



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 19, 2024

Kevin Shirah, Director of Finance
City of Lake Forest
100 Civic Center Drive
Lake Forest, CA 92630

Dear Mr. Shirah:

The State Controller's Office performed a review of costs claimed by the City of Lake Forest for the legislatively mandated Identity Theft Program for the period of July 1, 2005, through June 30, 2012. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to validating the indirect costs claimed.

The city claimed \$196,262 for costs of the mandated program. Our review found that \$132,701 is allowable and \$63,561 is unallowable. The costs are unallowable because the city claimed unallowable indirect costs, as described in the attached Summary of Program Costs and the Review Results. The State made no payments to the city. The State will pay \$132,701, contingent upon available appropriations.

This letter report contains an adjustment to costs claimed by the city. If you disagree with the finding, you may file an Incorrect Reduction Claim with the Commission on State Mandates. Pursuant to Title 3, California Code of Regulations section 1185(c), an Incorrect Reduction Claim challenging this adjustment must be filed with the Commission on State Mandates no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain Incorrect Reduction Claim information on the Commission on State Mandates' website at www.csm.ca.gov/forms/IRCForm.pdf.

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

Mr. Kevin Shirah

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KT/rs

Attachments:

Attachment 1—Summary of Program Costs

Attachment 2—Review Results

RE: S23-MCC-9013

cc: The Honorable Doug Cirbo, Mayor

City of Lake Forest

Chris Hill, Principal Program Budget Analyst

Local Government Unit, California Department of Finance

Kaily Yap, Finance Budget Analyst

Local Government Unit, California Department of Finance

Darryl Mar, Manager

Local Reimbursements Section

State Controller's Office

Everett Luc, Supervisor

Local Reimbursements Section

State Controller's Office

Attachment 1— Summary of Program Costs July 1, 2005, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ³
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries:			
Taking a police report on a violation of Penal Code (PC) §530.5	\$ 17,530	\$ -	\$ (17,530)
Beginning an investigation of facts	-	-	-
Total salaries	<u>17,530</u>	<u>-</u>	<u>(17,530)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	17,530	17,530
Beginning an investigation of facts	-	-	-
Total contract services	<u>-</u>	<u>17,530</u>	<u>17,530</u>
Total direct costs	17,530	17,530	-
Indirect costs	<u>8,327</u>	<u>-</u>	<u>(8,327)</u>
Total program costs	<u>\$ 25,857</u>	17,530	<u>\$ (8,327)</u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 17,530</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	\$ 24,680	\$ -	\$ (24,680)
Beginning an investigation of facts	-	-	-
Total salaries	<u>24,680</u>	<u>-</u>	<u>(24,680)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	24,680	24,680
Beginning an investigation of facts	-	-	-
Total contract services	<u>-</u>	<u>24,680</u>	<u>24,680</u>
Total direct costs	24,680	24,680	-
Indirect costs	11,254	-	(11,254)
Rounding error ¹	<u>1</u>	<u>-</u>	<u>(1)</u>
Total program costs	<u>\$ 35,935</u>	24,680	<u>\$ (11,255)</u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 24,680</u>	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ³
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	\$ 21,310	\$ -	\$ (21,310)
Beginning an investigation of facts	-	-	-
Total salaries	<u>21,310</u>	<u>-</u>	<u>(21,310)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	21,310	21,310
Beginning an investigation of facts	-	-	-
Total contract services	<u>-</u>	<u>21,310</u>	<u>21,310</u>
Total direct costs	21,310	21,310	-
Indirect costs	<u>10,612</u>	<u>-</u>	<u>(10,612)</u>
Total program costs	<u>\$ 31,922</u>	21,310	<u>\$ (10,612)</u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 21,310</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	\$ 22,942	\$ -	\$ (22,942)
Beginning an investigation of facts	-	-	-
Total salaries	<u>22,942</u>	<u>-</u>	<u>(22,942)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	22,942	22,942
Beginning an investigation of facts	-	-	-
Total contract services	<u>-</u>	<u>22,942</u>	<u>22,942</u>
Total direct costs	22,942	22,942	-
Indirect costs	<u>8,098</u>	<u>-</u>	<u>(8,098)</u>
Total program costs	<u>\$ 31,040</u>	22,942	<u>\$ (8,098)</u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 22,942</u>	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ³
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	\$ 16,558	\$ -	\$ (16,558)
Beginning an investigation of facts	-	-	-
Total salaries	<u>16,558</u>	<u>-</u>	<u>(16,558)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	16,558	16,558
Beginning an investigation of facts	-	-	-
Total contract services	<u>-</u>	<u>16,558</u>	<u>16,558</u>
Total direct costs	16,558	16,558	-
Indirect costs	<u>9,537</u>	<u>-</u>	<u>(9,537)</u>
Total program costs	<u>\$ 26,095</u>	16,558	<u>\$ (9,537)</u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 16,558</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	\$ 15,862	-	\$ (15,862)
Beginning an investigation of facts	-	-	-
Total salaries	<u>15,862</u>	<u>-</u>	<u>(15,862)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	15,862	15,862
Beginning an investigation of facts	-	-	-
Total contract services	<u>-</u>	<u>15,862</u>	<u>15,862</u>
Total direct costs	15,862	15,862	-
Indirect costs	8,407	-	(8,407)
Rounding error ¹	<u>1</u>	<u>-</u>	<u>(1)</u>
Total program costs	<u>\$ 24,270</u>	15,862	<u>\$ (8,408)</u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 15,862</u>	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ³
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	\$ 13,819	-	\$ (13,819)
Beginning an investigation of facts	-	-	-
Total salaries	<u>13,819</u>	<u>-</u>	<u>(13,819)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	13,819	13,819
Beginning an investigation of facts	-	-	-
Total contract services	<u>-</u>	<u>13,819</u>	<u>13,819</u>
Total direct costs	13,819	13,819	-
Indirect costs	<u>7,324</u>	<u>-</u>	<u>(7,324)</u>
Total program costs	<u>\$ 21,143</u>	13,819	<u>\$ (7,324)</u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 13,819</u>	
<u>Summary: July 1, 2005, through June 30, 2013</u>			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	\$ 132,701	\$ -	\$ (132,701)
Beginning an investigation of facts	-	-	-
Total salaries	<u>132,701</u>	<u>-</u>	<u>(132,701)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	132,701	132,701
Beginning an investigation of facts	-	-	-
Total contract services	<u>-</u>	<u>132,701</u>	<u>132,701</u>
Total direct costs	132,701	132,701	-
Indirect costs	63,559	-	(63,559)
Rounding errors ¹	<u>2</u>	<u>-</u>	<u>(2)</u>
Total program costs	<u>\$ 196,262</u>	132,701	<u>\$ (63,561)</u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 132,701</u>	

