

# **CITY OF WEST HOLLYWOOD**

Audit Report

## **IDENTITY THEFT PROGRAM**

Chapter 956, Statutes of 2000

*July 1, 2002, through June 30, 2013*



**MALIA M. COHEN**  
California State Controller

January 2023



**MALIA M. COHEN**  
**California State Controller**

January 26, 2023

**CERTIFIED MAIL—RETURN RECEIPT REQUESTED**

Lorena Quijano, CPA, MPA, Director  
Finance and Technology Services  
City of West Hollywood  
8300 Santa Monica Boulevard  
West Hollywood, CA 90069

Dear Ms. Quijano:

The State Controller's Office (SCO) audited the costs claimed by the City of West Hollywood for the legislatively mandated Identity Theft Program for the period of July 1, 2002, through June 30, 2013.

The city claimed \$729,511 for costs of the mandated program. Our audit found that \$590,629 is allowable; and \$138,882 is unallowable because the city misclassified contract services costs as salary costs, overstated the number of identity theft reports taken, overstated the time increments needed to perform the reimbursable activities, and overstated indirect costs. The State made no payments to the city. The State will pay \$590,629, contingent upon available appropriations.

Following issuance of this audit report, the SCO's Local Government Programs and Services Division will notify the city of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

*Original signed by*

**KIMBERLY TARVIN, CPA**  
Chief, Division of Audits

KT/ac

cc: The Honorable Lauren Meister, Mayor  
City of West Hollywood  
Danny Rivas, Director  
Community Safety Department  
City of West Hollywood  
Carlos Corrales, Accounting Manager  
Finance and Technology Services Department  
City of West Hollywood  
Claudia Duncan, Senior Financial Management Analyst  
Finance and Technology Services Department  
City of West Hollywood  
Annie Ruiz, Revenue Manager  
Finance and Technology Services Department  
City of West Hollywood  
Chris Hill, Principal Program Budget Analyst  
Local Government Unit  
California Department of Finance  
Ted Doan, Finance Budget Analyst  
Local Government Unit  
California Department of Finance  
Darryl Mar, Manager  
Local Reimbursement Section  
State Controller's Office  
Everett Luc, Supervisor  
Local Reimbursement Section  
State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the City of West Hollywood for the legislatively mandated Identity Theft Program for the period of July 1, 2002, through June 30, 2013.

The city claimed \$729,511 for costs of the mandated program. Our audit found that \$590,629 is allowable; and \$138,882 is unallowable because the city misclassified contract services costs as salary costs, overstated the number of identity theft reports taken, overstated the time increments needed to perform the reimbursable activities, and overstated indirect costs. The State made no payments to the city. The State will pay \$590,629, contingent upon available appropriations.

## Background

Penal Code (PC) section 530.6(a), as added by the Statutes of 2000, Chapter 956, requires a local law enforcement agency to take a police report and begin an investigation when a complainant residing within its jurisdiction reports suspected identity theft.

On March 27, 2009, the Commission of State Mandates (Commission) found that this legislation mandates a new program or higher level of service for local law enforcement agencies within the meaning of Article XIII B, section 6 of the California Constitution, and imposes costs mandated by the State pursuant to Government Code (GC) section 17514.

The Commission determined that each claimant is allowed to claim and be reimbursed for the following ongoing activities identified in parameters and guidelines (Section IV., "Reimbursable Activities"):

1. Either a) or b) below:
  - a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or
  - b) Reviewing the identity theft report completed online by the identity theft victim.
2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.

The Commission also determined that providing a copy of the report to the complainant and referring the matter for further investigation of the facts to the law enforcement agency in the location where the suspected crime was committed are not reimbursable activities.

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. In compliance with GC section 17558, the SCO issues the *Mandated Cost Manual for Local Agencies (Mandated Cost Manual)* to assist local agencies in claiming reimbursable costs.

## **Audit Authority**

We conducted this performance audit in accordance with GC sections 17558.5 and 17561, which authorize the SCO to audit the city's records to verify the actual amount of the mandated costs. In addition, GC section 12410 provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and sufficient provisions of law.

## **Objective, Scope, and Methodology**

The objective of our audit was to determine whether claimed costs represent increased costs resulting from the legislatively mandated Identity Theft Program. Specifically, we conducted this audit to determine whether claimed costs were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.<sup>1</sup>

The audit period was July 1, 2002, through June 30, 2013.

To achieve our objective, we performed the following procedures:

- We analyzed the annual mandated cost claims filed by the city for the audit period and identified the significant cost components of each claim as salaries and indirect costs. We determined whether there were any errors or unusual or unexpected variances from year to year. We reviewed the claimed activities to determine whether they adhered to the SCO's *Mandated Cost Manual* and the program's parameters and guidelines.
- We completed an internal control questionnaire by interviewing key city staff. We discussed the claim preparation process with city staff to determine what information was obtained, who obtained it, and how it was used.
- We reviewed the contract service agreements and related Deployment of Personnel (SH-AD 575) forms executed between the Los Angeles County Sheriff's Department (LASD) and the city to determine the contracted employee classifications involved in performing the reimbursable activities. We found that the Deputy Sheriff, Community Service Assistant (CSA), and Sergeant classifications performed the reimbursable activities.
- We obtained the total contract costs and contract hours from the SH-AD 75 forms in order to calculate average contract hourly rates for the Deputy Sheriff, CSA, and Sergeant classifications.
- We obtained system-generated lists of identity theft cases based on information from the LASD's Los Angeles Regional Crime Information System (LARCIS) to verify the existence, completeness, and accuracy of unduplicated case counts for each fiscal year in the audit period.

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<sup>1</sup> Unreasonable and/or excessive costs include ineligible costs that are not identified in the programs parameters and guidelines as reimbursable costs.

- We designed a statistical sampling plan to test approximately 25-50% of claimed salary costs, based on a moderate level of detection (audit) risk. We judgmentally selected the city's filed claims for fiscal year (FY) 2008-09 through FY 2012-13, which comprised salary costs totaling \$331,266 (or 50.56%) of the \$655,222 claimed. The sampling plan is described in the Finding and Recommendation section.
- We used a random number table to select 508 out of 1,584 identity theft reports from the five fiscal years sampled. We tested the identity theft reports as follows:
  - We determined whether a contemporaneously prepared and approved police report supported that a violation of PC section 530.5 had occurred.
  - We determined whether the initial police reports were courtesy reports from other law enforcement agencies that had been forwarded to the West Hollywood Station for further investigation.
  - We determined whether the victim of identity theft contacted the LASD to initiate the law enforcement investigation.
  - We obtained the LASD employee numbers, names, and classifications from sampled police reports documenting who performed the reimbursable activities pursuant to a contract between the city and Los Angeles County for the city's law enforcement services. We compared the employee classifications obtained from the police reports to those claimed by the city.
- We used the time study documentation created by LASD employees at the West Hollywood Station during January 2011 through June 2011. This time study was directly related to the Identity Theft Program's reimbursable activities and was properly supported. Based on our interview with a sworn officer and our review of the time study documentation, we found that the city overstated the time increments that it used to calculate the costs of the reimbursable activities.
- We projected the audit results of the five years tested by multiplying the actual case counts by the allowable average time increments needed to perform the activities, and multiplying the product by the contract rates of LASD employees who performed them. We applied a weighted five-year average to the remaining six years of the audit period due to the homogeneity of the population.
- We reviewed the city's Single Audit Reports to identify potential sources of offsetting savings or reimbursements from federal or pass-through programs applicable to the Identity Theft Program. The city certified in its claims that it did not receive any offsetting revenues applicable to this mandated program.

We did not audit the city's financial statements.

We conducted this performance 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 objective. We believe that the evidence obtained provides a

reasonable basis for our findings and conclusions based on our audit objective.

## **Conclusion**

As a result of performing the audit procedures, we found instances of noncompliance with the requirements described in our audit objective. We did not find that the City of West Hollywood claimed costs that were funded by other sources; however, we did find that it claimed unsupported and ineligible costs, as quantified in the Schedule and described in the Finding and Recommendation section of this audit report.

For the audit period, the city claimed \$729,511 for costs of the legislatively mandated Identity Theft Program. Our audit found that \$590,629 is allowable and \$138,882 is unallowable. The State made no payments to the city. The State will pay \$590,629, contingent upon available appropriations.

