

# **CITY OF LAGUNA NIGUEL**

Audit Report

## **RACIAL AND IDENTITY PROFILING PROGRAM**

Chapter 466, Statutes of 2015;  
and Chapter 328, Statutes of 2017

*July 1, 2018, through June 30, 2024*



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

July 2025



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CALIFORNIA STATE CONTROLLER

July 1, 2025

**CERTIFIED MAIL—RETURN RECEIPT REQUESTED**

Mr. Trevor Agrelius, Finance Director  
City of Laguna Niguel  
30111 Crown Valley Parkway  
Laguna Niguel, CA 92677

Dear Mr. Agrelius:

The State Controller's Office performed a review of costs claimed by the City of Laguna Niguel (the city) for the legislatively mandated Racial and Identity Profiling Program (Chapter 466, Statutes of 2015; and Chapter 328, Statutes of 2017) for the period of July 1, 2018, through June 30, 2024. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to validating the claimed contract services costs and hourly rates.

The city claimed \$530,379 for costs of the mandated program. Our review found that \$223,818 is allowable and \$306,561 is unallowable. The costs are unallowable because the city overstated its contract hourly rates and the average time increment required for each stop. The State paid the city \$461,896.

This letter 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 section 1185.1(c) of the Commission's regulations (Title 2, California Code of Regulations), 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than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended.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/request-form.php](http://www.csm.ca.gov/request-form.php).

Mr. Trevor Agrelius

July 1, 2025

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If you have any questions regarding this report, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at 916-327-3138, or email at [lkurokawa@sco.ca.gov](mailto:lkurokawa@sco.ca.gov). Thank you.

Sincerely,

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

KAT/rs

Attachments:

Attachment 1—Summary of Program Costs

Attachment 2—Review Results

Copy: The Honorable Ray Gennawey, Mayor  
City of Laguna Niguel  
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, 2018, through June 30, 2024

| Cost Elements   | Actual Costs<br>Claimed | Allowable<br>per Review | Review<br>Adjustment <sup>1</sup> |
|---|-------------------------|-------------------------|-----------------------------------|
| <u>July 1, 2018, through June 30, 2019</u>  |                         |                         |                                   |
| Direct costs:   |                         |                         |                                   |
| Contract services:  |                         |                         |                                   |
| Training per peace officer employee and supervisor<br>assigned to perform the reimbursable activities | \$ 4,027                | \$ 3,219                | \$ (808)                          |
| Collection and reporting data on all stops  | 79,224                  | 31,670                  | (47,554)                          |
| Total direct costs  | 83,251                  | 34,889                  | (48,362)                          |
| Rounding error <sup>2</sup>   | 2                       | -                       | (2)                               |
| Total program costs   | <u>\$ 83,253</u>        | <u>34,889</u>           | <u>\$ (48,364)</u>                |
| Less amount paid by the State <sup>3</sup>  |                         | (83,253)                |                                   |
| Amount paid in excess of allowable costs claimed  |                         | <u>\$ (48,364)</u>      |                                   |
| <u>July 1, 2019, through June 30, 2020</u>  |                         |                         |                                   |
| Direct costs:   |                         |                         |                                   |
| Contract services:  |                         |                         |                                   |
| Collection and reporting data on all stops  | \$ 86,352               | \$ 36,284               | \$ (50,068)                       |
| Total direct costs  | 86,352                  | 36,284                  | (50,068)                          |
| Rounding error <sup>2</sup>   | 1                       | -                       | (1)                               |
| Total program costs   | <u>\$ 86,353</u>        | <u>36,284</u>           | <u>\$ (50,069)</u>                |
| Less amount paid by the State <sup>3</sup>  |                         | (86,353)                |                                   |
| Amount paid in excess of allowable costs claimed  |                         | <u>\$ (50,069)</u>      |                                   |
| <u>July 1, 2020, through June 30, 2021</u>  |                         |                         |                                   |
| Direct costs:   |                         |                         |                                   |
| Contract services:  |                         |                         |                                   |
| Collection and reporting data on all stops  | \$ 117,423              | \$ 49,723               | \$ (67,700)                       |
| Total direct costs  | 117,423                 | 49,723                  | (67,700)                          |
| Rounding error <sup>2</sup>   | (1)                     | -                       | 1                                 |
| Total program costs   | <u>\$ 117,422</u>       | <u>49,723</u>           | <u>\$ (67,699)</u>                |
| Less amount paid by the State <sup>3</sup>  |                         | (117,422)               |                                   |
| Amount paid in excess of allowable costs claimed  |                         | <u>\$ (67,699)</u>      |                                   |