¹ Sum of claimed program costs contains a \$1 rounding error for fiscal year 2006-07 and fiscal year 2010-11.

² Payment amount current as of December 21, 2023.

³ See the Review Results section.

Attachment 2— Review Results July 1, 2005, through June 30, 2012

BACKGROUND—

Penal Code 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 on 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 section 17514.

The Commission determined that each claimant is allowed to claim and be reimbursed for the following ongoing activities identified in the 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 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.

The Commission also determined that the reimbursable activities do not include providing a copy of the report to the complainant or referring the matter to the law enforcement agency in the location where the suspected crime was committed.

The program’s parameters and guidelines establish the state mandate and define the reimbursement criteria. In compliance with Government Code section 17558, the State Controller’s Office issues the *Mandated Cost Manual for Local Agencies* to assist local agencies in claiming mandated program reimbursable costs.

**FINDING—
Overstated Identity
Theft Program costs**

The City of Lake Forest claimed \$196,262 (\$132,701 in salary costs and \$63,559 in related indirect costs) for the Identity Theft Program during the review period. We found that \$132,701 is allowable and \$63,561 is unallowable. The costs are unallowable because the city claimed unallowable indirect costs. We also identified a \$1 rounding error in the city’s claims for fiscal year (FY) 2006-07 and FY 2010-11.

The city used the correct methodology to calculate salary costs. It multiplied the number of identity theft police reports by the time required to perform the reimbursable activities, then multiplied the product by hourly rates obtained from the city’s contracts with the Orange County Sheriff’s Department (OCSD). The city contracted with OCSD to perform its law enforcement services during the review period. These services included the reimbursable activities claimed for the mandated program. The OCSD’s contracts included costs for salaries and benefits.

However, the city should have classified its salary costs as contract services costs, as no city staff members performed the reimbursable activities. The city did not incur any salary costs—or indirect costs related to salary costs—but rather incurred contract services costs. We reallocated the costs to the appropriate cost category of Contract Services.

