



MALIA M. COHEN
California State Controller

May 19, 2023

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Sydney Harris, Director of Finance
Town of Apple Valley
14955 Dale Evans Parkway
Apple Valley, CA 92307

Dear Ms. Harris:

The State Controller's Office reviewed costs claimed by the Town of Apple Valley for the legislatively mandated Identity Theft Program (Chapter 956, Statutes of 2000) for the period of July 1, 2002, through June 30, 2013. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to confirming that the town reported the correct number of identity theft police reports taken on a violation of Penal Code section 530.5, calculated its contract hourly rates correctly, and validated the indirect costs claimed.

The town claimed \$142,798 for costs of the mandated program. Our review found that \$75,675 is allowable (\$77,045 less a \$1,370 penalty for filing late claims) and \$67,123 is unallowable. The costs are unallowable because the town claimed unallowable indirect costs, as described in the attached Summary of Program Costs and the Review Results. The State made no payments to the town. The State will pay \$75,675, contingent upon available appropriations.

Following issuance of this report, the Local Government Program and Services Division of the State Controller's Office will notify the town of the adjustment to its claims via a system-generated letter for each fiscal year of the review period.

This final letter report contains an adjustment to costs claimed by the town. If you disagree with the review finding, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission). Pursuant to the Commission's regulations, outlined in Title 2, California Code of Regulations, section 1185.1, subdivision (c), an IRC challenging this adjustment must be filed with the Commission no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. IRC information is available on the Commission's website at www.csm.ca.gov/forms/IRCForm.pdf.

MAILING ADDRESS P.O. Box 942850, Sacramento, CA 94250

SACRAMENTO 3301 C Street, Suite 700, Sacramento, CA 95816 (916) 324-8907

LOS ANGELES 901 Corporate Center Drive, Suite 200, Monterey Park, CA 91754 (323) 981-6802

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/ac

Attachments

RE: S23-MCC-9002

cc: The Honorable Scott Nassif, Mayor
Town of Apple Valley
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
Ted Doan, Finance Budget Analyst
Local Government Unit
California Department of Finance
Darryl Mar, Manager
Local Government Programs and Services Division
State Controller's Office
Everett Luc, Supervisor
Local Government Programs and Services Division
State Controller's Office

