

KERN COUNTY

Audit Report

CHILD ABDUCTION AND RECOVERY PROGRAM

Chapter 1399, Statutes of 1976; Chapter 162,
Statutes of 1992; and Chapter 988, Statutes of 1996

*July 1, 2003, through June 30, 2004, and
July 1, 2005, through June 30, 2008*



JOHN CHIANG
California State Controller

April 2010



JOHN CHIANG
California State Controller

April 7, 2010

The Honorable Ray Watson
Chairperson, Board of Supervisors
Kern County
1115 Truxton Avenue, 5th Floor
Bakersfield, CA 93301

Dear Mr. Watson:

The State Controller's Office audited the costs claimed by Kern County for the legislatively mandated Child Abduction and Recovery Program (Chapter 1399, Statutes of 1976; Chapter 162, Statutes of 1992; and Chapter 988, Statutes of 1996) for the period of July 1, 2003, through June 30, 2004, and July 1, 2005, through June 30, 2008.

The county claimed \$1,068,787 (\$1,069,787 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$1,027,116 is allowable and \$41,671 is unallowable. The costs are unallowable because the county claimed non-reimbursable and non-mandate-related costs and overstated its indirect cost rates. The State paid the county \$718,419. Allowable costs claimed exceed the amount paid by \$308,697.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk:vb

cc: The Honorable Ann Barnett, Auditor-Controller-County Clerk
Kern County
Edward Jagels, District Attorney
Kern County
Dean Sanford, SB-90 Coordinator
Kern County
Elsa Martinez, Administrative Services Officer
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Kern County for the legislatively mandated Child Abduction and Recovery Program (Chapter 1399, Statutes of 1976; Chapter 162, Statutes of 1992; and Chapter 988, Statutes of 1996) for the period of July 1, 2003, through June 30, 2004, and July 1, 2005, through June 30, 2008.

The county claimed \$1,068,787 (\$1,069,787 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$1,027,116 is allowable and \$41,671 is unallowable. The costs are unallowable because the county claimed non-reimbursable and non-mandate-related costs and overstated its indirect cost rates. The State paid the county \$718,419. Allowable costs claimed exceed the amount paid by \$308,697.

Background

Chapter 1399, Statutes of 1976 established the mandated Child Abduction and Recovery Program based on the following laws:

- Civil Code section 4600.1 (repealed and added as Family Code sections 3060–3064 by Chapter 162, Statutes of 1992);
- Penal Code sections 278 and 278.5 (repealed and added as Penal Code sections 277, 278, and 278.5 by Chapter 988, Statutes of 1996); and
- Welfare and Institutions Code section 11478.5 (repealed and added as Family Code section 17506 by Chapter 478, Statutes of 1999, last amended by Chapter 759, Statutes of 2002).

These laws require the District Attorney's Office to assist persons having legal custody of a child in:

- Locating their children when they are unlawfully taken away;
- Gaining enforcement of custody and visitation decrees and orders to appear;
- Defraying expenses related to the return of an illegally detained, abducted, or concealed child,
- Civil court action proceedings; and
- Guaranteeing the appearance of offenders and minors in court actions.

On September 19, 1979, the State Board of Control (now the Commission on State Mandates [CSM]) determined that this legislation imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted the parameters and guidelines on January 21, 1981, and last amended them on August 26, 1999. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Child Abduction and Recovery Program for the period of July 1, 2003, through June 30, 2004, and July 1, 2005, through June 30, 2008.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Kern County claimed \$1,068,787 (\$1,069,787 less a \$1,000 penalty for filing a late claim) for costs of the Child Abduction and Recovery Program. Our audit disclosed that \$1,027,116 is allowable and \$41,671 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State paid made no payment to the county. Our audit disclosed that \$348,610 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2005-06 claim, the State paid the county \$285,234. Our audit disclosed that \$265,524 is allowable. The State will offset \$19,710 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2006-07 claim, the State paid the county \$273,375. Our audit disclosed that \$254,738 is allowable. The State will offset \$18,637 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2007-08 claim, the State paid the county \$159,810. Our audit disclosed that \$158,244 is allowable. The State will offset \$1,566 from other mandated program payments due the county. Alternatively, the county may remit this amount to the state.

**Views of
Responsible
Officials**

We discussed our audit results with the county's representatives during an exit conference conducted on February 10, 2010. Elsa Martinez, Administrative Services Officer, and Dominic Brown, Audit Division Chief, agreed with the audit results. Ms. Martinez and Mr. Brown declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of Kern County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

