

CITY OF LOS ANGELES

Audit Report

IDENTITY THEFT PROGRAM

Chapter 956, Statutes of 2000

July 1, 2002, through June 30, 2013



BETTY T. YEE
California State Controller

December 2021



BETTY T. YEE
California State Controller

December 8, 2021

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Ron Galperin, City Controller
City of Los Angeles
200 North Main Street, Suite 300
Los Angeles, CA 90012

Dear Mr. Galperin:

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

The city claimed \$30,217,361 for costs of the mandated program. Our audit found that \$16,581,922 is allowable and \$13,635,439 is unallowable, primarily because the city overstated the number of identity theft reports and the time increments required to perform the reimbursable activities. The State made no payments to the city. The State will pay \$16,581,922, 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/as

cc: Thom Brennan, Commanding Officer
Fiscal Operations Division
Los Angeles Police Department
The Honorable Eric Garcetti, Mayor
City of Los Angeles
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
Steven Pavlov, Finance Budget Analyst
Local Government Unit
California Department of Finance
Darryl Mar, Manager
Local Government Programs and Services Division
State Controller's Office
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Local Government Programs and Services Division
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Audit Report

Summary

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

The city claimed \$30,217,361 for costs of the mandated program. Our audit found that \$16,581,922 is allowable and \$13,635,439 is unallowable, primarily because the city overstated the number of identity theft reports and the time increments required to perform the reimbursable activities. The State made no payments to the city. The State will pay \$16,581,922, contingent upon available appropriations.

Background

Penal Code (PC) section 530.6, subdivision (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) [Taking] 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. [Beginning] an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.

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

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. In compliance with GC section 17558, the SCO issues claiming instructions 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.

Objective, Scope, and Methodology

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

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

To achieve our objective, we:

- Reviewed the annual mandated cost claims filed by the city for the audit period and identified the significant cost components of each claim as salaries, benefits, and indirect costs. Determined whether there were any errors or unusual or unexpected variances from year to year. Reviewed the activities claimed to determine whether they adhered to the SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing key city staff members. Discussed the claim preparation process with city staff members to determine what information was obtained, who obtained it, and how it was used;
- Obtained system-generated lists of identity theft cases from the city's Computer Aided Dispatch Records Management System (RMS) to verify the existence, completeness, and accuracy of unduplicated case counts for each fiscal year in the audit period;
- Designed a statistical sampling plan to test at least 25% of claimed salary costs, based on a low level of detection (audit) risk. Judgmentally selected three of the city's filed claims (from fiscal year [FY] 2002-03, FY 2008-09, and FY 2012-13), which comprised salary costs totaling \$3,707,362 (or 26.7%) of the \$13,870,070 claimed. The sampling plan is described in the Finding and Recommendation section;

¹ Unreasonable and/or excessive costs include ineligible costs that are not identified in the program's parameters and guidelines as a reimbursable cost.

- Used a random-number table to select 428 identity theft cases out of 158,891 officer-reported cases. Tested the identity theft cases as follows:
 - Determined whether a contemporaneously prepared and approved police report supported that a violation of PC section 530.5 had occurred;
 - Obtained from sampled police reports the employee numbers, names, and classifications of employees who performed the reimbursable activities; and
 - Compared the employee classifications obtained from the police reports to those claimed by the city;
- Interviewed sworn officers at the Los Angeles Police Department (LAPD) about the average time spent drafting, editing, reviewing, and approving a police report (taking a police report supporting a violation of PC section 530.5). We determined allowable time increments for these reimbursable activities based on the results of these interviews;
- Projected the audit results of the three years tested by multiplying the actual case counts by the audited average time increments needed to perform the activities, and multiplying the product by the weighted average productive hourly rates (PHRs) of the employees who performed them. We applied the weighted three-year average of the sampling results to the remaining eight years of the audit period due to the homogeneity of the population;
- Traced the city's claimed benefit and indirect cost rates to supporting documentation for each fiscal year in the audit period, and verified that the rates claimed were not unreasonable or excessive; and
- Reviewed the city's Single Audit Reports to identify any offsetting savings or reimbursements from federal or pass-through programs applicable to the Identity Theft Program. The city also certified in its claims that it did not receive any offsetting revenues applicable to this mandated program.

