

CITY OF HAYWARD

Audit Report

CRIME STATISTICS REPORTS FOR THE DEPARTMENT OF JUSTICE PROGRAM

Chapter 1172, Statutes of 1989; Chapter 1338,
Statutes of 1992; Chapter 1230, Statutes of 1993; Chapter 933,
Statutes of 1998; Chapter 571, Statutes of 1999; Chapter 626,
Statutes of 2000; and Chapter 700, Statutes of 2004

July 1, 2001, through June 30, 2012



BETTY T. YEE
California State Controller

April 2020



BETTY T. YEE
California State Controller

April 22, 2020

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Dustin Claussen, Finance Director
City of Hayward
777 B Street
Hayward, CA 94541

Dear Mr. Claussen:

The State Controller's Office (SCO) audited the costs claimed by the City of Hayward for the legislatively mandated Crime Statistics Reports for the Department of Justice Program for the period of July 1, 2001, through June 30, 2012.

The city claimed \$1,289,944 for costs of the mandated program. Our audit found that \$619,415 is allowable; and \$670,529 is unallowable because the city overstated salary costs, benefit costs, and the indirect cost rates. The State made no payments to the city. The State will pay \$619,415, contingent upon available appropriations.

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

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

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/lis

cc: The Honorable Barbara Halliday, Mayor
City of Hayward
Michael Barnes, Revenue Manager
City of Hayward
Toney Chaplin, Chief
Hayward Police Department
Adam Lumia, Senior Management Analyst
Hayward Police Department
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
Steve Pavlov, Finance Budget Analyst
Local Government Unit
California Department of Finance
Debra Morton, Manager
Local Government Programs and Services Division
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Hayward for the legislatively mandated Crime Statistics Reports for the Department of Justice Program for the period of July 1, 2001, through June 30, 2012.

The city claimed \$1,289,944 for costs of the mandated program. Our audit found that \$619,415 is allowable and \$670,529 is unallowable. The costs are unallowable because the city overstated salary costs, benefit costs, and the indirect cost rates. The State made no payments to the city. The State will pay \$619,415, contingent upon available appropriations.

Background

Penal Code (PC) sections 12025 (h)(1) and (h)(3), 12031 (m)(1) and (m)(3), 13014, 13023, and 13730 (a) require local agencies to report information related to certain specified criminal acts to the California Department of Justice (DOJ). These sections were added and/or amended by Chapter 1172, Statutes of 1989; Chapter 1338, Statutes of 1992; Chapter 1230, Statutes of 1993; Chapter 933, Statutes of 1998; Chapter 571, Statutes of 1999; Chapter 626, Statutes of 2000; and Chapter 700, Statutes of 2004.

On June 26, 2008, the Commission on State Mandates (Commission) adopted a statement of decision for the Crime Statistics Reports for the Department of Justice Program. The Commission found that the test claim legislation constitutes a new program or higher level of service and imposes a reimbursable state-mandated program on city and county claimants beginning on July 1, 2001, within the meaning of Article XII B, section 6 of the California Constitution and Government Code (GC) section 17514.

On July 31, 2009, the Commission heard an amended test claim on PC section 13023 (added by Chapter 700, Statutes of 2004), which imposed additional crime reporting requirements. The Commission also found that this test claim legislation constitutes a new program or higher level of service and imposes a reimbursable state-mandated program for city and county claimants beginning on January 1, 2004. On April 10, 2010, the Commission issued a corrected statement of decision to correctly identify the operative and effective date of the reimbursable state-mandated program as January 1, 2005.

The Commission found that the following activities are reimbursable:

- A local government entity responsible for the investigation and prosecution of a homicide case to provide the California Department of Justice with demographic information about the victim and the person or persons charged with the crime, including the victim's and person's age, gender, race, and ethnic background (Penal Code section 13014);
- Local law enforcement agencies to report, in a manner to be prescribed by the Attorney General, any information that may be required relative to any criminal acts or attempted criminal acts to cause physical injury, emotional suffering, or property damage

where there is a reasonable cause to believe that the crime was motivated, in whole or in part, by the victim's race, ethnicity, religion, sexual orientation, or physical or mental disability, or gender or national origin (Penal Code section 13023);

