



California Department of Food and Agriculture

Poor Management Threatens the Success of the
Pet Lover's Specialized License Plate Program

March 2020

REPORT 2019-121





CALIFORNIA STATE AUDITOR

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March 26, 2020
2019-121

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, my office conducted an audit of the California Department of Food and Agriculture (Food and Agriculture). Our assessment focused on the Pet Lover’s specialized license plate program (Pet Lover’s program), and the following report details the audit’s findings and conclusions. In general, we determined that Food and Agriculture used a significantly flawed selection process in awarding grants for funding free or low-cost animal sterilization services and that although the Pet Lover’s program is at risk of failure due to declining revenue, Food and Agriculture has not adequately responded to this risk to ensure that the program remains viable.

In our review, we found that Food and Agriculture failed to verify the eligibility of grant applicants before awarding grants, which resulted in grants to two ineligible entities. Further, Food and Agriculture’s grant selection process was unfair. Food and Agriculture relied on a single review of each application, but one reviewer consistently scored applications lower than the other reviewers, which likely disadvantaged certain applications. In addition, Food and Agriculture did not always select the highest scoring applications for grant awards.

We also found that revenue for the Pet Lover’s program has declined over the past five years. In fiscal year 2018–19, expenditures exceeded revenue, which could jeopardize the program’s ability to fulfill its mission to fund free or low-cost animal sterilization services. Nevertheless, Food and Agriculture has neglected opportunities to market the program and has done little to try to increase revenue.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle".

ELAINE M. HOWLE, CPA
California State Auditor

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SUMMARY

The California Department of Food and Agriculture (Food and Agriculture) oversees the Pet Lover’s specialized license plate program (Pet Lover’s program), which provides funding for subsidizing free or low-cost animal sterilization services through grant funding to eligible entities. From late 2013 through December 2017, the Veterinary Medical Board was responsible for managing the Pet Lover’s program; however, state law transferred oversight responsibility to Food and Agriculture beginning January 1, 2018. This responsibility includes promoting and marketing the program as well as soliciting grant applications, verifying grant applicant eligibility, and awarding grants to fulfill the program’s purpose. Revenue for the Pet Lover’s program comes from the sale or renewal of license plates that commemorate the program. Our audit revealed evidence of poor management of this program that threatens its success. This report draws the following conclusions:

Food and Agriculture Used a Significantly Flawed Selection Process in Awarding \$330,000 to Grant Applicants

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Food and Agriculture failed to verify grant applicants’ eligibility before making award decisions, resulting in two awards to ineligible entities worth a total of \$35,000. Further, Food and Agriculture’s process for evaluating grant applications resulted in questionable scores and award decisions. Instead of ensuring that multiple technical reviewers had scored each application, Food and Agriculture relied entirely on the score of a single reviewer for each application when making its award decisions. Because one reviewer consistently scored applications lower than the other reviewers did, and Food and Agriculture did not always select the highest-scoring grant applications for grant awards, Food and Agriculture’s process disadvantaged certain applicants.

The Pet Lover’s Program Is at Risk of Failure, but Food and Agriculture Has Not Responded Adequately

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Revenues for the Pet Lover’s program have declined since fiscal year 2015–16, and beginning in fiscal year 2018–19, expenditures exceeded revenue, raising concerns about whether the program can continue to effectively fund free or low-cost animal sterilization services. Despite this decline, Food and Agriculture’s outreach and marketing of the program since January 2018, when it began overseeing the program, have been minimal. Unlike specialized license plate programs that other state agencies administer, Food and Agriculture has not contracted with outside agencies to perform marketing, has not advertised on social media, and has not required grant recipients to use or display promotional items.

Summary of Recommendations

Food and Agriculture should verify that grant applicants are eligible and should have multiple reviewers score each application that progresses to a technical review.

Food and Agriculture should immediately begin using marketing and promotional strategies, such as using social media, to encourage vehicle owners to purchase Pet Lover's specialized license plates.

By August 2020, Food and Agriculture should contract with an eligible nonprofit organization, as state law allows, to carry out additional marketing and promotional activities for the Pet Lover's program.

Agency Comments

Food and Agriculture acknowledges that opportunities exist to improve the Pet Lover's program and stated they would adopt all recommendations where appropriate and consistent with the mission of the program. However, Food and Agriculture expressed concern with characterizations of certain issues within the report.

INTRODUCTION

Background

In 1992 the California Legislature established a process for the Department of Motor Vehicles (DMV) to issue specialized license plates (specialized plates). Specialized plates have a distinctive design or message that publicizes or promotes a state agency or its official policy, mission, or work. A state agency may apply to the DMV to sponsor a specialized license plate program, and the DMV will issue specialized plates for the program if the agency complies with all of the requirements state law outlines. A person applying for a specialized plate must pay fees for the original issuance, renewal, transfer, or replacement of the plate in addition to the regular fees for a new registration or a renewal.

State law generally requires that a state agency submit at least an initial 7,500 applications, along with the necessary fees, to establish a specialized license plate program. In addition, state law generally requires that the number of outstanding and valid specialized plates remain above 7,500. If the number of outstanding and valid specialized plates in a particular program drops to fewer than 7,500, the DMV must inform the sponsoring agency of that fact and must inform the agency that if that number is less than 7,500 after one year from the date of that notification the DMV will no longer issue or replace plates for that program. Specialized plates that were already issued may continue to be used. As Table 1 shows, the DMV currently offers 15 specialized plates. These plates are available for passenger vehicles, commercial vehicles, trailers, and motorcycles.

History and Purpose of the Pet Lover's Program

In 2010 a nonprofit organization—in conjunction with the Veterinary Medical Board (Veterinary Board)—began promoting the sale of Pet Lover's specialized license plates (Pet Lover's plates) in an effort to raise money for free or low-cost animal sterilization services and to help reduce the overpopulation of cats and dogs in the State. The money raised funds grants to eligible veterinary facilities throughout the State. Figure 1 shows the history of the program.

The Veterinary Board faced a number of challenges in establishing and implementing the Pet Lover's specialized license plate program (Pet Lover's program). For example, it was not able to procure 7,500 preorder applications within 12 months, as state law requires. Subsequently, the Legislature approved an extension so that the Veterinary Board could continue gathering applications. By late 2013, the Veterinary Board had collected the requisite number of applications, and the DMV began issuing Pet Lover's plates. In an effort to minimize the cost of managing the Pet Lover's program, the Veterinary Board proposed regulations that would have allowed it to delegate the authority for administering the program to a nonprofit organization. The Veterinary Board then submitted those proposed regulations to the Office of Administrative Law for approval in October 2014. However, in December 2014, the Office of Administrative Law rejected that proposal, in part because it determined that the Veterinary Board did not have the authority to delegate its responsibility for establishing grant application

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Table 1
Total Specialized License Plates in Circulation

LICENSE PLATE TYPE / INITIAL ISSUE DATE	SAMPLE PLATE	PURPOSE OF PLATE	PLATE TOTALS AS OF OCTOBER 1, 2019
Pet Lover's* 2013		To provide funding for free or low-cost spay and neuter programs throughout the State.	7,814
California 1960s Legacy 2015		To benefit environmental projects in California.	787,236
Environmental 1970		To support environmental programs.	685,189 (as of December 31, 2019)
Have a Heart, Be a Star, Help Our Kids 1994		To support programs that keep California's kids safe, which includes child care safety, child abuse prevention, and efforts to prevent childhood injuries.	105,454
California Coastal Commission 1997		To protect and restore California coasts and oceans.	80,883
Lake Tahoe Conservancy 1996		To fund preservation, restoration, and nonmotorized trail projects in the Lake Tahoe area.	64,437
Arts Council 1994		To support the California Arts Council for arts education and local arts programming.	48,901
Yosemite Conservancy 1993		To manage wildlife, restore habitat, and repair trails in Yosemite National Park.	38,434
Veterans' Organizations 2001		To benefit the participating counties' veteran service offices and to commemorate veterans' organizations.	31,637
Firefighters 1995		To maintain the California Firefighters' Memorial at the State Capitol.	19,650
California Memorial 2002		To help California's law enforcement fight threats of terrorism in the State.	16,946
California Museums 2016		To fund museums in California.	10,117
California Agriculture 2013		To support agricultural leadership development, career awareness, and training activities.	6,882†
Breast Cancer Awareness 2017		To raise awareness about breast cancer and the importance of screening in addition to providing breast cancer screening and diagnostic services for underinsured and uninsured women in California.	5,516†
Collegiate 1993		To fund need-based scholarships and grants for participating colleges and universities in California.	1,573†

Source: DMV website and other information provided by DMV.