## Attachment 1 (continued)

| Cost Elements                                    | Actual Costs<br>Claimed | Allowable<br>per Review | Review<br>Adjustment <sup>1</sup> |
|--|-------------------------|-------------------------|-----------------------------------|
| <u>July 1, 2021, through June 30, 2022</u>       |                         |                         |                                   |
| Direct costs:                                    |                         |                         |                                   |
| Contract services:                               |                         |                         |                                   |
| Collection and reporting data on all stops       | \$ 104,676              | \$ 44,356               | \$ (60,320)                       |
| Total program costs                              | <u>\$ 104,676</u>       | 44,356                  | <u>\$ (60,320)</u>                |
| Less amount paid by the State <sup>3</sup>       |                         | (104,676)               |                                   |
| Amount paid in excess of allowable costs claimed |                         | <u>\$ (60,320)</u>      |                                   |
| <u>July 1, 2022, through June 30, 2023</u>       |                         |                         |                                   |
| Direct costs:                                    |                         |                         |                                   |
| Contract services:                               |                         |                         |                                   |
| Collection and reporting data on all stops       | \$ 70,191               | \$ 29,661               | \$ (40,530)                       |
| Total direct costs                               | 70,191                  | 29,661                  | (40,530)                          |
| Rounding error <sup>2</sup>                      | 1                       | -                       | (1)                               |
| Total program costs                              | <u>\$ 70,192</u>        | 29,661                  | <u>\$ (40,531)</u>                |
| Less amount paid by the State <sup>3</sup>       |                         | (70,192)                |                                   |
| Amount paid in excess of allowable costs claimed |                         | <u>\$ (40,531)</u>      |                                   |
| <u>July 1, 2023, through June 30, 2024</u>       |                         |                         |                                   |
| Direct costs:                                    |                         |                         |                                   |
| Contract services:                               |                         |                         |                                   |
| Collection and reporting data on all stops       | \$ 68,480               | \$ 28,905               | \$ (39,575)                       |
| Total direct costs                               | 68,480                  | 28,905                  | (39,575)                          |
| Rounding error <sup>2</sup>                      | 3                       | -                       | (3)                               |
| Total program costs                              | <u>\$ 68,483</u>        | 28,905                  | <u>\$ (39,578)</u>                |
| Less amount paid by the State <sup>3</sup>       |                         | -                       |                                   |
| Allowable costs claimed in excess of amount paid |                         | <u>\$ 28,905</u>        |                                   |

## Attachment 1 (continued)

| Cost Elements                                       | Actual Costs<br>Claimed | Allowable<br>per Review | Review<br>Adjustment <sup>1</sup> |
|---|-------------------------|-------------------------|-----------------------------------|
| <u>Summary: July 1, 2018, through June 30, 2024</u> |                         |                         |                                   |
| Direct costs:                                       |                         |                         |                                   |
| Contract services                                   | \$ 530,373              | \$ 223,818              | \$ (306,555)                      |
| Total direct costs                                  | 530,373                 | 223,818                 | (306,555)                         |
| Rounding error <sup>2</sup>                         | 6                       | -                       | (6)                               |
| Total program costs                                 | <u>\$ 530,379</u>       | 223,818                 | <u>\$ (306,561)</u>               |
| Less amount paid by the State <sup>3</sup>          |                         | (461,896)               |                                   |
| Amount paid in excess of allowable costs claimed    |                         | <u>\$ (238,078)</u>     |                                   |

<sup>1</sup> See the Review Results section.

<sup>2</sup> We identified claim rounding errors for fiscal year (FY) 2018-19, FY 2019-20, FY 2020-21, FY 2022-23, and FY 2023-24.

<sup>3</sup> Payment amount current as of April 15, 2025.

## Attachment 2— Review Results July 1, 2018, through June 30, 2024

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### BACKGROUND—

Government Code (GC) section 12525.5, as added and amended by the Statutes of 2015, Chapter 466 and the Statutes of 2017, Chapter 328; and Title 11, California Code of Regulations, sections 999.224 through 999.229 established the state-mandated Racial and Identity Profiling Program.

