

CITY OF CHINO HILLS

Audit Report

IDENTITY THEFT PROGRAM

Chapter 956, Statutes of 2000

July 1, 2002, through June 30, 2013



MALIA M. COHEN
California State Controller

September 2023



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

September 25, 2023

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Christa Buhagiar, Finance Director
City of Chino Hills
14000 City Center Drive
Chino Hills, CA 91709

Dear Ms. Buhagiar:

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

The city claimed \$252,355 for costs of the mandated program. Our audit found that \$140,040 is allowable; and \$112,315 is unallowable because the city misclassified costs, understated the number of allowable identity theft reports taken, overstated the time required to perform the reimbursable activities, and claimed unallowable indirect costs. The State made no payments to the city. The State will pay \$140,040, contingent upon available appropriations.

Following issuance of this audit report, the Local Government Programs and Services Division of the State Controller's Office 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/rs

Ms. Christa Buhagiar

September 25, 2023

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cc: The Honorable Peter Rogers, Mayor
City of Chino Hills
Nicole Lugotoff, Accounting Supervisor
Finance Department
City of Chino Hills
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
Ted Doan, Finance Budget Analyst
Local Government Unit
Department of Finance
Darryl Mar, Manager
Local Reimbursements Section
State Controller's Office
Everett Luc, Supervisor
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Audit Report

Summary

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

The city claimed \$252,355 for costs of the mandated program. Our audit found that \$140,040 is allowable; and \$112,315 is unallowable because the city misclassified costs, understated the number of identity theft reports taken, overstated the time required to perform the reimbursable activities, and claimed unallowable indirect costs. The State made no payments to the city. The State will pay \$140,040, contingent upon available appropriations.

Background

Penal Code (PC) section 530.6(a), as added by the Statutes of 2000, Chapter 956, requires local law enforcement agencies to take a police report and begin an investigation when a complainant residing within their 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 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.

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.

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.

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 for payment.

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.

Unreasonable and/or excessive costs include ineligible costs that are not identified in the program's parameters and guidelines as reimbursable costs.

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 activities claimed to determine whether they adhered to the SCO's *Mandated Costs 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 obtained system-generated lists of identity-theft cases with jurisdiction codes for the City of Chino Hills from the San Bernardino County Sheriff's Department (SBCSD) computer-aided dispatch (CAD) system to verify the existence, completeness, and accuracy of unduplicated case counts for each fiscal year in the audit period. We recalculated the costs based on the allowable number of cases for each of the reimbursable activities.
- We designed a statistical sampling plan to test approximately 25-50% of claimed costs, based on a moderate level of detection (audit) risk. We judgmentally selected the city's filed claims for fiscal year (FY) 2006-07, FY 2011-12, and FY 2012-13 for testing, which

- comprised claimed costs totaling \$67,128 (or 26.6%) of the total costs claimed (\$252,355). The sampling plan is described in the Finding and Recommendation section.
- We used a random number table to select 198 of 359 identity theft reports from the three fiscal years sampled. We tested the identity theft report 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 SBCSD's Chino Hills Patrol Station for further investigation.
 - We determined whether the victim of identity theft contacted the SBCSD to initiate the law enforcement investigation.
 - As the city did not support its claimed time increments, we used the allowable time increments (ATIs) from our June 22, 2022 audit report on San Bernardino County's Identity Theft Program claims for FY 2002-03 through FY 2010-11. To determine the ATIs for that audit, we interviewed sworn and non-sworn SBCSD employees; and we reviewed CAD system records for 398 police reports filed for violations of PC section 530.5 to gather information about time spent performing the reimbursable activities.
 - As no city staff members performed the reimbursable activities, we used copies of the city's annual law enforcement services contracts with the county during the audit period to determine the annual contract services costs incurred by the city. The contract services costs included salary and benefit costs for various employee classifications, administrative costs, and other costs related to providing law enforcement services for the city.
 - We projected the audit results of the three years tested by multiplying the allowable case counts by the audited average time increments needed to perform the reimbursable activities, and multiplying the product by the contract hourly rates of county employees who performed them. Due to the homogeneity of the population, we applied the weighted three-year average error rate that we derived from testing our samples to the remaining eight years of the audit period.
 - 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. We did not identify any applicable offsetting revenues. The city certified in its claims that it did not receive such 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 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.

For the audit period, the City of Chino Hills claimed \$252,355 for costs of the legislatively mandated Identity Theft Program. Our audit found that \$140,040 is allowable and \$112,315 is unallowable. The State made no payments to the city. The State will pay \$140,040, 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's legislatively mandated Identity Theft Program.