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

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of Penal Code (PC) §530.5	\$ 4,154	\$ -	\$ (4,154)
Beginning an investigation of the facts	246	-	(246)
Total salaries	4,400	-	(4,400)
Contract services			
Taking a police report on a violation of PC §530.5	-	4,582	4,582
Beginning an investigation of the facts	-	-	-
Total contract services	-	4,582	4,582
Total direct costs	4,400	4,582	182
Indirect costs	3,842	-	(3,842)
Total direct and indirect costs	8,242	4,582	(3,660)
Less late filing penalty ²	-	(156)	(156)
Total program costs	\$ 8,242	4,426	\$ (3,816)
Less amount paid by the state ³		-	
Allowable costs claimed in excess of amount paid		\$ 4,426	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 5,036	\$ -	\$ (5,036)
Beginning an investigation of the facts	297	-	(297)
Total salaries	5,333	-	(5,333)
Contract services			
Taking a police report on a violation of PC §530.5	-	5,376	5,376
Beginning an investigation of the facts	-	276	276
Total contract services	-	5,652	5,652
Total direct costs	5,333	5,652	319
Indirect costs	5,349	-	(5,349)
Total direct and indirect costs	10,682	5,652	(5,030)
Less late filing penalty ²	-	(105)	(105)
Total program costs	\$ 10,682	5,547	\$ (5,135)
Less amount paid by the state ³		-	
Allowable costs claimed in excess of amount paid		\$ 5,547	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 5,392	\$ -	\$ (5,392)
Beginning an investigation of the facts	318	-	(318)
Total salaries	<u>5,710</u>	<u>-</u>	<u>(5,710)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	5,659	5,659
Beginning an investigation of the facts	-	295	295
Total contract services	<u>-</u>	<u>5,954</u>	<u>5,954</u>
Total direct costs	5,710	5,954	244
Indirect costs	<u>5,722</u>	<u>-</u>	<u>(5,722)</u>
Total direct and indirect costs	11,432	5,954	(5,478)
Less late filing penalty ²	<u>-</u>	<u>(72)</u>	<u>(72)</u>
Total program costs	<u>\$ 11,432</u>	5,882	<u>\$ (5,550)</u>
Less amount paid by the state ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 5,882</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 6,848	\$ -	\$ (6,848)
Beginning an investigation of the facts	409	-	(409)
Total salaries	<u>7,257</u>	<u>-</u>	<u>(7,257)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	7,445	7,445
Beginning an investigation of the facts	-	386	386
Total contract services	<u>-</u>	<u>7,831</u>	<u>7,831</u>
Total direct costs	7,257	7,831	574
Indirect costs	<u>6,748</u>	<u>-</u>	<u>(6,748)</u>
Total direct and indirect costs	14,005	7,831	(6,174)
Less late filing penalty ²	<u>-</u>	<u>(185)</u>	<u>(185)</u>
Total program costs	<u>\$ 14,005</u>	7,646	<u>\$ (6,359)</u>
Less amount paid by the state ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 7,646</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 7,374	\$ -	\$ (7,374)
Beginning an investigation of the facts	441	-	(441)
Total salaries	<u>7,815</u>	<u>-</u>	<u>(7,815)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	7,701	7,701
Beginning an investigation of the facts	-	400	400
Total contract services	<u>-</u>	<u>8,101</u>	<u>8,101</u>
Total direct costs	7,815	8,101	286
Indirect costs	<u>7,191</u>	<u>-</u>	<u>(7,191)</u>
Total direct and indirect costs	15,006	8,101	(6,905)
Less late filing penalty ²	<u>-</u>	<u>(172)</u>	<u>(172)</u>
Total program costs	<u>\$ 15,006</u>	7,929	<u>\$ (7,077)</u>
Less amount paid by the state ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 7,929</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 8,611	\$ -	\$ (8,611)
Beginning an investigation of the facts	516	-	(516)
Total salaries	<u>9,127</u>	<u>-</u>	<u>(9,127)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	9,166	9,166
Beginning an investigation of the facts	-	475	475
Total contract services	<u>-</u>	<u>9,641</u>	<u>9,641</u>
Total direct costs	9,127	9,641	514
Indirect costs	<u>9,191</u>	<u>-</u>	<u>(9,191)</u>
Total direct and indirect costs	18,318	9,641	(8,677)
Less late filing penalty ²	<u>-</u>	<u>(146)</u>	<u>(146)</u>
Total program costs	<u>\$ 18,318</u>	9,495	<u>\$ (8,823)</u>
Less amount paid by the state ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 9,495</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 7,214	\$ -	\$ (7,214)
Beginning an investigation of the facts	440	-	(440)
Total salaries	<u>7,654</u>	<u>-</u>	<u>(7,654)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	7,733	7,733
Beginning an investigation of the facts	-	403	403
Total contract services	<u>-</u>	<u>8,136</u>	<u>8,136</u>
Total direct costs	7,654	8,136	482
Indirect costs	<u>7,432</u>	<u>-</u>	<u>(7,432)</u>
Total direct and indirect costs	15,086	8,136	(6,950)
Less late filing penalty ²	-	(275)	(275)
Total program costs	<u>\$ 15,086</u>	7,861	<u>\$ (7,225)</u>
Less amount paid by the state ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 7,861</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 4,547	\$ -	\$ (4,547)
Beginning an investigation of the facts	277	-	(277)
Total salaries	<u>4,824</u>	<u>-</u>	<u>(4,824)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	4,832	4,832
Beginning an investigation of the facts	-	251	251
Total contract services	<u>-</u>	<u>5,083</u>	<u>5,083</u>
Total direct costs	4,824	5,083	259
Indirect costs	<u>4,776</u>	<u>-</u>	<u>(4,776)</u>
Total direct and indirect costs	9,600	5,083	(4,517)
Less late filing penalty ²	-	(102)	(102)
Total program costs	<u>\$ 9,600</u>	4,981	<u>\$ (4,619)</u>
Less amount paid by the state ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 4,981</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 6,311	\$ -	\$ (6,311)
Beginning an investigation of the facts	388	-	(388)
Total salaries	<u>6,699</u>	<u>-</u>	<u>(6,699)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	6,542	6,542
Beginning an investigation of the facts	-	342	342
Total contract services	<u>-</u>	<u>6,884</u>	<u>6,884</u>
Total direct costs	6,699	6,884	185
Indirect costs	<u>6,009</u>	<u>-</u>	<u>(6,009)</u>
Total direct and indirect costs	12,708	6,884	(5,824)
Less late filing penalty ²	<u>-</u>	<u>(157)</u>	<u>(157)</u>
Total program costs	<u>\$ 12,708</u>	6,727	<u>\$ (5,981)</u>
Less amount paid by the state ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 6,727</u>	
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 6,130	\$ -	\$ (6,130)
Beginning an investigation of the facts	-	-	-
Total salaries	<u>6,130</u>	<u>-</u>	<u>(6,130)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	6,579	6,579
Beginning an investigation of the facts	-	-	-
Total contract services	<u>-</u>	<u>6,579</u>	<u>6,579</u>
Total direct costs	6,130	6,579	449
Indirect costs	<u>5,455</u>	<u>-</u>	<u>(5,455)</u>
Total program costs	<u>\$ 11,585</u>	6,579	<u>\$ (5,006)</u>
Less amount paid by the state ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 6,579</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2012, through June 30, 2013</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 8,261	\$ -	\$ (8,261)
Beginning an investigation of the facts	-	-	-
Total salaries	<u>8,261</u>	<u>-</u>	<u>(8,261)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	8,602	8,602
Beginning an investigation of the facts	-	-	-
Total contract services	<u>-</u>	<u>8,602</u>	<u>8,602</u>
Total direct costs	8,261	8,602	341
Indirect costs	<u>7,873</u>	<u>-</u>	<u>(7,873)</u>
Total program costs	<u>\$ 16,134</u>	8,602	<u>\$ (7,532)</u>
Less amount paid by the state ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 8,602</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>Summary: July 1, 2002, through June 30, 2013</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 69,878	\$ -	\$ (69,878)
Beginning an investigation of the facts	3,332	-	(3,332)
Total salaries	<u>73,210</u>	<u>-</u>	<u>(73,210)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	74,217	74,217
Beginning an investigation of the facts	-	2,828	2,828
Total contract services	<u>-</u>	<u>77,045</u>	<u>77,045</u>
Total direct costs	73,210	77,045	3,835
Indirect costs	<u>69,588</u>	<u>-</u>	<u>(69,588)</u>
Total direct and indirect costs	142,798	77,045	(65,753)
Less late filing penalty ²	<u>-</u>	<u>(1,370)</u>	<u>(1,370)</u>
Total program costs	<u>\$ 142,798</u>	75,675	<u>\$ (67,123)</u>
Less amount paid by the state ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 75,675</u>	