- For district attorneys to report annually on or before June 30, to the Attorney General, on profiles by race, age, gender, and ethnicity any person charged with a felony or misdemeanor under Penal Code section 12025 (carrying a concealed firearm) or section 12031 (carrying a loaded firearm in a public place), and any other offense charged in the same complaint, indictment, or information. The Commission found that this activity is a reimbursable mandate from July 1, 2001, through January 1, 2005. (Penal Code sections 12025(h)(1) and (h)(3), and 12031 (m)(1) and (m)(3));
- For local law enforcement agencies to support all domestic-violence related calls for assistance with a written incident report (Penal Code section 13730(a), Chapter 1230, Statutes of 1993);
- For local law enforcement agency to report the following in a manner to be prescribed by the Attorney General:
 - Any information that may be required relative to hate crimes, as defined in Penal Code section 422.55 as criminal acts committed, in whole or in part, because of one or more of the following perceived characteristics of the victim: (1) disability, (2) gender, (3) nationality, (4) race or ethnicity, (5) religion, (6) sexual orientation; and
 - Any information that may be required relative to hate crimes, defined in Penal Code section 422.55 as criminal acts committed, in whole or in part, because of association with a person or group with one or more of the following actual or perceived characteristics: (1) disability, (2) gender, (3) nationality, (4) race or ethnicity, (5) religion, (6) sexual orientation.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The Commission adopted the parameters and guidelines on September 30, 2010, and amended them on January 24, 2014 to clarify reimbursable costs related to domestic-violence related calls for assistance. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

The objective of our audit was to determine whether costs claimed represent increased costs resulting from the legislatively mandated Crime Statistics Reports for the Department of Justice 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.

The audit period was July 1, 2001, through June 30, 2012.

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. Discussed the claim preparation process with city staff to determine what information was obtained, who obtained it, and how it was used;
- Interviewed city staff to determine what employee classifications were involved in performing the reimbursable activities;
- Traced productive hourly rate (PHR) and benefit calculations for all employee classifications performing the mandated activities to supporting information in the city's payroll system (see Finding 1);
- Assessed whether the average time increments (ATIs) claimed for each fiscal year in the audit period to perform the reimbursable activities were reasonable per the requirements of the program and supported by source documentation (see Finding 1);
- Reviewed and analyzed the claimed domestic violence incident report counts and homicide report counts for consistency and possible exclusions, and verified that counts were supported by the reports that the city submitted to the DOJ (see Finding 1);
- Traced a judgmentally selected non-statistical sample of 239 (20 reports for each year from fiscal year (FY) 2001-02 through FY 2010-11, and 39 reports for FY 2011-12) out of 5,149 domestic violence calls for assistance to written incident reports. Errors found were not projected to the population;
- Verified whether indirect costs claimed for each fiscal year in the audit period were for common or joint purposes and whether indirect cost rates were properly supported and applied (see Finding 2); and
- Reviewed potential sources of offsetting revenues/reimbursements for the audit period. We inquired with city staff, reviewed single audit reports (with accompanying financial statements), and reviewed revenue reports for the audit period for other sources of funding. No errors were noted.

GC sections 12410, 17558.5, and 17561 provide the legal authority to conduct this audit. 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 limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations. 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 costs that were not supported by appropriate source documents and costs that were unreasonable and/or excessive, as quantified in the Schedule and described in the Findings and Recommendations section of this audit report.

For the audit period, the City of Hayward claimed \$1,289,944 for costs of the legislatively mandated Crime Statistics Reports for the Department of Justice Program. Our audit found that \$619,415 is allowable and \$670,529 is unallowable. The State made no payments to the city. The State will pay \$619,415, 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 Crime Statistics Reports for the Department of Justice Program.

**Views of
Responsible
Officials**

We issued a draft audit report on March 9, 2020. Adam Lumia, Senior Management Analyst, responded by email on March 20, 2020, stating that the city does not have a response to the audit findings.