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.

We did not audit the city's financial statements.

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 of this audit report.

For the audit period, the City of Los Angeles claimed \$30,217,361 for costs of the legislatively mandated Identity Theft Program. Our audit found that \$16,581,922 is allowable and \$13,635,439 is unallowable. The State made no payments to the city. The State will pay \$16,581,922, 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 September 29, 2021. Thomas Brennan, Commanding Officer, Fiscal Operation Division, Los Angeles Police Department, responded by email dated October 11, 2021, stating that the city reviewed the draft report and has no additional comments.

Restricted Use

This audit report is solely for the information and use of the City of Los Angeles, the California Department of Finance, and SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

December 8, 2021

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 627,477	\$ 287,580	\$ (339,897)
Beginning an investigation of the facts	273,045	266,746	(6,299)
Total salaries	900,522	554,326	(346,196)
Benefits	267,642	155,876	(111,766)
Total direct costs	1,168,164	710,202	(457,962)
Indirect costs	629,438	296,897	(332,541)
Total program costs	<u>\$ 1,797,602</u>	1,007,099	<u>\$ (790,503)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 1,007,099</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 670,089	\$ 234,144	\$ (435,945)
Beginning an investigation of the facts	294,365	219,588	(74,777)
Total salaries	964,454	453,732	(510,722)
Benefits	270,273	141,882	(128,391)
Total direct costs	1,234,727	595,614	(639,113)
Indirect costs	845,152	279,136	(566,016)
Total program costs	<u>\$ 2,079,879</u>	874,750	<u>\$ (1,205,129)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 874,750</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 729,618	\$ 254,862	\$ (474,756)
Beginning an investigation of the facts	321,016	239,184	(81,832)
Total salaries	1,050,634	494,046	(556,588)
Benefits	330,155	179,882	(150,273)
Total direct costs	1,380,789	673,928	(706,861)
Indirect costs	993,662	320,883	(672,779)
Total program costs	<u>\$ 2,374,451</u>	994,811	<u>\$ (1,379,640)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 994,811</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 800,312	\$ 347,924	\$ (452,388)
Beginning an investigation of the facts	380,673	351,734	(28,939)
Total salaries	1,180,985	699,658	(481,327)
Benefits	430,814	268,879	(161,935)
Total direct costs	1,611,799	968,537	(643,262)
Indirect costs	583,364	361,513	(221,851)
Total program costs	<u>\$ 2,195,163</u>	1,330,050	<u>\$ (865,113)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 1,330,050</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 844,460	\$ 422,511	\$ (421,949)
Beginning an investigation of the facts	402,199	426,805	24,606
Total salaries	1,246,659	849,316	(397,343)
Benefits	480,963	370,132	(110,831)
Total direct costs	1,727,622	1,219,448	(508,174)
Indirect costs	884,895	381,088	(503,807)
Total program costs	<u>\$ 2,612,517</u>	1,600,536	<u>\$ (1,011,981)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 1,600,536</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 1,114,659	\$ 511,418	\$ (603,241)
Beginning an investigation of the facts	451,645	440,741	(10,904)
Total salaries	1,566,304	952,159	(614,145)
Benefits	681,700	453,323	(228,377)
Total direct costs	2,248,004	1,405,482	(842,522)
Indirect costs	1,280,040	248,799	(1,031,241)
Total program costs	<u>\$ 3,528,044</u>	1,654,281	<u>\$ (1,873,763)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 1,654,281</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 1,098,722	\$ 479,002	\$ (619,720)
Beginning an investigation of the facts	557,299	519,697	(37,602)
Total salaries	1,656,021	998,699	(657,322)
Benefits	782,125	485,667	(296,458)
Total direct costs	2,438,146	1,484,366	(953,780)
Indirect costs	1,433,528	640,665	(792,863)
Total program costs	<u>\$ 3,871,674</u>	2,125,031	<u>\$ (1,746,643)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 2,125,031</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 968,419	\$ 394,695	\$ (573,724)
Beginning an investigation of the facts	466,893	409,902	(56,991)
Total salaries	1,435,312	804,597	(630,715)
Benefits	691,833	401,011	(290,822)
Total direct costs	2,127,145	1,205,608	(921,537)
Indirect costs	1,321,696	572,068	(749,628)
Total program costs	<u>\$ 3,448,841</u>	1,777,676	<u>\$ (1,671,165)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 1,777,676</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 1,072,640	\$ 404,480	\$ (668,160)
Beginning an investigation of the facts	525,540	426,590	(98,950)
Total salaries	1,598,180	831,070	(767,110)
Benefits	788,898	419,857	(369,041)
Total direct costs	2,387,078	1,250,927	(1,136,151)
Indirect costs	1,471,799	446,035	(1,025,764)
Total program costs	<u>\$ 3,858,877</u>	1,696,962	<u>\$ (2,161,915)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 1,696,962</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 652,954	\$ 431,595	\$ (221,359)
Beginning an investigation of the facts	467,226	452,193	(15,033)
Total salaries	1,120,180	883,788	(236,392)
Benefits	559,735	486,172	(73,563)
Total direct costs	1,679,915	1,369,960	(309,955)
Indirect costs	586,497	317,633	(268,864)
Total program costs	<u>\$ 2,266,412</u>	1,687,593	<u>\$ (578,819)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 1,687,593</u>	
<u>July 1, 2012, through June 30, 2013</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC section 530.5	\$ 674,005	\$ 455,680	\$ (218,325)
Beginning an investigation of the facts	476,814	477,402	588
Total salaries	1,150,819	933,082	(217,737)
Benefits	626,394	590,921	(35,473)
Total direct costs	1,777,213	1,524,003	(253,210)
Indirect costs	406,688	309,130	(97,558)
Total program costs	<u>\$ 2,183,901</u>	1,833,133	<u>\$ (350,768)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 1,833,133</u>	
<u>Summary: July 1, 2002, through June 30, 2013</u>			
Salaries	\$ 13,870,070	8,454,473	\$ (5,415,597)
Benefits	5,910,532	3,953,602	(1,956,930)
Indirect costs	10,436,759	4,173,847	(6,262,912)
Total program costs	<u>\$ 30,217,361</u>	16,581,922	<u>\$ (13,635,439)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 16,581,922</u>	