¹ See the Finding and Recommendation section

² The town filed its claims by the due date specified in Government Code section 17560 and amended them after the due date. The fiscal year (FY) 2002-03 claim of \$3,020 was amended to \$8,242; the FY 2003-04 claim of \$4,601 was amended to \$10,682; FY 2004-05 claim of \$5,233 was amended to \$11,432; the FY 2005-06 claim of \$5,982 was amended to \$14,005; the FY 2006-07 claim of \$6,384 was amended to \$15,006; the FY 2007-08 claim of \$8,179 was amended to \$18,318; the FY 2008-09 claim of \$5,389 was amended to \$15,086; the FY 2009-10 claim of \$4,061 was amended to \$9,600; and the FY 2010-11 claim of \$5,316 was amended to \$12,708. Pursuant to Government Code section 17568, the State assessed a late filing penalty equal to 10% of allowable costs that exceed the timely filed claim amount, not to exceed \$10,000 (for claims amended on or after August 24, 2007).

³ Payment amount current as of March 7, 2023.

Attachment— Review Results July 1, 2002, through June 30, 2013

BACKGROUND—

Penal Code (PC) section 530.6(a), as added by the Statutes of 2000, Chapter 956, requires a local law enforcement agency to take a police report and begin an investigation when a complainant residing within its jurisdiction reports suspected identity theft.