Views of Responsible Officials

We issued a draft audit report on June 27, 2023. The City of Chino Hills' representative responded by letter dated July 6, 2023, agreeing with the audit results. This final audit report includes the city's response as an attachment.

Restricted Use

This audit report is solely for the information and use of the City of Chino Hills, 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 this audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

September 25, 2023

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Salaries			
Taking police report in violation of PC § 530.5	\$ 12,304	\$ -	\$ (12,304)
Beginning an investigation of facts	-	-	-
Total Salaries	<u>12,304</u>	<u>-</u>	<u>(12,304)</u>
Contract services			
Taking police report in violation of PC § 530.5	-	6,257	6,257
Beginning an investigation of facts	-	5,011	5,011
Total contract services	<u>-</u>	<u>11,268</u>	<u>11,268</u>
Total direct costs	12,304	11,268	(1,036)
Indirect costs	<u>11,726</u>	<u>-</u>	<u>(11,726)</u>
Total program costs	<u>\$ 24,030</u>	11,268	<u>\$ (12,762)</u>
Less amount paid by the state ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 11,268</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries			
Taking police report in violation of PC § 530.5	\$ 13,531	\$ -	\$ (13,531)
Beginning an investigation of facts	-	-	-
Total Salaries	<u>13,531</u>	<u>-</u>	<u>(13,531)</u>
Contract services			
Taking police report in violation of PC § 530.5	-	6,858	6,858
Beginning an investigation of facts	-	5,497	5,497
Total contract services	<u>-</u>	<u>12,355</u>	<u>12,355</u>
Total direct costs	13,531	12,355	(1,176)
Indirect costs	<u>13,369</u>	<u>-</u>	<u>(13,369)</u>
Total program costs	<u>\$ 26,900</u>	12,355	<u>\$ (14,545)</u>
Less amount paid by the state ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 12,355</u>	

Schedule (continued)

July 1, 2004, through June 30, 2005

Direct costs:

Salaries

Taking police report in violation of PC § 530.5	\$ 17,199	\$ -	\$ (17,199)
Beginning an investigation of facts	-	-	-
Total Salaries	<u>17,199</u>	<u>-</u>	<u>(17,199)</u>

Contract services

Taking police report in violation of PC § 530.5	-	8,875	8,875
Beginning an investigation of facts	-	7,113	7,113
Total contract services	<u>-</u>	<u>15,988</u>	<u>15,988</u>

Total direct costs	17,199	15,988	(1,211)
Indirect costs	<u>15,977</u>	<u>-</u>	<u>(15,977)</u>
Total program costs	<u>\$ 33,176</u>	15,988	<u>\$ (17,188)</u>
Less amount paid by the state ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 15,988</u>	

July 1, 2005, through June 30, 2006

Direct costs:

Salaries

Taking police report in violation of PC § 530.5	\$ 17,861	\$ -	\$ (17,861)
Beginning an investigation of facts	-	-	-
Total Salaries	<u>17,861</u>	<u>-</u>	<u>(17,861)</u>

Contract services

Taking police report in violation of PC § 530.5	-	9,278	9,278
Beginning an investigation of facts	-	7,277	7,277
Total contract services	<u>-</u>	<u>16,555</u>	<u>16,555</u>

Total direct costs	17,861	16,555	(1,306)
Indirect costs	<u>15,771</u>	<u>-</u>	<u>(15,771)</u>
Total program costs	<u>\$ 33,632</u>	16,555	<u>\$ (17,077)</u>
Less amount paid by the state ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 16,555</u>	

Schedule (continued)

July 1, 2006, through June 30, 2007

Direct costs:

Salaries

Taking police report in violation of PC § 530.5	\$ 16,751	\$ -	\$ (16,751)
Beginning an investigation of facts	-	-	-
Total Salaries	<u>16,751</u>	<u>-</u>	<u>(16,751)</u>

Contract services

Taking police report in violation of PC § 530.5	-	8,999	8,999
Beginning an investigation of facts	-	7,185	7,185
Total contract services	<u>-</u>	<u>16,184</u>	<u>16,184</u>

Total direct costs	16,751	16,184	(567)
Indirect costs	<u>14,054</u>	<u>-</u>	<u>(14,054)</u>
Total program costs	<u>\$ 30,805</u>	16,184	<u>\$ (14,621)</u>
Less amount paid by the state ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 16,184</u>	

July 1, 2007, through June 30, 2008

Direct costs:

Salaries

Taking police report in violation of PC § 530.5	\$ 10,352	\$ -	\$ (10,352)
Beginning an investigation of facts	-	-	-
Total Salaries	<u>10,352</u>	<u>-</u>	<u>(10,352)</u>

Contract services

Taking police report in violation of PC § 530.5	-	5,624	5,624
Beginning an investigation of facts	-	4,472	4,472
Total contract services	<u>-</u>	<u>10,096</u>	<u>10,096</u>

Total direct costs	10,352	10,096	(256)
Indirect costs	<u>8,727</u>	<u>-</u>	<u>(8,727)</u>
Total program costs	<u>\$ 19,078</u>	10,096	<u>\$ (8,983)</u>
Less amount paid by the state ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 10,096</u>	

Schedule (continued)

July 1, 2008, through June 30, 2009

Direct costs:

Salaries

Taking police report in violation of PC § 530.5	\$ 10,142	\$ -	\$ (10,142)
Beginning an investigation of facts	<u>-</u>	<u>-</u>	<u>-</u>
Total Salaries	<u>10,142</u>	<u>-</u>	<u>(10,142)</u>

Contract services

Taking police report in violation of PC § 530.5	-	5,736	5,736
Beginning an investigation of facts	<u>-</u>	<u>4,552</u>	<u>4,552</u>
Total contract services	<u>-</u>	<u>10,288</u>	<u>10,288</u>

Total direct costs	10,142	10,288	146
Indirect costs	<u>7,819</u>	<u>-</u>	<u>(7,819)</u>
Total program costs	<u>\$ 17,961</u>	10,288	<u>\$ (7,673)</u>
Less amount paid by the state ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 10,288</u>	

July 1, 2009, through June 30, 2010

Direct costs:

Salaries

Taking police report in violation of PC § 530.5	\$ 6,204	\$ -	\$ (6,204)
Beginning an investigation of facts	<u>-</u>	<u>-</u>	<u>-</u>
Total Salaries	<u>6,204</u>	<u>-</u>	<u>(6,204)</u>

Contract services

Taking police report in violation of PC § 530.5	-	5,038	5,038
Beginning an investigation of facts	<u>-</u>	<u>3,995</u>	<u>3,995</u>
Total contract services	<u>-</u>	<u>9,033</u>	<u>9,033</u>

Total direct costs	6,204	9,033	2,829
Indirect costs	<u>5,354</u>	<u>-</u>	<u>(5,354)</u>
Total program costs	<u>\$ 11,559</u>	9,033	<u>\$ (2,525)</u>
Less amount paid by the state ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 9,033</u>	

Schedule (continued)

July 1, 2010, through June 30, 2011

Direct costs:

Salaries

Taking police report in violation of PC § 530.5	\$ 10,086	\$ -	\$ (10,086)
Beginning an investigation of facts	-	-	-

Total Salaries	<u>10,086</u>	<u>-</u>	<u>(10,086)</u>
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Contract services

Taking police report in violation of PC § 530.5	-	6,882	6,882
Beginning an investigation of facts	-	5,455	5,455

Total contract services	<u>-</u>	<u>12,337</u>	<u>12,337</u>
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Total direct costs	10,086	12,337	2,251
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Indirect costs	<u>8,805</u>	<u>-</u>	<u>(8,805)</u>
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Total program costs	<u>\$ 18,891</u>	12,337	<u>\$ (6,554)</u>
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Less amount paid by the state ²		<u>-</u>	
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Allowable costs claimed in excess of amount paid		<u>\$ 12,337</u>	
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July 1, 2011, through June 30, 2012

Direct costs:

Salaries

Taking police report in violation of PC § 530.5	\$ 9,102	\$ -	\$ (9,102)
Beginning an investigation of facts	-	-	-

Total Salaries	<u>9,102</u>	<u>-</u>	<u>(9,102)</u>
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Contract services

Taking police report in violation of PC § 530.5	-	6,443	6,443
Beginning an investigation of facts	-	5,107	5,107

Total contract services	<u>-</u>	<u>11,550</u>	<u>11,550</u>
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Total direct costs	9,102	11,550	2,448
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Indirect costs	<u>7,946</u>	<u>-</u>	<u>(7,946)</u>
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Total program costs	<u>\$ 17,048</u>	11,550	<u>\$ (5,498)</u>
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Less amount paid by the state ²		<u>-</u>	
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Allowable costs claimed in excess of amount paid		<u>\$ 11,550</u>	
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Schedule (continued)

July 1, 2012, through June 30, 2013

Direct costs:
Salaries

Taking police report in violation of PC § 530.5	\$ 10,197	\$ -	\$ (10,197)
Beginning an investigation of facts	-	-	-
Total Salaries	<u>10,197</u>	<u>-</u>	<u>(10,197)</u>

