for stray animals, and the enforcement of anti-cruelty laws and anti-animal fighting laws. Prior to July 2001, the Humane Society of Santa Clara Valley (now Silicon Valley) provided all animal control services and animal sheltering for the City of San José. In 1998, new state mandates and a philosophical change caused the Humane Society to discontinue providing these services for City residents. The City began providing animal control services in 2001 and began construction of a new animal care facility. In 2004, upon completion of San José's new animal care facility, the City assumed the remaining animal services including the sheltering of animals, immunization clinics, and public education programs that were being provided by the Humane Society under contract.

In addition to serving San José residents, ACS provides services to the cities of Cupertino, Los Gatos, Milpitas and Saratoga under contracts in which the City of San José is to provide comprehensive animal care services to these cities. The City of Milpitas contracted with San José starting in 2001. Milpitas has a three year contract which was renewed in 2009 and is in place until 2012.

ACS is divided into four distinct service areas. These service areas are 1) shelter services, 2) field services, 3) spay and neuter services, and 4) licensing services. ACS charges fees for providing some of these services. These services are described below.

Shelter Services: ACS provides numerous services at the shelter on Monterey Highway. ACS works to reunite lost pets with their families, euthanize suffering animals as well as those that are neither reclaimed nor adopted, place behaviorally sound animals in responsible homes, create incentives for the public to have pets sterilized, and place animals with local animal rescue groups. Stray and homeless animals are maintained in the facility. The shelter houses dogs and puppies, cats and kittens, rabbits, chickens, reptiles, birds, and other small mammals. ACS offers adoption services and has also partnered with about 40 animal rescue organizations to focus on animals that need "above standard" care that the City does not have the time or the resources to provide. Rescue groups find new homes for these animals through their own adoption programs. ACS currently has two veterinarians to provide medical services for the shelter animals.

Field Services: Animal Service Officers (ASOs) respond to calls for service. These calls can range from aggressive dogs, injured animals and police assists to loose animals, dead animals and calls that do not pose immediate threats to public health and safety. ASOs also assist the San José Police Department (SJPD) in responding to calls that involve animal cruelty or aggressive animals. According to the ACS, the field services unit responds to about 50 different types of calls. The top five types of services calls are: 1) dead animal pickup, 2) confined stray/wild animals, 3) investigations, 4) patrols, and 5) stray roaming animals. ACS has dispatchers and ASOs on duty seven days a week from 7 AM to 11 PM. Shifts are staggered so a majority of the officers and dispatchers are on duty during high volume call times. The calls are divided into three types according to the nature of the call:

- Priority 1 calls are emergency calls requiring immediate response. These are generally calls for dangerous, injured or sick animals.
- Priority 2 calls are regarded as urgent but not immediately life threatening animal related requests for assistance.
- Priority 3 calls are generally calls related to non-emergency activity and non-critically sick or injured animals. They also include calls such as dead animal pick up or animals running at large.

After hour Priority 1 calls (between 11 PM and 7 AM) are handled by an “on-call” ASO. ACS also provides field services to the cities of Cupertino, Los Gatos, Milpitas, and Saratoga. Including San José, these cities are divided into five beats and an ASO is assigned the same beat for a period of time. The majority of calls for service are from San José residents.

Spay & Neuter: ACS operates a low cost spay and neuter clinic at the shelter. The clinic opened for service in March 2006 and provides surgeries four days a week and is primarily focused on cats. The clinic also provides low cost spay and neuter surgeries to cat rescue groups that are registered with the ACS. The surgeries range in cost from \$15 to \$60 depending on whether the service is provided to residents or non-residents. Currently due to the large volume of surgeries the clinic is only providing low-cost cat spays and neuters to San José and contract city residents and rescue groups.

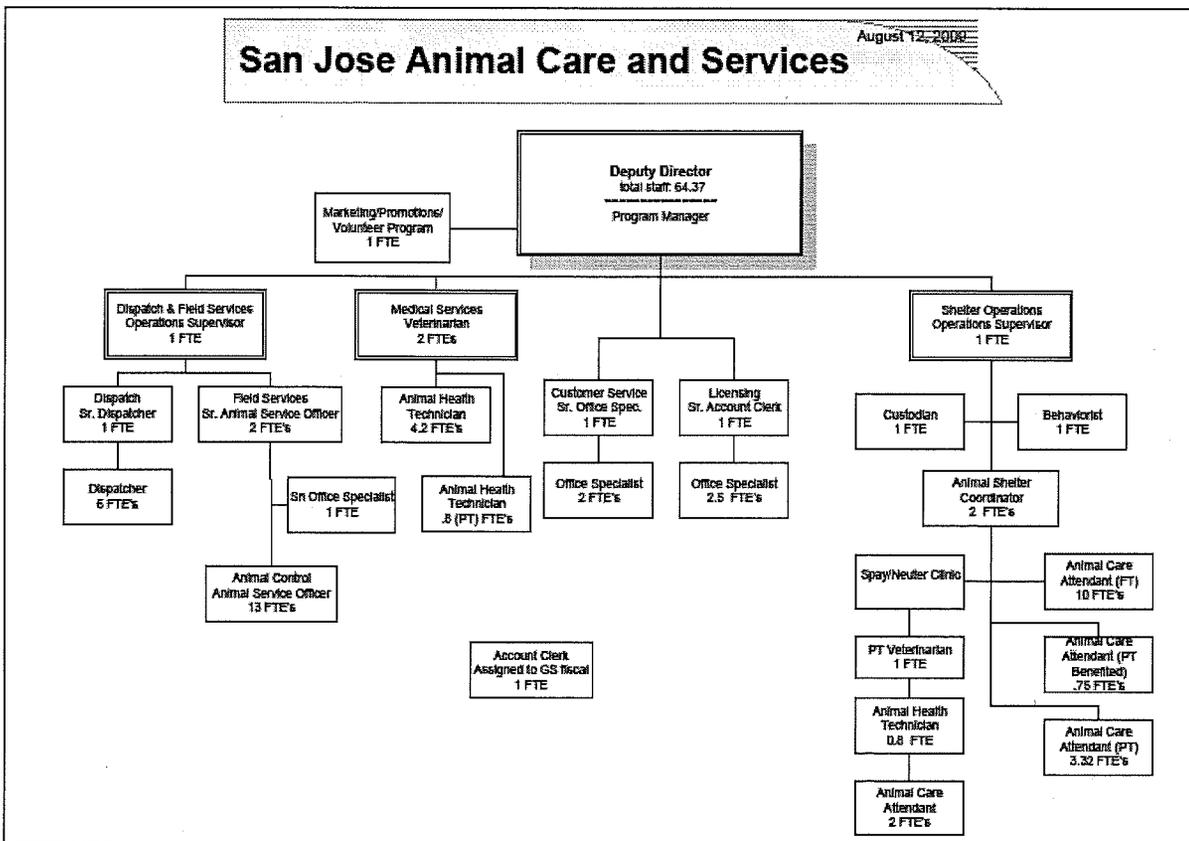
Licensing: The California Department of Health Services mandates, through Title 17 of the Health Code, that all rabies endemic areas provide for a rabies control program. Since 1988, all local health jurisdictions in California have been declared as rabies endemic areas due to the persistence of the disease in native wildlife populations. Rabies control is achieved through dog and cat immunization and licensing; stray animal control; animal bite reporting; quarantine of biting animals; investigations and animal isolation; and public education. According to City Ordinance

7.20.520, every person who owns a dog or cat over the age of four months is required to license their animal. Dog and cat owners who fail to comply are subject to penalties. In order for an animal to be licensed the owner has to provide proof of current rabies vaccinations. The first rabies vaccination is good for one year, the second vaccination given one year later and subsequent (or booster) vaccinations are valid for three years. The vaccinations are provided at a veterinarian's or vaccine clinics. The State requires that counties and cities protect their citizens from contracting rabies and mandates that every owned dog be given a rabies vaccination. The City requires its residents to license cats. Licensing is a city's mechanism to ensure that their residents have complied with the State mandates by requiring that the residents supply proof of rabies vaccinations.

Staffing

Currently ACS has 64.37 FTEs.¹ These include 13 Animal Service Officers, 10 Animal Care Attendants and two veterinarians. The organization chart below illustrates ACS staffing in detail.

Exhibit 2: 2009-10 ACS Organization Chart



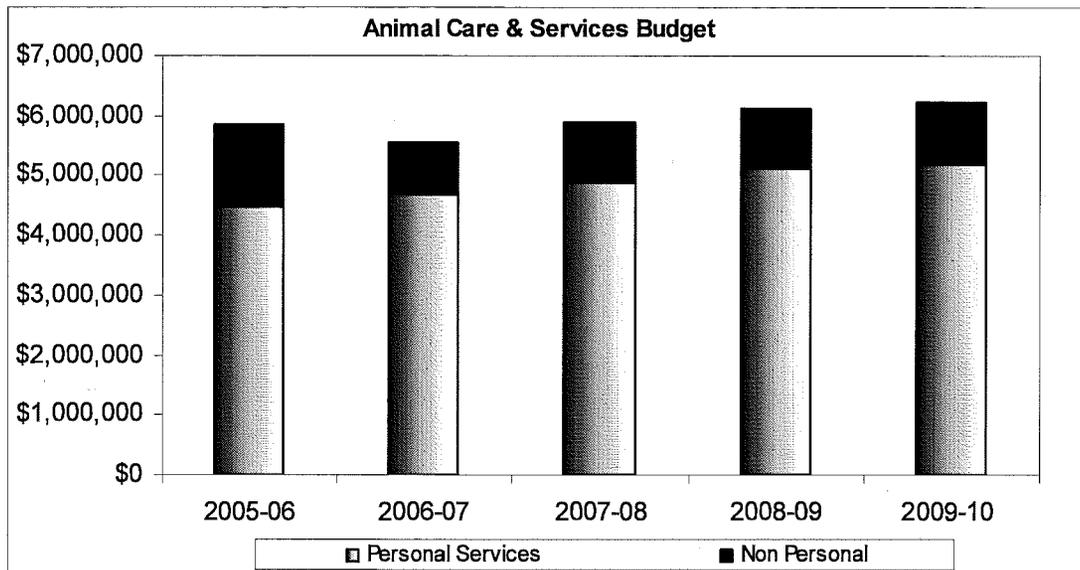
Source: ACS.