¹ See the Finding and Recommendation section.

² Payment information is current as of November 10, 2021.

Finding and Recommendation

FINDING— Overstated Identity Theft Program costs

The city claimed \$30,217,361 (\$13,870,070 in salaries, \$5,910,532 in related benefits, and \$10,436,759 in related indirect costs) for the Identity Theft Program. We found that \$16,581,922 is allowable and \$13,635,439 is unallowable.

Salary costs are determined by multiplying the number of identity theft police reports by the time required to perform the reimbursable activities, and then multiplying the product by the weighted average PHRs of the employee classifications that performed the reimbursable activities.

The costs are unallowable because the city misinterpreted the program's parameters and guidelines, and made claim preparation errors. As a result, the city overstated the number of identity theft reports, overstated time increments required to perform the reimbursable activities, claimed costs for unallowable activities, claimed employee benefit rates in the wrong year, and overstated indirect cost rates.

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

Fiscal Year	Salaries		Audit Adjustment	Related Benefit Adjustment	Related Indirect Cost Adjustment	Total Audit Adjustment
	Amount Claimed	Amount Allowable				
2002-03	\$ 900,522	\$ 554,326	\$ (346,196)	\$ (111,766)	\$ (332,541)	\$ (790,503)
2003-04	964,454	453,732	(510,722)	(128,391)	(566,016)	(1,205,129)
2004-05	1,050,634	494,046	(556,588)	(150,273)	(672,779)	(1,379,640)
2005-06	1,180,985	699,658	(481,327)	(161,935)	(221,851)	(865,113)
2006-07	1,246,659	849,316	(397,343)	(110,831)	(503,807)	(1,011,981)
2007-08	1,566,304	952,159	(614,145)	(228,377)	(1,031,241)	(1,873,763)
2008-09	1,656,021	998,699	(657,322)	(296,458)	(792,863)	(1,746,643)
2009-10	1,435,312	804,597	(630,715)	(290,822)	(749,628)	(1,671,165)
2010-11	1,598,180	831,070	(767,110)	(369,041)	(1,025,764)	(2,161,915)
2011-12	1,120,180	883,788	(236,392)	(73,563)	(268,864)	(578,819)
2012-13	1,150,819	933,082	(217,737)	(35,473)	(97,558)	(350,768)
Total	\$ 13,870,070	\$ 8,454,473	\$ (5,415,597)	\$ (1,956,930)	\$ (6,262,912)	\$ (13,635,439)