On March 27, 2009, the Commission on State Mandates (Commission) found that this legislation mandates a new program or higher level of service for local law enforcement agencies within the meaning of Article XIII B, section 6 of the California Constitution, and imposes costs mandated by the State pursuant to Government Code (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.

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

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

**FINDING—
Overstated Identity
Theft Program costs**

The Town of Apple Valley claimed \$142,798 (\$73,210 in salary costs and \$69,588 in related indirect costs) for the Identity Theft Program. We found that \$77,045 is allowable and \$65,753 is unallowable.¹ The costs are unallowable because the town claimed unallowable indirect costs.

The town 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 town's contract with the San Bernardino County Sheriff's Department (SBCSD). The SBCSD's contracts included costs for salaries and benefits, as well as additional administrative costs.

However, the town should have classified its salary costs as contract services costs because no town staff members performed the reimbursable activities. The town contracted with San Bernardino County to have the SBCSD perform all of its law enforcement services during the review period. Therefore, the town did not incur any salary costs—or indirect costs related to salary costs—but rather incurred contract services costs. We reallocated the costs to the appropriate cost category of Contract Services.

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

Fiscal Year	Amount Claimed	Salaries		(A)	(B)	(C)	(D)=(A)+(B)+(C)
		Amount Allowable	Audit Adjustment	Related Indirect Cost Adjustment	Contract Services Adjustment	Total Audit Adjustment	
2002-03	\$ 4,400	\$ -	\$ (4,400)	\$ (3,842)	\$ 4,582	\$ (3,660)	
2003-04	5,333	-	(5,333)	(5,349)	5,652	(5,030)	
2004-05	5,710	-	(5,710)	(5,722)	5,954	(5,478)	
2005-06	7,257	-	(7,257)	(6,748)	7,831	(6,174)	
2006-07	7,815	-	(7,815)	(7,191)	8,101	(6,905)	
2007-08	9,127	-	(9,127)	(9,191)	9,641	(8,677)	
2008-09	7,654	-	(7,654)	(7,432)	8,136	(6,950)	
2009-10	4,824	-	(4,824)	(4,776)	5,083	(4,517)	
2010-11	6,699	-	(6,699)	(6,009)	6,884	(5,824)	
2011-12	6,130	-	(6,130)	(5,455)	6,579	(5,006)	
2012-13	8,261	-	(8,261)	(7,873)	8,602	(7,532)	
Total	\$ 73,210	\$ -	\$ (73,210)	\$ (69,588)	\$ 77,045	\$ (65,753)	

Contract Services Costs

The town contracted with San Bernardino County to have the SBCSD provide all of its law enforcement services during the review period. These services included the reimbursable activities claimed for the mandated

¹ Our review found that \$65,753 in claimed costs is unallowable and \$77,045 is allowable. The town filed amended claims for fiscal year (FY) 2002-03 through FY 2010-11; however, it filed all its amended claims after the filing deadline specified in the *Mandated Cost Manual*. Late claims, amended or otherwise, are subject to late filing penalties pursuant to GC section 17568. We calculated late filing penalties based on 10% of the difference between allowable costs and the originally claimed amount for FY 2002-03 through FY 2010-11, not to exceed \$10,000 per fiscal year.

Therefore, allowable costs for the review period total \$75,675 (\$77,045 less \$1,370 in late filing penalties).

program. The town contracted for various SBCSD staff positions each fiscal year, and paid the SBCSD annual contract rates for the positions. These positions included, but were not limited to, Deputy Sheriffs, Sheriff's Service Specialists, Sergeants, and Detectives. No town staff members performed any of the reimbursable activities under this program; therefore, the town 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 town stated in its claims that it took 1,131 identity theft incident reports during the review period. We found that the town understated the number of reports taken by five, and that allowable reports totaled 1,136 reports.

For each fiscal year, the SBCSD provided Excel spreadsheets generated from its Computer-aided dispatch system to support the claimed number of initial police reports on 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 entities that contracted with the county for law enforcement services. The spreadsheets supported 1,136 identity theft incident reports filed for the Town of Apple Valley during the review period.