The program requires a local law enforcement agency that employs peace officers—or that contracts for peace officers from another city or county for police protection services—to electronically report to the Attorney General, on an annual basis, data on all “stops” conducted within its jurisdiction. For purposes of the program, “peace officer” does not include probation officers and officers in custodial settings.

On May 22, 2020, the Commission on State Mandates (Commission) found that GC section 12525.5 constitutes a reimbursable state-mandated program, beginning November 7, 2017, for local law enforcement agencies.

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

#### A. One-Time Activities

1. One-time training per peace officer employee and supervisor assigned to perform the reimbursable activities...
2. One-time installation and testing of software necessary to comply with the state-mandated requirements for the collection and reporting of data on all applicable stops.

#### B. Ongoing Activities

1. Identification of the peace officers required to report stops, and maintenance of a system to match individual officers to their Officer I.D. number. . . .
2. Collection and reporting data on all stops, as defined, conducted by that agency’s peace officers for the preceding calendar year in accordance with sections 999.226(a) and 999.227 of the regulations. . . .
3. Electronic submission of data to DOJ and retention of stop data collected. . . .
4. Audits and validation of data collected. . . .
5. For stop data collected, ensure that the name, address, social security number, or other unique personally identifiable information of the individual stopped, searched, or subjected to property seizure, and the badge number or other unique identifying information of the peace officer involved, is not transmitted to the Attorney General in an open text field. . . .

The parameters and guidelines describe the 16 types of stop data and all applicable data elements, data fields, and narrative explanation fields that peace officers must collect for every stop.

The following stops are not reportable:

- Interactions with passengers in a stopped vehicle who have not been observed or suspected of violating the law;
- Stops made during public safety mass evacuations;
- Stops made during active shooter incidents;
- Stops resulting from routine security screenings to enter a building or special event;
- Interactions during traffic control of vehicles in response to a traffic accident or emergency, crowd control requiring pedestrians to remain in a fixed location for public safety reasons, persons detained at residences so that officers can check for proof of age while investigating underage drinking, and checkpoints and roadblocks at which officers detain a person as the result of regulatory activity that is general and not based on individualized suspicion or personal characteristics;
- Interactions with a person who is subject to a warrant or search condition at his or her residence;
- Interactions with a person who is subject to home detention or house arrest;
- Stops in a custodial setting; and
- Stops that occur while an officer is off duty.

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 mandated program reimbursable costs.

**FINDING—  
Overstated Racial  
and Identity  
Profiling Program  
Costs**

The City of Laguna Niguel (the city) claimed \$530,379 in contract services costs for the Racial and Identity Profiling Program. We found that \$223,818 is allowable and \$306,561 is unallowable. The costs are unallowable because the city overstated its contract hourly rates, and the average time increment required for each stop.

We found that the city correctly classified claimed costs as contract services costs because it contracted with the Orange County Sheriff-Coroner's Department (OCSD) for its law enforcement services during the review period. The city also used the correct methodology to calculate its contract services costs: it multiplied the number of stops recorded by the time required to perform the reimbursable activities and then multiplied the total by the hourly rates obtained from the city's contracts with the county for law enforcement services. OCSD based the hourly rates in its



contracts on incurred costs for salaries, benefits, and additional costs described as “Other Charges and Credits.”

The contract hourly rates were overstated because the city included a contract overhead amount in its hourly rate calculations based on unallowable indirect costs. The indirect costs are unallowable because they are based on salaries and wages costs that the city did not incur.

Additionally, the city claimed five minutes per stop for Activity B.2. (collection and reporting data on all stops). OCSD has agreed that the claim of five minutes for each stop was overstated and that 2.5 minutes per stop is correct.