Contract services

Taking police report in violation of PC § 530.5	-	8,005	8,005
Beginning an investigation of facts	-	6,381	6,381
Total contract services	<u>-</u>	<u>14,386</u>	<u>14,386</u>

Total direct costs	10,197	14,386	4,189
Indirect costs	<u>9,078</u>	<u>-</u>	<u>(9,078)</u>
Total program costs	<u>\$ 19,275</u>	<u>14,386</u>	<u>\$ (4,889)</u>
Less amount paid by the state²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 14,386</u>	

Summary: July 1, 2002, through June 30, 2013

Direct costs:
Salaries

Taking police report in violation of PC § 530.5	\$ 133,729	\$ -	\$ (133,729)
Beginning an investigation of facts	-	-	-
Total Salaries	<u>133,729</u>	<u>-</u>	<u>(133,729)</u>

Contract services

Taking police report in violation of PC § 530.5	-	77,995	77,995
Beginning an investigation of facts	-	62,045	62,045
Total contract services	<u>-</u>	<u>140,040</u>	<u>140,040</u>

Total direct costs	133,729	140,040	6,311
Indirect costs	<u>118,626</u>	<u>-</u>	<u>(118,626)</u>
Total program costs	<u>\$ 252,355</u>	<u>140,040</u>	<u>\$ (112,315)</u>
Less amount paid by the state²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 140,040</u>	

¹ See the Finding and Recommendation section.

² Payment amount current as of July 25, 2023.

Finding and Recommendation

**FINDING—
Overstated Identity
Theft Program costs**

The City of Chino Hills claimed \$252,355 (\$133,729 in salaries and \$118,626 in related indirect costs) for the Identity Theft Program. We found that \$140,040 is allowable and \$112,315 is unallowable. The costs are unallowable because the city misclassified costs, understated the number of identity theft reports taken, overstated the time required to perform the reimbursable activities, and claimed unallowable indirect costs.

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 obtained from the city’s contracts with the SBCSD. The SBCSD’s contracts included costs for salaries and benefits, as well as additional administrative costs.

However, the city should have classified its salary costs as contract services costs, because no city staff members performed the reimbursable activities. The city contracted with San Bernardino County to have the SBCSD perform 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 following table summarizes the claimed and allowable amounts, and the audit adjustments by fiscal year:

Fiscal Year	Salaries		Audit Adjustment	Contract Services Adjustment	Indirect Cost Adjustment	Total Audit Adjustment
	Amount Claimed ¹	Amount Allowable				
2002-03	\$ 12,304	\$ -	\$ (12,304)	\$ 11,268	\$ (11,726)	\$ (12,762)
2003-04	13,531	-	(13,531)	12,355	(13,369)	(14,545)
2004-05	17,199	-	(17,199)	15,988	(15,977)	(17,188)
2005-06	17,861	-	(17,861)	16,555	(15,771)	(17,077)
2006-07	16,751	-	(16,751)	16,184	(14,054)	(14,621)
2007-08	10,352	-	(10,352)	10,096	(8,727)	(8,983)
2008-09	10,142	-	(10,142)	10,288	(7,819)	(7,673)
2009-10	6,204	-	(6,204)	9,033	(5,354)	(2,525)
2010-11	10,086	-	(10,086)	12,337	(8,805)	(6,554)
2011-12	9,102	-	(9,102)	11,550	(7,946)	(5,498)
2012-13	10,197	-	(10,197)	14,386	(9,078)	(4,889)
Total	\$ 133,729	\$ -	\$ (133,729)	\$ 140,040	\$ (118,626)	\$ (112,315)

¹ Amounts claimed for FY 2004-05 and FY 2007-08 are adjusted by \$1 due to claim rounding errors.

Contract Services Costs

The city contracted with San Bernardino County to have the SBCSD provide all of its law enforcement services during the audit period. These services included reimbursable activities claimed for the mandated program. The city contracted for various SBCSD staff positions each fiscal year and paid the SBCSD annual contract billing rates for the positions.

These positions included, but were not limited to, Deputy Sheriffs and Sergeants. No city staff members 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 stated in its claims that it took 1,304 identity theft incident reports during the audit period. We found that the city understated the number of reports taken by 27, and that allowable reports totaled 1,331.