Note: All license plates can be personalized.

* Our audit focused on the Pet Lover's plate.

† We discuss plates that have fewer than 7,500 plates in circulation later in the report.

procedures and criteria to a nonprofit. In 2016 the Legislature authorized the Veterinary Board to contract with a nonprofit organization to provide advice, consultation, and administrative services for implementing and administering the program.

Figure 1
History of the Pet Lover's Program



Source: State law, legislative history, and documentation from the California Department of Justice, Franchise Tax Board, Secretary of State's Office, Office of Administrative Law, Veterinary Board, DMV, and Food and Agriculture.

However, the Veterinary Board never exercised this option. According to its meeting minutes from early 2016, as the Veterinary Board began to develop guidelines for distributing grant funds and selecting the nonprofit organization, it determined that there were insurmountable concerns involving conflicts of interest. Specifically, some of the Veterinary Board's members were providers of spay and neuter services who could benefit from the grants. Therefore, the Veterinary Board directed its executive officer to identify a further legislative remedy that would transfer the Pet Lover's program to the California Department of Food and Agriculture (Food and Agriculture). Subsequently, the Legislature approved this transfer through an amendment to state law, which granted Food and Agriculture authority to administer the Pet Lover's program beginning on January 1, 2018.

Funding for the Pet Lover's Program

Revenue for the Pet Lover's program comes from original issuance or renewed registrations of Pet Lover's plates and from fees related to transferring a Pet Lover's plate to another vehicle or for obtaining a replacement plate. Table 2 shows that from fiscal years 2013–14 through 2018–19, the program generated nearly \$2.2 million in revenue, and in fiscal year 2018–19, Food and Agriculture entered into grant award agreements worth a total of \$330,000.

Table 2
Program Balance for the Pet Lover's Program

	VETERINARY BOARD					FOOD AND AGRICULTURE
	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Revenue*	\$560,500	\$326,500	\$344,000	\$340,000	\$326,000	\$298,500
Expenditures						
DMV Fees	\$415,000 [†]	\$32,000	\$34,000	\$26,500	\$22,000	\$14,500
Administrative Costs	—	43,500	47,000	49,500	49,500	42,000
Grant Awards	—	—	—	—	—	330,000
Total Expenditures	\$415,000	\$75,500	\$81,000	\$76,000	\$71,500	\$386,500
Balance	\$145,500	\$396,500	\$659,500	\$923,500	\$1,178,000	\$1,090,000

Source: Analysis of documents from the Veterinary Board, DMV, and Food and Agriculture.

* Revenue for the Pet Lover's program comes primarily from new plate fees of \$50 and renewal fees of \$40.

[†] The \$415,000 consists of \$251,000 in start-up costs and \$164,000 in administrative costs for DMV.

State law establishes fees for issuing, renewing, transferring, or replacing specialized plates, such as the Pet Lover's plate, and it requires the DMV to deposit the revenue derived from those fees into the Specialized License Plate Fund after deducting its administrative costs (net revenue). These administrative costs include the costs of issuing new specialized plates, replacement plates, and duplicate plates. The DMV also takes out a one-time fee when starting a new specialized license plate program; the DMV received \$251,000 for start-up costs from the Pet Lover's program in fiscal year 2013–14, which covered the costs of setting up DMV's systems for issuing the Pet Lover's plate. In addition to the start-up costs, the DMV deducted \$164,000 in administrative costs—which covered the costs of issuing new plates—in the program's first year. However, from fiscal years 2014–15 through 2018–19, DMV administrative costs were significantly less, averaging about \$26,000 annually.

After the DMV deposits the net revenue into the Specialized License Plate Fund, state law requires that upon appropriation by the Legislature the funds be allocated to each sponsoring agency in proportion to the amount that is attributable to that agency's specialized license plate program. State law limits the amount of administrative costs that the sponsoring agency for the Pet Lover's program may charge for overseeing the program to 25 percent of funds collected. Neither the Veterinary Board nor Food and Agriculture exceeded that threshold. The Veterinary Board spent \$47,400 on average between fiscal years 2014–15 and 2017–18 on administrative costs—all of which was for marketing the program. In fiscal year 2018–19, Food and Agriculture spent \$42,000 on administrative costs, mostly for salaries and wages.

California's Animal Policy Goal

Since 1999 California has had an animal policy goal that no adoptable or treatable animal be euthanized if it can be adopted into a suitable home. However, according to animal advocacy groups, more than 100,000 animals are euthanized each year in California, and there remain far more animals in need of adoption than people who are able or willing to adopt. Thus, many of those animals in need of adoption are ultimately euthanized. The Governor's budget for fiscal year 2020–21 includes a \$50 million, one-time allocation intended to develop a grant program—which will be managed by the University of California, Davis Koret Shelter Medicine Program—to provide expertise, support, and local assistance to communities to reach the State's animal policy goal in five years. Spay and neuter programs, such as those funded by the Pet Lover's program, help to reduce animal overpopulation and therefore reduce the number of animals who are euthanized,

underscoring the importance of the Pet Lover's program and the benefit it can provide to California. According to estimates in the accepted grant proposals for the Pet Lover's program, the fiscal year 2019–20 grants could result in the spay or neuter of about 6,000 animals for \$330,000 in grants.

Food and Agriculture Used a Significantly Flawed Selection Process in Awarding \$330,000 to Grant Applicants

Key Points

- Food and Agriculture did not verify applicants' grant eligibility, resulting in two awards to ineligible entities totaling \$35,000.
- Food and Agriculture relied on a single reviewer to rank each grant application, which may have disadvantaged some applicants, depending on who reviewed their application. Further, the department did not award grants to some of the highest-ranked applicants.

Food and Agriculture Failed to Verify That Grant Applicants Were Eligible and Funded Two Ineligible Entities

Food and Agriculture failed to ensure that entities that applied for Pet Lover's program grants in fiscal year 2018–19 were eligible, even though it performs an initial review of applications through which it could verify eligibility. After it receives grant applications, Food and Agriculture performs an administrative review of all applications. However, Food and Agriculture does not have written policies or procedures to govern its administrative reviews for the Pet Lover's program beyond an administrative review criteria sheet. This sheet provides a checklist for its staff to verify that grant applications meet basic requirements; if those requirements are met, staff then recommend that the department accept or reject the application. However, Food and Agriculture's administrative review checklist does not specify all of the eligibility requirements grant applicants must meet. Moreover, even though ensuring eligibility is an important initial step in reviewing grant applications, its review of the 51 applications it accepted in fiscal year 2018–19 did not include verifying that applicants were eligible for grant funding. State law sets eligibility requirements for grant recipients (see the text box). For example, grant recipients must be registered with the Veterinary Board and must be overseen by a manager licensed by the Veterinary Board. However, when we reviewed the documentation that Food and Agriculture provided, we found that it did not attempt to contact the Veterinary Board to verify that the entities it offered grants to satisfied either of these requirements, and it made an incomplete attempt to verify that they met the

Grant Eligibility Requirements for Entities That Provide No-Cost or Low-Cost Sterilization Services

1. Registered and in good standing with the Veterinary Board.
2. Overseen by a responsible manager who is licensed and in good standing with the Veterinary Board.
3. Operated by a city, county, city and county, animal care or control agency, or a nonprofit organization that meets certain requirements.
4. Certain otherwise eligible entities must also be current on their yearly rabies reporting requirements.

Source: State law.

requirement concerning rabies reporting. Food and Agriculture did ensure that grant applicants met the third requirement—that they be operated by an appropriate entity.

Because it did not conduct a complete eligibility verification in fiscal year 2018–19, Food and Agriculture ultimately awarded grants to two entities that were ineligible for funding. We independently determined the eligibility of the 11 entities Food and Agriculture awarded grants to that year and found that two entities—the city of Turlock Animal Services and the city of Lake Elsinore—were neither registered with the Veterinary Board nor overseen by a manager who was licensed by the Veterinary Board. As a result, these entities were ineligible under state law for Pet Lover’s program grants. Although Food and Agriculture indicated that it attempted to verify the eligibility of the grant recipients and acknowledged that it made a mistake in determining the eligibility of those two entities, as we noted above, its attempts to verify the eligibility of the entities to which it offered grants were insufficient. Nevertheless, Food and Agriculture granted these two entities a total of \$35,000—funding that it should have directed to eligible entities. Although we informed Food and Agriculture of this issue in early January 2020, it did not issue notices of suspension to require those entities to gain eligibility or have their grant awards terminated until mid-February 2020. Regardless of the outcome of that process, Food and Agriculture must address this gap in its review process to ensure that it does not continue to make awards to ineligible entities.

