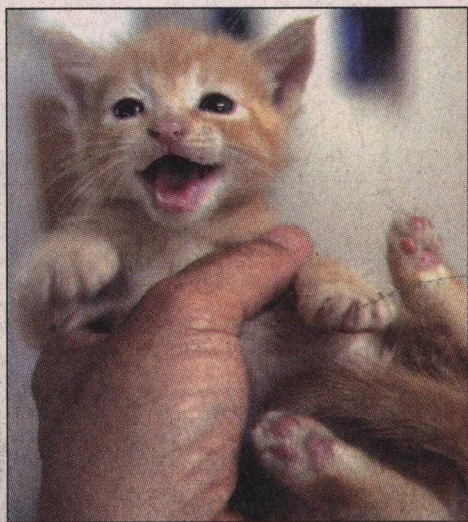


For 68 years, the SPCA provided animal control services to the county. But last year the arrangement shattered when county leaders uncovered an agency in a fiscal free fall. Now, the SPCA shelter is empty, and tax dollars must be recouped.

What Went WRONG?



Dan Coyro/Sentinel photos

SPCA Public Affairs Coordinator Suzi Eszterhas walks past a row of vacant cages at the society's empty 7th Avenue facility.

By **JEANENE HARLICK**
SENTINEL STAFF WRITER

SANTA CRUZ — The signs were there.

Monthly financial statements stopped coming. Audits were late. Balance sheets weren't balancing. Staff and programs mushroomed with no apparent way to pay for them.

The Santa Cruz SPCA was bleeding, but those in charge — from the agency's volunteer board of directors to the county officials charged with spending public money — turned their heads.

All that's left now is a \$761,000 IOU to taxpayers, a still-simmering dispute with county leaders, an empty Live Oak animal shelter and the questions that accompany the collapse of a nonprofit group that served the county for 68 years.

On Tuesday, the county Board of Supervisors, whose job it was to monitor the three-year, \$4.3 million contract signed in 1999, are scheduled to take up the SPCA's debt.

A Sentinel investigation involving interviews with more than a dozen current and former SPCA employees, board members and



STORSBERG



TAYLOR

county officials found numerous problems that led to the agency's downfall. Among them:

■ A management team that wine and dined its way around an inaptitude for financial management, spending thousands on extravagant meals and personal airplane trips and creating positions they had no way to pay for.

■ An ineffective oversight board that ignored countless signs, including warnings from employees, that the agency was in a financial free fall.

■ County officials wary to wade into the operations of an agency that, despite its taxpayer backing, had become a fiscal train wreck.

"Without ever leaving my home in Scotts Valley I knew they were in trouble," said Jody Cramer, a

former SPCA executive director fired before the agency fell into a financial quagmire. "How could those men and women on the board not know it?"

The SPCA's demise could have been prevented, Cramer and others say, if either the county or agency directors had simply paid better attention and forced the contract specifics to be met. Now, the county's strays live in a warehouse in Scotts Valley, and an agency once viewed as a national model for animal welfare is practically defunct.

"It just makes me sick to my stomach," said Kit Salisbury, a former SPCA development director who now lives in Rhode Island. "We worked our asses off to make (the Santa Cruz SPCA) the pinnacle of shelters, and now it's all down the drain."

Problems revealed

The full extent of the SPCA's mismanagement surfaced a year ago after county Auditor Gary Knutson stepped in to review the agency's records. He discovered haphazard accounting practices,

About the series

TODAY: The Sentinel examines mismanagement within the Santa Cruz SPCA, including a controversial spending binge by a former executive team, which led to the eventual collapse of the once-model nonprofit group.

MONDAY: How the SPCA failed to control its spending, even after a huge debt was discovered.

TUESDAY: What the SPCA is up to now and how it's accounting for its spotted past.

Inside today

■ County officials might have anticipated the SPCA's fall long beforehand.

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■ How the county is serving its animal friends now.

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See **SPCA** on **PAGE A12**

SPCA

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with little if any monitoring of expenses. That shocked county supervisors, who managed the SPCA's contract for the cities of Santa Cruz, Scotts Valley and Capitola. The cities paid 30 percent of the contract expense.