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

Fiscal Year	(A)	(B)	(C)=(B)-(A)
	Claimed Reports	Allowable Reports	Review Adjustment
2002-03	92	94	2
2003-04	104	104	-
2004-05	100	101	1
2005-06	116	120	4
2006-07	117	116	(1)
2007-08	128	130	2
2008-09	107	108	1
2009-10	69	69	-
2010-11	89	87	(2)
2011-12	91	92	1
2012-13	118	115	(3)
Total	<u>1,131</u>	<u>1,136</u>	<u>5</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” a police report.

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 town claimed the following time increments for Activity 1a.1 during the review period:

- 44.80 minutes for a Deputy Sheriff for FY 2002-03 through FY 2010-11,
- 38.40 minutes for a Deputy Sheriff for FY 2011-12 through FY 2012-13,
- Six minutes for a Sheriff’s Service Specialist for FY 2002-03 through FY 2010-11, and
- Eight minutes for a Sheriff’s Service Specialist for FY 2011-12 through FY 2012-13.

The town claimed seven minutes for a Sergeant to perform Activity 1a.2 during the review period.

The town claimed 2.70 minutes for a Detective to perform Activity 2 for FY 2002-03 through FY 2010-11. The town did not claim any time to perform Activity 2 for FY 2011-12 and FY 2012-13.

We determined that the time increments are allowable as claimed.

Contract Hourly Rates

The town’s claims included copies of the annual contracts that it negotiated with the SBCSD for each year of the review period. Each contract specifies the level of service provided to the town, indicating the number of employees (the *level of service*) in various law enforcement classifications and the county’s cost for providing these employees. The county uses this contract to indicate the authorized SBCSD staffing level for each year of the review period.

We used this information to determine the contract hourly billing rates for various employee classifications by using the total contract cost for each employee classification divided by the number of personnel that the county provided. For example, the town’s contract for FY 2012-13 indicates that 37 Deputy Sheriffs and seven Sergeants provided law enforcement for the town during the year.

The following table shows the contract hourly rate calculation for Deputy Sheriffs and Sergeants during FY 2012-13:

Employee Classification	Annual Cost	Level of Service	Cost per Employee	Productive Hours	Hourly Rate
Deputy Sheriff	\$ 5,488,591	37.00	\$ 148,340	1,800	\$ 82.41
Sergeant	1,312,529	7.00	187,504	1,800	\$ 104.17

As a result of recalculating contract hourly rates, we determined that the town used 1,800 annual productive hours for all SBCSD employees in its claims for all years of the review period, as specified in the SCO's *Mandated Cost Manual*.

The SCO's *Mandated Cost Manual* states that the cost of contract services is allowable. Costs for contract services can be claimed using an hourly billing rate. However, 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 who performs reimbursable activities by 1,800 annual productive hours. However, this approach does not allow claimants to recover any additional contract costs, such as administrative costs, that could be reimbursable.

For additional guidance, we reviewed law enforcement contracts for cities contracting with Los Angeles County. We noted that the county's billing rates also included costs for various employee classifications. However, the total costs for those classifications included salaries and benefits plus an additional "liability percentage" which was added to the contract hourly rate at a specific percentage amount. It is our understanding that this liability percentage covers costs for administrative items, such as various forms of insurance and amounts for central services costs. Although we audited a number of the contracting cities, we did not audit these billing rates.

San Bernardino County does not structure its contracts the same way as Los Angeles County. Instead, San Bernardino County 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 city to claim its administrative costs as an addition to the contract hourly rate for employee classifications included in its contracts with the SBCSD.

We calculated an administrative cost percentage for each fiscal year of the review period based on the town'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 (all years except for FY 2004-05)

- Personnel liability and bonding
- County administrative costs (countywide cost allocation plan [COWCAP])
- COWCAP subsidy (FY 2012-13 only)
- Telephone reporting unit (FY 2002-03 and FY 2003-04 only), and
- Startup costs (FY 2002-03 and FY 2004-05 through FY 2008-09 only).