Overstated counts of identity theft police reports

The city claimed costs incurred for taking police reports related to 158,891 identity theft cases during the audit period. The city provided us with system-generated unduplicated lists from its RMS supporting 148,204 police reports filed for violations of PC section 530.5.

We determined the accuracy of the unduplicated counts of initial police reports by determining whether:

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

Due to our assessed low level of detection risk for the audit, we developed a statistical sampling plan to test at least 25% of claimed salary costs. For FY 2002-03, FY 2008-09, and FY 2012-13, we selected statistical samples from the documented number of identity theft cases (the population) that originated in the city, based on a 95% confidence level, a sampling error of +/-8%, and an expected (true) error rate of 50%. We generated statistical samples in order to project the sample results to the population for each fiscal year. We judgmentally selected identity theft cases from FY 2002-03, FY 2008-09, and FY 2012-13 for testing because the city claimed a total of \$3,707,362 in salary costs for these three years, which constitutes 26.7% of the total salary costs claimed during the audit period.

Our testing of the sampled identity theft cases disclosed the following:

- For FY 2002-03, we selected 130 cases from the population of 994 reported cases for testing. We found that three cases were unallowable (one incident report was not found, one report is a Multiple Dr/Booking Number Index Form, and one incident report did not support a violation of PC section 530.5), which represents a 2.3% error rate.
- For FY 2008-09, we selected 149 cases from the population of 16,647 reported cases for testing. We found that four cases were unallowable (two incident reports did not support a violation of PC section 530.5, and two were requests for copies of the incident reports), which represents a 2.7% error rate.
- For FY 2012-13, we selected 149 cases from the population of 14,780 reported cases for testing. We found that two cases were unallowable because the incident reports did not support a violation of PC section 530.5; this represents a 1.3% error rate.

Based on these results, we calculated a 2.1% average error rate for the three years that we tested. We extrapolated this average error rate to the other eight years of the audit period (FY 2003-04 through FY 2007-08 and FY 2009-10 through FY 2011-12) to determine the number of allowable and unallowable identity theft incident reports for the entire eleven-year audit period.

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

Fiscal Year	Claimed	Per LAPD		
		RMS	Allowable	Difference
2002-03	11,615	11,615	11,347	(268)
2003-04	12,227	9,317	9,121	(3,106)
2004-05	12,871	9,796	9,590	(3,281)
2005-06	13,549	12,788	12,519	(1,030)
2006-07	14,057	15,238	14,917	860
2007-08	16,361	16,309	15,966	(395)
2008-09	17,370	16,647	16,198	(1,172)
2009-10	15,836	14,202	13,903	(1,933)
2010-11	16,162	13,401	13,119	(3,043)
2011-12	14,266	14,104	13,807	(459)
2012-13	14,577	14,787	14,595	18
Total	158,891	148,204	145,082	(13,809)

Overstated time increments

Claimed Time Increments

The city claimed time increments spent by LAPD sworn officers who performed the following reimbursable activities during the audit period:

- Drafting, reviewing, and editing the identity theft police reports for violations of PC section 530.5 (Activity 1a – Taking a police report.); and
- Determining where the crime occurred and what pieces of personal identifying information were used for an unlawful purpose (Activity 2 – Beginning an investigation of the facts).