Restricted Use

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

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

April 22, 2020

Schedule—
Summary of Program Costs
July 1, 2001, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Homicide reports	\$ 428	\$ 428	\$ -	
Domestic violence related calls for assistance	40,740	13,010	(27,730)	Finding 1
Total direct costs	41,168	13,438	(27,730)	
Indirect costs	3,148	1,027	(2,121)	Finding 1
Total program costs	<u>\$ 44,316</u>	14,465	<u>\$ (29,851)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 14,465</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Homicide reports	\$ 448	\$ 448	\$ -	
Domestic violence related calls for assistance	68,956	37,577	(31,379)	Finding 1
Total direct costs	69,404	38,025	(31,379)	
Indirect costs	4,164	2,281	(1,883)	Finding 1
Total program costs	<u>\$ 73,568</u>	40,306	<u>\$ (33,262)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 40,306</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Homicide reports	\$ 501	\$ 501	\$ -	
Domestic violence related calls for assistance	95,343	41,709	(53,634)	Finding 1
Total direct costs	95,844	42,210	(53,634)	
Indirect costs	22,525	2,876	(19,649)	Finding 1, 2
Total program costs	<u>\$ 118,369</u>	45,086	<u>\$ (73,283)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 45,086</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Homicide reports	\$ 536	\$ 536	\$ -	
Hate crime reports	67	67	-	
Domestic violence related calls for assistance	177,597	63,864	(113,733)	Finding 1
Total direct costs	178,200	64,467	(113,733)	
Indirect costs	26,089	4,104	(21,985)	Finding 1, 2
Total program costs	<u>\$ 204,289</u>	68,571	<u>\$ (135,718)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 68,571</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Homicide reports	\$ 456	\$ 456	\$ -	
Hate crime reports	114	114	-	
Domestic violence related calls for assistance	101,872	56,959	(44,913)	Finding 1
Total direct costs	102,442	57,529	(44,913)	
Indirect costs	10,600	3,716	(6,884)	Finding 1, 2
Total program costs	<u>\$ 113,042</u>	61,245	<u>\$ (51,797)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 61,245</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Homicide reports	\$ 424	\$ 424	\$ -	
Hate crime reports	106	106	-	
Domestic violence related calls for assistance	103,883	37,980	(65,903)	Finding 1
Total direct costs	104,413	38,510	(65,903)	
Indirect costs	21,102	2,575	(18,527)	Finding 1, 2
Total program costs	<u>\$ 125,515</u>	41,085	<u>\$ (84,430)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 41,085</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Homicide reports	\$ 603	\$ 603	\$ -	
Hate crime reports	151	151	-	
Domestic violence related calls for assistance	107,756	29,109	(78,647)	Finding 1
Total direct costs	108,510	29,863	(78,647)	
Indirect costs	13,125	1,973	(11,152)	Finding 1, 2
Total program costs	<u>\$ 121,635</u>	31,836	<u>\$ (89,799)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 31,836</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Homicide reports	\$ 603	\$ 603	\$ -	
Hate crime reports	151	151	-	
Domestic violence related calls for assistance	88,298	30,685	(57,613)	Finding 1
Total direct costs	89,052	31,439	(57,613)	
Indirect costs	5,332	2,073	(3,259)	Finding 1
Total program costs	<u>\$ 94,384</u>	33,512	<u>\$ (60,872)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 33,512</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Homicide reports	\$ 983	\$ 983	\$ -	
Hate crime reports	246	246	-	
Domestic violence related calls for assistance	109,486	85,232	(24,254)	Finding 1
Total direct costs	110,715	86,461	(24,254)	
Indirect costs	27,192	13,044	(14,148)	Finding 1, 2
Total program costs	<u>\$ 137,907</u>	99,505	<u>\$ (38,402)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 99,505</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Homicide reports	\$ 362	\$ 362	\$ -	
Domestic violence related calls for assistance	128,699	100,704	(27,995)	Finding 1
Total direct costs	129,061	101,066	(27,995)	
Indirect costs	22,637	17,726	(4,911)	Finding 1
Total program costs	<u>\$ 151,698</u>	\$ 118,792	<u>\$ (32,906)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 118,792</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Homicide reports	\$ 652	\$ 652	\$ -	
Hate crime reports	46	46	-	
Domestic violence related calls for assistance	85,485	52,551	(32,934)	Finding 1
Total direct costs	86,183	53,249	(32,934)	
Indirect costs	19,038	11,763	(7,275)	Finding 1
Total program costs	<u>\$ 105,221</u>	\$ 65,012	<u>\$ (40,209)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 65,012</u>		
<u>Summary: July 1, 2001, through June 30, 2012</u>				
Direct costs:				
Homicide reports	\$ 5,996	\$ 5,996	\$ -	
Hate crime reports	881	881	-	
Domestic violence related calls for assistance	1,108,115	549,380	(558,735)	
Total direct costs	1,114,992	556,257	(558,735)	
Indirect costs	174,952	63,158	(111,794)	
Total program costs	<u>\$ 1,289,944</u>	\$ 619,415	<u>\$ (670,529)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 619,415</u>		

¹ See the Findings and Recommendations section.

² Payment amount current as of March 30, 2020.