Following issuance of this audit report, the SCO's Local Government Programs and Services Division will notify the city of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

## **Follow-up on Prior Audit Findings**

We have not previously conducted an audit of the City of West Hollywood's legislatively mandated Identity Theft Program.

## **Views of Responsible Officials**

We issued a draft audit report on October 20, 2022. Lorena Quijano, CPA, MPA, Director, Finance and Technology Services, responded by letter dated October 28, 2022, disagreeing with the audit results. We considered the city's arguments and partially agreed with the position stated in its response. Accordingly, we revised the audit finding, increasing allowable costs by \$200,247 (from \$390,382 to \$590,629). We emailed the revised finding to the city on November 28, 2022. Ms. Quijano responded by letter dated December 7, 2022, disagreeing only with the audit result concerning indirect costs. The city's responses are included in this report as Attachments A and B.

## **Restricted Use**

This audit report is solely for the information and use of the City of West Hollywood, 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 audit report, which is a matter of public record and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

KIMBERLY TARVIN, CPA  
Chief, Division of Audits

January 26, 2023



**Schedule—  
Summary of Program Costs  
July 1, 2002, through June 30, 2013**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 36,233	\$ -	\$ (36,233)
Beginning an investigation of facts	19,389	-	(19,389)
Total salaries	<u>55,622</u>	<u>-</u>	<u>(55,622)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	14,798	14,798
Beginning an investigation of facts	-	8,680	8,680
Total contract services	<u>-</u>	<u>23,478</u>	<u>23,478</u>
Total direct costs	55,622	23,478	(32,144)
Indirect costs	<u>5,562</u>	<u>-</u>	<u>(5,562)</u>
Total program costs	<u>\$ 61,184</u>	23,478	<u>\$ (37,706)</u>
Less amount paid by the State <sup>3</sup>		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 23,478</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 37,365	\$ -	\$ (37,365)
Beginning an investigation of facts	20,247	-	(20,247)
Total salaries	<u>57,612</u>	<u>-</u>	<u>(57,612)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	21,999	21,999
Beginning an investigation of facts	-	12,891	12,891
Total contract services	<u>-</u>	<u>34,890</u>	<u>34,890</u>
Total direct costs	57,612	34,890	(22,722)
Indirect costs	<u>5,761</u>	<u>-</u>	<u>(5,761)</u>
Total program costs	<u>\$ 63,373</u>	34,890	<u>\$ (28,483)</u>
Less amount paid by the State <sup>3</sup>		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 34,890</u>	

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment <sup>1</sup>
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 24,259	\$ -	\$ (24,259)
Begin an investigation of facts	13,058	-	(13,058)
Total salaries	<u>37,317</u>	<u>-</u>	<u>(37,317)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	27,400	27,400
Begin an investigation of facts	-	16,032	16,032
Total contract services	<u>-</u>	<u>43,432</u>	<u>43,432</u>
Total direct costs	37,317	43,432	6,115
Indirect costs	<u>3,732</u>		<u>(3,732)</u>
Total direct and indirect costs	41,049	43,432	2,383
Less allowable costs that exceed costs claimed <sup>2</sup>	<u>-</u>	<u>(2,383)</u>	<u>(2,383)</u>
Total program costs	<u>\$ 41,049</u>	41,049	<u>\$ -</u>
Less amount paid by the State <sup>3</sup>		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 41,049</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 35,525	\$ -	\$ (35,525)
Begin an investigation of facts	19,865	-	(19,865)
Total salaries	<u>55,390</u>	<u>-</u>	<u>(55,390)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	26,712	26,712
Begin an investigation of facts	-	15,621	15,621
Total contract services	<u>-</u>	<u>42,333</u>	<u>42,333</u>
Total direct costs	55,390	42,333	(13,057)
Indirect costs	<u>5,539</u>	<u>-</u>	<u>(5,539)</u>
Total program costs	<u>\$ 60,929</u>	42,333	<u>\$ (18,596)</u>
Less amount paid by the State <sup>3</sup>		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 42,333</u>	

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment <sup>1</sup>
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 47,679	\$ -	\$ (47,679)
Begin an investigation of facts	11,276	-	(11,276)
Total salaries	<u>58,955</u>	<u>-</u>	<u>(58,955)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	35,297	35,297
Begin an investigation of facts	-	20,600	20,600
Total contract services	<u>-</u>	<u>55,897</u>	<u>55,897</u>
Total direct costs	58,955	55,897	(3,058)
Indirect costs	<u>5,895</u>	<u>-</u>	<u>(5,895)</u>
Total program costs	<u>\$ 64,850</u>	55,897	<u>\$ (8,953)</u>
Less amount paid by the state <sup>3</sup>		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 55,897</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 48,141	\$ -	\$ (48,141)
Begin an investigation of facts	10,919	-	(10,919)
Total salaries	<u>59,060</u>	<u>-</u>	<u>(59,060)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	37,332	37,332
Begin an investigation of facts	-	21,776	21,776
Total contract services	<u>-</u>	<u>59,108</u>	<u>59,108</u>
Total direct costs	59,060	59,108	48
Indirect costs	<u>7,619</u>	<u>-</u>	<u>(7,619)</u>
Total program costs	<u>\$ 66,679</u>	59,108	<u>\$ (7,571)</u>
Less amount paid by the state <sup>3</sup>		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 59,108</u>	

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment <sup>1</sup>
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 47,679	\$ -	\$ (47,679)
Begin an investigation of facts	11,276	-	(11,276)
Total salaries	58,955	-	(58,955)
Contract services			
Taking a police report on a violation of PC §530.5	-	35,297	35,297
Begin an investigation of facts	-	20,600	20,600
Total contract services	-	55,897	55,897
Total direct costs	58,955	55,897	(3,058)
Indirect costs	5,895	-	(5,895)
Total program costs	\$ 64,850	55,897	\$ (8,953)
Less amount paid by the State <sup>3</sup>		-	
Allowable costs claimed in excess of amount paid		\$ 55,897	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 48,141	\$ -	\$ (48,141)
Begin an investigation of facts	10,919	-	(10,919)
Total salaries	59,060	-	(59,060)
Contract services			
Taking a police report on a violation of PC §530.5	-	37,332	37,332
Begin an investigation of facts	-	21,776	21,776
Total contract services	-	59,108	59,108
Total direct costs	59,060	59,108	48
Indirect costs	7,619	-	(7,619)
Total program costs	\$ 66,679	59,108	\$ (7,571)
Less amount paid by the State <sup>3</sup>		-	
Allowable costs claimed in excess of amount paid		\$ 59,108	

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment <sup>1</sup>
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 53,862	\$ -	\$ (53,862)
Begin an investigation of facts	14,559	-	(14,559)
Total salaries	68,421	-	(68,421)
Contract services			
Taking a police report on a violation of PC §530.5	-	44,123	44,123
Begin an investigation of facts	-	25,777	25,777
Total contract services	-	69,900	69,900
Total direct costs	68,421	69,900	1,479
Indirect costs	9,853	-	(9,853)
Total program costs	\$ 78,274	69,900	\$ (8,374)
Less amount paid by the State <sup>3</sup>		-	
Allowable costs claimed in excess of amount paid		\$ 69,900	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 49,222	\$ -	\$ (49,222)
Begin an investigation of facts	12,479	-	(12,479)
Total salaries	61,701	-	(61,701)
Contract services			
Taking a police report on a violation of PC §530.5	-	40,706	40,706
Begin an investigation of facts	-	23,771	23,771
Total contract services	-	64,477	64,477
Total direct costs	61,701	64,477	2,776
Indirect costs	8,823	-	(8,823)
Total program costs	\$ 70,524	64,477	\$ (6,047)
Less amount paid by the State <sup>3</sup>		-	
Allowable costs claimed in excess of amount paid		\$ 64,477	

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment <sup>1</sup>
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 48,622	\$ -	\$ (48,622)
Begin an investigation of facts	11,808	-	(11,808)
Total salaries	60,430	-	(60,430)
Contract services			
Taking a police report on a violation of PC §530.5	-	33,791	33,791
Begin an investigation of facts	-	19,715	19,715
Total contract services	-	53,506	53,506
Total direct costs	60,430	53,506	(6,924)
Indirect costs	7,433	-	(7,433)
Total program costs	\$ 67,863	53,506	\$ (14,357)
Less amount paid by the State <sup>3</sup>		-	
Allowable costs claimed in excess of amount paid		\$ 53,506	
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 64,908	\$ -	\$ (64,908)
Begin an investigation of facts	14,677	-	(14,677)
Total salaries	79,585	-	(79,585)
Contract services			
Taking a police report on a violation of PC §530.5	-	51,446	51,446
Begin an investigation of facts	-	30,023	30,023
Total contract services	-	81,469	81,469
Total direct costs	79,585	81,469	1,884
Indirect costs	7,959	-	(7,959)
Total program costs	\$ 87,544	81,469	\$ (6,075)
Less amount paid by the State <sup>3</sup>		-	
Allowable costs claimed in excess of amount paid		\$ 81,469	