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

Fiscal Year	(A) Claimed Reports	(B) Audited Population	(C) Allowable Reports	(D)= (C)-(A) Audit Adjustment
2002-03	151	149	143	(8)
2003-04	155	155	148	(7)
2004-05	172	175	168	(4)
2005-06	176	180	172	(4)
2006-07	147	152	150	3
2007-08	86	92	88	2
2008-09	83	92	88	5
2009-10	52	82	79	27
2010-11	78	104	100	22
2011-12	105	94	89	(16)
2012-13	99	113	106	7
Total	1,304	1,388	1,331	27

For each fiscal year, the SBCSD provided Excel spreadsheets from its CAD system to support the claimed number of initial police reports for violations of PC section 530.5. This list of police reports identified the county jurisdiction code, the year of the report, and the report number. The SBCSD also provided a Jurisdiction Reference Chart, which disclosed county jurisdiction codes and jurisdiction codes for the cities that contract with the county for law enforcement services. The spreadsheets supported 1,388 identity theft police reports filed for the City of Chino Hills during the audit period.

We verified the accuracy of the unduplicated counts of initial police reports recorded in the CAD system by determining whether:

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

Our audit plan called for testing 25% of claimed salary costs at a minimum. We selected FY 2006-07, FY 2011-12, and FY 2012-13 for testing purposes, as claimed costs for these three fiscal years totaled \$67,128 (or 26.6%) of the total costs claimed (\$252,355).

For the three years, we selected a statistical sample of the documented number of identity theft 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 randomly selected 198 out of 359 identity theft incident reports for review.

Our review of sample incident reports disclosed the following:

- For FY 2006-07, we found that one of the 76 identity theft incident reports selected was unallowable because it did not meet the PC section 530.6(a) requirement that the victim(s) of identity theft initiate the investigation by contacting the local law enforcement agency.

Therefore, we calculated an error rate of 1.32% for FY 2006-07.

- For FY 2011-12, we found that three of the 58 identity theft incident reports selected were unallowable because:
 - One report was a courtesy report from another police department, and
 - Two reports did not meet the PC section 530.6(a) requirement that the victim(s) of identity theft initiate the investigation by contacting the local law enforcement agency.

Therefore, we calculated an error rate of 5.17% for FY 2011-12.

- For FY 2012-13, we found that four of the 64 identity theft incident reports selected were unallowable because:
 - Three reports were courtesy reports from other police departments, and
 - One report did not meet the PC section 530.6(a) requirement that the victim(s) of identity theft initiate the investigation by contacting the local law enforcement agency.

Therefore, we calculated an error rate of 6.25% for FY 2012-13.

Using the test results for FY 2006-07, FY 2011-12 and FY 2012-13, we calculated an average error rate of 4.25%, which we applied to the other nine years of the audit period (FY 2002-03 through FY 2005-06 and FY 2007-08 through FY 2010-11).

The following table shows the average error rates for FY 2006-07, FY 2011-12, and FY 2012-13:

Fiscal Year	(A)	(B)	(C)=(A)÷(B)
	Number of Unallowable Cases Sampled	Sample Size	Error Rate
2006-07	1	76	1.32%
2011-12	3	58	5.17%
2012-13	4	64	6.25%
Total			12.74%
Number of fiscal years sampled			÷ 3
Average Error Rate			<u>4.25%</u>

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

Fiscal Year	(A)	(B)		(C)=(A)×(B)	(D)=(A)-(C)
	Audited Population	Error Rate	Average Error Rate	Total Unallowable Reports	Total Allowable Reports
2002-03	149	N/A	4.25%	6	143
2003-04	155	N/A	4.25%	7	148
2004-05	175	N/A	4.25%	7	168
2005-06	180	N/A	4.25%	8	172
2006-07	152	1.32%	N/A	2	150
2007-08	92	N/A	4.25%	4	88
2008-09	92	N/A	4.25%	4	88
2009-10	82	N/A	4.25%	3	79
2010-11	104	N/A	4.25%	4	100
2011-12	94	5.17%	N/A	5	89
2012-13	113	6.25%	N/A	7	106
Total	<u>1,388</u>			<u>57</u>	<u>1,331</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.

The parameters and guidelines specify that Activity 1a “includes drafting, reviewing, and editing the identity theft police report,” and that Activity 2 includes “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.”

For convenience, we separated Activity 1a into two sub-activities:

- Activity 1a.1 – Taking a police report; and

- Activity 1a.2 – Reviewing, editing, and approving a police report.

The city claimed the following time increments for each year of the audit period:

- Activity 1a.1 – an average of 84.5 minutes for a Deputy Sheriff to take a police report; and
- Activity 1a.2 – an average of 11.88 minutes for a Sergeant to review, edit, and approve the police report.