Findings and Recommendations

FINDING 1— Overstated salary and benefit costs

The city claimed \$1,108,115 in salaries and benefits for the Domestic Violence Related Calls for Assistance cost component. We found that \$549,380 is allowable and \$558,735 is unallowable. Unallowable related indirect costs total \$81,613, for a total finding of \$640,348.

Reimbursable activities for this cost component consist of writing, reviewing, and editing incident reports. The parameters and guidelines require that a written incident report support each domestic violence related call for assistance.

To calculate the claimed salaries and benefits, the city multiplied the number of written incident reports by the ATIs necessary to process a report, then multiplied the resulting hours by a PHR and related benefit rate.

During testing, we found the city overstated the number of domestic violence related calls for assistance, overstated PHRs and benefit rates in some fiscal years, overstated the ATIs used to perform the mandated activities, and overstated related indirect costs. The city overstated these costs because it did not claim costs in accordance with the program's parameters and guidelines or the *State Controller's Office Mandated Cost Manual for Local Agencies*.

The following table summarizes the claimed, allowable, and overstated costs for the Domestic Violence Related Calls for Assistance cost component by fiscal year:

Fiscal Year	Salaries and Benefits			Unallowable Indirect Costs	Total Audit Adjustment
	Amount Claimed	Amount Allowable	Audit Adjustment		
2001-02	\$ 40,740	\$ 13,010	\$ (27,730)	\$ (2,121)	\$ (29,851)
2002-03	68,956	37,577	(31,379)	(1,883)	(33,262)
2003-04	95,343	41,709	(53,634)	(12,605)	(66,239)
2004-05	177,597	63,864	(113,733)	(16,650)	(130,383)
2005-06	101,872	56,959	(44,913)	(4,617)	(49,530)
2006-07	103,883	37,980	(65,903)	(13,197)	(79,100)
2007-08	107,756	29,109	(78,647)	(9,138)	(87,785)
2008-09	88,298	30,685	(57,613)	(3,259)	(60,872)
2009-10	109,486	85,232	(24,254)	(5,957)	(30,211)
2010-11	128,699	100,704	(27,995)	(4,911)	(32,906)
2011-12	85,485	52,551	(32,934)	(7,275)	(40,209)
Total	\$ 1,108,115	\$ 549,380	\$ (558,735)	\$ (81,613)	\$ (640,348)

Incident Reports

The city overstated the number of domestic violence related calls for assistance, which resulted in net overstated salary and benefit costs totaling \$306,036. Unallowable related indirect costs total \$43,709, for a total adjustment of \$349,745.

For the audit period, the city provided the monthly reports to DOJ and summary reports generated from the city's Records Management System (RMS). During our review of the RMS summary reports, we found that the city overstated the number of domestic violence related calls for assistance in most of the fiscal years. The city's overstatement of domestic violence related calls for assistance was a result of claiming unsupported calls that did not result in a written incident report. We recalculated the allowable costs using the supported incident report counts.

The following table summarizes the claimed, allowable, and overstated number of domestic violence related calls for assistance written incident reports:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2001-02	425	169	(256)
2002-03	612	500	(112)
2003-04	768	419	(349)
2004-05	1,335	600	(735)
2005-06	733	545	(188)
2006-07	693	365	(328)
2007-08	659	277	(382)
2008-09	540	259	(281)
2009-10	710	710	-
2010-11	771	756	(15)
2011-12	495	381	(114)
Total	<u>7,741</u>	<u>4,981</u>	<u>(2,760)</u>

The following table summarizes the audit adjustment:

<u>Fiscal Year¹</u>	<u>Salaries and Benefits</u>	<u>Related Indirect Costs</u>	<u>Audit Adjustment</u>
2001-02	\$ (19,560)	\$ (1,496)	\$ (21,056)
2002-03	(10,061)	(603)	(10,664)
2003-04	(34,449)	(8,096)	(42,545)
2004-05	(77,960)	(11,413)	(89,373)
2005-06	(20,800)	(2,152)	(22,952)
2006-07	(39,198)	(7,921)	(47,119)
2007-08	(49,755)	(6,018)	(55,773)
2008-09	(36,547)	(2,189)	(38,736)
2010-11	(1,983)	(348)	(2,331)
2011-12	(15,723)	(3,473)	(19,196)
Total	<u>\$ (306,036)</u>	<u>\$ (43,709)</u>	<u>\$ (349,745)</u>

¹ We identified only the fiscal years that resulted in an audit adjustment.

