

Animal Shelter

SPCA at Crossroads

Agency Faces Criticism for Lack of Enforcement and Asks County for More than 50 Percent Increase in Budget

by Marty Kruger

After enduring blistering reports issued by the Santa Cruz County Auditor and Administrative Officer, the local chapter of the Society for the Prevention of Cruelty to Animals (SPCA) faces the loss of its largest contract and a monster-sized reorganization effort. At issue is how the decades-old non-profit agency runs its operations, keeps records and oversees budgets. The Agency is presently so cash-strapped that they have failed to forward fines collected for the County and been unable to hire sufficient staff to fulfill mandated duties.

County Supervisors are considering taking over some, if not all, of the obligations currently under contract with the SPCA. The County is the largest of SPCA's "clients," a short list that also include the cities of Capitola, Santa Cruz and Scotts Valley.

At a Crossroads

The SPCA is near the end of a

three-year contract with the County and the cities of Santa Cruz, Scotts Valley and Capitola. Under contract to the County, Scotts Valley and Santa Cruz, the SPCA provides shelter and control services. Capitola buys only shelter services, with City police maintaining animal control duties.

When the SPCA recently asked the County for an increase of 56 percent for its new contract — from \$1.5 million to \$2.35 million — the County responded by scrutinizing past budgets. The resulting report produced an embarrassing lack of fiscal oversight and SPCA records in disarray.

"The SPCA foundation does good work and has good intentions," said County Auditor Gary Knutson. "But good intentions don't always make for good business decisions."

Recent reports to the Board by the County Auditor and the County Administrative Officer criticize the local SPCA's accounting practices and management with charges of unauthorized purchases and insufficient staffing levels. CAO Susan Mauriello



went as far as to recommend that the County end its contract with the agency or at least minimize the services contracted for. After not receiving the backing of County Supervisors, Mauriello and her staff are back at the negotiating table.

"We're working [with the SPCA] to find a shared position to provide services within the fiscal constraints we face," said Dinah Phillips, a senior administrative analyst and spokesperson for the

County Administrative Office. "We're negotiating now with them to find a way to continue the partnership we've had over the years."

The SPCA responded to the CAO's charges with a commitment to resolve budget and management issues and to continue providing services to protect local animals.

"Whatever the outcome of the current negotiations, the SPCA will have a continuing presence in animal cruelty investigations and will closely monitor what mechanisms County officials will use to ensure the anti-cruelty statutes are enforced in the County," said Doreen Lozano, the Interim Executive Director for the Santa Cruz SPCA. "We have already told the Auditor Controller that the SPCA is open to a full audit by his staff. This statement still stands regardless of the adversarial position espoused by the CAO's report."

The Cat and Dog Fight

Reports to the Board at their Apr. 23 meeting reported that the SPCA had little or no monitoring of actual budgeted expenses and

has made numerous unauthorized purchases recently that, along with their poor accounting practices, has led to a deficit expected to be close to \$156,000 for the current fiscal year. Worse yet, SPCA officials now believe that to meet the minimum requirements under the contract, the County will need to increase next year's funding by \$850,000, should there be a contract. This doesn't include what is owed for past years.

Knutson has also reported that the SPCA "misappropriated fees and fines collected and used a line of credit and foundation donations for purchases," close to \$380,000 that were not allowed in their contract with the County.

This means that besides having to lay off staff to avoid closing their doors, SPCA officials have racked up a significant debt. Lozano said the debt accumulated during the term of the current contract and former SPCA officials had underestimated the cost of providing services to the County.

"Basically, we negotiated a

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Expense Reports Spark Debate, But Most Say Miss the Point

by Marty Kruger

Early this year, County auditors were asked to review records at the local SPCA chapter to determine why the agency was on the verge of insolvency. The agency "owes" \$377,000 in collected fines, penalties and disallowed contract expenses, according to a preliminary County report.