¹ For FY 2009-2010, ACS has cut one ASO position and one office specialist position.

Budget

The 2009-10 proposed operating budget for the Animal Care and Services program is about \$6.21 million. ACS is General Fund funded and receives about \$751,000 in reimbursements from its contracts with four neighboring cities. ACS also receives about \$1.7 million in fee revenues.

Exhibit 3: ACS 2005-06 to 2009-10 Operating Budget



Source: ACS.

ACS Receives Reimbursements from Four Contract Cities

ACS has contracts for providing animal care services with the cities of Los Gatos, Cupertino, Saratoga and Milpitas. In return, these cities provide an annual reimbursement to the City. These reimbursements from the cities of Los Gatos, Saratoga and Cupertino are based on the number of animal services provided. The City of Milpitas pays an annual flat fee. The contracts for Los Gatos, Cupertino and Saratoga are valid until 2024, whereas Milpitas has a three year contract valid until 2012.

ACS Uses Chameleon for Its Case Management and Database System

The ACS uses an integrated shelter software case management system from HLP Inc, called Chameleon. The database is used in dispatch, licensing and tracking animals at the shelter. The ACS vehicles have this software system installed in their vehicles. This gives Animal Service Officers (ASOs) access to call data, and the ability to enter their response notes directly in the database. Chameleon also provides the shelter the ability to post information and pictures of lost adoptable animals at the shelter.

ACS Outsources Some Animal Services Through Various Contracts

The City provides limited wild animal services through the Wildlife Center of Silicon Valley (WCSV) as a convenience for residents. WCSV provides rehabilitation of wild animals, education classes to the community, education and advice to individuals, and consultation on major wildlife nuisance issues. The City, however, does not provide mitigation, control, or extermination of healthy and nuisance wildlife. The County Vector Control Department, private pest companies, and the State Department of Fish and Game all provide various forms of resources to assist residents with nuisance wildlife.

Other current contracts include San José Tallow (animal disposal – expired but still active), Koefrans (animal disposal), and Hills Science Diet (animal food). Finally, the City of San José contracts on a per animal basis with the Story Road Animal Hospital for after hours emergency service.

Audit Scope and Methodology

The scope of our audit was to review the cost-recovery status of ACS including the cost-recovery of its contracts with the four contracting cities-City of Cupertino (Cupertino), City of Saratoga (Saratoga), City of Milpitas (Milpitas) and Town of Los Gatos (Los Gatos). In order to accomplish this we reviewed Chameleon data for FY 2008-09 including completed calls for service, spays and neuters provided, shelter animals served, and licensing. We performed limited testing regarding the ACS' data input procedures and reliability of the Chameleon data. Our testing indicated the data sources available were sufficient to conduct our analysis. We also reviewed ACS's actual expenditures obtained from the City's Financial Management System (FMS) for 2008-09. Further, we compared this to revenue information ACS provided us. We reviewed current contracts and agreements that the ACS has with the four contracting cities and other agencies. In addition, we reviewed and analyzed ACS' call response times, and licensing rates and compared this to other jurisdictions. We reviewed ACS' and Finance's internal process for handling administrative citations. Furthermore, we reviewed the City's Municipal Code and various applicable City ordinances, State of California statutes and various internal processes. We also interviewed ACS staff, staff from the Finance department, and the City Attorney's Office.

In order to benchmark and review other city best practices we interviewed staff from animal care shelters from the following cities-City of Santa Clara, City of Palo Alto, City of Morgan Hill, City of Seattle, County of Los Angeles, City and County of San Francisco and Contra Costa County, Monterey County, San Mateo County, and staff from the Humane Society Silicon Valley located in Milpitas.

Finding I Increasing the Percent of Animals Licensed Would Improve ACS' Cost Recovery and Better Ensure Public Health

Licensing ensures that animals are adequately vaccinated, thus ensuring the health and safety of its residents and is mandated by the State of California. We found that:

- Currently only about 11.5 percent of San José dogs and cats are licensed;
- San José's licensing rates are lower than several other jurisdictions;
- ACS wants to increase licensing rates because licensing ensures that owners have vaccinated their pets against rabies;
- Increasing the percent of animals licensed would help improve ACS' cost recovery;
- ACS should implement on-line licensing and allow veterinarians to enter vaccination information online;
- ACS needs to improve its efforts to ensure full compliance with the City's municipal code requirements; and
- Other regional jurisdictions outsource some licensing services to third party vendors.

In our opinion, ACS should increase its public education outreach efforts in order to increase animals licensed and vaccinated. Also, ACS should take steps, to increase the compliance rate to the City's ordinance on rabies vaccination reporting and either enhance its current database to include online licensing and veterinarian reporting or outsource its licensing services to a vendor that offers those services.

Currently Only About 11.5 Percent of San José Dogs and Cats Are Licensed

Based on the formula provided by the ICMA's *Animal Control Management: A Guide for Local Governments*, the total pet population for San José is about 395,000. As shown in Exhibit 4 below, there are only about 45,000 current licenses. This means that only about 11.5 percent of San José's pet population is licensed – including an estimated 17.7 percent of dogs and an estimated 5.7 percent of cats.

Exhibit 4: Estimated Percentage of the City of San José's Licensed Dog/Cat Population

	Number of Active Licenses	Estimated Dog/Cat Population	Estimated Percentage of Dog/Cat Population Licensed
Dogs	33,738	190,258	17.7%
Cats	11,730	204,893	5.7%
Total	45,468	395,151	11.5%

Source: Auditor calculation based on ICMA formula.²

San José's Licensing Rates Are Lower Than Several Other Jurisdictions

As shown in Exhibit 5 below, animal licensing rates range from a high of about 33.5 percent for Morgan Hill and a low of about 7.5 percent for the City and County of San Francisco.

Exhibit 5: Estimate of Other Jurisdictions' Dog & Cat Population³

Jurisdiction	Number of Active Licenses	Estimated Number of Households	Dog and/or Cat License Required?	Estimated Number of Dogs or Cats	Estimated Percentage of Dogs or Dogs & Cats Licensed
1 Morgan Hill	2,530	11,378	Dogs	7,544	33.5%
2 Santa Clara	8,000	40,665	Dogs	26,961	29.7%
3 Palo Alto	4,000	25,486	Dogs	16,897	23.7%
4 Orange County* Contra Costa	151,380	972,040	Dogs	644,463	23.5%
5 County	50,000	362,362	Dogs	240,246	20.8%
6 San Diego County	141,000	1,041,790	Dogs	690,707	20.4%
7 Seattle	60,000	260,760	Dogs & Cats	359,067	16.7%
8 San Jose	45,470	286,965	Dogs & Cats	395,151	11.5%
9 Oakland	10,000	145,409	Dogs	96,406	10.4%
10 San Francisco	16,000	321,692	Dogs	213,282	7.5%

*Does canvassing

Note: San José, and Seattle require both dog and cat licenses.

² Dog population estimate based on 286,965 households in San Jose, with 39 percent of households owning an average of 1.7 dogs per household (nationwide average) = 190,258 dogs. Cat population estimate based on 286,965 households in San Jose, with 34 percent of households owning an average of 2.1 cats per household = 204,893 cats.

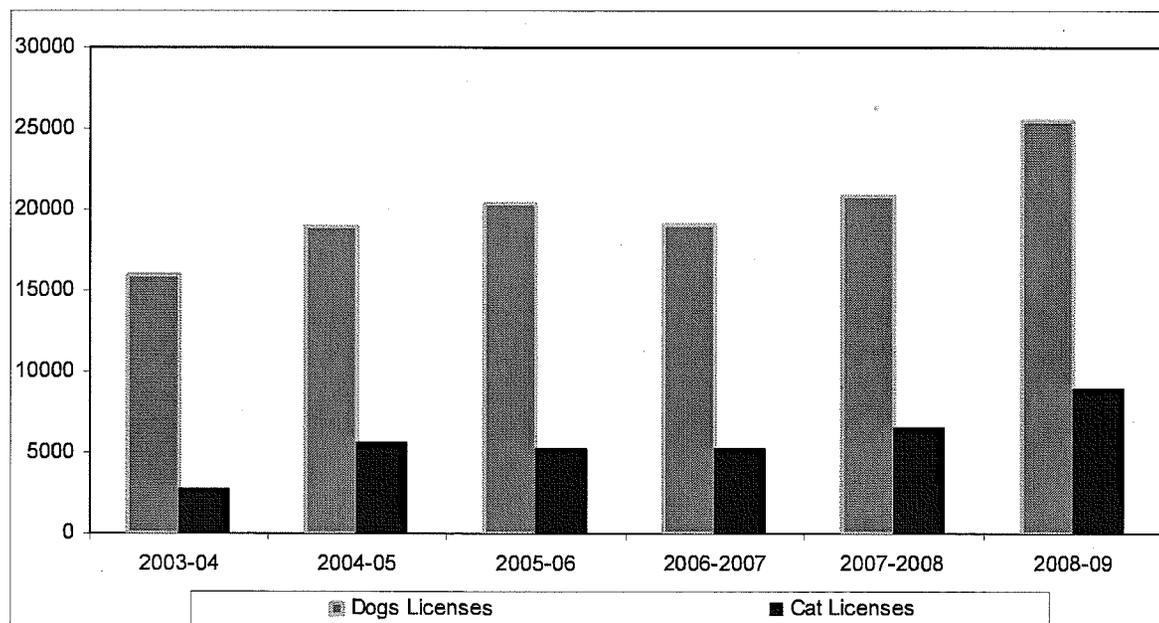
³ Numbers were provided during phone interviews and in some cases may not represent the exact values.