The city did not claim costs related to Activity 2 during the audit period.

We verified the claimed time increments for each year of the audit period by dividing the number of hours claimed per employee classification by the number of police reports claimed. However, although we requested timesheets and/or time logs, the city did not provide support for the claimed time increments. Therefore, we concluded that the city had based the claimed time increments on estimates. In addition, we determined that it is not reasonable to conclude that SBCSD Deputy Sheriffs did not begin investigations of the identity theft cases that occurred within the city.

Allowable Time Increments

As the city did not provide support for the claimed time increments, we relied on the ATIs disclosed in our June 22, 2022 audit report on San Bernardino County's Identity Theft Program claims. The following paragraphs explain how we determined the ATIs for that audit report.

The county's CAD system did not record time spent on Activity 1a.1 or on Activity 1a.2. We interviewed various SBCSD employees, who provided testimonial evidence of the approximate time spent on reimbursable activities not recorded by the CAD system. We found that this information provided a reasonable representation of the time needed to perform these reimbursable activities.

To determine ATIs for Activity 1a.1, we interviewed three Deputy Sheriffs, three Service Specialists, and one Sergeant about drafting, reviewing, and editing identity theft police reports taken by Officers. Based on these interviews, we determined that SBCSD staff members spent an average of 35 minutes drafting, reviewing, and editing identity theft police reports taken by SBCSD Deputies.

To determine ATIs for Activity 1a.2, we interviewed three Detectives and three Sergeants about reviewing identity theft police reports. Based on these interviews, we determined that SBCSD staff members spent an average of 13 minutes reviewing police reports taken at the police station counter.

To determine ATIs for Activity 2, we reviewed CAD system records for 398 police reports filed for violations of PC section 530.5. These records showed the time, in minutes, from when SBCSD staff arrived at a victim's residence or place of business or took information from a resident at the counter of a patrol station (Time On Scene) to the time that the initial call for service was completed (Time Complete). The time elapsed represents

the time that county employees spent determining where the crime occurred and what pieces of personal identifying information were used for an unlawful purpose (Activity 2).

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

Fiscal Year	Claimed Minutes			Allowable Minutes		
	1a	1a	2	1a.1	1a.2	2
	Taking a Police Report	Reviewing a Police Report	Beginning an Investigation	Taking a Police Report	Reviewing a Police Report	Beginning an Investigation
2002-03	105.89	10.00	-	35.00	13.00	41.00
2003-04	90.00	10.00	-	35.00	13.00	41.00
2004-05	90.00	10.00	-	35.00	13.00	41.00
2005-06	90.00	10.00	-	35.00	13.00	41.00
2006-07	89.80	10.00	-	35.00	13.00	41.00
2007-08	90.00	10.00	-	35.00	13.00	41.00
2008-09	90.00	10.00	-	35.00	13.00	41.00
2009-10	90.00	10.00	-	35.00	13.00	41.00
2010-11	90.00	10.00	-	35.00	13.00	41.00
2011-12	28.80	10.00	-	35.00	13.00	41.00
2012-13	75.00	28.80	-	35.00	13.00	41.00

Claimed Job Classifications

The city’s claims for FY 2002-03 through FY 2011-12 included costs for Deputy Sheriffs to perform Activity 1a.1 (taking or editing a police report) and for Sergeants to perform Activity 1a.2 (review and approve a police report). The city’s claim for FY 2012-13 included costs for Deputy Sheriffs to perform both Activity 1a.1 and Activity 1a.2. As stated previously, the city did not claim any costs for Activity 2 during the audit period.

Staff Allowable

The city claimed that Deputy Sheriffs prepared police reports (actions included in Activity 1a.1) and that Sergeants reviewed, edited, and approved the police reports (Activity 1a.2). We determined that these claims were correct. Although the city did not claim costs for Activity 2, we concluded that Deputy Sheriffs began investigations.

Contract Hourly Rates

The city’s claims included copies of the annual contract that it negotiated with the SBCSD for each year of the audit period. Each contract specifies the level of service performed for the city, indicating the number of various employee classifications involved in the city’s law enforcement (the level of service) and the county’s cost for providing these employees. The county used this contract to indicate the authorized SBCSD staffing level for each year of the audit period. However, none of the contracts identified the total annual hours per service level. As a result of recalculating contract hourly rates, we determined that the city used 1,800 annual productive hours, as specified in the SCO’s *Mandated Cost Manual*, for all SBCSD employees.

We used this information to determine the contract hourly billing rates for various employee classifications: we divided the total contract cost for each employee classification by the number of personnel that the county provided. For example, the city’s contract for FY 2011-12 indicates that 36 Deputy Sheriffs and eight Sergeants provided law enforcement for the city during the year.