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment <sup>1</sup>
<u>July 1, 2012, through June 30, 2013</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 49,818	\$ -	\$ (49,818)
Begin an investigation of facts	11,311	-	(11,311)
Total salaries	61,129	-	(61,129)
Contract services			
Taking a police report on a violation of PC §530.5	-	40,729	40,729
Begin an investigation of facts	-	23,793	23,793
Total contract services	-	64,522	64,522
Total direct costs	61,129	64,522	3,393
Indirect costs	6,113	-	(6,113)
Total program costs	\$ 67,242	64,522	\$ (2,720)
Less amount paid by the State <sup>3</sup>		-	
Allowable costs claimed in excess of amount paid		\$ 64,522	
<u>Summary: July 1, 2002, through June 30, 2013</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 495,634	\$ -	\$ (495,634)
Begin an investigation of facts	159,588	-	(159,588)
Total salaries	655,222	-	(655,222)
Contract services			
Taking a police report on a violation of PC §530.5	-	374,333	374,333
Begin an investigation of facts	-	218,679	218,679
Total contract services	-	593,012	593,012
Total direct costs	655,222	593,012	(62,210)
Indirect costs	74,289	-	(74,289)
Total direct and indirect costs	729,511	593,012	(136,499)
Less allowable costs that exceed costs claimed <sup>2</sup>	-	(2,383)	(2,383)
Total program costs	\$ 729,511	590,629	\$ (138,882)
Less amount paid by the State <sup>3</sup>		-	
Allowable costs claimed in excess of amount paid		\$ 590,629	

<sup>1</sup> See the Finding and Recommendation section.

<sup>2</sup> GC section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's *Mandated Cost Manual*. That deadline has expired for FY 2004-05.

<sup>3</sup> Payment amount current as of November 29, 2022.

# Finding and Recommendation

## FINDING— Overstated Identity Theft Program costs

The city claimed \$729,511 (\$655,222 in salary costs and \$74,289 in related indirect costs) for the Identity Theft Program. We found that \$593,012 is allowable; and \$136,499 is unallowable.<sup>2</sup> We found that the city incorrectly classified the claimed costs as salary costs because it contracted with the LASD for all of its law enforcement services during the audit period. Therefore, the city did not incur any salary costs, but rather incurred contract services costs. We reallocated the costs to the appropriate cost category of Contract Services.

The city used the correct methodology to calculate its salary costs: it multiplied the number of identity theft police reports by the time required to perform the reimbursable activities, and it multiplied the product by the hourly rates reported in the city's contract with the county. The hourly rates in the contract include salaries, benefits, and indirect costs. However, because no city staff members performed the reimbursable activities, these costs should have been classified as contract services costs, not as salary costs.

The costs are unallowable primarily because the city claimed misclassified costs, overstated the number of identity theft reports taken, overstated the time increments needed to perform the reimbursable activities, and claimed unallowable indirect costs.

The following table summarizes the claimed, allowable, and audit adjustment amounts by fiscal year:

Fiscal Year	Amount Claimed	Salaries		(A)	(B)	(C)	(D)=(A)+(B)+(C)
		Amount Allowable	Audit Adjustment	Related Indirect Cost Adjustment	Contract Services Adjustment	Total Audit Adjustment	
2002-03	\$ 55,622	\$ -	\$ (55,622)	\$ (5,562)	\$ 23,478	\$ (37,706)	
2003-04	57,612	-	(57,612)	(5,761)	34,890	(28,483)	
2004-05	37,317	-	(37,317)	(3,732)	43,432	2,383	
2005-06	55,390	-	(55,390)	(5,539)	42,333	(18,596)	
2006-07	58,955	-	(58,955)	(5,895)	55,897	(8,953)	
2007-08	59,060	-	(59,060)	(7,619)	59,108	(7,571)	
2008-09	68,421	-	(68,421)	(9,853)	69,900	(8,374)	
2009-10	61,701	-	(61,701)	(8,823)	64,477	(6,047)	
2010-11	60,430	-	(60,430)	(7,433)	53,506	(14,357)	
2011-12	79,585	-	(79,585)	(7,959)	81,469	(6,075)	
2012-13	61,129	-	(61,129)	(6,113)	64,522	(2,720)	
Total	\$ 655,222	\$ -	\$ (655,222)	\$ (74,289)	\$ 593,012	\$ (136,499)	

<sup>2</sup> For FY 2004-05, we found that \$43,432 is allowable, which is \$2,383 in excess of claimed costs. GC section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's *Mandated Cost Manual*, and that deadline has expired for FY 2004-05. Therefore, total allowable costs for the audit period are \$590,629 (\$593,012 less \$2,383 in excess of claimed costs for FY 2004-05).



### Contract Services Costs

The city contracted with the LASD to provide all of its law enforcement services during the audit period. These services included the reimbursable activities claimed for the mandated program. The city contracted for various LASD staff positions each fiscal year; these included, but were not limited to, the Deputy Sheriff, CSA, and Sergeant classifications, and it paid the LASD annual contract rates for the positions. No city staff member performed any of the reimbursable activities under this program; therefore, the city did not incur salary and related indirect costs as claimed, but rather incurred contract services costs. We reallocated the costs to the appropriate cost category of Contract Services.

### Identity Theft Incident Reports

The city claimed that it took 2,943 identity theft incident reports for the audit period. We found that the city overstated the number of reports taken by 348, and that 2,595 reports are allowable.

The following table summarizes the counts of claimed, supported, and allowable identity theft cases, and the audit adjustment by fiscal year:

	(A)	(B)	(C)	(D)=(C)-(A)
Fiscal Year	Claimed Reports	Audited Population (per LARCIS)	Allowable Reports	Audit Adjustment
2002-03	261	148	125	(136)
2003-04	262	214	181	(81)
2004-05	169	263	223	54
2005-06	233	247	209	(24)
2006-07	297	308	261	(36)
2007-08	279	301	255	(24)
2008-09	314	336	291	(23)
2009-10	279	301	262	(17)
2010-11	261	282	224	(37)
2011-12	339	378	318	(21)
2012-13	249	287	246	(3)
Total	2,943	3,065	2,595	(348)

The city provided a summary report for each fiscal year to support the claimed number of identity theft incident reports taken. These summary reports were generated by the LASD's LARCIS. LARCIS provided unduplicated counts of initial police reports filed for violations of PC section 530.5 and identified the specific origin of each report. The list supports 3,065 identity theft police reports filed during the audit period.

We verified the accuracy of the unduplicated counts of initial police reports recorded in the LASD's LARCIS by determining whether:

- The initial police report was a courtesy report prepared by another law enforcement agency and forwarded to the LASD for further investigation;
- The police report was the result of a victim of identity theft contacting the LASD to initiate the law enforcement investigation.

- Each identity theft case was supported by a contemporaneously prepared and approved police report; and
- The police report supported that a violation of PC section 530.5 had occurred.

Due to the LASD's record-retention policy, the county was unable to provide any copies of the city's incident reports for FY 2002-03 through FY 2007-08. Therefore, for FY 2008-09 through FY 2012-13, we selected a statistical sample from the documented number of identity theft incident reports (the population) based on a 95% confidence level, a precision rate of  $\pm 8\%$ , and an expected error rate of 50%. We used statistical samples in order to project the results to the population for each fiscal year. We selected for review a total random sample of 508 out of 1,584 identity theft incident reports from the last five fiscal years of the audit period.