ACS Wants to Increase Licensing Rates Because Licensing Ensures That Owners Have Vaccinated Their Pet Against Rabies

As shown in the table above, San José ranks in the lower third of jurisdictions interviewed. One of ACS’ performance measures is to increase the number of animals licensed annually. Licensing is a public health issue in that it ensures that owners have vaccinated their pet against rabies. In addition, ACS provides other services when an animal has a license such as notifying a pet owner if ACS picks up a lost animal, keeping the animal at the shelter longer than required by the law, dropping off a lost animal at its home if the owner is home and providing free disposal services for dead animals.

According to the City’s budget, the target for 2008-09 was to increase the number of licensed animals by 28 percent, or from 36,598 licenses in 2007-08 to 46,845 licenses in 2008-09.⁴ This increase, from the previous 5 percent target to the new 28 percent target, was due to a change in the Municipal Code requiring veterinarians to provide rabies vaccination information to ACS. At the end of 2008-09, ACS had about 45,470 active licenses in its system – almost reaching their 2009-08 performance target of 46,845. From 2003-04 to 2008-09, there has been an 84 percent increase in licensing rates for San José as shown in Exhibit 6.

Exhibit 6: San José Dog and Cat Licenses Issued from 2003-04 to 2008-09

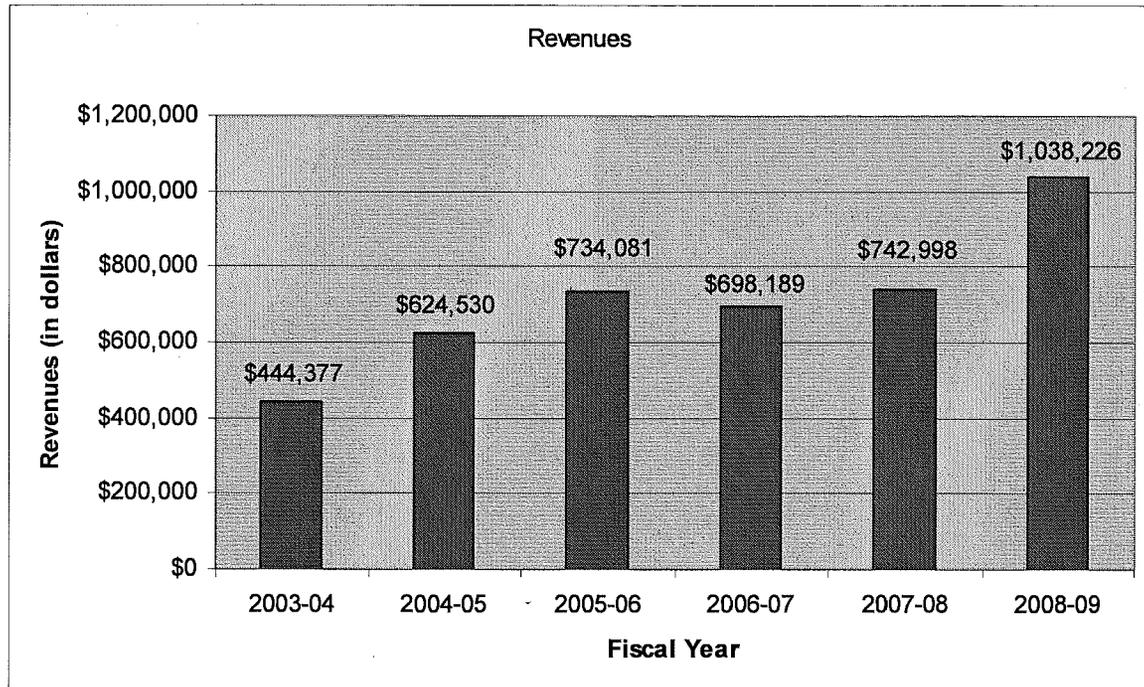


Source: Auditor summary of ACS provided information.

⁴ The licensing performance target includes the number of licenses issued for contract cities.

The number of new licenses issued increased by almost 31 percent in 2004-05. ACS attributes this to its “amnesty program” which enabled residents to get new licenses or renew old licenses without any penalties or fines. ACS attributes the significant increase in licenses issued in 2008-09 to the municipal code change requiring veterinarians to submit vaccination information to the City. Exhibit 7 below shows the corresponding revenues trend from 2003-04 to 2008-09.

Exhibit 7: Licensing Revenues from 2003-04 to 2008-09



Source: ACS.

Increasing the Percent of Animals Licensed Would Help Improve ACS' Cost Recovery

As shown in Finding II, licensing is the largest fee revenue source for ACS. Licensing revenues offset other programs that do not generate as much in revenues, such as low-cost spay and neuter, and ACS field services which in most instances do not result in fees. In addition to addressing public health concerns, increasing the number of animals licensed would improve ACS' cost recovery which, as shown in Finding II, currently stands at about 38 percent. Exhibit 8 shows various scenarios with increased licensing and corresponding potential increases in revenues.

Exhibit 8: Comparison of Additional Revenues with Tiered Amounts of Licensing⁵

Percentage of Dog & Cat Population Licensed	11.5% (Current)	15%	20%	25%
Percentage of Dog & Cat Licenses	45,486	59,273	79,030	98,788
Revenues	\$1,038,226 ⁶	\$2,062,688	\$2,750,251	\$3,437,814
Difference in Revenues from Current		\$1,024,463	\$1,712,026	\$2,399,588

Source: Auditor's estimate of projected revenue.

ACS Should Improve Its Outreach Program to Achieve Its Licensing Goals

Although ACS has a marketing program whose primary focus has been on promoting the shelter and its animals including licensing, vaccinations, and spay & neuter services there is currently no short or long-term outreach strategy towards increasing the number of pet licenses and vaccinations outside of veterinarian reporting. The limited outreach material ACS does provide concerning licensing is in the form of a flyer that is printed on the back of every license application sent out. ACS staff told us that oftentimes residents may not get their animals licensed even though they are vaccinated because they are not aware of the City's licensing requirements.

ACS's goal is to increase outreach efforts. We agree that increasing outreach through education would increase ACS's licensing rates, and could improve ACS' cost recovery. An example of positive results from increasing outreach efforts has been Jefferson County, Kentucky which saw a reduction in the number of complaints as well as number of dogs and cats received from 1991 to 2000. This occurred in the same period that there was an increase in the County's population. The Department of Animal Control and Protection hired a full-time public information officer in 1991, giving up an Animal Control Officer position in exchange. The program reaches thousands of children and adults each year with messages about responsible pet ownership. It includes a pet registration fee differential, strict enforcement, and other elements that have contributed to the progress. The Director of Animal Control and Protection stated, "*I am certain our public information program has also played a significant integral role.*"

⁵ Based on average 2009-2010 license fee of \$34.80 and dog & cat population of 395,151.

⁶ ACS 2008-09 actual licensing revenue.