The following table shows the contract hourly rate calculation for Deputy Sheriffs and Sergeants during FY 2011-12:

Employee Classification	Annual Cost	Level of Service	Cost per Employee	Productive Hours	Hourly Rate
Deputy Sheriff	\$ 5,118,169	36.00	\$ 142,171	1,800	\$ 78.98
Sergeant	1,463,440	8.00	182,930	1,800	\$ 101.63

The city used this calculation of hourly billing rates for its FY 2011-12 claim. Based on our testing results, we concluded that the city properly calculated the hourly rates that it claimed for the Deputy Sheriff and Sergeant classifications for all years of the audit period.

The city’s contracts with the SBCSD include additional employee classifications and items—such as vehicles, dispatch services, and equipment—that are part of the direct costs incurred to provide law enforcement for the city. However, the contracts also include items that are clearly administrative in nature.

The SCO’s *Mandated Cost Manual* states that contract services costs are allowable. Costs for contract services can be claimed using an hourly billing rate. The manual does not provide specific guidance on how to calculate an hourly billing rate. Generally speaking, an hourly rate for a specific employee classification would be determined by dividing the contract cost for an individual employee 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.

For additional guidance, we looked at law enforcement contracts for cities contracting with Los Angeles County. Having previously audited a number of these cities, we noted that the county’s billing rates also included costs for various employee classifications. Unlike the SBCSD’s contracts, the total costs for those classifications included a “liability percentage” in addition to salaries and benefits; the liability percentage amount was added to each contract hourly rate. It is our understanding that this liability percentage covers costs for administrative items, such as various forms of insurance and charges for countywide cost allocation plans. We did not audit these billing rates.

San Bernardino County does not structure its contracts this way; instead, it includes administrative costs and indirect costs as separately billed line items in its contracts for law enforcement services. In order to be equitable with other California cities contracting for law enforcement services, we concluded that it was appropriate to allow the costs for line items that we determined were clearly administrative in nature.

We calculated an administrative cost percentage for each fiscal year of the audit period based on the city's contracts with the SBCSD. To calculate the percentage, we divided the cost of the following line items by the total contract cost:

- Administrative support
- Office Automation
- Services and supplies
- Vehicle insurance
- Personnel liability and bonding
- County administrative costs (countywide cost allocation plan or COWCAP)
- COWCAP subsidy (FY 2012-13 only)
- Telephone reporting unit (FY 2002-03 through FY 2004-05 only)
- Startup costs (FY 2003-04 through FY 2009-10 and FY 2011-12 only)

The following table shows the allowable administrative cost percentage for each fiscal year during the review period:

Fiscal Year	Administrative Cost Rate
2002-03	7.45%
2003-04	6.30%
2004-05	5.78%
2005-06	5.04%
2006-07	5.17%
2007-08	5.81%
2008-09	6.17%
2009-10	6.33%
2010-11	5.85%
2011-12	6.32%
2012-13	6.90%

For each contract, we added the costs of all line items that we determined were clearly administrative in nature and divided the total by each year's total contract cost to determine the extent that administrative costs were represented within each year's contract.

The following table shows how we made this calculation for FY 2011-12:

Cost Category	Contract Amount
Administrative support	\$ 41,664
Office automation	54,305
Services and supplies	75,600
Vehicle insurance	34,617
Personnel liability & bonding	169,598
County administrative cost	284,721
Startup costs	1,872
Total administrative costs	\$ 662,377
Divided by total contract amount	10,480,055
Administrative cost percentage	<u>6.32%</u>

The following table shows the claimed hourly rates for Deputy Sheriffs and Sergeants, the administrative percentage, and the revised hourly rates for FY 2011-12:

Employee Classification	Hourly Rate	Administrative Percentage	Revised Rate
Deputy Sheriff	\$ 78.98	6.32%	\$ 83.97
Sergeant	\$ 101.63	6.32%	\$ 108.05