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

| <u>Fiscal<br/>Year</u> | <u>Amount<br/>Claimed</u> | <u>Amount<br/>Allowable</u> | <u>Review<br/>Adjustment</u> |
|------------------------|---------------------------|-----------------------------|------------------------------|
| 2018-19                | \$ 83,253                 | \$ 34,889                   | \$ (48,364)                  |
| 2019-20                | 86,353                    | 36,284                      | (50,069)                     |
| 2020-21                | 117,422                   | 49,723                      | (67,699)                     |
| 2021-22                | 104,676                   | 44,356                      | (60,320)                     |
| 2022-23                | 70,192                    | 29,661                      | (40,531)                     |
| 2023-24                | 68,483                    | 28,905                      | (39,578)                     |
| Totals                 | <u>\$ 530,379</u>         | <u>\$ 223,818</u>           | <u>\$ (306,561)</u>          |

### **Contract Services Costs**

The city contracted with the OCSD to perform its law enforcement services during the review period. The city’s website summarizes the city’s police services as follows:

Police Services for the City of Laguna Niguel 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. Police Services also provides a variety of Community Policing programs and public safety information.

The city’s website also states:

Police Services are provided by contract with the [OCSD]. The Sheriff’s Department protects the citizens, enforces the laws, and encourages crime prevention. Law enforcement services include patrol, traffic enforcement, accident analysis and investigation, parking enforcement, and general and special investigations. The Chief of Police Services is the Department Head and is responsible for the day-to-day operations in the City.

The OCSD provided law enforcement services that included the reimbursable activities claimed for the mandated program. The city contracted with the OCSD for various staff positions each fiscal year and paid the OCSD annual contract rates for each position. These positions included, but were not limited to, Lieutenants, Investigators, Sheriffs, and Sergeants. No city staff member performed any of the reimbursable activities under this program; therefore, the city did not incur salary and related indirect costs. Furthermore, the city's contract with Orange County (the county) states that the county's employees should not be considered "in any manner" to be city employees.

We recalculated allowable contract services costs for the review period based on the claimed number of stops reported, the revised time increments to conduct the reimbursable activity of collecting and reporting stop data, and the revised contract hourly rates.

### **Time Increments**

The city computed its claimed costs based on OCSD officers conducting stops at an average of five minutes per stop. An OCSD representative explained that the five-minute average per stop was derived from a time study conducted by the OCSD in 2021. However, we noted that the OCSD, along with seven other law enforcement agencies in Southern California and the California Highway Patrol, participated in a 2019 California Department of Justice field test to assess the amount of officer time required to complete a stop data collection form. The field test is documented on pages 109 and 110 of the test claim for this mandated program (test claim number 18-TC-02, filed by the City of San Diego on June 14, 2019). The test claim included the field test results, documenting that officers spent an average of 2.5 minutes per stop. We asked the OCSD whether the average of 2.5 minutes is an accurate reflection of time spent by its officers to complete the reimbursable activity of collecting and reporting stop data. The OCSD agreed that the 2.5 minute-per-stop average from the field test is the correct average time to use for its officers collecting and reporting stop data.

An OCSD representative explained that there was no documentation supporting its 2021 time study. The representative also stated that the county conducted another time study in October 2024, which found that officers averaged three minutes per stop. That time study was supported by 36 stops, all of which were undated. In addition, the county had not prepared a time study plan, nor did it explain how the stops were selected or were representative of the entire population of stops. Regardless, time study results cannot be applied retroactively.

Therefore, we adjusted the city's claims to reflect an average time of 2.5 minutes for OCSD officers to conduct stops.

The following table shows the adjustments made to total hours spent on the reimbursable activity of collecting and reporting stop data during the review period:

| Fiscal Year | Stops Claimed | Hours Claimed | Hours Allowable | Review Adjustment |
|-------------|---------------|---------------|-----------------|-------------------|
| 2018-19     | 4,442         | 370.17        | 185.09          | (185.08)          |
| 2019-20     | 4,894         | 407.83        | 203.93          | (203.90)          |
| 2020-21     | 6,518         | 543.17        | 271.60          | (271.57)          |
| 2021-22     | 5,580         | 465.00        | 232.50          | (232.50)          |
| 2022-23     | 3,586         | 298.83        | 149.42          | (149.41)          |
| 2023-24     | 3,572         | 297.67        | 148.84          | (148.83)          |

### Contract Hourly Rates

The city's claims included copies of the law enforcement contracts that it negotiated with Orange County for each year of the review period. Attachment C (Payment) of the contract lists the authorized OCSD staffing level for each year and the rates billed to the city for various OCSD staff members.