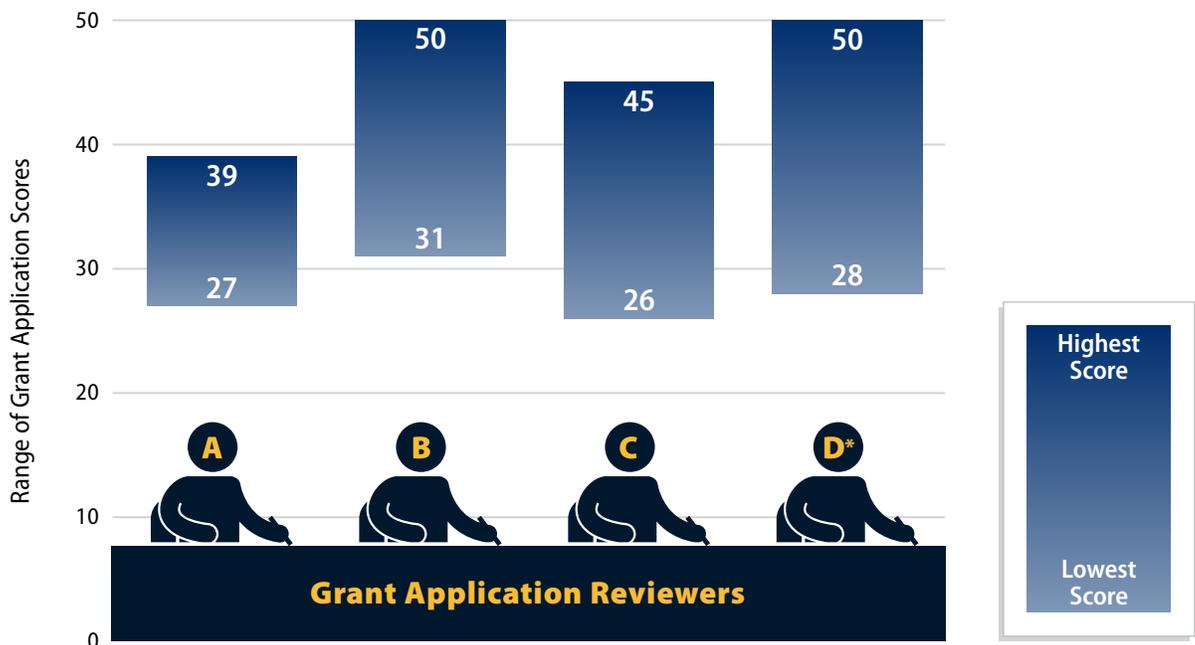
Food and Agriculture’s Flawed Application Scoring Process Resulted in Questionable Scores and Award Decisions

Food and Agriculture used a deficient process for evaluating and scoring applications that could have unduly reduced opportunities for certain applicants. After the administrative review of applications, Food and Agriculture used a panel of reviewers to perform a technical and qualitative review of the 51 grant applications that had passed the administrative review. The department eventually based its grantee selections on the results of those technical and qualitative reviews. Food and Agriculture provided the reviewers with guidelines for evaluating the applications as well as parameters for the scores. Specifically, it set the maximum score for each application at 50 points, based on the reviewer’s evaluation of five areas of the application, including project purpose, awareness, work plan, evaluation and performance monitoring plan, and budget narrative. Food and Agriculture assigned each of the four reviewers between 12 and 13 grant applications for review. Once a reviewer scored an application, that application received no further review from other reviewers.

Consequently, Food and Agriculture relied on only one person’s opinion of each application when it determined which applications to select for grant awards.

As a result of the single-reviewer approach, Food and Agriculture cannot ensure that it identified the most qualified grant applicants. An application process that relies on only a single reviewer is less robust than one where multiple reviewers evaluate each application, because a single-reviewer approach is susceptible to inconsistency among reviewers. Such a process risks that the applications scored by some reviewers will receive either an overly harsh or unacceptably light level of review. In fact, during the application review, there was a significant disparity in scores between one of the reviewers and the other three. Therefore, the grant applications evaluated by the low-scoring reviewer may have received lower scores than they might have if the other reviewers had also evaluated them. Figure 2 shows the disparity in application scores. Because of the reliance on one reviewer for each application, Food and Agriculture increased the risk that an individual reviewer’s approach could unduly hurt or help applicants assigned to that reviewer.

Figure 2
 One Reviewer’s Application Scores Were Significantly Lower, Resulting in Some Applicants Being Disadvantaged



Source: Analysis of Food and Agriculture’s application review documents.

* Reviewer D also gave one grant application a score of 5, but this score was an outlier and thus was excluded from this analysis.

When we asked about the flaws in its single-reviewer approach, Food and Agriculture acknowledged that the process was not optimal. Under optimal circumstances, it would ensure that there are multiple reviewers for each grant application, as it does for the other specialized license plate program it manages—the California Agriculture (CalAg) plate program. The department explained that it took the single-reviewer approach because only four individuals applied to perform qualitative reviews, and it was operating under a compressed time frame of only four weeks to review grant applications. However, we see problems with this explanation. Specifically, the compressed time frame Food and Agriculture refers to, which was actually less than four weeks, was self-imposed. State law authorized the department to begin overseeing the Pet Lover’s program on January 1, 2018, yet it did not release its request for grant applications until mid-January 2019, more than one year later. According to Food and Agriculture, this delay occurred because it did not receive budgetary authority until July 2018, and after receiving budget authority, it incorporated time into the process to allow the public to comment on its proposed grant application. However, it was aware that it was receiving responsibility for the program several months earlier, as evidenced by a budget proposal it filed in January 2018 to obtain funding for administering the program. Additionally, it did not request public comment on its grant application until December 2018—six months after it received budget authority. Therefore, in our judgment Food and Agriculture set its own time frame when implementing the program. Had it begun soliciting grant applications earlier, it would have had ample time to ensure multiple reviews of each application.

The scoring process notwithstanding, Food and Agriculture also did not select the highest-scoring grant applications when it made grant award decisions, which creates additional questions about the fairness of its award process. As Table 3 shows, Food and Agriculture’s selection methodology resulted in it selecting some grant applications that received scores significantly lower than those of some of the applications it did not select. The department does not have policies and procedures governing its grant selection process for the Pet Lover’s program, and it did not document why it selected those grant applicants. Food and Agriculture asserted that because each application received only a single qualitative review, it endeavored to select the two highest-scoring applications from each reviewer and the next two highest-scoring applications from the two reviewers with the highest average scores. However, Food and Agriculture did not consistently follow this approach. Specifically, we found that the department did not select the Sacramento SPCA even though it was the highest-scoring application from one of its reviewers and received a higher score than three applications that did receive grant awards.

Table 3
Food and Agriculture Awarded Grants to Lower-Scoring Applications

GRANT APPLICATION SCORE	SELECTED FOR GRANT AWARD
50	Yes
50	Yes
48	No
48	No
47	Yes
46	No
46	No
46	Yes
46	Yes
45	No
44	Yes
44	No
44	No
43	No
42	No
41	No
40	No
40	No
39	Yes*
39	Yes*

Source: Analysis of Food and Agriculture’s application review documents.

* These two applications were the highest scoring from one reviewer.

When we brought the Sacramento SPCA application to the attention of Food and Agriculture’s staff, they were unaware they had not selected the highest-ranked application from each reviewer. Because the department did not document the reason for its ultimate selection of grant applications, it was unable to explain this oversight, stating only that it was an error in the selection process. Moreover,

Food and Agriculture did not take any action to address this deficiency until nearly two months after we brought it to its attention. Specifically, it did not contact the Sacramento SPCA until mid-February 2020 to rectify this mistake by offering it a grant of \$49,000.

Although Food and Agriculture's past grant process was flawed, it is making changes for Pet Lover's program grants it will award for fiscal year 2019–20. Food and Agriculture broadened its outreach to recruit volunteer application reviewers, and stated in February 2020 that it has forwarded a list of 10 reviewers to Food and Agriculture's secretary for approval. Further, according to the grant manager, Food and Agriculture expects to have three teams of at least three reviewers each and expects each team to review about 12 applications. If Food and Agriculture follows through with its plan for multiple reviewers, it should be well positioned to have a more fair and equitable grant process for fiscal year 2019–20. Nevertheless, Food and Agriculture has not yet adopted written policies and procedures for its grant-making process. Without formal policies and procedures guiding its efforts, Food and Agriculture risks repeating some of the mistakes of the past. When it does not take proactive steps to ensure that it is making grant awards in a fair and defensible manner, Food and Agriculture risks losing the public's trust in its handling of the money from the registration fees they paid for a Pet Lover's plate. A decline in public trust and support can lead to decreased program support and revenue and subsequent decreased funding for free or low-cost spay or neuter services.