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

Fiscal Year	Deputy Sheriffs			Fiscal Year	Sergeants		
	Claimed Hourly Rate	Allowable Hourly Rate	Revised Rate Difference		Claimed Hourly Rate	Allowable Hourly Rate	Revised Rate Difference
2002-03	\$ 47.72	\$ 51.28	\$ 3.56	2002-03	\$ 59.45	\$ 63.88	\$ 4.43
2003-04	51.14	54.36	3.22	2003-04	63.52	67.52	4.00
2004-05	58.57	61.96	3.39	2004-05	72.80	77.01	4.21
2005-06	58.95	61.92	2.97	2005-06	78.31	82.26	3.95
2006-07	66.65	70.10	3.45	2006-07	83.83	88.16	4.33
2007-08	70.30	74.38	4.08	2007-08	89.52	94.72	5.20
2008-09	71.31	75.71	4.40	2008-09	91.35	96.99	5.64
2009-10	69.60	74.01	4.41	2009-10	89.44	95.10	5.66
2010-11	75.43	79.84	4.41	2010-11	96.99	102.66	5.67
2011-12	78.98	83.97	4.99	2011-12	101.63	108.05	6.42
2012-13	82.41	88.10	5.69	2012-13	-	111.36	111.36

Using the contract rate information, the corrected number of case counts, and the corrected time increments, we determined allowable contract costs for each fiscal year.

For example, the following table shows the calculation of allowable contract services costs for FY 2011-12:

Reimbursable Activity	LASD Staff	(A)	(B)	(C)	(D)	(E)= (C) x (D)
		Total Allowable Reports	Allowable Time Increment (in hours)	Hours [C=(A*B)/60]	Allowable Contract Hourly Rate	Allowable Costs
1a.1	Deputy Sheriff	89	35	51.92	\$ 83.97	\$ 4,360
1a.2	Sergeant	89	13	19.28	108.05	2,083
2	Deputy Sheriff	89	41	60.82	83.97	5,107
Total allowable contract services costs						<u>\$ 11,550</u>

Indirect costs

For the audit period, the city included copies of its Indirect Cost Rate Proposals with its mandated cost claims. The city claimed related indirect costs totaling \$118,626 for the audit period, based on \$133,729 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 audit period. Instead, the city contracted with the county to have the SBCSD perform all of its law enforcement services during the audit period. Therefore, the city did not incur any direct salary costs or related indirect costs.

Furthermore, none of the costs that the city incurred for law enforcement services provided by the SBCSD 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 audit adjustment amounts for indirect costs by fiscal year:

Fiscal Year	Claimed		(A)	(B)	(C)=(B)-(A)
	Salaries Claimed	Indirect Cost Rate	Indirect Costs ¹	Indirect Costs Allowable	Audit Adjustment
2002-03	\$ 12,304	95.30%	\$ 11,726	\$ -	\$ (11,726)
2003-04	13,531	98.80%	13,369	-	(13,369)
2004-05	17,199	92.90%	15,977	-	(15,977)
2005-06	17,861	88.30%	15,771	-	(15,771)
2006-07	16,751	83.90%	14,054	-	(14,054)
2007-08	10,352	84.30%	8,727	-	(8,727)
2008-09	10,142	77.10%	7,819	-	(7,819)
2009-10	6,204	86.30%	5,354	-	(5,354)
2010-11	10,086	87.30%	8,805	-	(8,805)
2011-12	9,102	87.30%	7,946	-	(7,946)
2012-13	10,197	89.03%	9,078	-	(9,078)
Total	<u>\$ 133,729</u>		<u>\$ 118,626</u>	<u>\$ -</u>	<u>\$ (118,626)</u>

¹ Differences in Indirect Costs column are due to rounding.

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.

Section IV concludes:

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 these activities.

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

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 (ICRP) if the indirect cost rate exceeds 10%.

The SCO’s *Mandated Cost Manual* (Section 2, “Filing a Claim,” page 9, subparagraph (3), “Contract Services”), 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 [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 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 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.

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

City of Chino Hills



14000 City Center Drive • Chino Hills, CA 91709 • (909) 364-2600

July 6, 2023

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

Dear Ms. Kurokawa,

Thank you for providing the City of Chino Hills (City) with the draft findings for the State Controller's Office (SCO) audit of the Identity Theft Program State Mandated Program.

The City has reviewed the draft report and accepts the findings. The City acknowledges the significant time investment spent on your examination of the costs claimed for the legislatively mandated Identity Theft program for the period of July 1, 2002, through June 30, 2013. The City would like to note that to date, no claims related to this program have been remitted to the City by the State.

Since the Identity Theft program is no longer an active program, staff is not able to apply the recommendations to any future Identity Theft Program claims. Alternatively, staff will carefully consider the issues raised by the SCO audit and will adjust the approach for various other future state mandated program claims accordingly. We appreciate the information and recommendations provided by the SCO audit. Thank you for the opportunity to submit our comments for the draft report.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Christa Buhagiar', written in a cursive style.

Christa Buhagiar
Finance Director
City of Chino Hills

**State Controller's Office
Division of Audits
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