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

Fiscal Year	Salaries		(A)	(B)	(C)	(D)=(A)+(B)+(C)
	Amount Claimed	Amount Allowable	Audit Adjustment	Related Indirect Cost Adjustment	Contract Services Adjustment	Total Adjustment ¹
2005-06	\$ 17,530	\$ -	\$ (17,530)	\$ (8,327)	\$ 17,530	\$ (8,327)
2006-07	24,680	-	(24,680)	(11,254)	24,680	(11,254)
2007-08	21,310	-	(21,310)	(10,612)	21,310	(10,612)
2008-09	22,942	-	(22,942)	(8,098)	22,942	(8,098)
2009-10	16,558	-	(16,558)	(9,537)	16,558	(9,537)
2010-11	15,862	-	(15,862)	(8,407)	15,862	(8,407)
2011-12	13,819	-	(13,819)	(7,324)	13,819	(7,324)
Total	\$ 132,701	\$ -	\$ (132,701)	\$ (63,559)	\$ 132,701	\$ (63,559)

¹ The total adjustment of \$(63,561) for the review period includes \$1 rounding errors from the claims for FY 2006-07 and FY 2009-10.

For the review period, the city included a copy of its Indirect Cost Rate Proposals with its mandated cost claims. The Indirect Cost Rate Proposals were prepared for “the City of Lake Forest Sheriff,” which does not exist as an entity or as a person. The “Police Services” page of the city’s website states, in part:

Police Services for the City of Lake Forest are provided by contract with the Orange County Sheriff’s Department (OCSD).

The Sheriff’s Department is responsible for providing the protection of citizens, the enforcement of laws, and crime prevention. Law enforcement services include patrol, traffic enforcement, accident analysis and investigation, parking enforcement, general and special investigations, and the Community Support Unit.

The city claimed related indirect costs totaling \$63,559 for the review period, based on \$132,701 in claimed salaries. We found that the entire amount is unallowable because no city staff member performed any of the reimbursable activities under this program during the review period. Instead, the city contracted with the county to have the OCSO perform all of its law enforcement services during the review period. Therefore, the city did not incur any direct salary costs or related indirect costs. In addition, substituting contract services costs as salary costs is inconsistent with generally accepted accounting principles.

Furthermore, none of the costs that the city incurred for law enforcement services provided by the OCSO were indirect costs. The parameters and guidelines (Section V.B., "Indirect Cost Rates") provide that indirect costs are "incurred for a common or joint purpose, benefiting more than one program, and . . . not directly assignable to a particular department or program." In this instance, there is only one program (law enforcement services provided by a contractor) and there are no city departments.

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

Fiscal Year	Salaries Claimed	Claimed		(A)	(B)	(C)=(B)-(A)
		Indirect Cost Rate	Indirect Costs ¹	Indirect Costs	Allowable	Audit Adjustment
2005-06	\$ 17,530	47.50%	\$ 8,327	\$ -	\$ (8,327)	
2006-07	24,680	45.60%	11,254	-	(11,254)	
2007-08	21,310	49.80%	10,612	-	(10,612)	
2008-09	22,942	35.30%	8,098	-	(8,098)	
2009-10	16,558	57.60%	9,537	-	(9,537)	
2010-11	15,862	53.00%	8,407	-	(8,407)	
2011-12	13,819	53.00%	7,324	-	(7,324)	
Total	<u>\$ 132,701</u>		<u>\$ 63,559</u>	<u>\$ -</u>	<u>\$ (63,559)</u>	

¹ Differences are due to rounding errors.

Criteria

Item 1 of Section III, "Period of Reimbursement" of the parameters and guidelines states, "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 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.

Providing a copy of the report to the complainant is not reimbursable under this program.

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 each reimbursable activity performed.

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

Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. 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.

Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in 2 CFR Part 225 (Office of Management and Budget [OMB] Circular A-87). Claimants have the option of using 10%

of labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal . . . if the indirect cost rate exceeds 10% . . .

Part 7.3, “Contract Services,” of the “Filing a Claim” section of the *Mandated Cost Manual for Local Agencies*, issued by the State Controller’s Office (“Filing a Claim,” part 7) dated July 1, 2013, states:

The cost of contract services is allowable if the local agency lacks the staff resources or necessary expertise, or it is economically feasible to hire a contractor to perform the mandated activity. The claimant must keep documentation on hand to support the name of the contractor, explain the reason for having to hire a contractor, describe the mandated activities performed, give the dates when the activities were performed, the number of hours spent performing the mandate, the hourly billing rate, and the total cost. The hourly billing rate must not exceed the rate specified in the P’s & G’s [parameters and guidelines] for the mandated program. The contractor’s invoice or statement must include an itemized list of costs for activities performed. **A copy of the contract must be included with the submitted claim.**

Recommendation

The California State Legislature suspended the Identity Theft Program in the FY 2013-14 through FY 2023-24 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 for Local Agencies* when claiming reimbursement for mandated costs; and
- Ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.