Recommendations

In order to ensure a fair and defensible grant award process for the Pet Lover's program, Food and Agriculture should immediately adopt and begin following policies and procedures that direct its staff to do the following:

- Verify and document that grant applicants are eligible for funding from the Pet Lover's program before forwarding the applications to the technical review panel.
- Have multiple reviewers score each application that progresses to a technical review.
- Select the highest-ranked applications to receive grant awards, and document the reasons for these selections.

To correct its error in making grants to ineligible entities, by June 2020 Food and Agriculture should complete efforts to either cancel those contracts and recoup unspent funds from the two ineligible organizations or work with those organizations to ensure that they meet eligibility requirements.

The Pet Lover's Program Is at Risk of Failure, but Food and Agriculture Has Not Responded Adequately

Key Points

- If Food and Agriculture does not increase participation in the Pet Lover's program, revenue for the program will continue to decline, likely reducing access to free or low-cost spay or neuter services.
- Although it has overseen the Pet Lover's program since January 2018, Food and Agriculture has engaged in minimal marketing and promotional activities to encourage California vehicle owners to purchase Pet Lover's plates.

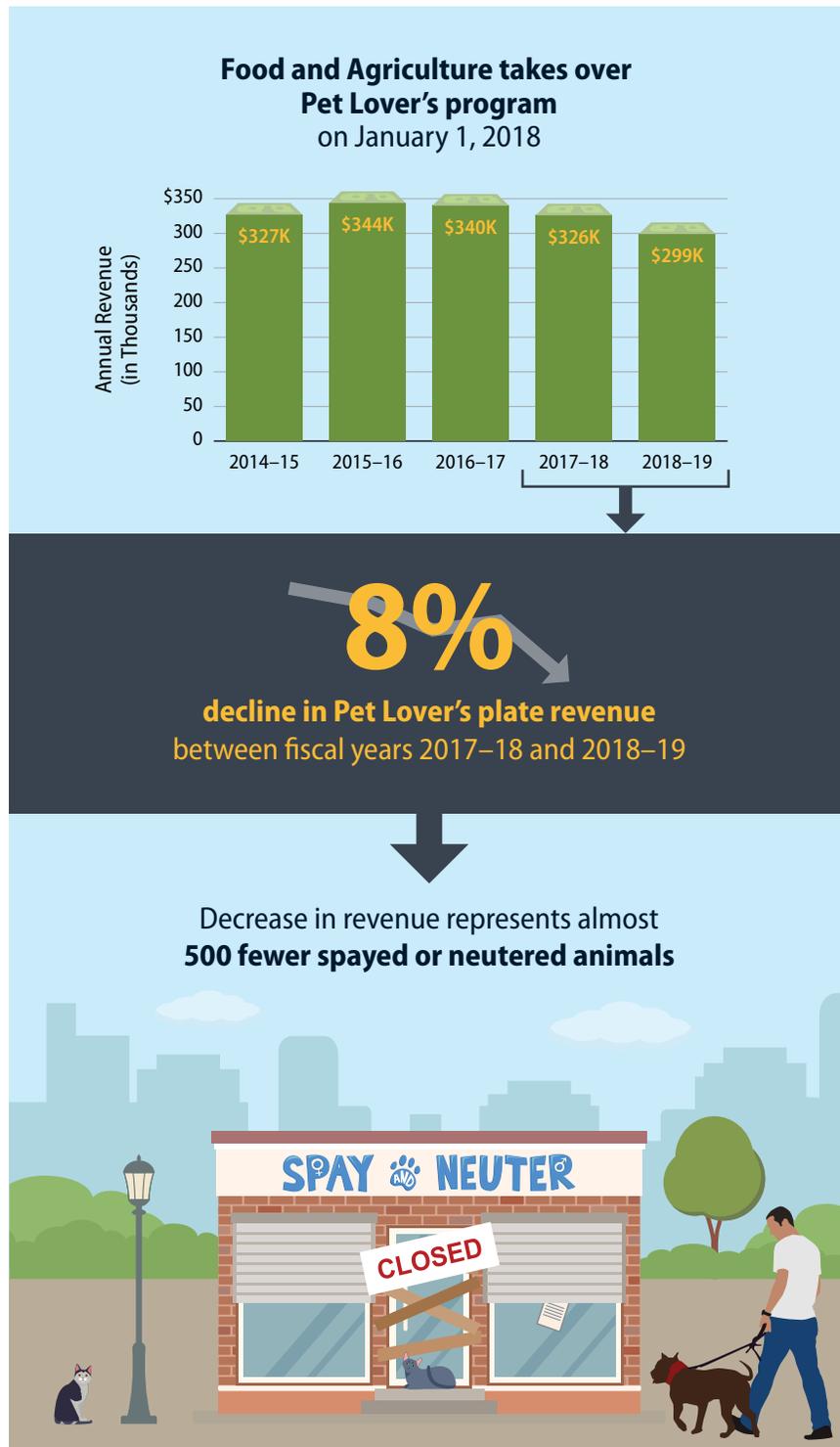
Access to Free or Low-Cost Spay or Neuter Services May Be Significantly Reduced if Pet Lover's Plate Enrollment Does Not Increase

If Food and Agriculture cannot increase the number of registered plates, the Pet Lover's program may fail. Revenue for the Pet Lover's program comes primarily from the fees persons pay when they register for a Pet Lover's plate for the first time or when they renew. Because the DMV incurs higher administrative costs for new registrations, plate renewals deliver the most funding. Therefore, to sustain the grant awards to provide free or low-cost spay or neuter services at their current level or increase them, Food and Agriculture must build a strong base of these specialized plates in circulation so that it can fund grants from plate renewal fees.

However, plate registration activity in the Pet Lover's program in the last few years has been declining, even before Food and Agriculture took over the program in January 2018. Initial registrations have declined in each year of the program since fiscal year 2013–14. Further, revenue for the program has declined, as Figure 3 shows, since fiscal year 2015–16. Although it is reasonable to assume that initial registrations will fluctuate year by year, building a larger base of registered plates is critical to maintaining a high level of funding from one year to the next. Without a large base of consumers renewing their Pet Lover's plates, funding for the program will continue to decline. As we discuss in the next section, Food and Agriculture has conducted only minimal marketing to encourage the purchase of Pet Lover's plates, which may have contributed to the decline in plate registrations and, thus, decreased funding available for low-cost spay or neuter services.

Program revenue declined by 8 percent between fiscal years 2017–18 and 2018–19. This is of particular concern because continued declines will lead to decreased grant funding for free or low-cost spay and neuter services. For example, as Figure 3 shows, this 8 percent decline represents almost 500 fewer spayed or neutered animals. As Table 2 in the Introduction shows, revenue for fiscal year 2018–19 was less than the amount of funding that Food and Agriculture granted through awards in that year. If grant awards continue to exceed revenue, the Pet Lover's program fund balance will continue to dwindle. Moreover, if the declining revenue trends continue, Food and Agriculture will need to reduce grant funding, which would likely result in reduced access to free or low-cost sterilization services.

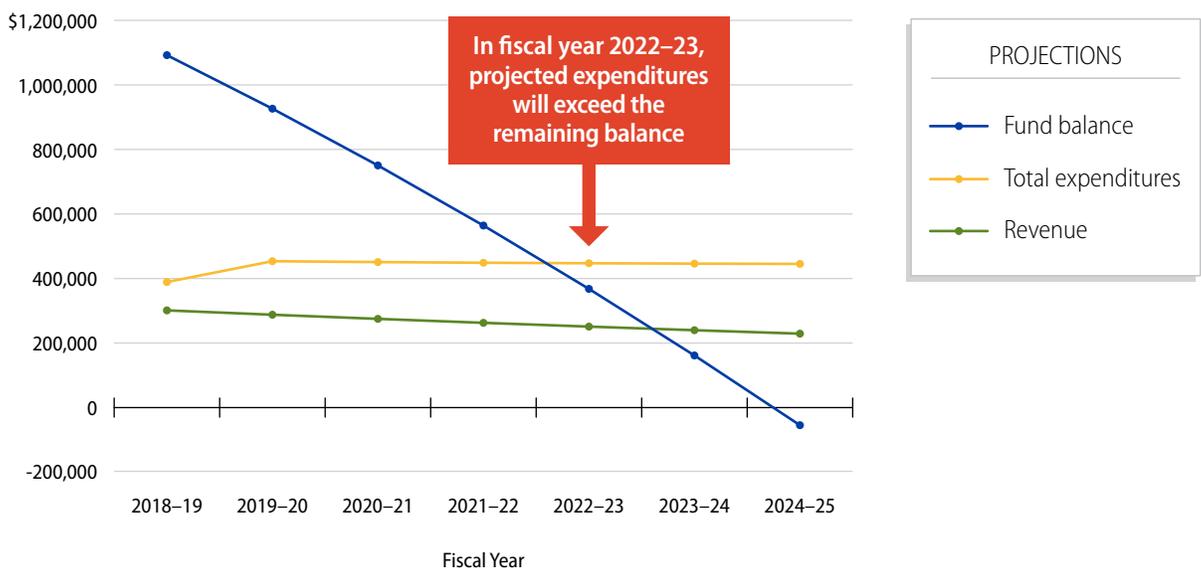
Figure 3
Pet Lover's Revenue Continued to Decline With Food and Agriculture's Oversight of the Program



Source: Analysis of revenue documents from Food and Agriculture, DMV, and the Veterinary Board.