Among the problems listed in the report, the auditor found that the former husband and wife executive team, Jo Strosberg and Brian Taylor who headed the agency beginning in 1999, had

used a SPCA business credit card for personal purchases. Strosberg and Taylor left the SPCA in 2000. To date, Strosberg and Taylor have paid back \$1,900 of the questionable charges.

"The character of those expenditures reflects on the policies and on a lack of oversight by the SPCA," said County Auditor-Controller Gray Knutson who will continue to review the SPCA's financial records. "The credit card charges are a symptom of their overall [lack of] accounting practices. There has been clear mismanagement of and a misappropriation of funds."

The couple had obtained an

agency credit card without approval from the Board, despite a policy forbidding it. The SPCA didn't learn about the credit card purchases until after the couple had left the agency and had filed bankruptcy.

Charges on the card — some of which appeared not to be Agency related — included rooms at the Bellagio Hotel and Casino in Las Vegas, and numerous purchases at stores such as Saks Fifth Avenue, Circuit City, Mattress Discounters and at a couple of wine outlets. Meals were also charged to the card, some of which were related to approved travel.

While Doreen Lozano, the SPCA's interim executive director agrees that some of the charges appear to be personal in nature, she says the credit charges are small change when looking at the Agency's bigger problems.

"This issue is more of a distraction that doesn't deal with the overall problems with our contract," said Lozano. "Most of those charges were made while the former executive team was in Las Vegas for a legitimate purpose, attending a conference."

The couple has paid back about \$1,900 of more than \$8,000 that they charged while running the SPCA for two years.

Some of the items have been identified as legitimate charges, and Lozano said that any outstanding amount owed was in dispute.

Knutson stated that the County, while it does issue agency credit cards to a select few employees, carefully monitors their usage and even has microchips imbedded in the cards they issue that restrict what commodities can be purchased.

"The cards can't be used for meals or personal items," said Knutson. "It's also quite inappropriate to make personal charges and then repay them at a later date. We just don't allow that." □

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poor contract," said Lozano. "We underestimated how much new legislation would end up costing us and didn't account for costs to upgrade and maintain our computer and accounting system. But these aren't new issues. We've been working with the County on them for the last 18 months."

The County Administrative Office acknowledges that they have been talking with the SPCA for some time about its fiscal woes. And while the County realizes that they didn't have complete information when they signed the contract in 1999 after the state changed requirements to the length of time a stray is kept before being euthanized, they also feel that the SPCA was given a pretty good deal.

"The SPCA has told us in the past that they were having troubles with bookkeeping and staying within budget," said Phillips. "Some of the information they had during

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What the SPCA Does and How It Spends Money

by Marty Kruger

The Santa Cruz Society for the Prevention of Cruelty to Animals is a non-profit organization that operates an animal shelter in Live Oak. They also contract with the County and other cities to provide animal control field services.

The County, and the cities that contract with the SPCA, pay for services. The SPCA also raises money, about \$500,000 a year, through private donations.

At their shelter, the SPCA holds stray and abandoned animals for adoption. Dogs and cats share the facility with other animals. Chickens, caged birds and reptiles are available for adoption. There are even two donkeys that were found wondering on Mission Street in Santa Cruz a few years ago that haven't been claimed yet.

While the SPCA has always run their shelter to care for lost

or abandoned animals, costs have skyrocketed with the passage of two laws in 1998.

Assembly bill 1856 (Vincent) was passed in 1998 when the SPCA's current contract with the County was being developed. The law states that no public animal control or rescue group can sell or give away an animal that has not been neutered. The new law also stipulated that a series of fines be charged to owners of non-spayed or non-neutered dogs or cats that are impounded. Costs for these requirements were to be offset by spay and neuter fees and fines collected.

Prior to the Vincent law, the SPCA gave out certificates for reduced cost spays and neuters at local veterinarians. Now they must perform those procedures at their animal shelter.

The cost to animal owners for spay or neuter procedures through the SPCA is between \$33 and \$35, according to Lozano. The agency contracts

with a local veterinarian to provide services. The SPCA takes a loss on each adopted pet.