Among Knutson's findings:

- Staffing levels and employee salaries above what the county allowed in its contract with the agency. The executive director, for example, was paid more than \$90,000 yearly, while the contract authorized \$65,000.

- Missing invoices, cash register tapes and accounts payable reports.

- Public money used for a variety of unauthorized expenses, including new phone and computer systems.

- More than \$40,000 in federal and state penalties for late filing of tax and payroll reports.

- An estimated \$221,000 in animal license fees and fines used to cover the SPCA's deficit instead of being paid to area governments, as required.

But it was other expenses, while not as costly, that the public and former employees found galling.

Knutson documented exorbitant expenses charged to an agency credit card by the married executive team of Jo Storsberg and Brian Taylor.

The charges included more than \$1,200 spent on wine; fine dining in gourmet restaurants (including a \$460 meal with board members at a posh Las Vegas eatery during an animal welfare conference); flights to the East Coast to visit family; and a \$1,200 Armani suit from Saks Fifth Avenue.

Agency directors, meanwhile, even after discovering the executive team's problems and firing them in October 2000, continued to throw money at the problem, the auditor discovered.

The SPCA board spent more than \$180,000 after Storsberg and Taylor left in an attempt to reconstruct the agency's accounting records. That included temporary help and late fees, penalties and interest to the IRS and the state.

Even in the wake of Knutson's scathing audit, SPCA directors denied misusing county money and demanded an annual budget almost double the previous one. They cited increased costs due to new animal regulations.

After months of fruitless negotiations, the county in July decided to take on the job itself, and a public agency operated by the county and area cities now handles animal services.

With no county contract and donations lagging, the SPCA closed its shelter in December, and now runs a handful of small programs. It hopes to eventually operate a small, no-kill shelter.

Though budget figures detailing the SPCA's collapse abound, the human factor has, until now, been missing. Here's a look at the drama that unfolded behind the scenes.

The Sentinel made multiple attempts to contact Storsberg and Taylor, including phone calls and a visit to their La Selva Beach home. The couple did not respond.

Concern mounts

It was the summer of 1999, and Kat Brown was worried.

The agency's director of operations had helped run the SPCA since 1984. She knew how things worked. But since relinquishing her post as interim executive director to Storsberg and Taylor in December 1998, things seemed out of kilter, she recalls.

"I was pretty concerned about how things were going, even at that early stage," said Brown, now deputy director of animal care and control for the San Francisco Animal Shelter. "I didn't understand the new way of looking at things."

That "new way," Brown said, flew in the face of accounting procedures in place when she arrived in 1984. The procedures had been developed in the early '80s in response to a civil grand jury ordering the SPCA to clean up its act.

Underlying the procedures was a core tenet: keep donations and publicly funded expenses separate. Public money could only fund programs outlined in the county contract.

"It was extremely crucial to ensure the cities and county weren't charged for things that should have gone to the donation side," Brown said. "You almost have to have two full sets of books for each operation."

But under Storsberg and Taylor, the divide broke down, Brown said, and the funding streams combined.

Brown had questions, and the new executive team didn't like them. She had served the SPCA for 15 years, but says she was forced to make a tough decision. She resigned.

"I didn't have the energy to wage a battle on my own," she said. "I just figured it was time to go."

Jay Gunter, a former SPCA maintenance supervisor, said Brown's departure was a seminal moment for the agency.

"She was the last person who had control of things," he said. "If she had stayed, I don't think all of this would have ever happened."

Attractive hires

The executive team looked good on paper. Taylor's experience included four years as development director for the American Lung Association of Oregon, and he had worked on homeless-prevention programs with the San Francisco Red Cross. Storsberg had worked with homeless youth in Oregon and in Santa Cruz at Planned Parenthood and the county women's commission.

The two signed on for a combined annu-

Fair pay?

Former Santa Cruz SPCA board members say one reason the agency fell into financial disrepair is a county contract that failed to cover operation expenses, one of the highest being personnel costs. Board members point as proof to the higher pay that former SPCA employees now receive working for county animal services. Here's a look at how the county's pay today compares to what it allowed the SPCA to pay its employees a year ago.

ANIMAL CONTROL OFFICERS

- County: \$15.30 to \$18.60 an hour.