April 7, 2010

**Schedule 1—
Summary of Program Costs
July 1, 2003, through June 30, 2004, and
July 1, 2005, through June 30, 2008**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference¹</u>
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries	\$ 214,798	\$ 213,606	\$ (1,192)	Finding 1
Benefits	99,870	99,423	(447)	Finding 1
Services and supplies	6,987	6,987	—	
Travel and training	9,139	9,139	—	
Total direct costs	330,794	329,155	(1,639)	
Indirect costs	21,480	21,361	(119)	Findings 1, 2
Total direct and indirect costs	352,274	350,516	(1,758)	
Less offsetting savings/reimbursements	(906)	(906)	—	
Subtotals	351,368	349,610	(1,758)	
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 350,368</u>	348,610	<u>\$ (1,758)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 348,610</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries	\$ 139,355	\$ 132,887	\$ (6,468)	Finding 1
Benefits	88,566	84,832	(3,734)	Finding 1
Services and supplies	1,138	1,138	—	
Travel and training	9,833	9,833	—	
Total direct costs	238,892	228,690	(10,202)	
Indirect costs	47,673	38,165	(9,508)	Findings 1, 2
Total direct and indirect costs	286,565	266,855	(19,710)	
Less offsetting savings/reimbursements	(1,331)	(1,331)	—	
Total program costs	<u>\$ 285,234</u>	265,524	<u>\$ (19,710)</u>	
Less amount paid by the State		(285,234)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (19,710)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries	\$ 139,927	\$ 129,764	\$ (10,163)	Finding 1
Benefits	89,842	84,159	(5,683)	Finding 1
Services and supplies	2,616	2,616	—	
Travel and training	3,770	3,770	—	
Total direct costs	236,155	220,309	(15,846)	
Indirect costs	38,424	35,633	(2,791)	Findings 1, 2
Total direct and indirect costs	274,579	255,942	(18,637)	
Less offsetting savings/reimbursements	(1,204)	(1,204)	—	
Total program costs	<u>\$ 273,375</u>	254,738	<u>\$ (18,637)</u>	
Less amount paid by the State		(273,375)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (18,637)</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Salaries	\$ 84,363	\$ 82,609	\$ (1,754)	Finding 1
Benefits	54,557	53,584	(973)	Finding 1
Travel and training	691	691	—	
Total direct costs	139,611	136,884	(2,727)	
Indirect costs	20,199	21,360	1,161	Findings 1, 2
Total direct and indirect costs	159,810	158,244	(1,566)	
Less offsetting savings/reimbursements	—	—	—	
Total program costs	<u>\$ 159,810</u>	158,244	<u>\$ (1,566)</u>	
Less amount paid by the State		(159,810)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (1,566)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2003, through June 30, 2004, and July 1, 2005, through June 30, 2008</u>				
Direct costs:				
Salaries	\$ 578,443	\$ 558,866	\$ (19,577)	
Benefits	332,835	321,998	(10,837)	
Services and supplies	10,741	10,741	—	
Travel and training	23,433	23,433	—	
Total direct costs	945,452	915,038	(30,414)	
Indirect costs	127,776	116,519	(11,257)	
Total direct and indirect costs	1,073,228	1,031,557	(41,671)	
Less offsetting savings/reimbursements	(3,441)	(3,441)	—	
Subtotals	1,069,787	1,028,116	(41,671)	
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 1,068,787</u>	1,027,116	<u>\$ (41,671)</u>	
Less amount paid by the State		(718,419)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 308,697</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated and understated salaries, benefits, and indirect costs

The county overstated and understated allowable salaries, resulting in net unallowable salaries totaling \$19,577. The related benefits and indirect costs total \$10,837 and \$5,378, respectively. The audit adjustment resulted for the following reasons:

Fiscal Year 2003-04

- The county claimed 100% of a deputy district attorney's (DDA) salary costs. However, the DDA performed non-reimbursable activities during the fiscal year. The DDA spent 20 hours related to criminal prosecution, commencing with the defendant's first court appearance. The unallowable salaries and benefits total \$1,192 and \$447, respectively.

Fiscal Year 2005-06

- The county claimed non-reimbursable salary costs for a DDA. The county claimed 52 hours related to criminal prosecution, commencing with the defendant's first court appearance. The unallowable salaries and benefits total \$2,948 and \$1,405, respectively.
- The county claimed 100% of an investigative assistant's salary costs. However, the employee performed non-mandate-related activities during the fiscal year. The investigative assistant spent 200 hours working on workers' compensation insurance fraud. The unallowable salaries and benefits total \$3,685 and \$2,394, respectively.
- The county understated claimed costs for a supervising DDA. The county understated the employee's productive hourly rate for two pay periods and overstated the rate for one pay period. The understated salaries and benefits total \$165 and \$65, respectively.

Fiscal Year 2006-07

- The county claimed non-reimbursable salary costs for a supervising DDA and a DDA. The county claimed 20 hours for the supervising DDA and 165 hours for the DDA that were related to criminal prosecution, commencing with the defendant's first court appearance. The unallowable salaries and benefits total \$10,163 and \$5,683, respectively.

Fiscal Year 2007-08

- The county understated an investigator's allowable salaries and benefit costs by \$2,064 and \$1,167, respectively. The county did not apply the calculated productive hourly rate to all hours claimed. For four pay periods, the county claimed the employee's salary costs based on his regular pay rate rather than calculating costs based on the productive hourly rate and mandate-related hours worked.

- The county claimed non-reimbursable salary costs for a DDA. The county claimed 64 hours related to criminal prosecution, commencing with the defendant’s first court appearance. The unallowable salaries and benefits total \$3,818 and \$2,140, respectively.