We used this information to determine the contract hourly billing rates for various employee classifications. We recalculated the contract hourly rates for the Lieutenant, Investigator, Deputy Sheriff, and Sergeant classifications using information from Attachment C. The city's contracts specify the cost of services provided by detailing the number of each employee classification provided and the cost of services for each classification. For example, the city's contract for fiscal year (FY) 2023-24 indicates that five Sergeants (Patrol), 25 employees in the Deputy Sheriff II (Patrol) classification, and five employees in the Deputy Sheriff II (Motorcycle) classification provided law enforcement services for the city during the year.

The following table shows the base contract hourly rate calculation for Deputy Sheriffs and Sergeants during FY 2023-24:

| Employee Classification        | Annual Cost<br>[a] | Level of Service<br>[b] | Cost per Employee<br>[c] = [a]/[b] | Productive Hours<br>[d] | Hourly Rate<br>[e] = [c]/[d] |
|--------------------------------|--------------------|-------------------------|------------------------------------|-------------------------|------------------------------|
| Deputy Sheriff II (Patrol)     | \$ 7,482,425       | 25                      | \$ 299,297                         | 1,800                   | \$ 166.28                    |
| Deputy Sheriff II (Motorcycle) | 1,520,795          | 5                       | 304,159                            | 1,800                   | 168.98                       |
| Sergeant (Patrol)              | 1,798,165          | 5                       | 359,633                            | 1,800                   | 199.80                       |

We recalculated the contract hourly rates and determined that the city properly used 1,800 annual productive hours for all OCSD employees in its claims for all years of the review period, as specified in the SCO's *Mandated Cost Manual*.

The SCO's *Mandated Cost Manual* also states that the cost of contract services is allowable, and that costs for contract services can be claimed using an hourly billing rate. However, the SCO's *Mandated Cost Manual*

does not provide specific guidance on how to calculate an hourly billing rate. Generally speaking, an hourly rate for a specific employee classification is determined by dividing the contract cost for an individual employee who performs reimbursable activities by 1,800 annual productive hours. However, this approach does not allow claimants to recover any additional contract costs, such as administrative costs, that could be reimbursable. We concluded that it was appropriate to allow the city to claim its other costs, classified in Attachment C as “Other Charges and Credits,” as an addition to the contract hourly rate for employee classifications included in its contracts with the OCSD.

We calculated an administrative cost percentage for each fiscal year of the review period based on the city’s contracts with the OCSD. To calculate the percentage, we divided the line-item amount titled “Other Charges and Credits” by the total contract cost.

The following table shows the allowable administrative cost percentage that we calculated for each fiscal year of the review period:

| Fiscal Year | Allowable<br>Administrative Cost<br>Percentage |
|-------------|--|
| 2018-19     | 13.45%   |
| 2019-20     | 14.79%   |
| 2020-21     | 14.08%   |
| 2021-22     | 11.78%   |
| 2022-23     | 14.43%   |
| 2023-24     | 15.06%   |

As noted, we divided the cost of the “Other Charges and Credits” by the total contract cost. The following table shows how we made this calculation for FY 2023-24:

| Cost Category                                  | Contract<br>Amount |
|--|--------------------|
| Other charges and credits [a]                  | \$ 2,493,712       |
| Total contract amount [b]                      | 16,553,363         |
| Administrative cost percentage [c] = [a] ÷ [b] | 15.06%             |

Contract hourly rates for the Deputy positions and Sergeants are as follows for FY 2023-24:

| Employee Classification        | Contract<br>Hourly Rate<br>[a] | Administrative<br>Percentage<br>[b] | Revised Hourly<br>Rate<br>[c] = [a] × [1 + b] |
|--------------------------------|--------------------------------|-------------------------------------|---|
| Deputy Sheriff II (Patrol)     | \$ 166.28                      | 15.06%                              | \$ 191.32                                     |
| Deputy Sheriff II (Motorcycle) | 168.98                         | 15.06%                              | 194.43  |
| Sergeant (Patrol)              | 199.80                         | 15.06%                              | 229.89  |