- SPCA: \$12.94 to \$14.66 an hour.

KENNEL STAFF

- County: \$13.44 to \$16.34 an hour.

- SPCA: \$8.32 to \$9.80 an hour.

ADOPTION WORKERS

- County: \$13.10 to \$15.92 an hour.

- SPCA: \$9.71 to \$12.41 an hour.

EXECUTIVE DIRECTOR

- County: \$42.31 to \$51.45 an hour.

- SPCA: \$31.53 an hour.

Source: County of Santa Cruz

al salary of \$90,000.

"Almost from the beginning, staff began to call me," said Cramer, who admittedly is not unbiased in her criticism. She was fired by the board in 1998, and Storsberg and Taylor were her replacements.

Things appear to have gone awry quickly.

According to William Coaker, a former SPCA board member, the agency was in sound financial shape at the time of Storsberg and Taylor's hire. The agency had \$450,000 in reserves invested in mutual funds at Fidelity National Title in the summer of 1999, he said.

A 990 form filed with the IRS confirms this.

But the SPCA was soon in debt, according to other IRS forms. Storsberg and Taylor quickly hired more staff, bought new equipment, created new programs, and gave top-level administrators raises and bonuses — all with public money that was supposed to be spent elsewhere, according to former staff. The county's audit backs that up.

"We just mushroomed," said Claudia Schlachter, SPCA director of operations after Brown left. "All of a sudden we went from 32 to 54 employees. The new programs were well-received, but we all wondered how we could nearly double our staff without some financial repercussions."

Problems start

But while some departments benefited, others suffered. The development director's post stayed vacant, an accountant went without support staff, and fund-raising events were dropped, former staff said. Animal-care positions went unfilled, too.

"They were hiring people left and right into administration, and meanwhile there weren't enough people to staff the kennel," Gunter said.

Running in tandem with haphazard spending increases was an absence of basic accounting procedures, former staffers charge.

Taylor, who was in charge of finances, shuffled donation and public money to unauthorized programs, including estate money willed toward specific purposes, said Dorothy Goodman, bookkeeper the first few months of the executive team's stay. (She later resigned.) Expenses were incorrectly classified, then never accounted for. Monthly financial statements disappeared, along with a system for purchase orders, other staffers said.

Record-keeping was so bad, in fact, neither the county auditor, or an accounting

SPCA

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ing firm were later able to reconstruct records for the 1999-2000 fiscal year.

How the management team escaped board scrutiny is still unclear, but former employees said Taylor had an "inherent charm" and an instinctive ability to say what people wanted to hear.

"He had a good sense of humor and the gift of gab, and they all catered to him," said Goodman, the former bookkeeper. "They would have parties with exotic food and champagne and it would all come out of (operating) funds. ... It was kind of like a country club."

The end

In the summer of 2000, Storsberg and Taylor went on vacation, and accounting discoveries made in their absence spelled the beginning of their end. Before leaving, the pair told managers to find out why the organization was \$80,000 in debt, Schlachter said.

When staff started digging through records, they discovered the credit card purchases.

Nearly two years of statements — roughly \$50,000 in both professional and personal charges — had piled up, and none of the charges had been accounted for. There were no receipts.

The personal expenses totaled \$8,355, according to the county auditor. (Some of that money was later repaid by the couple.)

The Armani suit became a rallying point for angry employees, who showed board members the purchases.

Storsberg and Taylor were soon fired.

Board response

SPCA board members have a different story to tell about both the management team and the financial crisis that ensued.

Membership on the agency's board fluctuated — bylaws allow a maximum of 17 members — but there were five core members from 1999 to 2002, Cramer said.

They were Joyce Nordquist, Doreen Lozano, Jennifer McHale, Joan DeNeffe and Marcy Albert.

Nordquist declined comment, while Lozano and McHale did not return phone calls.

Albert and DeNeffe, however, offered a vigorous defense of the board, saying members fell victim to a confluence of factors beyond their control. Those problems snowballed, they said, leaving the SPCA in a mess that became impossible to escape.