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

Fiscal Year	Allowable Administrative Percentage
2002-03	7.86%
2003-04	6.67%
2004-05	5.30%
2005-06	5.02%
2006-07	5.26%
2007-08	5.86%
2008-09	6.11%
2009-10	6.19%
2010-11	5.97%
2011-12	6.13%
2012-13	6.80%

As previously mentioned, we added all of the items within each contract 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 2012-13:

Cost Category	Contract Amount
Administrative support	\$ 43,470
Office automation	38,785
Services and supplies	75,600
Vehicle insurance	33,508
Personnel liability & bonding	152,594
Countywide administrative cost (COWCAP)	480,798
COWCAP subsidy (one-time)	(96,160)
Total administrative costs	\$ 728,595
Divided by total contract amount	<u>10,718,888</u>
Administrative cost percentage	<u>6.80%</u>

Therefore, claimed hourly rates for Deputy Sheriffs, Sheriff’s Service Specialists, and Sergeants increased as follows for FY 2012-13:

Employee Classification	Hourly Rate	Administrative Percentage	Revised Rate
Deputy Sheriff	\$ 82.41	6.80%	\$ 88.01
Sheriff Service Specialists	\$ 38.34	6.80%	\$ 40.95
Sergeant	\$ 104.17	6.80%	\$ 111.25

To calculate the average contract hourly rate for each fiscal year, we divided the annual unit cost for the Deputy Sheriff classification by the 1,800 annual productive hours per service unit, and multiplied the product by the appropriate administrative cost percentage. We applied a similar calculation to the Sheriff’s Service Specialists, Sergeants, and Detectives.

While performing these calculations, we noted the following errors:

- For FY 2002-03, the town’s annual contracts did not include positions at the Detective level, but the town claimed costs for Detectives.
- For FY 2003-04 through FY 2010-11, the town used the annual unit cost of the Sergeant classification to calculate contract hourly rates for Detectives.
- For FY 2004-05 and FY 2007-08, the town overstated contract hourly rates for the Sheriff’s Service Specialist classification.

The following table summarizes the claimed and allowable contract hourly rates for Deputy Sheriffs and Sheriff’s Service Specialists during the review period, and the difference between those rates:

Fiscal Year	Deputy Sheriff			Fiscal Year	Sheriff’s Service Specialist		
	Claimed Hourly Rate	Allowable Hourly Rate	Rate Difference		Claimed Hourly Rate	Allowable Hourly Rate	Rate Difference
2002-03	\$ 47.72	\$ 51.47	\$ 3.75	2002-03	\$ 25.81	\$ 27.84	\$ 2.03
2003-04	51.14	54.55	3.41	2003-04	28.25	30.13	1.88
2004-05	56.09	59.06	2.97	2004-05	37.82	31.86	(5.96)
2005-06	62.39	65.52	3.13	2005-06	33.13	34.79	1.66
2006-07	66.65	70.16	3.51	2006-07	34.80	36.63	1.83
2007-08	70.31	74.43	4.12	2007-08	43.34	38.24	(5.10)
2008-09	71.31	75.67	4.36	2008-09	35.18	37.33	2.15
2009-10	69.60	73.92	4.32	2009-10	34.87	37.03	2.16
2010-11	75.03	79.51	4.48	2010-11	35.73	37.86	2.13
2011-12	78.98	83.82	4.84	2011-12	37.16	39.44	2.28
2012-13	82.41	88.01	5.60	2012-13	38.34	40.95	2.61

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

Fiscal Year	Sergeant		Rate Difference
	Claimed Hourly Rate	Allowable Hourly Rate	
2002-03	\$ 59.50	\$ 64.18	\$ 4.68
2003-04	63.52	67.76	4.24
2004-05	70.77	74.52	3.75
2005-06	78.31	82.24	3.93
2006-07	83.83	88.24	4.41
2007-08	89.52	94.77	5.25
2008-09	91.35	96.93	5.58
2009-10	89.44	94.98	5.54
2010-11	96.99	102.78	5.79
2011-12	101.63	107.86	6.23
2012-13	104.17	111.25	7.08

The following table summarizes the claimed and allowable contract hourly rates for Detectives during the review period, and the difference between those rates:

Fiscal Year	Detective		Rate Difference
	Claimed Hourly Rate	Allowable Hourly Rate	
2002-03	\$ 59.50	\$ -	\$ (59.50)
2003-04	63.52	58.92	(4.60)
2004-05	70.77	64.85	(5.92)
2005-06	78.31	71.54	(6.77)
2006-07	83.83	76.61	(7.22)
2007-08	89.52	81.28	(8.24)
2008-09	91.35	82.84	(8.51)
2009-10	89.44	80.75	(8.69)
2010-11	96.99	87.19	(9.80)

For each fiscal year of the review period, we calculated allowable contract services costs based on the allowable counts of PC section 530.5 identity theft reports, claimed time increments, and allowable contract hourly rates.