Our review of sample incident reports disclosed the following:

- For FY 2008-09, we found that 14 out of 104 identity theft incident reports were unallowable. Six of the 14 reports were unallowable because the victim of identity theft did not initiate the investigation by contacting the local law enforcement agency that had jurisdiction over his or her actual residence or place of business, as required by PC section 530.6(a). Five of the 14 reports were unallowable because they were not supported by a contemporaneously prepared and approved police report. The remaining three reports were unallowable because they were courtesy reports (police reports taken and prepared by other law enforcement agencies). Therefore, we calculated an error rate of 13.46% for FY 2008-09.
- For FY 2009-10, we found that 13 out of 100 identity theft incident reports were unallowable. Five of the 13 reports were unallowable because the victim of identity theft did not initiate the investigation by contacting the local law enforcement agency, as required by PC section 530.6(a). Five of the 13 reports were unallowable because they were courtesy reports. Two of the 13 reports were unallowable because they were not supported by a contemporaneously prepared and approved police report. The remaining report was unallowable because it was a duplicate (the police report given two identifying report numbers). Therefore, we calculated an error rate of 13.00% for FY 2009-10.
- For FY 2010-11, we found that 20 out of 98 identity theft incident reports were unallowable. Fourteen of the 20 reports were unallowable because they were courtesy reports. Five of the 20 reports were unallowable because the victim of identity theft did not initiate the investigation by contacting the local law enforcement agency, as required by PC section 530.6(a). The remaining report was unallowable because it was not supported by a contemporaneously prepared and approved police report. Therefore, we calculated an error rate of 20.41% for FY 2010-11.
- For FY 2011-12, we found that 17 out of 107 identity theft incident reports were unallowable. Eleven of the 17 reports were unallowable because they were courtesy reports. The remaining six reports were unallowable because the victim of identity theft did not initiate the

investigation by contacting the local law enforcement agency, as required by PC section 530.6(a). Therefore, we calculated an error rate of 15.89% for FY 2011-12.

- For FY 2012-13, we found that 14 out of 99 identity theft incident reports were unallowable. Ten of the 14 reports were unallowable because the victim of identity theft did not initiate the investigation by contacting the local law enforcement agency, as required by PC section 530.6(a). The remaining four reports were unallowable because they were courtesy reports. Therefore, we calculated an error rate of 14.14% for FY 2012-13.

As we were unable to sample the incident reports and determine the actual error rates for FY 2002-03 through FY 2007-08, we calculated an average error rate of 15.38% for the five fiscal years sampled.

The following table shows the average error rates for FY 2008-09 through FY 2012-13:

Fiscal Year	(A) Number of Unallowable Cases Sampled	(B) Sample Size	(C)=(A)÷(B) Error Rate
2008-09	14	104	13.46%
2009-10	13	100	13.00%
2010-11	20	98	20.41%
2011-12	17	107	15.89%
2012-13	14	99	14.14%
		Total	76.90%
	Number of fiscal years sampled	÷	5
	Average error rate		<u>15.38%</u>

We extrapolated the average error rate to the audited population of reports for FY 2002-03 through FY 2007-08. We applied the actual audited error rate to each of the other fiscal years to determine the allowable and unallowable number of incident reports taken.

The following table shows the number of allowable and unallowable incident reports taken by fiscal year:

Fiscal Year	(A) Audited Population	(B) Error Rate	Average Error Rate	(C)=(A)×(B) Total Unallowable Reports	(D)=(A)-(C) Total Allowable Reports
2002-03	148	N/A	15.38%	23	125
2003-04	214	N/A	15.38%	33	181
2004-05	263	N/A	15.38%	40	223
2005-06	247	N/A	15.38%	38	209
2006-07	308	N/A	15.38%	47	261
2007-08	301	N/A	15.38%	46	255
2008-09	336	13.46%	N/A	45	291
2009-10	301	13.00%	N/A	39	262
2010-11	282	20.41%	N/A	58	224
2011-12	378	15.89%	N/A	60	318
2012-13	287	14.14%	N/A	41	246
Total	<u>3,065</u>			<u>470</u>	<u>2,595</u>

## Time increments

The parameters and guidelines identify the following reimbursable activities:

- Activity 1a – Taking a police report on a violation of PC section 530.5;
- Activity 1b – Reviewing an online identity theft report completed by a victim; and
- Activity 2 – Beginning an investigation of the facts.

For our purposes, we separated Activity 1.a into two sub-activities:

- Activity 1a.1 – Taking a police report; and
- Activity 1a.2 – Reviewing and approving a police report.

The city claimed the following time increments during the audit period:

- 87 minutes for a Deputy Sheriff to take a police report (sub-activity 1a.1); and
- 10 minutes for a Sergeant to review and approve the police report for the audit period (sub-activity 1a.2).

In addition, the city claimed the following time increments for beginning an investigation of the facts (Activity 2):

- 61 minutes for a Detective for FY 2002-03 through FY 2005-06;
- 61 minutes for a Law Enforcement Technician (LET) for FY 2006-07 through FY 2010-11; and
- 57 minutes for a Detective (23% of the cases), and 30 minutes for a LET (77% of the cases) for FY 2011-12 through FY 2012-13.

The city worked with LASD employees at the West Hollywood Station to perform a time study from January through June 2011 to determine how long it took to perform the reimbursable activities that directly relate to the Identity Theft Program.

During fieldwork, we held discussions with the city and a representative of LASD in an attempt to understand why the claimed time increments for LASD's West Hollywood Station were significantly higher than other LASD stations previously audited by SCO. The LASD representative explained that since the city is an affluent area, identity theft crimes typically involved more pieces of personal identifying information. As a result, a "preliminary investigation" took longer to perform along with the requisite police report.

The city worked with LASD employees at the West Hollywood Station to perform a time study from January through June 2011 to determine how long it took to perform the reimbursable activities that directly relate to the Identity Theft Program. The city provided an unsigned and undated time log summary (for 26 identify theft cases) to support the time increments claimed for the following activities: 1) Take and prepare a report; 2) Review and approve a report; and 3) Conduct a preliminary investigation.

Although the city claimed time for LASD Detectives and LETs to begin an investigation, we found that the city's contracts for law enforcement service with Los Angeles County did not include Detectives for any fiscal year of the audit period and did not include LETs until FY 2007-08. In addition, none of the initial police reports or supplemental reports that LASD provided for the time study cases contained any indication that an LET performed investigative work. We also requested that the city provide case notes or written reports that LETs prepared to support the time claimed. However, the city did not provide such documentation.

During the audit, LASD provided Incident History Reports for 19 of the 26 time study cases, while explaining that reports for the other seven cases were unavailable. LASD's Incident History Reports contain contemporaneous time stamps indicating when an Officer arrived on scene to interview the identity theft victim and when the Officer completed the interview.

Using LASD's Incident History Reports, we found that nine of the 19 reports were ineligible for the calculation of time increments for the following reasons:

- Five Incident History Reports were related to cases that did not meet the requirements of PC section 530.6(a) because the victim(s) of identity theft did not initiate the investigation by contacting the local law enforcement agency,
- Three Incident History Reports did not indicate when the Officer arrived on scene, and
- One Incident History Report was determined to be an outlier due to the amount of time recorded (169 minutes) to conduct an interview at the front counter of LASD's West Hollywood Station.

We used the Incident History Reports for the remaining 10 time study cases to calculate allowable time for beginning an investigation. The reports supported that Deputy Sheriffs and CSAs performed this activity. We used the city's time study results for the 10 time study cases to calculate the allowable time for preparing a police report and for reviewing a police report.

We applied the following time increments for each allowable police report that originated in the City of West Hollywood in our calculations of allowable costs:

- 74 minutes (1.23 hours) for Deputy Sheriffs and 84 minutes (1.40 hours) for CSAs to perform sub-activity 1a.1 – taking a police report on violations of PC section 530.5;
- 7.20 minutes (0.12 hours) for Sergeants to perform sub-activity 1a.2 – reviewing incident reports on violations of PC section 530.5; and
- 47 minutes (0.78 hours) for Deputy Sheriffs and 65 minutes (1.08 hours) for CSAs to perform Activity 2 – beginning an investigation of the facts.