The city based its calculations of claimed salaries, benefits, and related indirect costs on the following time increments for performing the reimbursable activities:

<u>Reimbursable Activity</u>	<u>Employee Classification</u>	<u>FY 2002-03 through FY 2010-11</u>	<u>FY 2011-12 and FY 2012-13</u>
1a	Police Officer II	66.00	41.22
1b	Sergeant I	6.00	6.11
1	Principal Police Clerk I	<u>6.00</u>	<u>6.00</u>
Total Activity 1		<u><u>78.00</u></u>	<u><u>53.33</u></u>
2	Detective I	24.00	24.00
2	Detective III	<u>6.00</u>	<u>6.00</u>
Total Activity 2		<u><u>30.00</u></u>	<u><u>30.00</u></u>

The city did not provide documentation supporting the time increments claimed. The parameters and guidelines for the mandated program state that “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 mandated activities.” As the city did not provide supporting documentation that complies with this requirement, we determined that the time increments claimed are estimated and unsupported.

For all years of the audit period, the city claimed that the Police Officer II classification performed Activity 1a – Taking a police report, the Sergeant classification performed Activity 1b – Reviewing identity theft reports, and the Detective I and Detective III classifications performed Activity 2 – Beginning an investigation of the facts. Based on our discussions with LAPD representatives during the audit, we accepted these employee classifications as claimed. The city also claimed that a Principal Police Clerk I further processed the police reports by providing a report number and making copies. However, the parameters and guidelines do not identify these activities as being reimbursable.

Allowable Time Increments

Activity 1a – Taking a police report supporting a violation of PC section 530.5

In order to determine a reasonable average amount of time spent by LAPD staff on the reimbursable activities, we conducted interviews with LAPD Officers who routinely perform the duties of taking, reviewing and approving initial police reports for PC section 530.5 violations. We requested that each officer determine the average amount of time spent performing these activities. Based on our interviews, the average time totaled 30 minutes for the Police Officer II classification to take the reports and five minutes for the Sergeant classification to review the reports. During the audit, LAPD representatives confirmed their agreement with these time increments.

Activity 2 – Beginning an investigation of the facts

The city claimed 30 minutes to complete Activity 2. This city divided this time between the Detective I (24 minutes) and Detective III (six minutes) classifications. Based on our discussions with LAPD representatives, these two amounts of time appear reasonable.

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

Fiscal Year	Claimed Minutes				Allowable Minutes		
	(Activity 1a) Taking a Police Report	(Activity 1b) Reviewing a Police Report	(Activity 1) Numbering and Making Copies of Reports ¹	(Activity 2) Beginning an Investigation	(Activity 1a) Taking a Police Report	(Activity 1b) Reviewing a Police Report	(Activity 2) Beginning an Investigation
2002-03	66.00	6.00	6.00	30.00	30.00	5.00	30.00
2003-04	66.00	6.00	6.00	30.00	30.00	5.00	30.00
2004-05	66.00	6.00	6.00	30.00	30.00	5.00	30.00
2005-06	66.00	6.00	6.00	30.00	30.00	5.00	30.00
2006-07	66.00	6.00	6.00	30.00	30.00	5.00	30.00
2007-08	66.00	6.00	6.00	30.00	30.00	5.00	30.00
2008-09	66.00	6.00	6.00	30.00	30.00	5.00	30.00
2009-10	66.00	6.00	6.00	30.00	30.00	5.00	30.00
2010-11	66.00	6.00	6.00	30.00	30.00	5.00	30.00
2011-12	41.22	6.11	6.00	30.00	30.00	5.00	30.00
2012-13	41.22	6.11	6.00	30.00	30.00	5.00	30.00

¹ Activities performed by an LAPD clerk to first stamp a report number on the police report after the officer completes it and makes a copy, as needed.

Allowable Productive Hourly Rates

Based on our testing results, we accepted the claimed PHRs for all years of the audit period.