We recommend that ACS:

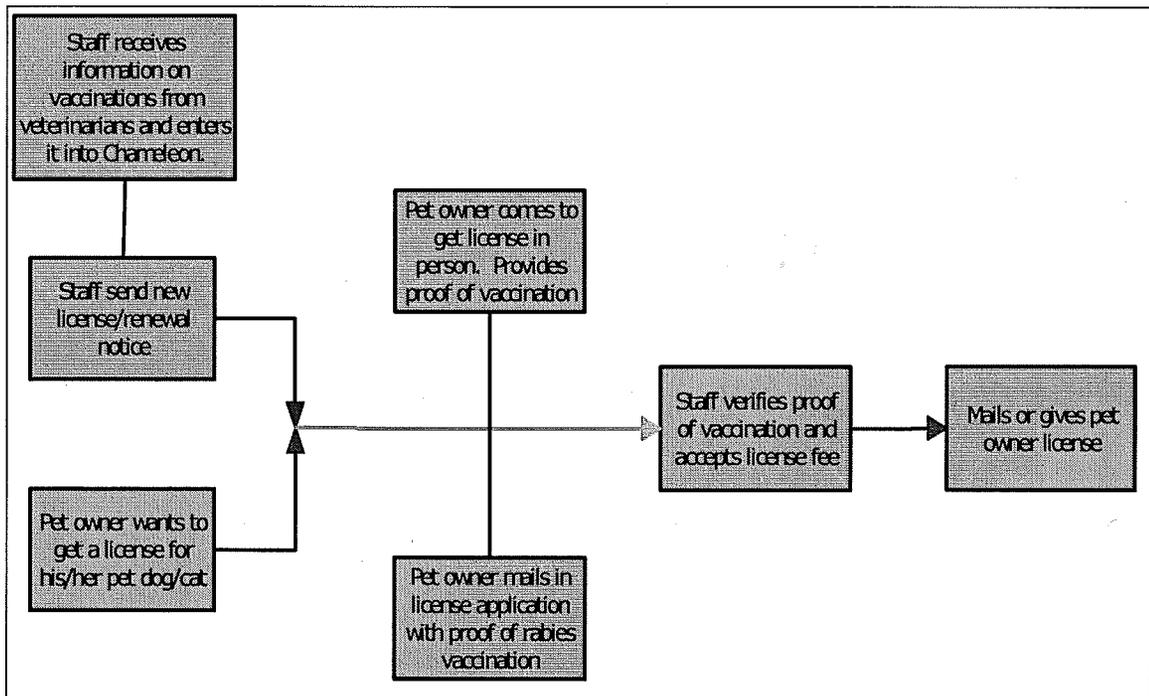
Recommendation #1

Increase its public education outreach efforts in order to increase animals licensed and vaccinated. (Priority 2)

ACS Should Implement On-Line Licensing and Encourage Veterinarians to Enter Vaccination Information Online

Our review of ACS' licensing process found that staff devotes significant staff hours towards traditional methods of handling payments and sending communication via post. Exhibit 9 below illustrates ACS' current process for issuing and renewing licenses.

Exhibit 9: Licensing Process



Source: Auditor summary of ACS process.

ACS' current process is labor intensive and tedious. ACS staff mails out multiple reminders to non-responsive pet owners. They also respond to telephone or in-person queries from residents that have received their applications. Further, ACS is not fully utilizing the web-features offered by its current software vendor. Some of the key features that the Chameleon software offers that ACS does not currently use are:

- Online licensing payments;
- Online donations;
- Online vaccination entry. Here veterinarians can fill out an online form. The data is then sent to the shelter and integrated into Chameleon;
- Email renewal reminders to owners;
- Lost pet owner and finder matching service;
- Online pet reclaim or pet adoption interest notification; and
- Directly inputs complaints about animal issues. Flags as a web complaint.

In our opinion, ACS could further improve its licensing capacity and improve customer service by incorporating additional web-features from its existing vendor. For example, implementing an online licensing payment system would streamline license payment processing and allow for pet owners to proactively apply for a new license or renew licenses.

A 2007 Change In the Municipal Code Required San José Veterinarians to Submit Vaccination Information to the City on a Monthly Basis

City Ordinance requires that all City of San José veterinarians submit vaccination data to the City on a monthly basis. According to section 7.20.510[C] of the San José Municipal Code, *“if the veterinarian who vaccinates the dog or cat is located within the city, the veterinarian must submit a current and valid rabies vaccination certificate to the administrator within thirty (30) days from the date that the dog or cat was vaccinated.* ACS uses this vaccination information submitted by the veterinarians to match to its licensing database in order to verify whether or not the pets are licensed.

ACS Needs to Improve Its Efforts to Ensure Full Compliance with the City's Municipal Code Requirements

Not vaccinating an animal can have significant public health repercussions. Licensing is a way for the City to ensure that all dogs and cats in its jurisdiction are vaccinated and meeting State mandates. The City also has the ability to impose citations and fines on non-compliant veterinarians for not submitting vaccination information to the City. Even though ACS has the authority to issue citations for violation of this ordinance, it has not, as of today, issued any of these citations. ACS reports that from January to June 2009, a monthly average of 26 out of 34, or 77 percent of veterinarians located within San José, reported rabies vaccination information according to requirement stated under the Municipal Code.⁷

We should note that veterinarians submit this information in various formats. Some veterinarians send the copies of the actual vaccination certificates whereas some list out the information in a table format. ACS staff then has to compare each vaccination to information in their database to see if the vaccinated pet has been licensed. Those pet owners that do not have a license get a "new license" letter. Staff has stated that they also typically follow-up with a phone call to non-compliant veterinarians. However, according to ACS, staff currently does not have the time to conduct follow-up beyond the phone call.

In our opinion, developing a streamlined method for veterinarians to report rabies vaccinations to ACS could improve veterinarians' compliance rates although veterinarians who do not respond to ACS's initial follow-up efforts, may still need additional follow-up to ensure full compliance. Finally, online vaccination entry would provide a streamlined method for veterinarians to report rabies vaccinations to ACS, reducing the need for ACS staff to do the data entry.

Other Regional Jurisdictions Outsource Some Licensing Services to Third Party Vendors

ACS staff currently processes and issues licenses by mail or in-person, by sending out renewal notices or expired license notices to those pet owners whose pets are already in their system. In addition, they send out new license letters to those pet owners who are not in the system but whose pets have received vaccination from San José veterinarians. Staff manually processes the responses they receive from pet owners. Payments are received by way of checks or credit cards. Further, staff may have to

⁷ This includes vets who initially did not report vaccination information and required a follow-up call from ACS.

respond to questions regarding the letters that have been sent out. For the letters that receive no responses, staff sends out two additional reminders before ACS issues administrative citations. We estimate that ACS' current administrative cost for processing a license is \$11.75.

According to third party vendors, at least 29 jurisdictions outsource their licensing services. For example, the Chameleon database also offers a comprehensive licensing process called Chameleon Data Processing (CDP). CDP charges a \$10,000 start-up fee⁸ and \$3 to \$5 per license processed, depending on the spectrum of services requested. The CDP service was established in 2008 and is currently providing services to two jurisdictions.

Petdata, another company which provides licensing services, was established in 1995 and is currently serving 27 jurisdictions. Petdata charges a \$1,000 to \$2,500 start-up fee and charges \$3.85 per license processed. Some of the key features offered by these vendors are as follows:

- Processes new licenses & renewals;
- Sends license renewal notices;
- Receives and processes vaccination data from veterinarians;
- Sends tags/receipts for successfully processed licenses;
- Sends correction notices for incomplete licenses;
- Sends daily transaction statements and monthly reports;
- Deposits licensing revenue in bank account;
- Sends list of non-compliant owners to jurisdiction;
- Offers online licensing, provided that all documentation requirements can be met;
- Customizes a website with licensing information and customer service for the residents of the municipality; and
- Provides customer services to residents, veterinarians and shelter staff.

Currently ACS staff processes and renews licenses, sends license renewal notices, receives and processes vaccination data from veterinarians, sends tags/receipts for completed licenses, deposits licensing revenue in the bank, sends multiple notices to non-compliant pet owners and cites pet owners without licenses for non-compliance. Even if ACS were to outsource the bulk of its licensing services, ACS staff will still be conducting some licensing services such as walk-ins, reversing wrongly issued license fines,

⁸ \$5,000 until 12/2009.

etc. If we assume a vendor would only replace 75 percent of ACS' licensing services, the savings could potentially reach about \$270,000. Alternatively, this would free up ACS staff to focus on increasing outreach and public education which could potentially increase the number of licenses and increase ACS' revenues as well as the number of pets vaccinated.

The County of San Mateo currently utilizes Petdata, and has been able to redistribute three staff who were previously handling licenses to other shelter services. The County of Monterey uses CDP and has replaced one FTE who principally handled licenses. It should be noted that both these counties stated that implementation took several months longer than expected.

We recommend that ACS:

Recommendation #2

Either enhance its current database to include online licensing and veterinarian reporting or outsource its licensing services to a vendor that offers those services. (Priority 3)

Recommendation #3

Improve efforts, such as additional follow-up with non-compliant veterinarians, to increase the compliance rate to the City's ordinance on rabies vaccination reporting. (Priority 2)

Finding II ACS Should Establish Cost-Recovery Goals to Minimize Its General Fund Subsidy of at Least \$4.3 Million

ACS program only recovers about 38 percent of its cost. This translates to a dependence on the General Fund of at least \$4.3 million. Further, ACS relies on surveying other jurisdictions to determine certain types of fees instead of relying on a cost-analysis. ACS' goal is to increase its cost-recovery, but has not set specific targets. Having such goals and targets would facilitate ACS in setting fees and determining its threshold for recovering costs. We should also note that a significant portion of ACS's fee revenue is from pet licensing (about 60 percent) but as shown in Finding I, nearly 90 percent of San José's cats and dogs are still unlicensed. In addition to increasing the number of animals licensed, we recommend the City establish a separate fund to account for ACS activities, include animal citation revenue in cost recovery calculations to offset the cost of enforcement, and improve the cost recovery of outside Animal Services contracts.

ACS Has a General Fund Subsidy of at Least \$4.3 Million

Exhibit 10 below shows the fee revenue received for each service and compares it to the total program cost including the annual reimbursement received from the contract cities as revenues. This does not include citywide overhead costs.