For example, the following table shows the calculation of allowable contract services costs for FY 2007-08:

Reimbursable Activity	SBCSD Staff	(A)	(B)	(C)	(D)=(A)×(B)×(C)
		Total Allowable Reports	Allowable Time Increment (in hours)	Allowable Contract Hourly Rate	Allowable Costs
1a.1	Deputy Sheriff	130	0.747	\$ 74.43	\$ 7,228
1a.1	Sheriff's Service Specialist	130	0.100	\$ 38.24	497
1a.2	Sergeant	130	0.117	\$ 94.77	1,441
2	Detective	130	0.045	\$ 81.28	475
Total allowable contract services costs					\$ 9,641

Indirect Costs

For all fiscal years of the review period, the town included copies of its Indirect Cost Rate Proposals with its mandated cost claims. The town claimed related indirect costs totaling \$69,588 for the review period based on \$73,210 in claimed salaries. We found that the entire amount is unallowable, because no town staff member performed any of the reimbursable activities under this program during the review period. Instead, the town contracted with the county to have the SBCSD perform all of its law enforcement services during the review period. Therefore, the town did not incur any direct salary costs or related indirect costs.

However, the town calculated its indirect costs based on claimed salary and wage costs related to implementing the Identity Theft Program. As the town incurred contract services costs instead of salary and wage costs, there are no related indirect costs.

Furthermore, none of the costs that the town 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 town departments.

The following table summarizes the claimed, allowable, and review 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 Allowed	Audit Adjustment
2002-03	\$ 4,400	87.30%	\$ 3,842	\$ -	\$ (3,842)
2003-04	5,333	100.30%	5,349	-	(5,349)
2004-05	5,710	100.20%	5,722	-	(5,722)
2005-06	7,257	93.00%	6,749	-	(6,749)
2006-07	7,815	92.00%	7,190	-	(7,190)
2007-08	9,127	100.70%	9,191	-	(9,191)
2008-09	7,654	97.10%	7,432	-	(7,432)
2009-10	4,824	99.00%	4,776	-	(4,776)
2010-11	6,699	89.70%	6,009	-	(6,009)
2011-12	6,130	89.00%	5,455	-	(5,455)
2012-13	8,261	95.30%	7,873	-	(7,873)
Total	\$ 73,210		\$ 69,588	\$ -	\$ (69,588)

¹ Differences are due to rounding errors.

Criteria

Item 1 of Section III, “Period of Reimbursement,” of the parameters and guidelines states, “Actual costs for one fiscal year shall be included in each claim.”

Section IV, “Reimbursable Activities,” of the parameters and guidelines begins:

To be eligible for mandated cost reimbursement for any given fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable to and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheet, invoices, and receipts.

Section IV continues:

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

1. Either a) or b) below:
 - a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or
 - b) Reviewing the identity theft report completed on-line by the identity theft victim.
2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.

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

Referring the matter to the law enforcement agency where the suspected crime was committed for further investigation of the facts is also not reimbursable under this program.

Section V.A.1, “Salaries and Benefits,” of the parameters and guidelines states:

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to these activities.

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

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

Part 7.3, “Contract Services” of the “Filing a Claim” section of the SCO’s *Mandated Cost Manual*, dated July 1, 2013 states:

The cost of contract services is allowable if the local agency lacks the staff resources or necessary expertise, or it is economically feasible to hire a contractor to perform the mandated activity. The claimant must keep documentation on hand to support the name of the contractor, explain the reason for having to hire a contractor, describe the mandated activities performed, give the dates when the activities were performed, the number of hours spent performing the mandate, the hourly billing rate, and the total cost. The hourly billing rate must not exceed the rate specified in the P’s & G’s 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 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 town:

- 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.