The following table summarizes the claimed and allowable PHRs by employee classification for each year of the audit period:

Fiscal Year	Police Officer II	Sergeant I	Detective I	Detective III
2002-03	\$ 41.69	\$ 53.99	\$ 44.50	\$ 57.08
2003-04	42.23	54.67	47.44	50.99
2004-05	43.65	57.01	49.15	52.81
2005-06	45.69	59.36	55.42	59.28
2006-07	46.57	60.47	56.45	60.32
2007-08	53.65	62.48	53.65	61.45
2008-09	48.69	62.72	64.09	64.48
2009-10	46.70	60.47	56.99	66.87
2010-11	50.61	66.32	64.23	68.25
2011-12	51.24	67.67	63.37	74.03
2012-13	51.18	67.58	63.29	73.94

Using this salary rate information, the allowable number of case counts, the revised time increments, and the employee classifications that performed the reimbursable activities during the audit period, we determined allowable salaries for each fiscal year. For example, the following table shows the calculation of allowable salary costs for FY 2011-12:

[1] Activity Number	[2] Reimbursable Activity	[3] Employee Classification	[4] Number of Cases	[5] Time Increment (Minutes)	[6] Minutes (cols. [3] * [4])	[7] Hours (cols. [5]/60)	[8] PHR (\$)	Allowable Costs (\$) (cols. [6]*[7])
1a	Taking a police report	Police Officer II	13,807	30.0	414,210	6,903.50	\$ 51.24	\$ 353,735
1b	Reviewing a police report	Sergeant	13,807	5.0	69,035	1,150.58	\$ 67.67	77,860
1	Numbering and making copies of reports	Principle Clerk I	13,807	-	-	-	\$ 36.77	-
2	Beginning an investigation	Detective I	13,807	24.0	331,368	5,522.80	\$ 63.37	349,980
2	Beginning an investigation	Detective III	13,807	6.0	82,842	1,380.70	\$ 74.03	102,213
Total								\$ 883,788

Allowable related employee benefits

The city claimed employee benefit costs totaling \$5,910,532 during the audit period. We determined that \$3,953,602 is allowable and \$1,956,930 is unallowable. The costs are unallowable because the city claimed unallowable salaries during each year of the audit period, and used incorrect (prior-year) benefit rates for its claims.²

Benefit costs are determined by multiplying each year's allowable salary costs by each year's benefit rate. Employee benefits related to the allowable salaries identified above are also allowable. The city provided benefit rates for each job classification that performed the reimbursable activities for each fiscal year in the audit period.

² During audit fieldwork, we noted that the city used the approved benefit rate from the prior year in its Identity Theft Program claims for each year of the audit period.

The U.S. Department of Health and Human Services, the city's federal cognizant agency, approved the benefit rates in the Cost Allocation Plan (CAP) that the city prepared for each year of the audit period. As the federal government approved the city's CAP rates, we did not perform testing to verify the accuracy of benefit rates. We also relied on audit work performed by SCO auditors during an audit of the city's mandated cost claims submitted for the Interagency Child Abuse and Neglect (ICAN) Investigation Reports Program. SCO issued the final audit report, for the period of FY 2002-03 through FY 2011-12, on March 27, 2015.

The following table summarizes the claimed rate, allowable rate, and audit adjustment for related employee benefit costs by fiscal year:

Fiscal Year	Allowable Salaries	Claimed Benefit Rate	Allowable Benefit Rate	Claimed Benefit Costs	Allowable Benefit Costs	Audit Adjustment
2002-03	\$ 554,326	29.96%	28.12%	\$ 267,642	\$ 155,876	\$ (111,766)
2003-04	453,732	28.12%	31.27%	270,273	141,882	(128,391)
2004-05	494,046	31.27%	36.41%	330,155	179,882	(150,273)
2005-06	699,658	36.41%	38.43%	430,814	268,879	(161,935)
2006-07	849,316	38.43%	43.58%	480,963	370,132	(110,831)
2007-08	952,159	43.58%	47.61%	681,700	453,323	(228,377)
2008-09	998,699	47.61%	48.63%	782,125	485,667	(296,458)
2009-10	804,597	48.63%	49.84%	691,833	401,011	(290,822)
2010-11	831,070	49.84%	50.52%	788,898	419,857	(369,041)
2011-12	883,788	50.52%	55.01%	559,735	486,172	(73,563)
2012-13	933,082	55.01%	63.33%	626,394	590,921	(35,473)
Total	\$ 8,454,473			\$ 5,910,532	\$ 3,953,602	\$ (1,956,930)

Allowable related indirect costs

Indirect costs are determined by multiplying each year's indirect cost base by each year's indirect cost rate. The city claimed indirect costs based on salaries only totaling \$10,436,759 during the audit period. We found that \$4,173,847 is allowable and \$6,262,912 is unallowable. The costs are unallowable primarily because the city claimed unallowable salaries during each year of the audit period. In addition, the city misstated its allowable indirect cost rate for each year of the audit period.