Exhibit 10: 2008-09 General Fund Subsidy

Service	Fee Revenue	Fee Revenue Received	Actual Cost of Service	Total General Fund Subsidy	Total Cost Recovery Percentage
Field Services					
	Revenue from contracting cities	\$187,844.00			
	Administrative citations	\$100,713.97			
	Total	\$288,557.97	\$2,670,781.19	-\$2,382,223.22	11%
Shelter Services					
	Board and Impound Fees	\$178,679.42			
	Permits	\$17,019.00			
	Bite Quarantine	\$16,133.40			
	Owner Surrender	\$15,870.00			
	Disposal Euthanasia	\$15,275.00			
	Medical Services	\$13,032.39			
	Adoptions	\$284,705.50			
	Miscellaneous Revenue	\$26,194.35			
	Reclaim Fee	\$32,205.00			
	Revenue from contracting cities	\$187,844.00			
	Total	\$786,958.06	\$3,261,459.22	-\$2,474,501.16	24%
Spay & Neuter					
	Spay & Neuter	\$103,213.08			
	Revenue from contracting cities	\$187,844.00			
	Total	\$291,057.08	\$421,870.99	-\$130,813.91	69%
Licensing					
	Licensing	\$1,038,226.34			
	Revenue from contracting cities	\$187,844.00			
	Total	\$1,226,070.34	\$491,901.73	\$734,168.61	249%
Total		\$2,592,643.45	\$6,846,013.12	-\$4,253,369.67	38%

Source: Auditor summary of ACS data.

ACS Has Cost Recovery Targets for Various Fee Services

According to the 2009-10 Fees And Charges Report, ACS reported that its Category I fee actual cost-recovery ratio was 78.9 percent and the Category II fee actual cost-recovery ratio was 88.7 percent. Category I fees are those fees that should be cost-recovery and Category II fees are those fees that may be less than or more than cost-recovery. Some permit fees such as animal facility permits, and dangerous animal permits are Category I fees. Examples of Category II fees are board and impound fees, adoption fees, spay and neuter fees, license fees, etc. Most of the fee

revenue in the table above is Category II fees. ACS calculates its annual cost-recovery ratio in the Fees and Charges report for its Category I and Category II fees.

However, we found that this analysis accounted for only about 14 FTEs. According to the ACS's Program Manager's estimates, it should use about 51 FTEs to determine its actual cost-recovery ratio, since there are 51 applicable FTEs that work for ACS.⁹ Therefore, even the limited cost-recovery analysis that ACS does, underestimates the actual cost of the program.

Our review of ACS' cost-recovery calculation also found that ACS was using an incorrect overhead rate. The Finance Department provides the overhead rate calculation to departments. The 109 percent overhead rate that ACS used to calculate its cost-recovery in the 2009-10 Fees And Charges Report is the GSD overhead rate which is also applied across all of GSD's divisions. According to the Finance Accounting Division Manager in charge of determining the citywide overhead rate, ACS should have been using an overhead rate of about 65 percent and not the 109 percent that it had previously used.

Furthermore, we found that ACS has primarily relied on surveying other jurisdictions to determine how it sets its fees. In our opinion, determining the entire cost of the program, including an accurate overhead rate, would provide ACS with valuable information not only for purposes of setting the fees, but also in setting accurate contract costs for the four contracting cities.

We recommend that ACS:

Recommendation #4

Determine the entire cost of the program, including an accurate overhead rate and number of FTEs while calculating its cost recovery ratio. (Priority 2)

ACS' Goal Is to Increase Its Cost-Recovery; However, It Has Not Set Program-Wide Targets

As mentioned above, we found that ACS does not have program-wide cost recovery targets. According to the ACS Program Manager, ACS' goal is to increase its cost-recovery on an annual basis, however it has not set targets

⁹ According to ACS, 51 of the total 64.37 FTEs in ACS work on fee-based programs.

for how much of its total cost that ACS intends to recover. As shown in Exhibit 10, ACS' program-wide cost recovery ratio was about 38 percent without overhead. We estimate the program-wide cost recovery ratio was about 27 percent when citywide overhead is included.

The Government Finance Officers Association (GFOA) recommends calculating the full cost of providing a service in order to establish a basis for setting a fee. Moreover, the GFOA recommends reviewing and updating fees based on the impact of increased costs, the adequacy of coverage of costs, and current competitive rates. Similarly, the International City Management Association recommends specific steps for calculating user fees, including estimating the cost of direct labor, calculating capital costs, determining and comparing direct and indirect costs, and calculating the total unit cost.

According to City policy, fees shall be set to cover 100 percent of the cost of service delivery, unless such amount prevents residents from obtaining an essential service. Fees or service charges should not be established to generate money in excess of the cost of providing services. Fees may be less than 100 percent if Council determines that other factors (e.g., market forces, competitive position, etc.) need to be recognized. According to the Department, it would not be advisable to raise the fees beyond the threshold where people would be discouraged to get their animals licensed, spayed and neutered, pay to reclaim their own animal, or adopt a new one from the shelter.

We recommend that ACS:

Recommendation #5

- **Develop a policy to determine ACS program wide cost-recovery goals; and**
- **Annually review and update a program wide cost recovery (similar to that provided by the City Auditor's Office) prior to setting fees. (Priority 3)**

The City Should Establish a Separate Fund to Account for ACS Activities

ACS activities serve the general public at large and charge fees for those activities. Some of the fee based activities that ACS provides include:

- Animal adoptions;
- Spay/neuter clinic;
- Shot clinics (low cost, rabies, microchips, etc); and

- Nuisance wildlife/cat issues – private trapping companies will remove these animals and bring animals to ACS.

As shown earlier, ACS requires a large subsidy from the General Fund, however, according to the GSD Director they intend to work on reducing ACS' General Fund dependence by focusing on increasing its licensing revenues.

Advantages of a Separate Fund

In order to determine a program's cost-recovery, it is important to fully account for all its costs. A separate fund gives a department that ability. In our opinion, the advantage of being in a separate fund is the ability to monitor progress of the entire program. For example, we found that the City's Development Fee program which includes the Planning Fee Program, the Building Fee Program as well as Fire and Public Works Fee programs, conducts an annual cost-recovery study in which it compares budgeted costs to actual revenue. The costs covered include all areas within the Development Fee program, which include personal costs, non-personal costs, overhead, lease space, etc. as well as IT staff which work directly for the fee program. Finally, Planning and Building revenues are kept in separate appropriations and funds depending on the source. The program tracks actual revenues and budgeted costs very closely, and reports the status each month for both Planning and Building.

Limitations of Having a Separate Enterprise Type Fund

An enterprise fund is a separate fund generally used where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Enterprise activities generally charge fees to the users or beneficiaries of the service; and theoretically, the fee is set high enough to cover most or all of the costs of providing the service, although this is not universally true. Even though having a separate enterprise fund can help a program track its overall costs, an enterprise fund may not be appropriate when a program cannot fully fund its activities through user fees. According to the ACS Deputy Director, even though some of the activities of the ACS are "business type" activities, most of their activities are government-mandated which ACS enforces. Because of the benefits of accounting for its activities separately, we recommend ACS should determine the feasibility of establishing a separate fund, although probably not an enterprise fund.

We recommend that ACS:

Recommendation #6

Determine the feasibility of establishing a separate fund to account for all ACS costs. (Priority 2)

Animal Care Citations Revenue Should Be Included In Cost-Recovery Calculations

As shown in Finding IV, ACS staff currently devotes a significant amount of resources towards citation activity. Generally, administrative citations are issued after two reminders that ACS sends. The citations are issued for expired licenses and other violations. The revenue collected from these administrative citations, regardless of whether it is ACS or another department, is categorized as fines and forfeitures and this revenue goes back to the General Fund. ACS does not count this revenue as income, even though these citations originate out of ACS and staff spend a significant amount of time on this activity. In our opinion, ACS staff should include the citation revenue as ACS revenue at least for purposes of determining the extent this revenue offsets the support to ACS from the General Fund.

We recommend that ACS:

Recommendation #7

Should count all monies collected from animal care citations as ACS revenues for purposes of ACS's calculation of its cost-recovery. (Priority 3)

ACS Should Improve Cost-Recovery of Outside Contracts

As mentioned above, ACS provides animal care and services to four cities besides San José. These are: Cupertino, Saratoga, Los Gatos and Milpitas. According to the ACS Deputy Director, at the time contracts were negotiated with the West Valley cities of Los Gatos, Cupertino, and Saratoga, the cities requested and the City agreed to provide 100 percent coverage for all of its field calls. This included 3 Animal Service Officers, 1 Animal Health Technician, 1 Office Specialist, 0.5 Veterinarian, 2 Part Time Kennel Attendants, and other non-personal and capital contributions. Further, the three cities also agreed to make a \$1.1 million capital contribution for building the ACS facility.

We found that calculating the cost by unit of service, the contracts for one of these cities underestimates the City's cost of providing service because it did not include citywide overhead in its calculations. The table below shows the cost-recovery status of the four contract cities where we have included the citywide overhead percentage of 64.82 percent.

Exhibit 11: Cost-Recovery for Contract Cities for 2008-09

	2008-09 Contract	Cost with Overhead*	Difference	Exceeds Contract Cost?
Cupertino	\$184,868.00	\$184,366.23	\$501.77	No
Los Gatos	\$180,667.00	\$169,575.95	\$11,091.05	No
Saratoga	\$170,112.00	\$121,377.05	\$48,734.95	No
Milpitas	\$215,729.00	\$369,894.82	\$(154,165.82)	Yes
	\$751,376.00	\$845,214.06	\$(93,838.06)	Yes

*Does not include the annual depreciation of the ACS facility.
Source: Auditor analysis.