A check of local veterinarian offices found that it costs, depending on the weight of the animal, between \$140 and \$400 to spay a female dog and \$123 and \$175 to neuter a male. Cats cost between \$75 and \$124 to spay or neuter.

According to Lozano, the local SPCA recorded over \$50,000 in additional spay and neuter costs during the first year the law was in effect, also the first year of a three-year contract with the County that is now the center of debate.

Senate bill 1785 (Hayden) provided in very broad terms that no adoptable animal should be euthanized if it can be adopted into a suitable environment, and no treatable animal should be euthanized. The law also established new holding periods for stray and owner surrendered animals, increasing the stay from three to five days. It costs the SPCA be-

tween \$15 and \$20 a day to hold an animal. The new law increased the SPCA's costs associated with holding an animal by 66 percent.

The Hayden law also requires additional record keeping, established new classes of protected animals, and most fiscally significant, set new standards for medical care of animals in shelters.

Prior to the passage of the Hayden legislation, shelters were not required to treat every animal with medical needs. Now shelters must treat them all.

Adoption Rates Increased with Passage of Bill

Last year, the shelter took in 2,200 dogs and 2,500 cats. Eighty-four percent of the dogs and 63 percent of the cats were eventually adopted.

The adoption process has drawn some ire from residents who have said that the shelter's standards are a bit too stringent.

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contract negotiations wasn't good. There are certain health and safety regulations regarding animal control and welfare that we must comply with. However, with the difficulty they have had with financing in the past, it is difficult to believe they have a sense of what it would take to continue providing [mandated] services."

Phillips stressed that the County had increased funding after the laws originally passed.

"Additionally, they received a 36 percent increase when we negotiated [the last] contract and got increases of 4 [percent] and 7 percent in the first two years of the deal," Phillips added.

SPCA Blames New Law for Cost Overruns

The SPCA cited increased costs in services due to two laws enacted by the state, the AB 1856 (Vincent) and SB 1785 (Hayden), as reasons for much of their budget over-runs (see sidebar).

However, the state mandated changes under the Hayden legisla-

tion did not come with funding to provide for the increases in services. Those costs may be covered when the state considers appropriating funds to pay for these mandated services in 2003.

The County is disputing some of the costs SPCA officials are trying to charge under the County's contract, including \$131,121 for consulting fees, \$76,182 for computer maintenance and upgrades, \$71,192 for animal supplies and \$72,029 for veterinarian services.

The County contends that those costs were not authorized in their contract, while the SPCA says they were necessary expenditures.

"We needed a new phone system because the old one wasn't working. We were getting too many complaints," said Lozano. "We also didn't budget for unforeseen problems [with our computer system]. We hadn't budgeted for it to be maintained. I guess it was not allowed to break."

Some "Costs" Debated

Since the County pays the contracted fee during the year, any expenses disallowed for prior

years would leave the SPCA owing the County. Under the contract with the County, the SPCA was also supposed to hire a staff veterinarian. Since they never have, the County considers that a breach of the terms of their contract.

However, the SPCA says they only received two inquiries about the job due to the high cost of living in the County. They also contend that they need more veterinarian services than their contract called for, in part due to the new law, causing them to contract out for veterinary services and exceeding the negotiated budget.

"We're very fortunate to have one of the country's top specialists in pediatric spays and neuters working with us," said Lozano. "She works on an as-needed basis. In the spring, she may work four days a week due to the increase in the number of pregnant cats we see."

The County and the SPCA had budgeted just over \$32,000 for vet services during the three-year term of their contract. The SPCA spent over \$72,000.

Late Taxes Led to \$40,000 in Penalties and Other Problems

Staying within budget for contract services was only one problem the SPCA faced.

Due to problems with their accounting system, the SPCA did not file payroll and tax filings accurately and on time, so that they incurred over \$40,000 in federal and state penalties, late fees and interest charges.

"Those problems were fixed when we reconstructed our accounting system," said Lozano.