Unless Food and Agriculture increases revenue by marketing the Pet Lover’s program to increase initial registrations and renewals, we estimate that the program will have to significantly reduce the amount of grant funding it offers within the next five years. As Figure 4 shows, if the rate of decline of the program’s revenue remains constant and current expenditure levels do not change, expenditures will exceed the fund balance in fiscal year 2022–23, and the program will exhaust its fund balance in fiscal year 2024–25. Thus, without additional revenue, Food and Agriculture will have to decrease the amount of Pet Lover’s program grant funding it provides to eligible entities that offer free or low-cost animal sterilization services. We analyzed the 11 grant contracts that Food and Agriculture entered into for the Pet Lover’s program in fiscal year 2019–20, and found that 10 included estimates on the number of cats and dogs they would spay or neuter. Based on those estimates, we found that, on average, the Pet Lover’s program results in the spaying or neutering of about 180 cats and dogs for every \$10,000 it offers in grants—meaning it would result in sterilizing roughly 6,000 cats and dogs if grant awards remain at \$330,000, as we describe in the Introduction. Based on our estimates, in fiscal year 2024–25, Pet Lover’s program revenue would be only about \$227,000—meaning that Food and Agriculture would have to decrease its grant awards by more than \$103,000 and Pet Lover’s grant recipients would spay or neuter about 1,800 fewer animals.

Figure 4
The Pet Lover’s Program Could Be Insolvent in Fiscal Year 2024–25



Source: Analysis of financial records from Food and Agriculture.

Note: This projection assumes that expenditures will remain constant and revenue will decline at a constant rate.

The availability of new Pet Lover's plates is also at risk. As we describe in the Introduction, if the number of outstanding and valid specialized plates for a particular program drops below 7,500, state law generally requires the DMV to notify the sponsoring agency of that fact and inform it that if that number remains below 7,500 one year from the date of the DMV notification, the DMV will no longer issue new or replacement plates for that particular program. According to recent data from the DMV, the Pet Lover's plate has approximately 7,800 enrollees; however, initial plate purchases have been declining since the DMV began issuing the plates in 2013. Therefore, if the decline in plate enrollment continues, the Pet Lover's program will drop below this important statutory threshold.

According to the DMV, it has never stopped issuing new or replacement plates for other specialized license plate programs that have fallen below the 7,500 threshold. As Table 1 in the Introduction shows, three specialized plates—the Collegiate, CalAg, and Breast Cancer Awareness plates—currently have fewer than 7,500 plate owners. However, consistent with the DMV's statements, all three of these specialized plates remain available for purchase. When we asked the DMV why these plates are still available, the DMV acknowledged that state law requires it to cancel plates with insufficient enrollment.

.....

**Three specialized plates currently
have fewer than 7,500 plate owners
yet remain available for purchase.**

.....

However, the DMV also explained that the State benefits from the continued existence of those specialized license plate programs whose circulation has fallen below the legally mandated threshold. According to DMV data, even the specialized plate with the lowest circulation, the Collegiate license plate, generated about \$30,000 in revenue from 2019 renewals. If the Pet Lover's program revenue fell to \$30,000, it could still offer grants that would sterilize roughly 540 animals. Consequently, this continued benefit emphasizes the potential value of a legislative change to revise the law that otherwise prohibits the DMV from issuing or replacing specialized plates for a particular program if the number of outstanding and valid plates for that program falls below 7,500. Instead, the Legislature could allow the DMV or the sponsoring agency to determine when to eliminate a specialized license plate program if it is no longer financially viable or no longer

supports the purposes of the program. This legislative change would allow Californians to continue to benefit from the services funded by the sales and renewals of specialized plates.

If revenue for the Pet Lover’s program continues to decline, the programs or entities receiving grant funds may need to reduce services. For example, one current grant recipient plans to focus its Pet Lover’s funding on subsidizing low-cost spay or neuter services for the 10 zip codes in its city that have the highest number of stray dogs and cats. This recipient estimated that it could provide an additional 600 spay or neuter services with its grant award to help end pet overpopulation and reduce euthanasia rates. Without financial support from the Pet Lover’s program, grantees may not be able to provide those services to as many animals, undermining the State’s policy that no treatable animal be euthanized if it can be adopted into a suitable home.

Food and Agriculture Has Performed Very Little Outreach or Marketing Activity to Support the Pet Lover’s Program

Although it assumed authority for the Pet Lover’s program in January 2018, Food and Agriculture performed only minimal activities to promote and market the program in 2018 and 2019. For example, Food and Agriculture did not ensure that the Pet Lover’s plate remained on promotional flyers with information about all of the specialized plates shown in Table 1 that the DMV sends with vehicle renewal registration packets. From 2014 through 2017, the Veterinary Board ensured that the Pet Lover’s plate appeared on these promotional flyers. The flyers include a photo of each specialized plate, a short description of the programs or services that revenue from the plates supports, and an application for purchasing one of the specialized plates. To continue this practice, Food and Agriculture needed to verify that the previous year’s text and logo were accurate, complete an order form, and pay around \$33,000—about 1 cent for each flyer—to the Office of State Publishing to cover the cost of printing the flyers; this is the same process other specialty license plate programs followed.

.....
Food and Agriculture did not ensure that the Pet Lover’s plate remained on promotional flyers that the DMV sends with vehicle renewal registration packets.
.....

Food and Agriculture stated it did not have the budget authority for the flyers until July 1, 2018; however, it could have done more to ensure the plate remained on the flyer for 2018. When we spoke to the California Coastal Commission (Coastal Commission), which coordinates the DMV flyer printing process, it stated that it does not reach out to specialized license plate programs until February or March. Further, because the flyers begin printing around the end of the fiscal year, the Coastal Commission is able to work with programs to bill for the flyers in the current or next fiscal year. Therefore, given this flexibility in billing and Food and Agriculture's acknowledgment of the urgent need to encourage new plate registrations and plate renewals, we expected that Food and Agriculture would have done all it could to ensure that the Pet Lover's plate remained on the DMV flyers, but it did not do so. Given that the DMV expected to mail about 30 million of these flyers in 2019, this marketing tool might have been the most cost-effective method for Food and Agriculture to reach potential plate purchasers. Food and Agriculture did eventually place the Pet Lover's plate on the current DMV flyer.

When we asked Food and Agriculture why it did not do more to market or publicize the Pet Lover's program, the grant manager indicated that Food and Agriculture had been focused primarily on awarding Pet Lover's grants. The deputy secretary for legislative affairs added that Food and Agriculture was also focused on hiring staff to manage the program, and responding to stakeholder concerns about ensuring that Food and Agriculture awarded grants for fiscal year 2018–19. Nevertheless, had Food and Agriculture taken action to keep the plate on the DMV flyer, it might have increased enrollment in the program, which would have created additional funding for grant recipients.

There are other promotional activities that would likely benefit the program. As Figure 5 illustrates, Food and Agriculture has not conducted a full range of marketing and promotional activities for the Pet Lover's plate, in contrast with the marketing and promotional activities of four other state specialized license plate programs—including another plate for which Food and Agriculture is responsible. The officials of other plate programs indicated that marketing was a key to successfully maintaining revenue for their plate programs. For example, the Coastal Commission stated that digital marketing is the most cost-effective method, especially on social media platforms, as that strategy provides the opportunity and flexibility to tailor advertising to targeted audiences. The California Department of Public Health also echoed this sentiment and indicated that it is currently focusing on reinventing the Have a Heart, Be a Star, Help Our Kids plate social media campaign.