As the exhibit above shows, ACS underestimated the cost of providing service (including overhead) to the four contract cities by about \$94,000¹⁰. Further, as shown in Finding III, these four cities also get a higher level of service than San José residents in terms of response times to field calls. We should note that the above exhibit only shows the contract city costs for 2008-09. In our opinion, ACS should continue to review and document the costs for a pre-determined time period such as three years in order to get a better understanding of these costs. Further, in our opinion, if the costs for providing these services are higher than the amounts reimbursed by the cities, ACS should explore the possibility of either increasing the reimbursement rates or reducing the level of service to these cities.

We recommend that ACS:

Recommendation #8

- Continue to review and document contract city costs for a pre-determined time period; and
- Explore the possibility of either increasing the reimbursement rates or reducing the level of service to the contract cities if the costs continue to be higher than the reimbursements. (Priority 2)

¹⁰ Using 2008-09 numbers.

This page was intentionally left blank

Finding III ACS Field Officers Oftentimes Cannot Respond to All San José Calls

ACS field service responds to complaints and requests for field services from residents of San José and contracted cities residents. We found that:

- ACS has standard response times;
- San José's Priority 3 calls are backlogged;
- Contract cities receive a higher level of response;
- San José has a significantly higher number of calls than some comparable cities; and
- Other cities frequently respond to low priority calls by letter.

ACS is in the process of developing a policy to respond to some of the Priority 3 calls by letter. In our opinion, ACS should review and determine the staffing impact of responding to Priority 3 calls by letter or phone, and develop formal policies and procedures on responding to calls for service including calls that are handled by letter or phone.

ACS Standard Response Times

ACS calls are categorized into three types:

- **Priority 1** (these calls include responses to emergency, police assist, dangerous animal, and critically sick or injured animal calls for assistance): For all cities served, the response time is supposed to be one hour or less from the time the call for service is received by staff to the time that personnel arrive on the scene.
- **Priority 2** (pick up animals that were running at large and that are now confined and calls that are urgent, but not considered emergencies and include confined animals, animals in traps, agency assists, and bite reports): For the contracted cities, the response time is supposed to be two hours or less¹¹ from the time the call for service is received to the time personnel arrive on the scene during the hours 7am-7pm. San José has a suggested response time of two hours or less.
- **Priority 3** (response to calls relating to non-emergency activity, non-critically injured or sick animals, quarantine calls, animals

¹¹ The response time is six hours or less for Milpitas.

running at large, animals causing a nuisance and pick up of dead animals): For the contracted cities the response time is four hours or less¹² from the time the call for service is received to the time personnel arrive on the scene. San José has a suggested response time of 24 hours or less.

ACS has a target to respond to 88 percent of San José Priority 1 calls within 1 hour. Based on our review of calls for 2008-09, ACS met this target. However, we found that ACS is unable to meet its response time for San José Priority 2 and 3 calls. Specifically we found that:

- For Priority 1 calls, ACS responded within one hour about 90 percent of the time;
- For Priority 2 calls, ACS responded within two hours or less about 33 percent of the time; and
- For San José Priority 3 calls ACS responded within 24 hours about 68 percent of the time.

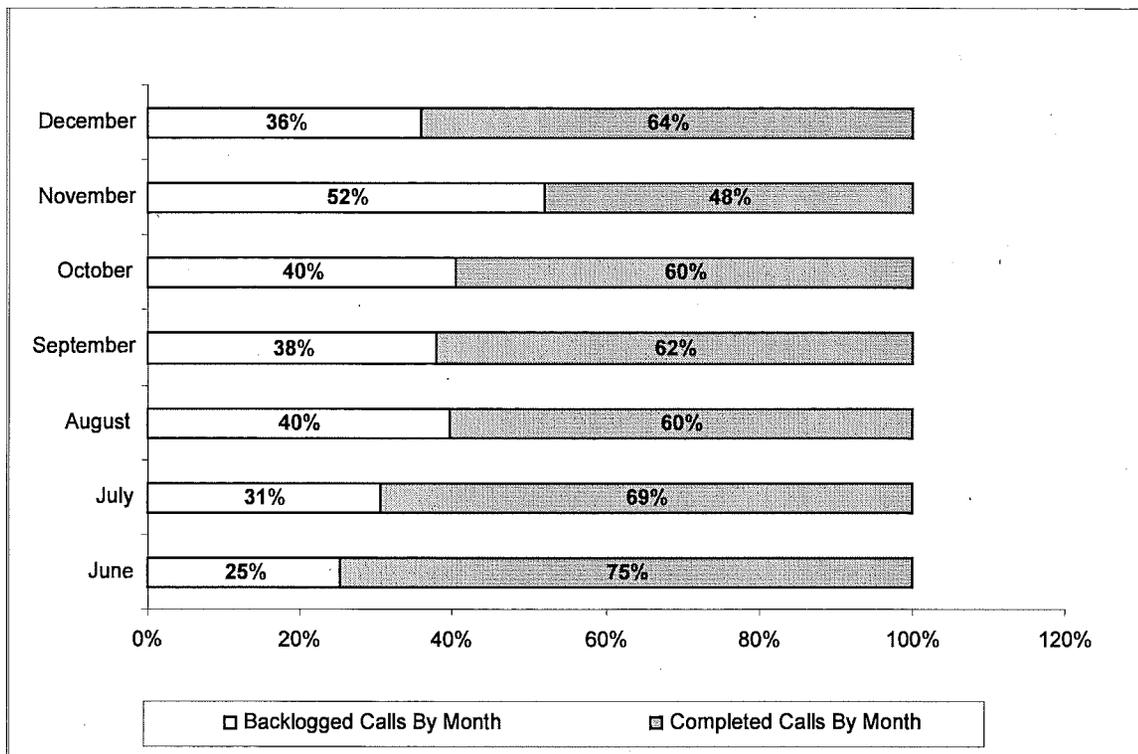
Based on ACS data, in most instances ACS meets response times for other jurisdictions per the agreements with those jurisdictions. We also found that ACS' guidelines for the response times are not written guidelines but simply ones that are tracked through the Chameleon system.

San José Priority 3 Calls Are Backlogged

In any given month, ASC did not have a backlog of Priority 1 and 2 calls. However, in any given month ACS cannot respond to all calls from San José residents therefore, the City always has a backlog of Priority 3 calls. Backlog calls are those calls that ASOs are unable to respond to (i.e. did not receive a response in that month). Exhibit 12 below illustrates the backlogged calls versus calls completed from June to December 2008.

¹² The response time is twelve hours or less for Milpitas.

**Exhibit 12: Percent of Priority 3 Calls Backlogged to Completed
June-December 2008**



Source: ACS.

As the exhibit above shows between June and December 2008, the percent of backlogged calls to completed calls ranged from 25 percent to a high of 52 percent in November 2008. In other words, ACS had a backlog of an average of 482 calls and reached a high of 654 backlog calls in November 2008. We should note that beginning the 2009-10 budget year, ACS eliminated one ASO which will further limit its ability to respond to Priority 3 calls in a timely manner. According to the ACS Deputy Director, although ACS's work tends to be seasonal, the number of backlog calls do not account for absence/injuries among ASOs. Because staffing is so limited, even one absence causes the call load for each ASO to go up.

Contract Cities Receive a Higher Level of Response

While San José has a backlog in Priority 3 calls, for contract cities, staff was able to respond to all calls including Priority 3 calls and according to ACS staff there were no outstanding calls for service to the four contracting cities. In contrast, between June 2008 and December 2008 ASOs in San José were able to respond to Priority 3 calls within four hours only 36

percent of the time. Exhibit 13 below illustrates the difference between the call response times for three of the four contract cities as compared to the City of San José using the performance targets for the contracting cities.¹³

Exhibit 13: June 2008–December 2008 Response Times of San José and Contracting Cities Including Monthly Average of Backlogged Calls

	Percentage of Priority 3 Calls Completed In 4 Hours or Less	Monthly Average of Backlogged Calls (June-December 2008)
Saratoga	92%	0
Los Gatos	86%	0
Cupertino	77%	0
SAN JOSÉ	36%	482

Source: Auditor summary of ACS data.

According to ASO staff, they prioritize responding to the contract cities because of the performance targets. In addition, three field officers are fully dedicated to responding to the three contract cities - Cupertino, Los Gatos, and Saratoga. This means that the remaining 10 officers had to respond to about 2,300 Priority 1, 2 and 3 calls for San José in June 2008 alone. For the same time period, the three West Valley cities' ASOs responded to about 200 calls. We should note that according to the ACS supervisor, the ASOs for the West Valley cities spend the remainder of their time responding to San José calls and sometimes even Milpitas calls depending on the number of calls backlogged.

San José Has a Significantly Higher Number of Calls Than Some Other Jurisdictions

As Exhibit 14 below shows, San José has a significantly higher number of calls per field officer than the cities of Seattle, San Francisco, and Contra Costa County. In addition, the number of backlogged calls is higher in San José than in comparable jurisdictions.

¹³ We did not include Milpitas in this because the City of Milpitas' response time requirements are different than the other three cities.