The following table summarizes the time increments claimed and allowable for the reimbursable activities by fiscal year:

Fiscal Year	Claimed Minutes				Allowable Minutes				
	Activity 1a.1	Activity 1a.2	Activity 2		Activity 1a.1	Activity 1a.2	Activity 2		
	Taking a Report	Reviwing a Police Report	Beginning an Investigation		Taking a Police Report	Reviwing a Police Report	Beginning an Investigation		
	Deputy Sheriff	Sergeant	Detective	LET	Deputy Sheriff	CSA	Sergeant	Deputy Sheriff	CSA
2002-03	87	10	61	-	74	84	7.2	47	65
2003-04	87	10	61	-	74	84	7.2	47	65
2004-05	87	10	61	-	74	84	7.2	47	65
2005-06	87	10	61	-	74	84	7.2	47	65
2006-07	87	10	-	61	74	84	7.2	47	65
2007-08	87	10	-	61	74	84	7.2	47	65
2008-09	87	10	-	61	74	84	7.2	47	65
2009-10	87	10	-	61	74	84	7.2	47	65
2010-11	87	10	-	61	74	84	7.2	47	65
2011-12	87	10	57	30 <sup>a</sup>	74	84	7.2	47	65
2012-13	87	10	57	30 <sup>b</sup>	74	84	7.2	47	65

<sup>a, b</sup> For Activity 2 during FY 2011-12 and FY 2012-13, the city claimed that 23% of the cases were investigated by Detectives (57 minutes) and 77% of the cases were investigated by LETs (30 minutes).

Although we used the city’s audited time study results to determine the time increments required to perform the reimbursable activities, we did not use the time study to determine an average percentage of involvement for each employee classification that performed the reimbursable activities.

The city’s time study showed the following:

- LASD Deputy Sheriffs took reports and began investigations for 13 of 19 cases (68.42%);
- CSAs took reports and began investigations for five of 19 cases (26.32%); and
- An LASD Detective took a report and began an investigation for one case (5.26%).

During our testing to determine the allowable number of police reports, we requested and the city provided case listings of police reports filed for violations of PC Section 530.5 for all years of the audit period. Each listing of police reports identified the LASD employees involved. The LASD specified which employees were CSAs and which employees were Detectives. This testing showed the following involvement of CSAs during the audit period:

- FY 2002-03 through FY 2004-05 – no CSA involvement;
- FY 2005-06 – five of 209 reports (2.4%);
- FY 2006-07 – four of 261 reports (1.5%);
- FY 2007-08 – no CSA involvement;
- FY 2008-09 – three of 291 reports (1.0%);
- FY 2009-10 – five of 262 reports (1.9%);
- FY 2010-11 – 14 of 224 reports (6.3%);

- FY 2011-12 – one of 318 reports (0.31%); and
- FY 2012-13 – no CSA involvement.

We also found that case listings did not show that any Detectives or Sergeants took police reports or began investigations. Therefore, we used the actual results of Deputy and CSA involvement from the LASD's case listings to calculate allowable costs for each year of the audit period.

### **Contract Hourly Rates**

The city provided copies of the signed Municipal Law Enforcement Services Agreements that it negotiated with Los Angeles County. The contracts specify that the services performed and requested by the city must be "indicated on a LASD SH-AD-575 Deployment of Personnel Form." The county uses this form to indicate the authorized LASD staffing level for each year that a contract is in effect, and the rates billed to the city for various LASD staff.

When we reviewed the city's contracts for law enforcement services, the contracts did not identify Detectives in the city's SH-AD 575 forms. An LASD representative indicated to us that the services of the LASD's Detective Bureau were already included in the city's contracts for law enforcement services. Therefore, the city did not incur any additional costs for services performed by LASD Detectives.

Based on the sampled police reports, we found that Deputy Sheriffs and CSAs performed reimbursable Sub-Activity 1a.1 (Take a police report) and reimbursable Activity 2 (Begin an investigation of the facts). We also found that Sergeants exclusively performed reimbursable Sub-Activity 1a.2 (Review and approve a police report).

We recomputed the contract hourly rates for the Deputy Sheriff, CSA, and Sergeant classifications using information from the SH-AD 575 forms and the city's contracts with the LASD. The city's SH-AD 575 forms specify the number of service units, which vary from year to year, for the Deputy Sheriff, CSA, and Sergeant classifications. The LASD's agreements with contract cities define a "service unit" as one position of a certain classification.

For the Deputy Sheriff and CSA classifications, the city's contracts specify a liability percentage of 6% for FY 2002-03 through FY 2009-10, and 4% for FY 2010-11 through FY 2012-13. The liability percentage is a charge that the county adds to its calculated contract rates for staff based on salaries, benefits, and overhead costs. We applied the appropriate liability percentage to the contract costs for each fiscal year. To calculate the average contract hourly rate for each fiscal year, we divided the total annual unit cost (including the liability percentage) for all Deputy Sheriffs by the total annual hours per service unit. We applied a similar calculation to the CSAs.

The following table summarizes the claimed and allowable contract hourly rates for Deputy Sheriffs during the audit period, and the difference between those rates:

Fiscal Year	Deputy Sheriff		Rate Difference
	Claimed	Allowable	
	Hourly Rate	Hourly Rate	
2002-03	\$ 87.34	\$ 89.03	\$ 1.69
2003-04	89.62	91.31	1.69
2004-05	90.26	92.17	1.91
2005-06	95.51	97.18	1.67
2006-07	100.39	102.13	1.74
2007-08	107.89	109.48	1.59
2008-09	106.68	114.32	7.64
2009-10	109.80	117.76	7.96
2010-11	116.17	117.53	1.36
2011-12	119.74	121.29	1.55
2012-13	124.97	124.00	(0.97)

The following table summarizes the claimed and allowable contract hourly rates for CSAs during the audit period, and the difference between those rates:

Fiscal Year	CSA		Rate Difference
	Claimed	Allowable	
	Hourly Rate	Hourly Rate	
2002-03	\$ -	\$ 21.70	\$ 21.70
2003-04	-	22.46	22.46
2004-05	-	23.06	23.06
2005-06	-	29.19	29.19
2006-07	-	29.51	29.51
2007-08	-	29.72	29.72
2008-09	-	29.70	29.70
2009-10	-	30.64	30.64
2010-11	-	30.71	30.71
2011-12	-	30.65	30.65
2012-13	-	32.55	32.55

To calculate the average contract hourly rate for Sergeants, we divided the total annual unit cost for all Sergeants by the total annual hours per service unit. The following table summarizes the claimed and allowable contract hourly rates for Sergeants during the audit period, and the difference between those rates:

Fiscal Year	Sergeant		Rate Difference
	Claimed	Allowable	
	Hourly Rate	Hourly Rate	
2002-03	\$ 73.07	\$ 73.98	\$ 0.91
2003-04	76.01	76.95	0.94
2004-05	76.00	79.20	3.20
2005-06	83.86	84.70	0.84
2006-07	89.81	90.92	1.11
2007-08	96.64	97.83	1.19
2008-09	101.10	100.26	(0.84)
2009-10	103.27	103.90	0.63
2010-11	107.07	105.31	(1.76)
2011-12	107.07	107.73	0.66
2012-13	113.17	108.72	(4.45)



For the audit period, we calculated allowable contract services costs based on the audited counts of PC 530.5 identity theft reports, audited time increments, and contract hourly rates.

For example, the following table shows the calculation of allowable contract services costs for FY 2010-11:

Reimbursable Activity	LASD Staff	(A)	(B)	(C)	(D)=(A)×(B)×(C)
		Total Allowable Reports	Allowable Time Increment (in hours)	Allowable Contract Hourly Rate	Allowable Costs
1a.1, 2	Deputy Sheriff	210	1.23	\$ 117.53	\$ 30,358
1a.1, 2	CSA	14	1.4	\$ 30.71	602
1a.2	Sergeant	224	0.12	\$ 105.31	2,831
2	Deputy Sheriff	210	0.78	\$ 117.53	19,251
2	CSA	14	1.08	\$ 30.71	464
Total allowable contract services costs					<u>\$ 53,506</u>

**Indirect Costs**

The city claimed related indirect costs totaling \$74,289 for the audit period based on claimed salaries totaling \$655,222. We found that the entire amount is unallowable because no city staff member performed any of the reimbursable activities under this program during the audit period. Instead, the city contracted with the LASD for all of its law enforcement services during the audit period. Therefore, the city did not incur any direct salary costs, but rather incurred contract services costs.

For FY 2002-03 through FY 2006-07 and FY 2011-12 through FY 2012-13, the city applied the default 10% indirect cost rate to the salaries claimed. As the city did not incur any direct salary costs for those fiscal years, there are no related indirect costs.

The city provided copies of its Indirect Cost Rate Proposals for FY 2007-08 through FY 2010-11. However, the city used a distribution base of direct salaries and wages for LASD staff to calculate its indirect cost rates. As the city incurred only contract services costs, there are no related indirect costs.