However, County staff contends the most critical issue was the misappropriation of license fees and fines collected by the SPCA. When the agency's expenses exceeded their cash flow from contract allocations, they paid bills by using fines collected for the County and cities, totaling about \$280,000.

The problem developed, in part, because those funds, which were recorded on a separate ledger in their accounting system, were deposited in a general fund account instead of a separate account. As expenses occurred, checks were written to cover them with no awareness over where the

money that was being used had originated.

"We agree that we owe [some] money," said Lozano. "We're working on a way to pay what we owe. That part of our accounting system has been corrected. Since the beginning of the year we've kept current in paying the money we've collected."

What They Owe

What they owe is a difficult question to answer. While County auditors found problems — and the total is likely nearing \$400,000 — there is debate.

A strict reading of the contract could push the total higher. For instance, there are months in which the SPCA provided more services than contracted, while there are months the SPCA didn't provide the minimum service required under the contract. If the County refuses to pay the SPCA for the months when they exceeded service minimums and deduct for the months when the SPCA didn't meet minimums, then the total owed could grow substantial-

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ly. Eventually County Supervisors will have to decide what is disputed and to what lengths they want to go to settle disputes.

“At this point we don’t have a final audit and until then it’s difficult to predict what is going to happen,” County Supervisor and Board Chair Jan Beautz said.

At the Table

Currently, the County, the SPCA and the cities served under the contract have been meeting regularly, at least once a week, to work out a plan.

Each week, city and County representatives are working to decide what part of the SPCA contract should be maintained.

At least one of the city representatives believes the objective is clear.

“The SPCA hasn’t been able to perform their contracted duties in the past,” said Capitola City Manager Richard Hill. “We want to create a situation where they

can [perform their duties], and keep the public’s interests, and money, under control.”

Capitola is withholding contract payments until accounts are reconciled. Capitola pays the SPCA about \$40,000 per year and is owed \$6,000 in fees from prior years — fees that the SPCA was paid to collect and forward to the city, but didn’t.

While the County is not with-

holding any payments, the County isn’t providing any additional funding over the contracted minimum fees.

The County and the SPCA appear to be leaning towards keeping the SPCA with the sheltering duties and with the County and cities taking on the animal control field services.

“We’re working on the costs as

rodents \$15, rabbits \$40 and small caged birds \$10. Those fees include vaccinations.

Turnover a Problem

One of the largest costs to the SPCA is for employees. Turnover, due to low wages and high stress, is almost 50 percent. Many employees quit soon after they have been trained.

Training for field service workers takes between four and six months and includes a Department of Justice background check, weapons training and extensive on-the-job train-

ing. Starting pay is around \$10 an hour.

well as timing issues,” said Phillips. “Obviously, we don’t want there to be a gap in any of the services if we agree to a change.”

Many SPCAs in California have faced similar fiscal challenges. In 1998, the Humane Society of Santa Clara Valley told the cities it contracted with that it would not be able to provide animal control field services. The

ing. Starting pay is around \$10 an hour.

The SPCA presently provides field services including one manager, two animal control officers, one humane officer and one part-time dispatcher. They also have one on-call animal control officer around the clock.

As well as doing routine patrols, the field officers respond to calls including reports of vicious animals attacking people, animals in distress, stray and dead animal pick-up and nuisance investigations.

Research by the County found

seven cities formerly under contract formed a joint powers authority to provide service. The Silicon Valley Animal Control Authority was formed in July of 2000 and is contracting with the local humane society for shelter services only.

“We have to find out where the money has been going,” said Phillips. “The County and the SPCA will continue working together.” □

that the SPCA provides service for a cost of \$7.24 per capita under its current contract, the fifth highest in the state. The average cost in the state is \$6.27 per capita, with the lowest cost being in San Francisco, which spends \$4.12 per capita. The County estimates that the 56 percent increase the agency is asking for in their new contract would raise the per capita rate in Santa Cruz to \$10.90 per resident.

To help reduce cost over runs in their recent budget, the SPCA has not filled four of five open positions dropping service levels to below those allowed in their contract. □

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