Average Time Increments

The city overstated the ATIs claimed for Police Department staff members performing the mandated activities, which resulted in net overstated salary and benefit costs totaling \$223,550. Unallowable related indirect costs total \$35,074, for a total adjustment of \$258,624.

For the audit period, the city estimated that it took police officers 90 minutes to write an incident report. The city did not maintain documentation to support the ATIs claimed for Police Department staff members performing the mandated activities. During testing, we interviewed key personnel and performed a walk-through of the city's report-writing process. Based on our interviews with key personnel and a walk-through of the report-writing process, we concluded that it took Police Officers an average of 68 minutes to write an incident report. The city claimed overstated salaries and benefit costs as a result of overstated ATIs. We recalculated the allowable costs based on the allowable ATI.

The following table summarizes the audit adjustment:

Fiscal Year	Salaries and Benefits	Related Indirect Costs	Audit Adjustment
2001-02	\$ (8,170)	\$ (625)	\$ (8,795)
2002-03	(13,881)	(833)	(14,714)
2003-04	(19,185)	(4,509)	(23,694)
2004-05	(35,773)	(5,237)	(41,010)
2005-06	(20,564)	(2,128)	(22,692)
2006-07	(20,970)	(4,238)	(25,208)
2007-08	(21,802)	(2,637)	(24,439)
2008-09	(17,864)	(1,070)	(18,934)
2009-10	(22,118)	(5,432)	(27,550)
2010-11	(26,012)	(4,563)	(30,575)
2011-12	(17,211)	(3,802)	(21,013)
Total	<u>\$ (223,550)</u>	<u>\$ (35,074)</u>	<u>\$ (258,624)</u>

Productive hourly rates

The city overstated the average PHRs claimed for the Police Officer and Sergeant classifications, which resulted in net overstated salary and benefit costs totaling \$20,767. Unallowable related indirect costs total \$2,305, for a total adjustment of \$23,072.

For the audit period, the city calculated average PHRs for the Police Officer and Sergeant classifications using salaries for all officers in each classification. Based on our review of the source documentation provided, we found that the city overstated the PHRs in four fiscal years. The PHRs for FY 2002-03, FY 2005-06, and FY 2007-09 were calculated using the subsequent year's salary schedule (i.e. the FY 2002-03 PHR was calculated using the FY 2003-04 salary schedule), which resulted in overstated PHRs. The salary rates that were used to calculate the PHR for FY 2006-07 were not supported by the city's records. The city overstated the claimed salaries and benefit costs as a result of overstated PHRs. We recalculated the unallowable costs based on the allowable PHRs.

The following table summarizes the audit adjustment:

<u>Fiscal Year¹</u>	<u>Salaries and Benefits</u>	<u>Related Indirect Costs</u>	<u>Audit Adjustment</u>
2002-03	\$ (7,437)	\$ (447)	\$ (7,884)
2005-06	(3,549)	(337)	(3,886)
2006-07	(5,735)	(1,038)	(6,773)
2007-08	<u>(4,046)</u>	<u>(483)</u>	<u>(4,529)</u>
Total	<u>\$ (20,767)</u>	<u>\$ (2,305)</u>	<u>\$ (23,072)</u>

¹ We identified only the fiscal years that resulted in an audit adjustment.

Benefit Rates

The city overstated the benefit costs claimed in FY 2007-08 through FY 2009-10, totaling \$8,382. The city calculated the benefit rates by dividing the total departmental benefit costs by the total departmental salaries identified in the Police Department's expenditure reports. The city did not provide the department's expenditure reports for FY 2001-02 through FY 2009-10 because the information was purged when the city migrated to a new financial reporting system. Instead, the city provided the Approved Operating Budgets for FY 2001-02 through FY 2009-10, which included the budget for the Police Department. These documents identify the estimated expenditures for current fiscal years and the actual expenditures for prior fiscal years. We recalculated the benefit rates using the information provided and found that the benefit rates were overstated in FY 2007-08 through FY 2009-10, which resulted in overstated benefit costs.

The following table summarizes the audit adjustment:

<u>Fiscal Year¹</u>	<u>Benefit Costs</u>	<u>Related Indirect Costs²</u>	<u>Audit Adjustment</u>
2007-08	\$ (3,044)	-	\$ (3,044)
2008-09	(3,202)	-	(3,202)
2009-10	<u>(2,136)</u>	<u>(525)</u>	<u>(2,661)</u>
Total	<u>\$ (8,382)</u>	<u>\$ (525)</u>	<u>\$ (8,907)</u>

¹ We identified only the fiscal years that resulted in an audit adjustment.