The following table summarizes the claimed, allowable, and audit adjustment amounts by fiscal year:

Fiscal Year	Salaries Claimed	Claimed Indirect Cost Rate	(A)	(B)	(C)=(B)-(A)
			Indirect Costs	Indirect Costs Allowed	Audit Adjustment
2002-03	\$ 55,622	10.00%	\$ 5,562	\$ -	\$ (5,562)
2003-04	57,612	10.00%	5,761	-	(5,761)
2004-05	37,317	10.00%	3,732	-	(3,732)
2005-06	55,390	10.00%	5,539	-	(5,539)
2006-07	58,955	10.00%	5,895	-	(5,895)
2007-08	59,060	12.90%	7,619	-	(7,619)
2008-09	68,421	14.40%	9,853	-	(9,853)
2009-10	61,701	14.30%	8,823	-	(8,823)
2010-11	60,430	12.30%	7,433	-	(7,433)
2011-12	79,585	10.00%	7,959	-	(7,959)
2012-13	61,129	10.00%	6,113	-	(6,113)
Total	<u>\$ 655,222</u>		<u>\$ 74,289</u>	<u>\$ -</u>	<u>\$ (74,289)</u>

## Criteria

Section III, “Period of Reimbursement,” of the parameters and guidelines states, in part, “Actual costs for one fiscal year shall be included in each claim.”

Section IV, “Reimbursable Activities,” of the parameters and guidelines begins:

To be eligible for mandated cost reimbursement for any given fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable to and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheet, invoices, and receipts.

Section IV of the parameters and guidelines continues:

For each eligible claimant, the following ongoing activities are eligible for reimbursement:

1. Either a) or b) below:
  - a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or
  - b) Reviewing the identity theft report completed on-line by the identity theft victim.
2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.

In addition, Section IV states, “Referring the matter to the law enforcement agency where the suspected crime was committed for further investigation of the facts is also not reimbursable under this program.”

Section V.A.1, “Salaries and benefits,” of the parameters and guidelines states:

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to these activities.

Section V.B, “Indirect Cost Rates,” of the parameters and guidelines states, in part:

. . . Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan. . . .

#### Recommendation

The State Legislature suspended the Identity Theft Program in the FY 2013-14 through FY 2022-23 Budget Acts. If the program becomes active again, we recommend that the city:

- Adhere to the program’s parameters and guidelines and the *Mandated Cost Manual* when claiming reimbursement for mandated costs; and
- Ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

#### City’s Final Response

While we disagree with your determination that indirect costs are not eligible for reimbursement, since this was a minor component of our submission, we will not pursue this issue as overall we feel the results of the other parts of the audit, as proposed, are fair and reasonable.

#### SCO Comments

Based on the City’s final response, our finding remains unchanged.

**Attachment A—  
City's Initial Response to Draft Audit Report**

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## CITY OF WEST HOLLYWOOD

CITY HALL  
8300 SANTA MONICA BLVD  
WEST HOLLYWOOD, CA  
90069-4314  
TEL: (323) 848-6400  
FAX: (323) 848-6575

DEPARTMENT  
OF FINANCE  
& TECHNOLOGY  
SERVICES

October 28, 2022

Lisa Kurokawa  
Chief, Compliance Audits Bureau  
Division of Audits, State Controller's Office  
Post Office Box 942850  
Sacramento, California 94250

**RE: Identity Theft Program Draft Audit Report Responses for the period of  
July 1, 2002, through June 30, 2013**

Thank you for sending us the draft report dated October 20, 2022, and for providing us the time to review your findings and analysis. Below please find our comments as it pertains to the draft report, and we thank you in advance for your time and hope that you will reconsider the preliminary findings in your draft report.

### **ISSUE 1: Denial of allowable, properly supported Direct Costs**

***The city claimed 10 minutes for Sergeant to review and approve an Identity Theft (ID Theft) report, however, you reduced this to 8.95 minutes. (See page 15-16 of the Draft Audit Report).*** Can you please explain how and why you reduced our time since it was based on a valid time study we conducted contemporaneously? We saw no explanation in the document narrative on this point.

***We disagree with your statement on page 16 of your Draft Audit Report, "the city did not differentiate between the time spent taking a police report and the time spent beginning an investigation of the facts".*** We did indeed track these two activities separately in the time study documentation we presented to you at the start of the audit. The first activity – "take a report" is primarily done by the Deputy, while the "begin an investigation" activity is done by Law Enforcement Technicians and Detectives as shown in our time studies. The instructions that were provided to staff before conducting the time studies had very clear instructions with wording that exactly matched the wording from the State's Parameters and Guidelines and Claiming Instructions.

Therefore, your statement that we did not differentiate between the taking of a report and beginning an investigation is not accurate.

***We disagree with your statement on page 16 of your Draft Report, "the language describing the reimbursable activities in the Parameters and Guidelines indicates that law enforcement personnel conduct most, if not all, of Activity 1 [take a report] and Activity 2 [begin an investigation] at the same time."*** Can you please direct us to where the Parameters and Guidelines state this?

Based on our reading of the Parameters and Guidelines and the Statement of Decision, it seems the Commission recognized and intended to include two distinct reimbursable steps/activities:

- "take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information; and,"
- "begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose."

***We disagree, with the statement on page 16 of your Draft Audit Report that states, "While conducting interviews needed to prepare the police report, the victim has already disclosed to law enforcement personnel what pieces of personal identifying information were used for an unlawful purpose and where the crimes occurred" and that the report taking shows that the "investigation had already begun" and therefore nothing beyond the taking of the report is eligible for reimbursement.*** Based on your description, the victim already seems to know all facts and has all but solved the crime. This is not the case. The victim may be aware that someone has been apply for credit cards using their personal information, but they may not know specifically which pieces of their personal information may have been compromised. Determining this and specifically where the crime occurred almost always requires further investigation as most identity thieves are not locating in the same jurisdiction in which the victim resides. This cannot be simply accomplished by talking to the victim and taking the report.

***We disagree, with the statement on page 16 of your Draft Audit Report that states, "After discussion with the city representatives, we determined that this activity [begin an investigation of the facts], included tasks that are a part of taking a police report (Activity 1a) in addition to tasks that are a part of Activity 2.*** Could you please explain exactly which discussions you are referring to and which city representative told you that? As explained above, these two activities are separate and distinct, were tracked separately on our time logs, and were not even performed by the same positions.

***We disagree, with the statement on page 16 of your Draft Audit Report that states, "...contacting banks and credit card companies is a part of the additional investigative steps that transcends the reimbursable activities."*** Solely relying on a victims' statements is inadequate to determine 1) that a crime occurred; 2) "where the crime occurred" and 3) "what pieces of personal identifying information were used for an unlawful purpose." The victim may have some idea/suspicion of what pieces of their personal information may have been compromised, but in order to verify as required by State law, the institutions involved must be contacted to make these determinations.

Identity theft is not like a traditional theft where the victim knows exactly where their purse was stolen. Given the nature this type of crime, determining where the crime occurred is not a straightforward task which can be accomplished when the deputy meets with the victim to take a report.

We believe these phone calls/contacts after taking the report from the victim constitute exactly the type of preliminary investigative activities the Commission envisioned when drafting their Parameters and Guidelines. The hour of phone calls we claimed do not constitute the whole of the investigation, which can take many, many hours.

Commission Statement of Decision states (page 9), "Therefore, in the context of section 530.6, to "begin an investigation" means to commence an inquiry into suspected identity theft. However, "begin" certainly does not require a "complete" investigation such as would be required to criminally prosecute a suspect."

We agree and were very cognizant of the Commission's limitation on the scope of this investigative to NOT include activities related to the investigating for "purposes of criminal prosecution". This language was included in the data collection forms provided to us by our consultant.

While our time studies indicated approximately 6 hours of time spent on investigation activities, we only claimed one hour of time to ensure that we did not exceed the scope of allowable investigative tasks. Your complete disallowance of this investigative time is contrary to Parameters and Guidelines.

## **ISSUE 2: Denial of allowable Indirect Costs**

Claiming Instructions and Parameters and Guidelines specify that local agencies are entitled to reimbursement of "actual" costs. Not partial costs, if they contract for law enforcement services. Actual costs are comprised of direct and indirect costs.

Parameters and Guidelines define indirect costs as "... indirect costs may include (1) the overhead costs **of the unit performing the mandate;**".

Please show us where it states that the unit performing the mandate must be with direct city employees in order to obtain reimbursement for indirect costs? Since local agencies are allowed to contract for law enforcement services, and those are the "units" perform the mandate, then the indirect costs of those "units performing the mandate" must also be allowable.