Exhibit 14: Comparable Jurisdictions' Field Call Services

Jurisdiction	Number of Households	Number of Field Officers	Calls Rec'd per Month	Number of Calls per Field Officer	Do they respond to nuisance calls by letter?	How many calls do they have backlogged?	Response Time Targets for Calls
San José	286,965	10	2,500	250	Only barking	Low season - 250 High season - 650	Priority 1 calls - Within 1 hour
Seattle	260,760	17	1500	88	Yes	50-75 calls any given day	Priority 1 - 30-60 min. Priority 2 - 24 hrs. Priority 3 - 2-7 days
Contra Costa County	362,362	30	4,520	151	Yes	Low season - 15-20 High season - 50-100	
San Francisco	321,692	12	1185	99	Yes	Low season - None High Season - 200	Priority 1 - Within 20 min.

Note: Only San José and San Francisco include % of response time targets met in their performance measures.
Source: Auditor summary of interview data.

Other Cities Frequently Respond to Low Priority Calls by Way of Letter

Our review of other jurisdictions' practices found that they frequently respond to lower priority calls by way of letter. These calls include barking calls and other nuisance calls. For example, the City of Seattle, will, on the first occasion and if the complaint involves non-aggressive behavior, respond by letter for barking, leash violation complaints, etc. Only if there are further complaints, a field officer will be dispatched. This allows the city to be responsive to its residents and oftentimes is able to handle the calls without sending out an officer.

As of July 2009, ACS is in the process of developing a policy to respond to some of the Priority 3 calls by letter. The new policy of responding to Priority 3 calls by letter will only apply to San José residents. Contract cities will continue receiving an officer response for all calls. As part of the 2009-10 budget reductions, ACS eliminated one ASO position. The new policy should help the City reduce some of its backlog calls and improve its response times for the higher priority calls. In our opinion, ACS should review the impact of this new policy on its staffing in order to best allocate its limited resources. Furthermore, ACS does not have any policies and procedures on responding to calls for service.

We recommend that ACS:

Recommendation #9

- **Review and determine the staffing impact of responding to Priority 3 calls by letter or phone; and**
- **Develop formal policies and procedures on responding to calls for service, including calls that are handled by letter or phone. (Priority 3)**

Finding IV The City Has Collected Less Than 30 Percent of Animal Care Administrative Citation Amounts Owed

As of April 2009, the City had collected only \$763,168 out of a total of \$2,794,976 billed since 1999, or less than 30 percent of animal care administrative citations, including penalties and interest. In our opinion, Finance should routinely send delinquent accounts to a collections agency for enforcement. Further, ACS should reconsider whether expired licenses should routinely turn into administrative citations.

The Finance Department Has Not Routinely Sent Delinquent Accounts to Collections

We found that the total monetary value of citations that have been issued, including penalties and interest, since 1999 is \$2,794,976. Since 1999, of this total Finance has collected only \$763,168.

We found that Finance has not routinely sent delinquent accounts to a collections agency and has sent delinquent accounts to collections only twice. According to Finance's Division Manager, they did send some of the accounts to collections in November 2008. Further, as of August 14, 2009, all ACS unpaid accounts over 75 days past due and under \$500 were assigned to the Collection Bureau of America, the collection agency working with Finance.

We recommend that Finance:

Recommendation #10

Routinely send delinquent accounts to a collections agency for enforcement. (Priority 2)

Expired Licenses Routinely Turn Into Administrative Citations

According to ACS, in 2008-09, over 6,800 animal care administrative citations were issued. These include citations for violations in the field and violations of the City's licensing requirements. ACS issues second and third notices before turning the citations over to the Finance Department for collection.

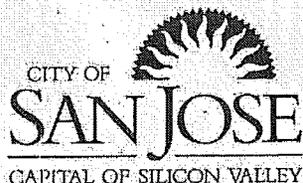
According to Finance staff, expired animal licenses routinely turn into uncollectible administrative citations. According to ACS and Finance staff, oftentimes pet owners do not respond to the letters because they have either moved or they no longer have the pet. Finance reports that from May 1st to August 14th, 2009, ACS issued 1,641 administrative citations. Among these, 96.8 percent, or 1,589, were citations issued by letter for expired or no license, and 52 citations were issued in the field by an ASO for violations such as animals running loose or for failure to provide proper care for an animal. We found that the City is more likely to collect on citations that were issued in the field than on citations issued for expired licenses. Specifically, 36.5 percent of the field citations were paid, as compared to only 7.5 percent of the citations that were issued for expired licenses.

Further, according to Finance staff, 1 FTE is already dedicated towards handling ACS administrative citations. According to ACS and Finance staff, oftentimes pet owners do not respond to the letters because they have either moved or they no longer have the pet. While enforcement is important, in our opinion, the routine issuance of citations for expired licenses risks the continued practice of writing-off expired accounts. It also risks alienating the very people who ACS wants to encourage getting licenses. According to Finance staff, the staff time devoted towards collection efforts on these types of citations is disproportionate to the amount of revenue that is received.

We recommend that ACS:

Recommendation #11

Reconsider whether expired licenses should routinely turn into administrative citations, and/or whether to suspend collection efforts for expired licenses. (Priority 3)



Memorandum

TO: Sharon Winslow Erickson
City Auditor

FROM: Peter Jensen

SUBJECT: ANIMAL CARE & SERVICES
AUDIT RESPONSE

DATE: October 7, 2009

Approved

Deanna Jindra

Date

10/7/09

BACKGROUND

The Administration thanks the City Auditor's Office for its efforts in connection with this audit. We believe it reflects a highly collaborative approach, with a shared focus on developing ways to increase the ability of the Animal Care & Services (ACS) Division of the General Services Department to recover a greater portion of its costs.

In our response to the recommendations, we have identified a number of areas where we believe additional resources could position the Division to generate more than offsetting amounts of new revenue, which would continue the trend of increased ACS revenues in each of the last five years. This trend has been realized in spite of the state of the economy. We also believe that the special fund recommendation is one that deserves careful exploration, as it may be a way to create a better structure to track the program's cost recovery, increase accountability and transparency, and ultimately enhance services.

Investing additional resources may be challenging in the City's current budget environment. However, the audit recommendations and staff responses offer ways to increase revenue without increasing fees. Resource additions would not be made if they were not supported by additional revenue generated by ACS activities. The program goal would be to increase cost recovery.

The City Council's acceptance of these recommendations should be revisited during the budget deliberation process, weighted against other priorities, and examined in a broader context to determine whether they are feasible.

RECOMMENDATIONS AND RESPONSE

Recommendation # 1:

Increase its public education outreach efforts in order to increase animals licensed and vaccinated. (Priority 2)

The Administration agrees with this recommendation. Public education and outreach are essential elements to a successful rabies control and licensing program. As a relatively new

service provided by the City (full operations established in 2004), program growth and licensing awareness would benefit from a variety of marketing strategies. The ACS division was assembled and funded during the last several years of citywide deficits and there has been limited ability to fund marketing and outreach programs. The division has one position budgeted for marketing. The same position also has full responsibility for the shelter volunteer program managing about 75 consistently active members and more than 1,400 registered participants.

Public health and safety are necessarily the top priorities in ACS. The Council has also strongly supported reducing the euthanasia rate in the new shelter. As a result, these have been the focus areas for the division's outreach. Those efforts have made important contributions to the division's success on these priorities, using strategies like promotional events, news stories, articles, advertising, discounts, etc. While one strategy would be to divert a portion of the marketing resources to licensing efforts, that may have the effect of lower awareness and a declining adoption rates, resulting in more euthanasia and a decline in adoption revenues (\$285,000 in FY 08-09).

Our recommended strategy would be to add a part time employee to focus 20-hours per week specifically on license outreach and coordination, with some funding for materials and postage. This would require a modest investment of 5% of current licensing revenues (\$50,000), which would likely generate a greater amount of increased licensing, based on the Auditor's findings. If this approach is successful in generating more revenue, additional resources would be needed for processing licenses and license payments in order to keep up with the volume, either in the form of additional staff or an outsourced service as described below under Recommendation #2. Such an investment would be supported by an increasing annual revenue source. Without some additional resources it is unlikely that public education outreach efforts can increase beyond current levels.

Recommendation # 2:

Either enhance its current database to include online licensing and veterinarian reporting or outsource its licensing services to a vendor that offers those services. (Priority 3)

The Administration agrees with this recommendation. Online licensing for owners and online web entry for veterinarians would reduce data entry workload, be more convenient for users, and probably improve revenues. ACS is working with the Information Technology Department (ITD) on implementation of these improvements, and ITD has been working through security and other issues for this and other City services that lend themselves to online payments. When ITD has resolved these issues ACS will move forward in these areas.

ACS will also continue to research outsourcing licensing services. In the short term, projected savings would be less than estimated because of the need to retain in-house staff for a portion of the licensing activities. However, it is probable that long-term savings would be realized as licensing revenue increased. Any analysis of such an approach would be done in accordance with the provisions of the proposed Service Delivery Evaluation Policy and Public Private Competition Policy (as proposed to be amended). These policies were considered by the

Community & Economic Development Committee September 28, and will be considered by the Council October 20.

Recommendation # 3:

Improve efforts, such as additional follow-up with non-compliant veterinarians, to increase the compliance rate to the City's ordinance on rabies vaccination reporting.

(Priority 3)

The Administration agrees with this recommendation. ACS recognizes that veterinarians are required to report rabies vaccinations in a timely manner. The remaining veterinarians will be contacted more consistently to ensure timely reporting. It is important to ACS to maintain a positive professional relationship with the veterinarians in San Jose, so we have not pursued enforcement action against veterinarians who have not consistently complied with the ordinance. Now that the rabies reporting program has been in place for more than a year, we will consider issuing citations when warranted.