Figure 5
Food and Agriculture Has Failed to Adequately Market or Promote the Pet Lover’s Program

Specialized License Plate Program / Sponsoring Agency	DMV Flyer	Social media	Plate website	Require grantees to promote the program	Contracted for marketing services
 Pet Lover's / Food and Agriculture	X*	X	✓	X	X
 CalAg / Food and Agriculture	X	✓	✓	X	X
 Arts / California Arts Council	✓	✓	✓	✓	✓
 Kids' / Social Services and Public Health	✓	✓	✓	X	✓
 Whale Tail / Coastal Commission	✓	✓	✓	✓	✓

Source: Specialized license plate program websites, sponsoring agencies’ social media accounts and websites, interviews with staff at sponsoring agencies, and documentation from the DMV.

* Although Food and Agriculture took action to include the Pet Lover’s plate on the 2019 inserts, it did not do so for the 2018 DMV inserts.

Additionally, state law allows Food and Agriculture to use part of the funds collected from the issuance of the Pet Lover's plate to contract with an eligible nonprofit organization to perform marketing and promotional activities. We spoke with the sponsoring agencies for three other specialized license plate programs, and they all reported hiring, at some point during the course of their plate's history, a contractor to conduct market research, develop marketing campaigns, and create marketing and promotional materials. Each agency recommended hiring a contractor to perform marketing to improve the success of the program if there are the resources to do so. Although this may be a costly option, we believe the benefits would far outweigh the costs, as it would likely generate increased purchases and renewals of the Pet Lover's plate.

As we noted above, Food and Agriculture stated that its promotional and marketing activities have been lacking because its primary focus has been on awarding grants—at the request of stakeholders—and on hiring staff to manage the program. This explanation seems to further emphasize the importance of using a nonprofit organization as a partner for marketing and outreach. Documentation that Food and Agriculture provided us noted some collaboration with a nonprofit organization for advice and consultation in developing and implementing the grant program, as state law requires. However, it did not seek assistance from a nonprofit organization for marketing and outreach as state law allows. After we asked Food and Agriculture if it planned to contract for marketing activities in the future, the grants manager stated that he had hoped to issue a request for proposals in early 2020 to procure a partner to perform marketing of the Pet Lover's program in fiscal year 2020–21. However, he had not yet done so as of late February 2020.

Although a focus on awarding grants is understandable, if Food and Agriculture had identified and implemented other marketing strategies, in addition to having a website for the Pet Lover's plate, it might have increased the accessibility of spay or neuter programs by increasing revenue in the Pet Lover's program. In addition, it would have protected against the risk that the recent decline in program revenue would continue and that it would be unable to fund the services that the program is intended to support. To ensure that it can continue to provide support toward the State's goals for reducing animal overpopulation, it is important that Food and Agriculture begin marketing the Pet Lover's program immediately.

Recommendations

Legislature

To ensure the continued benefits of the specialized license plate programs, the Legislature should revise state law to allow a specialized license plate program to continue, regardless of the number of plates, unless the DMV or the agency determines that the program is no longer financially viable or no longer supports the purposes of the program.

Food and Agriculture

To ensure that the Pet Lover's program remains viable, Food and Agriculture should immediately begin using marketing and promotional strategies similar to those used by other specialized license plate programs to encourage vehicle owners to purchase the Pet Lover's plate, and should continue to ensure that the Pet Lover's plate remains on DMV flyers.

To improve the effectiveness of marketing of the Pet Lover's program, by August 2020 Food and Agriculture should contract with an eligible nonprofit organization, as state law allows, to carry out additional marketing and promotional activities for the program.

We conducted this audit under the authority vested in the California State Auditor by Government Code 8543 et seq. and according to 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 specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
California State Auditor

March 26, 2020

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APPENDIX

Scope and Methodology

The Joint Legislative Audit Committee (Audit Committee) directed the California State Auditor to examine Food and Agriculture’s oversight of the Pet Lover’s Fund. Specifically, we reviewed Food and Agriculture’s processes and plans for awarding grants and promoting the Pet Lover’s plate. The table below lists the objectives that the Audit Committee approved and the methods we used to address them.

Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
<p>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</p>	<p>Reviewed relevant state laws, rules, regulations, and best practices related to the Pet Lover’s program, including the authority and responsibilities of the Veterinary Board and Food and Agriculture.</p>
<p>2 To determine whether the program fund is administered in accordance with applicable requirements and Food and Agriculture is using funding for its intended purpose, conduct the following:</p> <ul style="list-style-type: none"> a. Identify the current balance available in the program fund. b. Identify the total amount of funding generated and awarded through the program since its inception. c. Determine the program fund’s annual costs, including administrative costs and expenditures for marketing and promotional activities. 	<ul style="list-style-type: none"> • Reviewed financial reports from Food and Agriculture and the DMV to identify the total funding generated and the current balance in the program fund. • Reviewed financial reports to identify the total amount of grant funding awarded since the program’s inception and to determine the program’s annual costs, including administrative costs and expenditures for marketing and promotional activities. • Assessed whether the administrative costs the Veterinary Board and Food and Agriculture incurred annually were within 25 percent of funds collected as state law requires.
<p>3 Review and evaluate the process for distributing the program’s funds from the time Food and Agriculture receives them, including the length of time it takes for funds to pass through each stage before being awarded as grants, and whether the process for awarding grants meets statutory requirements.</p>	<p>Interviewed staff and reviewed documentation from Food and Agriculture to determine the time it took to disburse funds for grants, from receipt to payment of invoice. Food and Agriculture pays grants on a reimbursement basis. We reviewed an invoice from each grantee and found that Food and Agriculture paid them within a reasonable time frame.</p>
<p>4 Identify the efforts that Food and Agriculture has made to collaborate with eligible nonprofit organizations in developing and implementing the program. In addition, determine whether Food and Agriculture has contracted for marketing and promotional activities as allowed.</p>	<ul style="list-style-type: none"> • Interviewed staff and reviewed documents to determine whether Food and Agriculture contracted with a nonprofit organization for marketing and promotional activities. Also interviewed its staff to determine its future plans for marketing and promotional activities, including whether it plans to contract with a nonprofit organization for those services. • Judgmentally selected three California specialized license plate programs—Arts, Kids’, and Whale Tail plates—based on the highest number of registered plates in fiscal year 2018–19 and similarities in the grant-awarding process. Interviewed staff at the sponsoring agencies of those programs and reviewed available documentation to identify the marketing practices they use for their programs. Also performed the same procedures for the CalAg plate because Food and Agriculture administers it.

continued on next page...

AUDIT OBJECTIVE	METHOD
<p>5 Review and evaluate Food and Agriculture's policies, procedures, and practices for awarding the program's grants to veterinary facilities to determine the following:</p> <p>a. The process for awarding program fund grants is consistent with applicable requirements and best practices, including that the process prioritizes any specific characteristics of veterinary facilities.</p> <p>b. For a selection of approved and denied grant applications, evaluate whether Food and Agriculture awarded or denied grant funds consistent with statutory requirements.</p>	<ul style="list-style-type: none"> • Interviewed staff and evaluated a selection of denied and awarded grant applications, including the scoring of submitted applications, to determine whether Food and Agriculture prioritized any specific characteristics when awarding grants. • Using the same selection of grant applications, evaluated documentation and interviewed Food and Agriculture staff to determine whether its process for awarding grants was consistent with applicable statutory requirements, relevant guidelines, and best practices. • Interviewed staff and reviewed available guidelines and other relevant documents to assess whether Food and Agriculture's practices ensured that it only awarded grants to eligible veterinary facilities as state law requires.
<p>6 Identify the nonprofit organizations that contributed to the advancement of the program by securing plate registrations, and assess Food and Agriculture's process for receiving input from these organizations.</p>	<ul style="list-style-type: none"> • Interviewed Food and Agriculture staff and reviewed relevant documentation to identify the nonprofit organization that contributed to the advancement of the Pet Lover's program. • Based on interviews with Food and Agriculture staff and review of available documentation, we concluded that Food and Agriculture's practice for receiving input from this nonprofit organization was reasonable.
<p>7 Review and assess any other issues that are significant to the audit.</p>	<p>Interviewed Veterinary Board staff and reviewed documentation to determine how it spent administrative funds in fiscal years 2013–14 through 2017–18, and whether the spending complied with statutory requirements.</p>

Source: Analysis of Audit Committee's audit request number 2019-121, state law, and information and documentation identified in the column titled Method.