In this case the UNIT performing the mandate is the law enforcement "unit" purchased and paid for by the City of West Hollywood from the Los Angeles County Sheriff's Department (LASD) as outlined in detail in their contract and Schedule 575.

The contracts we submitted with our claims and Indirect Cost Rate Proposals (ICRPs) shows that the city paid for supervisory/administrative positions such as a Lieutenant and Sergeants, and Clerical Support positions such as Station Clerks, Operations Assistants, and Community Services Assistants. Supervision and clerical support are a recognized eligible indirect cost in both 2 CFR Part 225 guidelines as well as in State Claiming Instructions because those costs provide benefit and support to the entire unit/law enforcement staff. The County did not pay for those costs – the City did.

The City does not have its own staff performing law enforcement services but has purchased an entire Police Department from LASD, including all direct law enforcement personnel as well as indirect support staff to provide its residents with a complete Police Department. Since it is the City who has paid for (incurred) those costs (both direct and indirect), it is appropriate that the City files for and obtains the reimbursement of the all eligible mandated costs.

SCO analysis shows it was the LASD contract staff (the LASD Contract "Unit") that performed the mandate. SCO rightly determines that the City is entitled to submit for reimbursement of those direct cost; yet somehow concludes that the overhead incurred by that same direct "unit" performing the

mandate is not eligible for indirect costs and only would only have been eligible if internal city staff performed direct law enforcement duties.

This conclusion is illogical and incorrect. If the city had sworn staff, they would not have had to contract for law enforcement services. And if a contract city cannot request reimbursement for overhead costs they incurred as SCO analysis suggests, then that would mean that all cities that contract for law enforcement services (roughly 30% of all California Cities) would be denied the indirect costs guaranteed in the Claiming Instruction's and Parameters and Guidelines and could only hope to obtain partial reimbursement of mandated costs. Why would direct costs be allowable for a contract city to claim, but not indirect costs?

In fact, your own Audit of Los Angeles County's Identity Theft claims issued in June, 2017 (see attached) concludes that the County is not eligible for file for the costs of its contracting cities:

"The county based its reported offsets on claimed salaries, benefits, and related indirect costs incurred for an estimated 63% of identity theft cases completed for its contracting cities. Forty-four cities with no police forces of their own contracted with and annually reimbursed Los Angeles County for general law-enforcement services." (Page 17)

"The county agreed with our proposal to calculate the county's cost for processing identity theft reports that would not include the costs of processing reports for contract cities." (Page 11, paragraph 1 of LA County Identity Theft Audit, June, 2017)

Since your own audit concludes that the county is not eligible to request reimbursement for the costs of contract cities (both direct and indirect) because the contract cities are paying for (incurring) the costs of these mandated programs through their contracts. Therefore, it is correct that the contract cities should claim for those full actual costs they have paid for themselves, including the indirect costs.

Claiming Instructions state: "To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. These costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts."

We provided copies of source documents (contracts) that showed the validity of the direct and indirect costs incurred. We completed and Indirect Cost Rate Proposal in accordance with the instructions for our FY 2007-08 through FY 2010-11 claims. Therefore, the reimbursement of full actual cost is required regardless of whether a city directly pays for law enforcement staff or pays for those costs through a contract with another law enforcement agency.

To not do so would violate State law, the Parameters and Guidelines, prior Commission analysis, and your own agency's prior audits and analysis.

**SCO decision to deny overhead costs is inconsistent with its own prior audits where overhead was allowed in contract situations.**

Contract cities (cities that contract for law enforcement services) have been filing and submitting claims their direct and indirect costs for decades. ICRP/overhead costs have been included in many different claims over the years and the SCO has made payments for all direct and indirect costs for these many years with no prior issues. Nothing has changed in the instructions or Parameters and Guidelines, yet,



suddenly the SCO is altering its prior decision and denying contract cities the cost of law enforcement overhead costs. SCO decision is inconsistent, arbitrary, and in contractions with Parameters and Guidelines.

Your draft audit finding that the City of West Hollywood should not be entitled to overhead is inconsistent with SCO 's own prior audits of other contract cities (see *the 2017 City of San Marcos Audit Report of the Crime Statistic Reports for the Department of Justice* program attached here as it is no longer on the SCO website). In this audit, the State Controller's field auditors recognized there were additional indirect/overhead costs within the contract with the San Diego Sheriff's Office (SDSO) and those indirect costs were allowed as valid overhead charges by computing an ICRP for that law enforcement "unit". Below is an extract from page 23 of that Audit Report:

"Contract Indirect Costs

We [SCO] reviewed the contract agreements between the city and the SDSO. For FY 2007-08 through FY 2011-12, the SDSO contract agreements provided schedules and identified supplemental contracted labor costs **and contracted overhead costs**. We determined that overhead costs identified in the contract were appropriate as they related to the performance of mandated activities. We computed indirect cost rates for contract services for these years by dividing total contract overhead costs, station support staff costs, and Sergeant Admin position costs, by the contracted labor costs identified in the contract supplemental schedules."

The audit permitted a number of overhead items including:

- 1) proration of Sergeant support/admin
- 2) proration of Other Support costs allocated (which includes Station level Staff Support including: Captain, Admin Secretary, Lieutenant, Volunteer Coordinator, Senior Clerk, Department Aide, Receptionist, Intermediate Clerk)
- 3) Law Enforcement Support including Station Detectives, Communication Center (Central Dispatch support), Crime Prevention, Juvenile Intervention, Regional Services
- 4) Services and Supplies Costs
- 5) Support Costs including Vehicles, Facilities/Space, County Management Support (Admin, Fiscal, Data Services, Personnel & Other)
- 6) Liability (charged separately)

The positions West Hollywood included in their ICRP computation are all similar indirect costs which comply with Federal CFR standards of allowable indirect costs and provide necessary support to the function of the department and relate to/provide benefit to the performance of the mandate program.

Further, if you look to SCO own office's analysis of the San Bernardino County's (a similar contracting agency) Interagency Child Abuse and Neglect Reporting Audit issued this last June, 2022. ([https://www.sco.ca.gov/Files-AUD/06-2022\\_cab-mcc-ica-sanbernardinoCounty.pdf](https://www.sco.ca.gov/Files-AUD/06-2022_cab-mcc-ica-sanbernardinoCounty.pdf)) there is even more support of our position. SCO audit states:

- 1) "The parameters and guidelines state that any county, city, or city and county is eligible to submit a mandate reimbursement claim. Therefore, all counties and cities—including contract cities—are eligible to submit mandate reimbursement claims." (See page 24, paragraph 4)
- 2) "The SBCSD contracts with cities within the county's boundaries that do not have a police force. The contract cities purchase various SBCSD staff positions (i.e. Deputy Sheriff Officer and Sheriff Sergeant) each fiscal period and pay the SBCSD annual contract rates for the purchased

positions to provide law enforcement services. As the contract cities do not have a police force, none of the contract cities' staff members performed any of the reimbursable activities under the ICAN Investigation Reports Program. In addition, the staff positions purchased by the contract cities include those staff positions who were responsible for performing the reimbursable mandated activities for the ICAN Investigation Reports Program. Therefore, the SBCSD is responsible for performing all law enforcement duties, including the mandated activities for the ICAN Investigation Reports Program, for contract cities." (See page 24, paragraph 2)

- 3) The audit concludes that, "The county is not entitled to mandated reimbursement for costs for contract city cases." All costs, including costs for overhead services requested by the County related to services provided for contract cities, were denied. (See page 25, paragraph 2)
- 4) "Because contract cities are eligible to submit reimbursement claims, and the county received fees for law enforcement services from its contract cities, we determined that the county should only claim costs associated with the unincorporated areas of the county. We determined that the costs incurred by contract cities are unallowable because the county had already been compensated by contract fees. The county did not report offsetting reimbursements for the contract city cases in its mandated cost claims. Therefore, we found that the county overstated these claimed costs because it did not offset costs that were funded by other sources." (Page 19, paragraph 3)

SCO own analysis supports our position that the City is entitled to reimbursement of all costs: Direct and Indirect because the city paid for/incurred those costs. SCO office rightly concluded that the County Sheriff's office is not entitled to receive reimbursement for costs incurred (paid for) by the contracting city – and a part of that payment was for indirect costs.