The following table summarizes the claimed hourly rates and allowable contract hourly rates for each of the employee classifications appearing in

the city's claims (Deputy Sheriff II [Patrol], Deputy Sheriff II [Motorcycle], Sergeant [Patrol], Investigator, and Lieutenant) during the review period, and the difference between those rates:

| Fiscal Year                       | Claimed Hourly Rate | Allowable Hourly Rate | Rate Difference | Fiscal Year                           | Claimed Hourly Rate | Allowable Hourly Rate | Rate Difference |
|-----------------------------------|---------------------|-----------------------|-----------------|---------------------------------------|---------------------|-----------------------|-----------------|
| <u>Deputy Sheriff II (Patrol)</u> |                     |                       |                 | <u>Deputy Sheriff II (Motorcycle)</u> |                     |                       |                 |
| 2018-19                           | \$ 211.86           | \$ 169.38             | \$ (42.48)      | 2018-19                               | \$ 216.14           | \$ 172.81             | \$ (43.33)      |
| 2019-20                           | 208.42              | 175.15                | (33.27)         | 2019-20                               | 212.37              | 178.46                | \$ (33.91)      |
| 2020-21                           | 212.75              | 180.18                | (32.57)         | 2020-21                               | 216.56              | 183.41                | \$ (33.15)      |
| 2021-22                           | 221.67              | 187.86                | (33.81)         | 2021-22                               | 225.45              | 191.05                | \$ (34.40)      |
| 2022-23                           | 231.34              | 195.52                | (35.82)         | 2022-23                               | 235.11              | 198.70                | \$ (36.41)      |
| 2023-24                           | 226.63              | 191.32                | (35.31)         | 2023-24                               | 230.32              | 194.43                | \$ (35.89)      |
| <u>Sergeant (Patrol)</u>          |                     |                       |                 | <u>Lieutenant</u>                     |                     |                       |                 |
| 2018-19                           | \$ 257.45           | \$ 205.83             | \$ (51.62)      | 2018-19                               | \$ 298.87           | \$ 238.95             | \$ (59.92)      |
| 2019-20                           | 252.93              | 212.55                | (40.38)         | 2019-20                               | not claimed         | -                     | -               |
| 2020-21                           | 258.14              | 218.62                | (39.52)         | 2020-21                               | not claimed         | -                     | -               |
| 2021-22                           | 267.29              | 226.52                | (40.77)         | 2021-22                               | not claimed         | -                     | -               |
| 2022-23                           | 278.63              | 235.47                | (43.16)         | 2022-23                               | not claimed         | -                     | -               |
| 2023-24                           | 272.32              | 229.89                | (42.43)         | 2023-24                               | not claimed         | -                     | -               |
| <u>Investigator</u>               |                     |                       |                 |                                       |                     |                       |                 |
| 2018-19                           | \$ 252.62           | \$ 201.98             | \$ (50.64)      |                                       |                     |                       |                 |
| 2019-20                           | not claimed         | -                     | -               |                                       |                     |                       |                 |
| 2020-21                           | not claimed         | -                     | -               |                                       |                     |                       |                 |
| 2021-22                           | not claimed         | -                     | -               |                                       |                     |                       |                 |
| 2022-23                           | not claimed         | -                     | -               |                                       |                     |                       |                 |
| 2023-24                           | not claimed         | -                     | -               |                                       |                     |                       |                 |

The following table shows the calculation of the review adjustment for FY 2023-24:

| Employee Classification        | Claimed Hours<br>[a] | Claimed Rate<br>[b] | Claimed Costs<br>c = [a] * [b] | Allowable Hours<br>[d/2] | Allowable Rate<br>[e] | Allowable Costs<br>f = [d] * [e] | Review Adjustment<br>g = [f] - [c] |
|--------------------------------|----------------------|---------------------|--------------------------------|--------------------------|-----------------------|----------------------------------|------------------------------------|
| Deputy Sheriff II (Patrol)     | 232.55               | \$ 226.63           | \$ 52,703                      | 116.28                   | \$ 191.32             | \$ 22,246                        | \$ (30,457)                        |
| Deputy Sheriff II (Motorcycle) | 46.51                | 230.32              | 10,712                         | 23.26                    | 194.43                | 4,521                            | (6,191)                            |
| Sergeant (Patrol)              | 18.6                 | 272.32              | 5,065                          | 9.30                     | 229.89                | 2,138                            | (2,927)                            |
| Rounding adjustment            | -                    |                     | 3                              | -                        |                       | -                                | (3)                                |
| Totals                         | <u>297.66</u>        |                     | <u>\$ 68,483</u>               | <u>148.83</u>            |                       | <u>\$ 28,905</u>                 | <u>\$ (39,578)</u>                 |

### Rounding Errors

We also found minor rounding errors, totaling \$6, in the city's claims when we recalculated claimed costs using the contract cost computation schedules provided. We recalculated claimed costs by multiplying the claimed employee billing rates by the claimed labor hours. We incorporated these adjustments into the allowable cost computations for each year of the review period.