The following table summarizes the audit adjustment:

Cost Element	Fiscal Year				Total
	2003-04	2005-06	2006-07	2007-08	
Salaries	\$ (1,192)	\$ (6,468)	\$ (10,163)	\$ (1,754)	\$ (19,577)
Benefits	(447)	(3,734)	(5,683)	(973)	(10,837)
Total direct costs	(1,639)	(10,202)	(15,846)	(2,727)	(30,414)
Indirect costs	(119)	(2,213)	(2,791)	(255)	(5,378)
Audit adjustment	\$ (1,758)	\$ (12,415)	\$ (18,637)	\$ (2,982)	\$ (35,792)

The program’s parameters and guidelines state that costs associated with criminal prosecution, commencing with the defendant’s first appearance in a California court, are unallowable. For salaries and benefits, the parameters and guidelines require the county to “describe the mandated functions performed and specify the *actual* [emphasis added] number of hours devoted to each function.” They also state that, “all costs claimed must be traceable to source documents and/or worksheets that show evidence of and the validity of such costs.”

Recommendation

We recommend that the county claim only those costs that are supported by its accounting records, mandate-related, and reimbursable in accordance with the parameters and guidelines.

**FINDING 2—
Overstated and understated indirect cost rate**

The county claimed unallowable indirect costs totaling \$5,879.

The county overstated fiscal year (FY) 2005-06 indirect costs because it prepared its indirect cost rate proposal (ICRP) based on estimated costs rather than actual costs.

For FY 2007-08, the county understated the allowable indirect cost rate. We identified the following audit adjustments:

- The county incorrectly allocated \$330 for bilingual pay as direct costs rather than indirect costs.
- The county did not offset \$11,770 in revenue directly attributable to indirect cost pool expenses. The county received revenue for photocopies. The county included the corresponding photocopy costs within the office expense costs that it included in the indirect cost pool.
- The county erroneously offset indirect costs by \$246,296 for an audit adjustment unrelated to the county’s calculation of its FY 2007-08 indirect cost rate based on FY 2007-08 actual costs.

The following table summarizes the audit adjustments to the county's indirect cost rates:

	<u>Costs Reported</u>	<u>Allowable Costs</u>	<u>Audit Adjustment</u>
<u>FY 2005-06</u>			
Direct costs:			
Salaries (A)	\$ 10,573,466	\$ 11,092,600	\$ 519,134
Indirect costs:			
Salaries and benefits	\$ 1,459,670	\$ 1,275,895	\$ (183,775)
Services and supplies	1,305,929	1,058,006	(247,923)
Cost plan allocation	851,716	851,716	—
Total indirect costs (B)	<u>\$ 3,617,315</u>	<u>\$ 3,185,617</u>	<u>\$ (431,698)</u>
Allowable indirect cost rate, FY 2005-06 ((B) ÷ (A))		<u>28.72%</u>	
<u>FY 2007-08</u>			
Direct costs:			
Salaries (C)	\$ 22,391,015	\$ 22,390,685	\$ (330)
Indirect costs:			
Salaries and benefits	\$ 1,623,079	\$ 1,623,409	\$ 330
Services and supplies	652,593	640,823	(11,770)
Cost plan allocation	1,225,217	1,225,217	—
FY 2006-07 audit adjustment	(246,296)	—	246,296
Total indirect costs (D)	<u>\$ 3,254,593</u>	<u>\$ 3,489,449</u>	<u>\$ 234,856</u>
Allowable indirect cost rate, FY 2007-08 ((D) ÷ (C))		<u>15.58%</u>	

The following table summarizes the audit adjustments to the claimed indirect costs:

	<u>Fiscal Year</u>		<u>Total</u>
	<u>2005-06</u>	<u>2007-08</u>	
Allowable indirect cost rate	28.72%	15.58%	
Claimed indirect cost rate	(34.21)%	(14.54)%	
Unallowable indirect cost rate	(5.49)%	1.04%	
Allowable salaries	<u>× \$132,887</u>		
Allowable salaries and benefits		<u>× \$136,193</u>	
Audit adjustment	<u>\$ (7,295)</u>	<u>\$ 1,416</u>	<u>\$ (5,879)</u>

The parameters and guidelines state, “*Actual costs* [emphasis added] for one fiscal year should be included in each claim.” They also state that all costs claimed must be “traceable to source documents and/or worksheets that show evidence of and the validity of such costs.”

Furthermore, the parameters and guidelines state, “Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in the [Office of Management and Budget] OMB Circular A-87.” Title 2, *Code of Federal Regulations* (CFR), Part 225 (OMB Circular A-87), Appendix E, defines a final rate as “an indirect cost rate applicable to a specified past period which is based on the *actual* [emphasis added] allowable costs of the period.” Appendix A states that allowable costs must be net of all applicable credits.

Recommendation

We recommend that the county prepare its ICRPs in accordance with Title 2, CFR, Part 225 (OMB Circular A-87). We recommend that the county report actual costs net of all applicable credits.

**State Controller's Office
Division of Audits
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