² An indirect cost rate was applied to salaries and benefits for FY 2009-10; therefore, we calculated related indirect costs.

Criteria

Section IV of the parameters and guidelines states, in part:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities....The claimant is only allowed to claim and be

reimbursed for increased costs for reimbursable activities. Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate.

Section IV – Ongoing Activities, subsection D, allows ongoing activities related to costs associated with supporting domestic violence related calls for assistance with a written incident report, and reviewing and editing the report.

Section V of the parameters and guidelines states that cost elements must be identified for the reimbursable activities identified in section IV of the parameters and guidelines. Each reimbursable cost must be supported by source documentation. For salary and benefit costs, claimants are to report each employee implementing the reimbursable activities by name, job classification, and PHR.

Recommendation

The Crime Statistics Reports for the Department of Justice Program was suspended in the FY 2012-13 through FY 2019-20 Budget Acts. If the program becomes active again, we recommend that the city:

- Follow the mandated program claiming instructions and parameters and guidelines when claiming reimbursement for mandated costs;
- Claim costs based on the actual time increment required to perform the mandated cost activities, or use a valid time study;
- Claim costs based on the number of domestic violence related calls for assistance that are supported with a written report; and
- Calculate PHRs and benefit rates based on the employee classification that perform the mandated activities using the documentation for the corresponding fiscal year.

City's Response

The city did not respond to this audit finding.

FINDING 2— Overstated indirect cost rates

The city was unable to support the indirect cost rates for FY 2003-04 through FY 2007-08 and for FY 2009-10, which resulted in overstated indirect costs totaling \$30,181.

During testing, we found that the expenses included in the city's indirect cost rate proposals (ICRPs) did not reconcile to the expenditure reports. Based on our discussions with city staff, we found that the city was unable to provide the expenditure reports for FY 2001-02 through FY 2009-10 because the information was purged when the city migrated to a new Financial Reporting System. Therefore, we were unable to verify the costs and the allocations to direct and indirect.

The parameters and guidelines allow a standard 10% indirect cost rate to be applied to direct salaries when an ICRP is not calculated or supported. Therefore, we allowed the 10% indirect cost rate for FY 2003-04 through FY 2007-08, and for FY 2009-10. For FY 2001-02, we made no

adjustment because the city claimed 10.30% and for FY 2002-03 the claimed rate fell below the 10% allowable rate. We also made no adjustment to FY 2008-09 because the city claimed the standard 10% indirect cost rate.

For FY 2003-04 through FY 2007-08 and for FY 2009-10, we calculated an error rate and applied the error rate to allowable salaries. We found that the city overstated indirect costs by \$30,181.

The following tables summarizes the adjustment to the city's indirect cost:

	Fiscal Year ¹						Total
	2003-04	2004-05	2005-06	2006-07	2007-08	2009-10	
Allowable indirect cost rate	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Claimed indirect cost rate	(34.5)%	(23.0)%	(16.1)%	(30.7)%	(20.2)%	(24.6)%	
Error Rate	(24.5)%	(13.0)%	(6.1)%	(20.7)%	(10.2)%	(14.6)%	
Allowable salaries	28,753	41,035	37,161	25,748	19,742	56,256	
Audit adjustment	\$ (7,044)	\$ (5,335)	\$ (2,267)	\$ (5,330)	\$ (2,014)	\$ (8,191)	\$ (30,181)

¹ We included only the fiscal years that resulted in an audit adjustment.

Criteria

Section IV of the parameters and guidelines states, "Actual Costs must be traceable and supported by source documents that show the validity of such costs."

Title 2, Code of Federal Regulations, Part 225 (OMB Circular A-87) provides claimants with the option of using 10% of labor, excluding fringe benefits, or preparing the indirect cost rate proposal if the indirect cost rate claimed exceeds 10%.

Recommendation

The Crime Statistics Reports for the Department of Justice Program was suspended in the FY 2012-13 through FY 2019-20 Budget Acts. If the program becomes active again, we recommend that the city ensure that:

- Audited expenditure reports are used to calculate its ICRPs; and
- All indirect salaries included in the indirect cost pool are supported by city records and only the related benefit costs are included in the indirect cost pool.

City's Response

The city did not respond to this audit finding.

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