If SCO denies the city overhead costs they incurred under that same contractual payment, and also denies the County the overhead costs "their" staff is providing under the contract, then that results in a Catch-22 situation where no local agency is entitled to that indirect cost reimbursement and the State gains, unjustly, by denying eligible overhead costs to those local agencies incurring the costs for those mandated services.

Local agencies are entitled to consistent and non-arbitrary application of State Mandate regulations and guidelines.

**SCO decision to deny overhead costs is inconsistent with prior Commission on State Mandates discussion on this topic.**

In the City of Palmdale's Incorrect Reduction Claim (IRC) of the SCO's 2016 Audit of their Interagency Child Abuse and Neglect Reporting claims (See November, 2018 CSM meeting transcript <https://csm.ca.gov/minutes/113018.pdf>) the Commission reviewed whether the City of Palmdale, which contracted with Los Angeles County Sheriff Department for law enforcement services, was entitled to the 10% default overhead rate they claimed in their requests for reimbursement.

The Commission staff concluded that while it was not appropriate for a contracting agency to use the default 10% ICRP rate when computing overhead costs since this rate was designed specifically for application to only salaries (not salaries and benefits, or contract hourly rates which might include other overhead); a contract city would have been eligible for indirect cost reimbursement IF an ICRP was prepared and submitted demonstrating valid indirect costs. The City of West Hollywood did prepare

and submit their own ICRPs showing overhead cost computations for Fiscal Years 2007-08 through FY 2010-11 and therefore should be reimbursed for those years ICRPs were prepared.

Commissioner Alex's stated during the Commission meeting (Page 46 of transcript, Lines 5-8 of hearing transcript) that he agreed that "...there is overhead associated with a contract and I think that's typical."

Mr. Jones of the Commission staff noted that "...the Parameters and Guidelines say you can – you can prepare an indirect cost rate proposal if the indirect cost rate exceeds 10%." (Page 44 lines 24-25 and page 45, lines 1-2 of hearing transcript)

Commission Member Adams asked, "And under Parameters – Parameters and Guidelines, would there have been an appropriate way to claim these indirect costs?" (Page 38 lines 14-21 of hearing transcript)

Mr. Jones of the Commission staff responds, "Staff's position is that, yes, there was an appropriate way, and it was to develop an indirect cost rate proposal with documentation that the Controller could review." (Page 38 lines 24-25 and Page 39 lines 1-2)

Ms. Shelton of the Commission noted that, "...you have to follow the plain language of the Parameters and Guidelines." (Page 47, lines 21-23 of hearing transcript). The plain language being that indirect costs were eligible for reimbursement.

**To argue that "contract" labor is somehow ineligible for overhead is not supported by Parameters and Guidelines, Claiming Instructions, nor Federal CFR Guidelines.**

Again, the "plain language" in the Parameters and Guidelines state: "... indirect costs may include (1) the overhead costs **of the unit performing the mandate;**".

There is no distinction in the claiming instructions regarding how a cost must be incurred and that the "unit performing the mandate" must be the city's own staff to qualify for reimbursement of indirect costs. SCO acknowledges this through many of its own audits by rightly denying counties the costs incurred by contracting cities. Why it would be allowable to claim that "unit's" direct costs but not their indirect costs?

Payment is payment – regardless of whether the costs are run through the city's payroll system or paid directly to the service provider. SCO interpretation that only cities that pay their law enforcement staff via an internal payroll system qualify for indirect costs is not supported by claiming instructions and would mean that no contract city would be able to obtain reimbursement for mandate related overhead costs, treating contracting cities arbitrarily by denying them the costs that would be have been eligible had they had their own police departments.

The City prepared and submitted ICRPs pursuant instructions which were based on actual direct contract labor costs. The SCO itself computed and allowed an indirect cost rate to be computed using direct contract labor as a base in the City of San Marcos audit discussed above. Claiming Instructions allow for various basis to be used to distribute indirect costs – not just salaries, or salaries and benefits.

Parameters and Guidelines (see page 4-5 of SCO Identity Theft Claiming Instructions) and 2 CFR Circular specifically allow indirect costs to be computed on **various** distribution bases:

"The distributions base may be: (1) **total direct costs** (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.); (2) direct salaries and wages; or (3) **another base which results in an equitable distribution.**

"In calculating an ICRP, the claimant shall have the choice of one of the following methodologies:

1. The allocation of allowable indirect costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) classifying a department's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount of allowable indirect costs bears **to the base selected**; or
2. The allocation of allowable indirect costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) separating a department into groups, such as divisions or sections, and then classifying the division's or section's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) **by an equitable distribution base.** The result of this process is an indirect cost rate that is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount of allowable indirect costs bears **to the base selected.**"

Therefore, SCO logic that somehow the use of contract direct labor costs would not be an allowable or applicable "base" does not stand because indirect costs can be computed on multiple bases.

Indeed, the SCO's office accepted that there were overhead costs in the City of San Marcos's claim which similarly contracted with a sheriff's department (San Diego Sheriff's Office) and used direct contract labor costs as a base for computing law enforcement services overhead costs for their claim, "We [SCO] determined that overhead costs identified in the contract were appropriate as they related to the performance of mandated activities. **We computed indirect cost rates for contract services for these years by dividing total contract overhead costs, station support staff costs, and Sergeant Admin position costs, by the contracted labor costs identified in the contract supplemental schedules.**"

2 CFR Part 225 Federal Guidelines have very broad language describing how overhead for various types of "units" can be prepared. It is arbitrary and inconsistent if direct costs would be eligible for reimbursement for a contracting city, but not indirect costs.

SCO claim forms are supposed to be developed to comply with Parameters and Guidelines, not the other way around. If the SCO doesn't believe the detailed claim forms they developed do not display costs in the desired format, then SCO office has the authority to modify form formats to better display costs to SCO's liking; and has done so many times in the past. They do not however, have the authority to deny eligible and properly supported costs. As mentioned above, for many years, and in many other prior audits of contract city claims, the forms formatting did not preclude other contract cities from obtaining reimbursement of eligible overhead costs.

The city paid for both direct and indirect costs and by SCO own analysis (see above section, SCO explains that cities "purchased positions from" the County and "the County has received fees /compensation for those services". By this same reasoning, contract cities are the proper entitled to claim for the direct and indirect costs they paid for mandated activities.

We hope that you will reconsider your preliminary findings and are available to discuss and provide any additional information you may require.

Sincerely,



Lorena Quijano, CPA, MPA  
Director of Finance and Technology Services  
City of West Hollywood  
8300 Santa Monica Blvd.  
West Hollywood, CA 90069  
[Lquijano@Weho.org](mailto:Lquijano@Weho.org) | 323-848-6513

Attachments

cc: Danny Rivas, Director, Community Safety Department, City of West Hollywood  
Annie Ruiz, Revenue Manager, Finance and Technology Services Department, City of West Hollywood  
Carlos Corrales, Accounting Manager, Finance and Technology Services Department, City of West Hollywood  
Claudia Duncan, Senior Financial Management Analyst, Finance and Technology Services Department, City of West Hollywood

**Attachment B—  
City's Final Response to Draft Audit Report**

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## CITY OF WEST HOLLYWOOD

CITY HALL  
6300 SANTA MONICA BLVD  
WEST HOLLYWOOD, CA  
90069-4314  
TEL: (323) 848-6451  
FAX: (323) 848-6566

DEPARTMENT  
OF FINANCE  
& TECHNOLOGY  
SERVICES

DECEMBER 7, 2022

Mr. Jim Venneman  
Audit Manager  
State Controller's Office  
3301 C Street, Suite 745B  
Sacramento, CA 95816

### **Response to Commission Revised Draft Audit Findings: CITY OF WEST HOLLYWOOD: IDENTITY THEFT AND REPORTING CLAIMS**

Dear Mr. Venneman,

We appreciate and thank you for your thorough review of our responses to your Preliminary Audit Finding and for your additional examination of the actual time records which resulted in an increase of allowable costs from \$390,382 to \$590,629.

While we disagree with your determination that indirect costs are not eligible for reimbursement, since this was a minor component of our submission, we will not pursue this issue as overall we feel the results of the other parts of the audit, as proposed, are fair and reasonable.

Thank you again for your consideration.

Sincerely,

A handwritten signature in blue ink that reads "Lorena Quijano".

Lorena Quijano, CPA, MPA  
Director of Finance & Technology Services

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250**

**<http://www.sco.ca.gov>**