The following table summarizes the claimed and recalculated claimed costs by activity by fiscal year.

| Fiscal Year | Activity A.1   | Activity A.1        | Difference<br>[c] = [b] - [a] | Activity B.2   | Activity B.2        | Difference<br>[f] = [e] - [d] | Total Difference<br>[g] = [c] + [f] |
|-------------|----------------|---------------------|-------------------------------|----------------|---------------------|-------------------------------|-------------------------------------|
|             | Claimed<br>[a] | Recalculated<br>[b] |                               | Claimed<br>[d] | Recalculated<br>[e] |                               |                                     |
| 2018-19     | \$ 4,029       | \$ 4,027            | \$ (2)                        | \$ 79,224      | \$ 79,224           | \$ -                          | \$ (2)                              |
| 2019-20     | -              | -                   | -                             | 86,353         | 86,352              | (1)                           | (1)                                 |
| 2020-21     | -              | -                   | -                             | 117,422        | 117,423             | 1                             | 1                                   |
| 2021-22     | -              | -                   | -                             | 104,676        | 104,676             | -                             | -                                   |
| 2022-23     | -              | -                   | -                             | 70,192         | 70,191              | (1)                           | (1)                                 |
| 2023-24     | -              | -                   | -                             | 68,483         | 68,480              | (3)                           | (3)                                 |
| Totals      | \$ 4,029       | \$ 4,027            | \$ (2)                        | \$ 526,350     | \$ 526,346          | \$ (4)                        | \$ (6)                              |

### Contract Overhead Costs

When calculating its contract billing rates, the city included in its computations an additional amount for contract overhead. That amount was added to the contract hourly rate. The city based its contract overhead amount on an Indirect Cost Rate Proposal (ICRP) for each fiscal year prepared for the City of Laguna Niguel Sheriff, which does not exist as a person or as an entity. The city's claims included copies of its ICRPs for FY 2018-19 through FY 2023-24. The city calculated indirect cost rates of 41.9% for FY 2018-19, 36.6% for FY 2019-20, 34.7% for FY 2020-21, 31.9% for FY 2021-22, 35.4% for FY 2022-23, and 36.3% for FY 2023-24. In addition, the city based its indirect cost rates on salaries and wages—costs that it did not incur. Instead, the city incurred contract services costs for its law enforcement activities. Substituting contract services costs as salaries and wages costs is not consistent with generally accepted accounting principles, nor is it consistent with the guidance provided for indirect cost calculations listed in Section V.B. of the parameters and guidelines or federal cost principles contained in Title 2, Code of Federal Regulations, Part 225, Appendices A and B. Therefore, these rates are unallowable.

### Criteria

Section I, "Status of County," of the city's contract for law enforcement services states, in part:

COUNTY, its agents and employees, shall not be entitled to any rights or privileges of CITY employees and shall not be considered in any manner to be CITY employees.

Section IV, "Reimbursable Activities," of the parameters and guidelines states:

To be eligible for mandated cost reimbursement for any 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 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 V.A3., “Contracted Services,” of the parameters and guidelines states:

Report the name of the contractor and services performed to implement the reimbursable activities. If the contractor bills for time and materials, report the number of hours spent on the activities and all costs charged. If the contract is a fixed price, report the services that were performed during the period covered by the reimbursement claim. If the contract services are also used for purposes other than the reimbursable activities, only the pro-rata portion of the services used to implement the reimbursable activities can be claimed. Submit contract consultant and attorney invoices with the claim and a description of the contract scope of services.

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 assigned to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include both: (1) 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 Code of Federal Regulations (CFR) part 225 (Office of Management and Budget (OMB) Circular A-87). Claimants have the option of using 10% of direct labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate exceeds 10 percent.

The distribution 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.

### Recommendation

We recommend that the city:

- Adhere to the Racial and Identity Profiling Program’s parameters and guidelines and the SCO’s *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.