March 9, 2020

Elaine M. Howle*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, California 95814

Re: California Department of Food and Agriculture Response to Draft Audit Report
2019-121

Dear Ms. Howle:

The California Department of Food and Agriculture (CDFA) appreciates the California State Auditor's (CSA) examination of the Pet Lover's Specialized License Plate Program (Pet Lover's Program) and acknowledges that opportunities exist to improve the program and facilitate no-cost and low-cost spay and neuter services. CDFA offers the following responses to the CSA audit which focused on CDFA's processes and plans for awarding grants and promoting the Pet Lover's Program.

The audit confirmed that CDFA's practice for receiving input from the nonprofit organization that contributed to the advancement of the Pet Lover's Program by securing plate registrations was reasonable. It also confirmed that administrative costs were within 25 percent of funds collected as state law requires. The audit also found that CDFA paid invoices for project activities by subrecipients within a reasonable timeframe.

Audit findings that address ways to strengthen the grant award process by documenting that grant applicants are eligible for funding from the Pet Lover's Program have largely been adopted already. CDFA has provided written explanations to CSA of such efforts and offered to provide documentation in support of the augmented process. ①

Similarly, CDFA has undertaken substantial efforts to increase participation in its volunteer technical review process for Pet Lover's grant applications since Spring, 2019, the first year CDFA administered the program. As a result of those efforts, the number of technical reviewers has substantially increased from 4 the inaugural year of the program to 10 the second year. While the technical review process for the 2020 Pet



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Lover's Program has just begun, each Pet Lover's Program application will be evaluated by multiple reviewers.

- ② ③ Finally, CDFA will formalize and document the process for selection of Pet Lover's Program applications that will receive grant awards. On page 33 of the draft report one full paragraph of the recommendations section was redacted and CDFA cannot respond to an unknown recommendation. Nonetheless, CDFA will adopt all recommended practices where appropriate and consistent with CDFA's mission and the purpose of the Pet Lover's Program.
- ④ CDFA is concerned by certain characterizations contained in the report that result in an incomplete narrative of the Pet Lover's Program to date; unfairly depict the efforts of the volunteer technical reviewers in the first year of the program; and, understate both the impacts of the timeframe for budgetary authority and CDFA's efforts to expedite implementation of the Pet Lover's Program to ensure funds actually support their intended purpose.

Grant Selection Process

- CDFA acknowledges that the process and documentation for verification of eligibility of Pet Lover's Program grant applicants was not adequate and steps have already been taken to remedy these weaknesses. It is stated on page 14 of the draft report that
- ⑤ CDFA only verified one of the four requirements of the program that are highlighted in the text box on that page. This statement is incorrect. In interviews with CSA, CDFA staff described efforts to meet all four eligibility requirements. However, CDFA acknowledges that documentation of those efforts, particularly related to the first and second requirements, was not complete.
 - ⑥ The report states that CDFA did not contact the Veterinary Medical Board (VMB) to verify eligibility. Such effort is unnecessary when verification can be obtained by utilizing the Department of Consumer Affairs License Search website: <https://search.dca.ca.gov/>. The process of documenting search results from the license search is one of the steps now being undertaken by CDFA to enhance its administrative review. To address the yearly rabies reporting requirements, CSA has been collecting documentation to verify current reporting of applicants to CDFA's 2019 spay and neuter grant programs since October 7, 2019.
 - ⑦
 - ⑧ CDFA acknowledges that two Pet Lover's Program awards were made to ineligible applicants. While funding was awarded to ineligible applicants, additional context relevant to this circumstance is not included in the draft report. Both applicants that

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were incorrectly selected to receive funding are city animal control agencies. Neither operates a veterinary medical facility; however, both agencies contracted 100 percent of their award to licensed veterinary medical facilities overseen by a manager licensed and in good standing with VMB. Additionally, all grant funds invoiced to CDFA to date have supported eligible costs to provide no-cost or low-cost animal sterilization services in communities of need. Finally, page 15 of the draft report describes in general terms the timeframe between CDFA being made aware of the eligibility concerns with these recipients and the time that the projects were suspended. It should be noted no payment was made by CDFA to either recipient during the timeframe in question.

② ⑨

Throughout the draft report, beginning on page 15 there are references to “questionable scores” as it relates to the technical review process. CDFA acknowledges that the technical review process was not optimal. The program utilizes volunteer reviewers and the number of volunteers was inadequate to ensure a robust process given the number of applications received. The draft report indicates that a longer technical review period would be sufficient to overcome this lack of volunteer interest. The CDFA does not agree with this assessment and has expressed to CSA its concern that excessive time or effort demand on volunteer reviewers might lessen the likelihood of continued volunteer support. Repeated use of the phrase “questionable scores” suggests either a flaw in the scoring methodology or a concern with the efforts of the volunteer technical reviewers that is not supported by the draft report.

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Marketing Efforts, Timeline for Program Implementation, and the Impacts of Budget Authority and Available Funding

While the draft report notes on page 3 that beginning in fiscal year 2018-19, expenditures for the Pet Lover’s Program exceeded revenue for the first time, it lacks additional context to support the narrative of inadequate action on the part of CDFA to oversee the program. While expenditures exceeded revenues, it is not a result of inadequate management by CDFA. Expenditures exceeded revenues in fiscal year 2018-19 because this was the very first fiscal year that funds were awarded and distributed to achieve the mission of the Pet Lover’s Program to provide no-cost and low-cost spay and neuter services.

② ⑪

CDFA’s approved budget authority for the Pet Lover’s Program is \$440,000 per year for a period of three years beginning in fiscal year 2018-19, as approved by the Legislature through the Budget Act of 2017 (AB 97, Ting). As table 2 on page 10 of the draft report illustrates, revenue from license plate sales to fund this program has been less than \$440,000 every year since fiscal year 2013-14. Had CDFA declined to administer the program in fiscal year 2018-2019, revenues would certainly have exceeded expenses;

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however, the result would be another year where Pet Lover's Program funds did not support no-cost and low-cost spay and neuter services.

- ⑬ It is stated in multiple sections of the draft report that CDFA prioritized awarding Pet Lover's Program grants. This is presented as having occurred in lieu of marketing efforts for the program and supposes that only direct marketing activities through the Department of Motor Vehicles (DMV) flyer or in partnership with an eligible nonprofit will sustain renewal or new registration of Pet Lover's specialized plates. The draft report does not consider the positive benefit on the renewal or new registration of Pet Lover's specialized plates that could result from the actual implementation of a program that had been unrealized for the preceding five years when the program was housed elsewhere in state government.
- ⑭

- The draft report observes that responsibility for administration of Pet Lover's was transferred from VMB to CDFA effective January 1, 2018 as authorized by Senate Bill 673 (Newman). The draft report also acknowledges that CDFA did not have budget authority to expend Pet Lover's Program funds until July 1, 2018. However, the report does not adequately represent the impact that a lack of budget authority had on CDFA's ability to administer the program between January 1, 2018 and July 1, 2018.
- ⑮

- This is especially the case in the section beginning on page 28 which describes CDFA's outreach and marketing activities to support the Pet Lover's Program. Much of the draft report's observations are based on the supposition that CDFA could and should have participated in the 2018 DMV flyer. This supposition disregards the timing for participation in the DMV flyer and the timing of CDFA's budget authority. Participation in the DMV flyer occurs in the Spring of each calendar year. In the spring of 2018, CDFA did not have budget authority to enter into agreements or expend Pet Lover's funds and could not have participated in the DMV flyer 2018. CDFA's participation in the 2019 DMV flyer was finalized in March 2019. CDFA took advantage of this marketing method at its very first opportunity to do so after budget authority had been established.
- ⑯
- ⑰

Comparison to the California Agricultural License Plate Program

- Figure 5 on page 31 of the draft report provides a comparison of the Pet Lover's Program and the California Agricultural License Plate Program (CalAgPlate) along with other specialized plate programs which are redacted. In this comparison, the first column is titled "DMV flyer" and indicates that CDFA does not utilize the DMV flyer for either program. As described in the preceding section of this response, it was not possible for CDFA to participate in the 2018 DMV flyer. In addition, column four of the
- ⑱

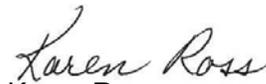
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figure is titled "Require grantees to promote the program" in this column the CalAgPlate has a check mark, to indicate that grantees are required to promote the program. This is incorrect. Neither the CalAgPlate Request for Proposals, nor any of the executed agreements under this program include a requirement or funding to promote the program. The CSA was advised that promotion of the CalAgPlate is not a requirement of that program on January 22, 2020. The result of these errors on figure 5 amount to an inaccurate comparison of CDFA's specialized license plate programs.