Indirect Cost Rates Claimed

In addition to providing support for the city's employee benefit rates, the annual citywide CAP approved by the U.S. Department of Health and Human Services provides support for the city's indirect cost rates during the audit period. The city calculates the sum of the rates indicated on two forms—the Department Administration and Support rate from its approved CAP, and the General City Overhead rate from the State and Local Rate Agreement—to arrive at the claimed rate. The city calculates rates separately for both civilian and sworn employee positions.

As the federal government approved the city's CAP rates, we did not perform any testing to verify the rate calculations.

Issues Noted

For FY 2002-03 through FY 2010-11, the city's indirect cost rates included an additional percentage for LAPD sworn employees assigned to field operations. However, LAPD representatives stated that citizens are required to file identity theft reports at an LAPD police station, where the Officer on duty takes the report from the citizen involved. Therefore, we excluded this additional percentage from the claimed indirect cost rates.

For FY 2007-08, the claimed indirect cost rate was overstated, and did not match the indirect cost rate supported by the March 27, 2015 ICAN audit report. The summary sheet provided by the city for that year shows 34.45% as the Department Administrative Rate. However, the March 27, 2015 ICAN audit report supports a Department Administrative Rate of 3.50% (which is the lowest percentage of the audit period). The city clarified this discrepancy in December 2014 by confirming that the summary sheet was in error, and that 3.50% was the correct Department Administrative Rate for FY 2007-08. Therefore, we adjusted the claimed indirect cost rate for FY 2007-08 from 57.08% to 26.13%.

For the audit period, the city calculated indirect costs based on the salaries for sworn and civilian employees. However, our interviews with LAPD representatives revealed that only sworn employees performed the reimbursable activities for the Identity Theft Program. During audit fieldwork, we also noted that the city used indirect cost rate information from the prior year in its Identity Theft Program claims for FY 2011-12 and FY 2012-13, and claimed the same rate for FY 2009-10 and FY 2010-11 in error.

The following table summarizes by fiscal year the claimed rate, allowable rate, and audit adjustments related to indirect costs for sworn LAPD employees:

Fiscal Year	Claimed Rate	Allowable Rate	Related Indirect Costs		
			Claimed	Allowable	Adjustment
2002-03	70.99%	53.56%	\$ 629,438	\$ 296,897	\$ (332,541)
2003-04	89.41%	61.52%	845,152	279,136	(566,016)
2004-05	96.88%	64.95%	993,662	320,883	(672,779)
2005-06	50.08%	51.67%	583,364	361,513	(221,851)
2006-07	72.36%	44.87%	884,895	381,088	(503,807)
2007-08	83.16%	26.13%	1,280,040	248,799	(1,031,241)
2008-09	88.51%	64.15%	1,433,528	640,665	(792,863)
2009-10	95.05%	71.10%	1,321,696	572,068	(749,628)
2010-11	95.05%	53.67%	1,471,799	446,035	(1,025,764)
2011-12	53.67%	35.94%	586,497	317,633	(268,864)
2012-13	35.94%	33.13%	406,688	309,130	(97,558)
Total			<u>\$ 10,436,759</u>	<u>\$ 4,173,847</u>	<u>\$ (6,262,912)</u>

Criteria

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

Section IV. (Reimbursable Activities) of the parameters and guidelines states:

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. (Reimbursable Activities) of the parameters and guidelines also states:

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

1. Either a) or b) below:
 - a) [Taking] 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. [Beginning] 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.

Section V. A (Claim Preparation and Submission – Direct Cost Reporting) of the parameters and guidelines states:

1. Salaries and benefits

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 (Claim Preparation and Submission – 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.

Recommendation

The California State Legislature suspended the Identity Theft Program in the FY 2013-14 through FY 2021-22 Budget Acts. If the program becomes active again, we recommend that the city:

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

City's Response

We have reviewed the draft report and have no additional comments to add.

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