Recommendation # 4:

Determine the entire cost of the program, including an accurate overhead rate and number of FTEs while calculating its cost recovery ratio. (Priority 2)

The Administration agrees with this recommendation. Animal Care and Services (ACS) will conduct a source and use analysis to determine the entire cost of the program and evaluate all associated revenues/fees. This analysis will require analytical support, as it requires familiarity with city databases (FMS, RevPlus, ACS database), and experience with similar analyses. Because ACS has no budgeted analytical positions, staff suggests utilizing a pool analyst or contracting a temporary employee so that this project can be accomplished effectively and in a timely manner.

The ACS program was recently moved from the Parks, Recreation and Neighborhood Services (PRNS) Department to the General Services Department. PRNS is typically a receiving department that provides services directly to the public while General Services is typically a support department that provides support to the receiving departments. When the ACS program was moved from PRNS (where it was treated as a receiving program) to General Services, the program was combined with the General Services support functions. The overhead rate plan under development for the coming budget cycle has separated the ACS program from the General Services support function overhead rate and structured the ACS program as a separate receiving program in General Services. This change will more accurately reflect the ACS program costs and enable the ACS program to better calculate its cost recovery ratio.

Recommendation # 5:

- Develop a policy to determine ACS program wide cost-recovery goals; and**
- Annually review and update a program wide cost recovery (similar to that provided by the City Auditor's Office) prior to setting fees. (Priority 3)**

The Administration agrees with this recommendation. A policy and goals for cost recovery can be developed as part of the analysis suggested in the response to Recommendation #4 above. Annual review and update of fees occurs currently, but without the detailed analysis and policy as recommended. These will also be done in accordance with the results of the cost recovery study.

ACS charges fees for a variety of services in the shelter. It is important to recognize that other economic factors must be considered beyond the cost recovery analysis, as raising fees might actually cause a loss of revenue or reduce the number of positive outcomes for animals in the shelter. Examples of such fees include:

- Adoption fees – There are other agencies, groups, and businesses that sell animals in the local area. In order to entice shoppers to purchase their animal through ACS it is important to remain competitive in the market. Animal shelters already suffer the stigma that the animals offered are somehow less valuable or that the shelter environment is depressing. Studies have shown that fewer than 20% of people looking to purchase a dog or cat will go to an animal shelter. By keeping the purchase price low, ACS hopes to capture as much of that limited market as possible.
- Owner reclaim fees – When an animal is impounded in the shelter there is a cost to care for that animal. If the owner finds their animal at the shelter the City charges fees for impoundment, boarding, medical care, licensing and vaccination. These are as close to cost recovery as possible but still represent a financial barrier to the owner taking possession of the animal.
- Licensing – Licensing fees are Category II fees and can be more, or less, than cost-recovery. This is further supported by State law. Currently, licensing revenues recover about 16% of the operational appropriation. At existing licensing rates, if every dog and cat in San Jose were licensed, ACS would collect about \$13,750,000 per year. If such a scenario were possible (100% license compliance), licensing and other fees could be reduced since the program expenses are less than half that estimated amount. However, no animal agency in the country achieves 100% compliance rates with licensing. The experience of other agencies does indicate that 30% compliance (which would result in \$4.125 million in revenue at current rates) is a possibility over time if additional resources and strategies are invested to pursue it, such as the ones recommended in this audit.

It is important to note that in FY 08-09, while most government revenues declined substantially, ACS increased licensing revenues 30% and increased overall division revenues by more than \$300,000. Reductions to existing resources will inhibit the division's ability to increase

revenues. By implementing this and the other recommendations of this audit the ACS program can cost the City less over time on a net basis, which is not the case for most city services. The opportunity to capitalize on this will depend on the willingness to invest modestly now for future returns.

Recommendation # 6:

Determine the feasibility of establishing a separate fund to account for all ACS costs.

(Priority 2)

The Administration agrees with this recommendation. There are a number of significant considerations related to Governmental Accounting Standards Board (GASB) requirements as well as the City's budgeting and accounting standards that must be reviewed as part of the feasibility study.

Recommendation # 7:

Should count all monies collected from animal care citations as ACS revenues for purposes of ACS's calculation of its cost-recovery. (Priority 3)

The Administration agrees with this recommendation. ACS will include citation revenues in any future calculations of cost-recovery.

Recommendation # 8:

Continue to review and document contract city costs for a pre-determined time period; and Explore the possibility of either increasing the reimbursement rates or reducing the level of service to the contract cities if the costs continue to be higher than the reimbursements.

(Priority 2)

The Administration agrees with this recommendation. ACS will continue to review and document contract city costs to determine whether or not the contracts adequately fund the services provided.

It should be noted that a significant factor in the Auditor's calculation of the costs of these contracts is the overhead rate. Without overhead, the direct cost of services provided to the contract cities is about \$239,000 less than the \$750,000 in annual payments received. As discussed under recommendation #4 ACS will work with Finance to more closely analyze that rate.

Recommendation # 9:

--Review and determine the staffing impact of responding to Priority 3 calls by letter or phone; and

--Develop formal policies and procedures on responding to calls for service, including calls that are handled by letter or phone. (Priority 3)

The Administration agrees with this recommendation. ACS will review the staffing impact of this service change (approved as part of the 2009-10 Adopted Operating Budget), and has already produced a working draft of a formal policy and procedure regarding responding to calls for service, which is expected to be finalized before the end of 2009.

As detailed in budget documents, Priority 3 calls that will now produce only a letter response include:

- Loose dogs – non-aggressive, uninjured
- Poop-scoop violations – public or private property
- Off leash dogs in parks
- Exceeding animal limits
- Feeding cats/wildlife outside
- Noise violation citations after 1st citation
- Collection of statements regarding incidents/investigations

The following Priority 3 calls will receive reduced response or no response:

- Loose dog calls, non-health/safety, no owner info, expire after 7 days if not completed
- Pick-up of orphaned baby birds (excluding dangerous and endangered)
- Pick-up/delivery of animal traps
- Removal of small dead wildlife on private property (14 pounds or less should be placed in trash)
- Pick-up of owned dead domestic animals – excluding large dogs and special needs

The recommended review of the impact of these changes will be reported in the semi-annual ACS report to the Neighborhood Services and Education Committee.

The audit also discusses the level of field services provided in San Jose as compared to the contract cities. Three Animal Service Officers (ASO) were added and fully funded through the "west valley" contract cities (Cupertino, Los Gatos, Saratoga). The Milpitas contract does not directly fund any positions, although it does offset more than \$215,000 in expenses each year. The west valley cities directly fund the three officers assigned to their jurisdictions and as a result receive a higher level of service and response in the field. In addition, 4.5 more FTE's are directly funded in the shelter operations through these contracts.

The remaining complement of 10 ASO's serve San Jose and Milpitas. These officers provide response to calls for service from 7am-11:30 pm everyday except three select holidays, and they provide response to emergency calls 24 hours per day all year. Providing coverage to a population the size of San Jose with 10 officers is challenging as noted in the auditor's analysis. During any given week the ASO staff available for San Jose operations is approximately 8 once various leave and absences are calculated. Working to protect living animals and people can be complicated. Unresolved issues may advance to health and safety problems for both the animal involved and other people. Appropriate response, education, and enforcement of laws as necessary are the most effective ways to resolve animal conflicts.

San Jose continues to grow and is projected to maintain that trend in the future. San Jose is also annexing more unincorporated County areas. The ability to maintain the current level of services will decline without an investment of resources to keep pace with that growth. By following these recommendations, it is expected that revenues can grow enough to add ASO resources gradually without any net cost to the General Fund. Adding ASO's would help Animal Services keep pace with the people and animal populations, and calls for service. San Jose would be a more humane and safe community for pets and the people who live with them, and around them, and it could be funded through licensing and other associated revenues.

**Recommendation #10:
Routinely send delinquent accounts to a collection agency for continued persistent collection activity and enforcement.**

In May 2008, the City Council authorized the Finance Department to contract with two collection agencies. Beginning in November 2008, the Finance Department started forwarding unpaid animal citation accounts over 365 days past due to the collection agency assigned to work the ACS accounts. After further evaluation in July 2009, the Finance Department determined the most cost effective method of pursuing these delinquent accounts is to forward all ACS unpaid accounts over 75 days past due and under \$500 to the collection agency. As of October 6, 2009 there are currently 8,353 animal citation accounts assigned to the collection agency. The Finance Department will continue to send accounts to the collection agency on a routine basis in order to improve the ACS collection process.

**Recommendation #11
Reconsider whether expired licenses should routinely turn into administrative citations, and/or whether to suspend collection efforts for expired licenses. (Priority 3)**

The Administration agrees with this recommendation. Beginning July 1, 2009, ACS no longer prioritizes issuing citations for expired licenses and will prioritize processing payments and pursuing new licenses. ACS will continue to send reminder notices for license renewals. ACS will also consider a policy of collecting prior year license fees for owners that have allowed their license to expire and have continued to maintain possession of the dog or cat.

COORDINATION

This memo was coordinated with the Finance Department and the City Manager's Budget Office.



PETER JENSEN
Director of General Services



APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Policy Manual (6.1.2) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class¹	Description	Implementation Category	Implementation Action³
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. ²	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. ²	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

¹ 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.

² 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 citizens.

³ 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.