Allegations of board misconduct — the "county club atmosphere," as Goodman put it — are "completely wrong and erroneous," and fail to portray a board that put in long hours to provide superior care to county animals, Albert and DeNeffe said.

"Some board members spent time ... cleaning kennels, exercising and grooming animals, (helping with) adoption counseling and more," said Kate Hotchkiss, who joined the board in November 2000. "If that's a country club, I don't know many people who would want to join one."

According to Albert and DeNeffe, the trouble started with a dot-com economy that made it impossible to retain staff with the wages allowed by the county. The SPCA was locked into a three-year contract that was short on funds and heavy on regulation, they said.

"The restrictions put on the shelter had us underpaying people," said Albert, also agency treasurer, who sat on the board from 1997 to 2002. "Rather than let every-

'The SPCA was not managing the money it had appropriately. If they had, they might have been able to increase the pay to their workers. That is clearly a specious argument. They are grasping at straws and trying to point fingers at other people.'

DINAH PHILLIPS, ADMINISTRATIVE ANALYST

thing go to hell, the board felt we had to ... give people the pay raises they needed to have the level of care we thought was appropriate for the community."

Board members point to large pay increases former staff received when hired by the new county animal services agency as proof of the county's underfunding.

County officials dismiss those claims. If that was the case, asked Dinah Phillips, senior administrative analyst for the county, why did the SPCA only pay top-level administrators, and not support staff, more than what was allowed in the contract?

"The SPCA was not managing the money it had appropriately," Phillips said. "If they had, they might have been able to increase the pay to their workers. That is clearly a specious argument. They are grasping at straws and trying to point fingers at other people."

SPCA board leaders also point to what is known as the Hayden Law as the cause of the SPCA's trouble. Passed in 1999, the law increased mandatory hold periods for all strays, feral cats, owner-surrendered pets and sick or injured animals. Holds were increased from three days to five to seven.

The law significantly hiked operation costs for the SPCA, said DeNeffe, who served on the board from 1995 to 2001.

Lozano repeatedly blamed the law for cost-overruns when testifying before the

board last spring, saying that while the county ponied up more money to account for the new hold requirements, the budget increase wasn't large enough.

Board members say the \$761,000 in public money that the county auditor claims the SPCA misspent went toward services and equipment vital to the organization — for example, telephone and computer systems that replaced old equipment not functioning properly.

Lozano also claimed last spring that the SPCA used donations, not public money, to fix its accounting system. The county auditor disagreed.

As for the fees and fines not paid to area cities or the county, Albert said the board never knew the SPCA was withholding licensing fees from public agencies. That was because accounting records were in disrepair, board members said.

"The board was horrified (when it realized what had happened)," Albert said. "We said, 'You can't do this. We need to set this right,' and immediately we started paying back those fees on a monthly basis."

Regardless, none of the public money spent by the agency was squandered, board members maintained, pointing out that Storsberg and Taylor's personal credit card charges accounted for only a fraction of the alleged misspending.

But board leaders also put heavy blame on Storsberg and Taylor for deceiving the board about the state of agency finances.

DeNeffe and Albert said the board vigilantly reviewed finances weekly but were misled by an executive team that consistently lied and submitted false reports.

"We fired Jo and Brian as soon as we found out. ... They had not been truthful," said DeNeffe. "We were on top of this situation."

Board member Coaker, who resigned just before trouble began in the fall of 1999, also defended those he left behind. While the board, and especially Albert, was intent on keeping up with finances, it was thwarted by substandard bookkeepers, he said.

Albert said no one group of people is to blame for the SPCA's fall: "Once things start sliding, it's like a big mud slide, and you just can't come in and say, 'Stop.' I don't think you'd ever find a volunteer nonprofit board that spent so much time and effort ... to set things right."

New leadership

By the fall of 2000, SPCA accounting was a hopeless imbroglio.

The auditing firm of Walters & Kondrasheff couldn't even render an opinion on SPCA records due to missing records, transactions posted to the wrong accounts and the agency's misclassification of how it was spending private and public money, according to the firm's audit report. The firm questioned the accuracy of what records did exist and wrote they did not comply with "generally accepted accounting principles."

But with the executive team of Taylor and Storsberg gone, staffers and board members expected things would soon get better.

They didn't.

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