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Thank you for this opportunity to respond to the draft report. Should you have any questions, do not hesitate to contact me.

Yours truly,



Karen Ross
Secretary

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COMMENTS

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

To provide clarity and perspective, we are commenting on the response to our audit from Food and Agriculture. The numbers below correspond with the numbers we have placed in the margin of Food and Agriculture's response.

Food and Agriculture incorrectly implies that we do not acknowledge its efforts to improve its grant award process. To the contrary, on page 14 of our report we acknowledge Food and Agriculture's efforts in February 2020 to improve its grant award process for the Pet Lover's program for fiscal year 2019–20. For example, we note that it broadened its outreach to recruit volunteer application reviewers. We also acknowledge that it stated in February 2020 that it expects to have 10 reviewers split into three teams of at least three reviewers each, with each team reviewing about 12 applications, to ensure multiple reviews of each grant application. However, we also point out on page 14 that Food and Agriculture has not yet adopted written policies and procedures for its grant making process, risking that it will repeat some of the mistakes of the past.

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During the publication process for the audit report, page numbers shifted. Therefore, the page numbers cited by Food and Agriculture in its response will not correspond to the page numbers in the final published audit report.

②

As we informed Food and Agriculture prior to sending it the draft report, we must redact report text describing audit work related to other entities to maintain the confidentiality of the ongoing audit process. Consequently, the redacted text to which Food and Agriculture refers was not related to Food and Agriculture, and therefore, state law prohibited us from sharing it. Further, we do not expect Food and Agriculture to respond to recommendations not directed to it.

③

We disagree with Food and Agriculture's concern; our narrative is complete for the purposes of our audit. This report provides a timeline of the Pet Lover's program in Figure 1 on page 5, describes the process used by Food and Agriculture to evaluate and select grant applications beginning on page 9, and describes the timing constraints Food and Agriculture faced beginning on page 12.

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- ⑤ As we note on pages 9 and 10, Food and Agriculture was unable to provide evidence it attempted to verify two of four eligibility requirements, and made an incomplete attempt to verify a third. Moreover, in its response, Food and Agriculture acknowledges that it contracted with two ineligible entities.
- ⑥ Food and Agriculture implies that it did verify eligibility with the Veterinary Board, but that was not the case. As Food and Agriculture notes, it is possible to use the Veterinary Board website to verify eligibility related to certain requirements. When we verified eligibility, as we describe on page 10, we determined that Food and Agriculture made grants to two ineligible entities. This fact, and the lack of any other documentation demonstrating that Food and Agriculture sufficiently verified the eligibility of applicants or grantees, provides appropriate evidence for us to conclude that Food and Agriculture did not do so.
- ⑦ To clarify, when we reviewed Food and Agriculture's grant awards for the Pet Lover's program, we noted that it did not verify the rabies reporting requirement for all of its grantees before making its grant award decisions. The information Food and Agriculture sent us on October 7, 2019, claiming that it had verified the rabies reporting requirement for its grantees, was for a different spay and neuter grant program, but it did include some of the Pet Lover's program grantees. Nonetheless, the fact remains that Food and Agriculture did not check the rabies reporting requirement for all Pet Lover's program grantees before awarding grants.
- ⑧ Food and Agriculture is correct that it selected two ineligible entities for Pet Lover's program grants, but the justification it provides in its response—that the entities pass through 100 percent of their grants to other entities that meet the eligibility criteria—is incorrect. Although its grant agreement with one of these entities indicates the ineligible entity will pass through 100 percent of its Pet Lover's grant, Food and Agriculture still should not have awarded this entity Pet Lover's funds because it is ineligible. Further, the scope of work in its grant agreement for the other ineligible entity indicates that the grantee may seek reimbursement for activities it performs, including promoting the program, developing related educational materials, and managing and analyzing data for reporting and program evaluation.
- ⑨ Although Food and Agriculture asserts that it suspended payment to the two ineligible entities after we brought this problem to its attention, the fact remains that it had reimbursed those two entities a total of nearly \$17,000 in Pet Lover's program funds as of December 2019.
- ⑩ We consider the scores questionable because of the flawed process that Food and Agriculture used as we describe beginning on page 10. Further, Food and Agriculture's response is at odds with information it provided to us during our review. As noted on page 12, Food and

Agriculture indicated that one reason it took a single reviewer approach is because it faced a compressed time frame. If it now believes this was not an issue, it should have ensured multiple reviews of each grant application during its first year of overseeing the program. Also, nowhere in our report do we express concern with Food and Agriculture’s use of volunteer reviewers. Rather, as we note on page 11, Food and Agriculture’s process, which relied on only a single review of each application, “is less robust than one where multiple reviewers evaluate each application, because a single reviewer approach is susceptible to inconsistency among reviewers.” As our report clearly states, Food and Agriculture must improve its grant selection process to ensure it selects the most qualified grant applicants.

We disagree with Food and Agriculture’s implication that our report lacks sufficient context to support our conclusion that Food and Agriculture has taken minimal actions to improve the Pet Lover’s program’s deteriorating financial condition since it began overseeing the program in 2018. Specifically, Figure 5 on page 21 shows that Food and Agriculture did not use four of the five marketing and promotional methods that we identified other specialized license plate programs use. Further, on page 15 we state that if Food and Agriculture does not do more to market the Pet Lover’s program and increase revenue, it may need to decrease grant funding for free or low cost spay or neuter services.

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Our report in no way suggests that Food and Agriculture should have declined to administer the Pet Lover’s program.

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Food and Agriculture seems to take issue with our report including its perspective related to why it has not done more to promote the Pet Lover’s program, even though Food and Agriculture provided this perspective to us on multiple occasions. If Food and Agriculture had additional reasons for not marketing the Pet Lover’s plate, it did not provide those reasons at any point during the audit, despite having multiple opportunities to do so. Food and Agriculture also incorrectly states that our report only suggests using the DMV renewal flyer and partnering with a nonprofit as marketing strategies. In Figure 5 on page 21, we list two additional methods for promotion—social media and requiring grantees to promote the plate program—that Food and Agriculture does not use to promote the program.

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Contrary to Food and Agriculture’s assertion, on pages 7 and 8, we acknowledge that the fiscal year 2019–20 grants for the Pet Lover’s program could provide the benefit of spaying and neutering about 6,000 animals. However, our concern is that absent Food and Agriculture conducting appropriate marketing activities, revenue for the Pet Lover’s program will continue to decline and

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thus, decrease Food and Agriculture's ability to fund spay and neuter services. Therefore, implementing the grant program without marketing is not sufficient to increase renewals or new plate sales.

- ⑮ We acknowledge on page 12 that Food and Agriculture did not receive budget authority until July 2018. However, lack of budget authority does not preclude Food and Agriculture from developing plans for administering the program including the process for soliciting and awarding grants.
- ⑯ Food and Agriculture's response related to the timing of DMV flyers is inconsistent with input we received from the agency that coordinates the DMV flyer process. On page 20 we quote the Coastal Commission, which stated it is able to work with programs to bill for the flyers in the current or next fiscal year.
- ⑰ We disagree with Food and Agriculture's contention that much of our report's observations concerning its outreach and marketing activities for the Pet Lover's program "are based on the supposition that [Food and Agriculture] could and should have participated in the 2018 flyer." Specifically, on pages 20 to 22 we discuss other promotional activities that Food and Agriculture did not implement that could have benefited the Pet Lover's program. Further, Figure 5 on page 21 lists three additional marketing strategies apart from the DMV flyer that it did not use. Even if Food and Agriculture had ensured that the Pet Lover's plate appeared on the 2018 DMV flyer, we would still report that Food and Agriculture did not utilize other marketing strategies available to it.
- ⑱ We based the information related to the CalAg Plate in Figure 5 on Food and Agriculture's own requirements. Specifically, its procedures manual for the CalAg Plate states: "Recipients must acknowledge Food and Agriculture's CalAg Plate support whenever projects funded, in whole or in part, are publicized in any news media, brochures, publications, audiovisuals, or other types of promotional materials." However, Food and Agriculture's response states that it does not require CalAg Plate grantees to promote the CalAg Plate. Therefore, we changed Figure 5 to reflect that it does not require grantees to promote the CalAg Plate. Moreover, Food and Agriculture mischaracterizes the feedback provided to us on January 22, 2020. The perspective it provided on this date stated that Food and Agriculture did not contract with a specific organization to promote the CalAg Plate, not that it does not require its grantees to promote the CalAg Plate.