

CITY OF PALMDALE

Audit Report

IDENTITY THEFT PROGRAM

Chapter 956, Statutes of 2000

July 1, 2002, through June 30, 2013



BETTY T. YEE
California State Controller

June 2022



BETTY T. YEE
California State Controller

June 22, 2022

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Keith Kang, CPA
Finance Manager/City Treasurer
City of Palmdale
38300 Sierra Highway, Suite D
Palmdale, CA 93550

Dear Mr. Kang:

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

The city claimed \$578,186 for costs of the mandated program. Our audit found that \$464,400 is allowable and \$113,786 is unallowable, primarily because the city misclassified contract services costs as salary costs, understated the number of identity theft reports taken, and misstated the time increments needed to perform the reimbursable activities. The State made no payments to the city. The State will pay \$464,400, 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.

This final audit report contains an adjustment to costs claimed by the city. If you disagree with the audit 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than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended.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.

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/lis

cc: The Honorable Steven D. Hofbauer
Mayor of the City of Palmdale
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 Reimbursements Section
State Controller's Office
Everett Luc, Supervisor
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Audit Report

Summary

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

The city claimed \$578,186 for costs of the mandated program. Our audit found that \$464,400 is allowable and \$113,786 is unallowable, primarily because the city misclassified contract services costs as salary costs, understated the number of identity theft reports taken, and misstated the time increments needed to perform the reimbursable activities. The State made no payments to the city. The State will pay \$464,400, 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) 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 online 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 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 the *Mandated Cost Manual for Local Agencies (Mandated Cost Manual)* to assist local agencies in claiming mandated program reimbursable costs.

Audit Authority

We conducted this performance audit in accordance with GC sections 17558.5 and 17561, which authorize the SCO to audit the city's records to verify the actual amount of the mandated costs. In addition, GC section 12410 provides the SCO with general audit 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.

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

To achieve our objective, we performed the following procedures:

- We analyzed the annual mandated cost claims filed by the city for the audit period, and identified the significant cost components of each claim as salaries and indirect costs. We determined whether there were any errors or unusual or unexpected variances from year to year. We reviewed the activities claimed to determine whether they adhered to the SCO's *Mandated Cost Manual* and the program's parameters and guidelines;
- We completed an internal control questionnaire by interviewing key city staff members. We discussed the claim preparation process with city staff members to determine what information was obtained, who obtained it, and how it was used.
- We reviewed the contract service agreement and related Deployment of Personnel forms (SH-AD 575 forms) for fiscal year (FY) 2006-07, FY 2011-12, and FY 2012-13 executed between the Los Angeles County Sheriff's Department (LASD) and the city to determine which contracted employee classifications performed the reimbursable activities. We found that the Deputy Sheriff and Sergeant classifications performed the reimbursable activities. The city's contracts with LASD specify the number of service units, which vary from year to year, for the Deputy Sheriff classifications and the Sergeant classification.
- We obtained system-generated lists of identity theft cases that originated within the city during the audit period to verify the existence, completeness, and accuracy of unduplicated case counts for each fiscal year in the audit period.¹

¹ The LASD Crime Analysis Unit provided system-generated case lists based on information obtained from LASD's Los Angeles Regional Crime Information System.

- We designed a statistical sampling plan to test approximately 25-50% of costs claimed, based on a moderate level of detection (audit) risk. We judgmentally selected the city's filed claims for FY 2007-08, FY 2008-09, and FY 2012-13, which comprised claimed costs totaling \$218,916 (or 42%) of the \$525,627 claimed. The sampling plan is described in the Finding and Recommendation section.
- We used a random number table to select 332 identity theft cases out of 4,436 identity theft reports from the three years sampled, and tested the identity theft reports as follows:
 - We determined whether a contemporaneously prepared and approved police report supported a violation of PC section 530.5; and
 - We determined whether the initial police reports were courtesy reports from other law enforcement agencies that had been forwarded to the Palmdale Station for further investigation.
- We used the audited time increments required to perform the reimbursable activities from a time study conducted by LASD in June 2012. We chose this time study because LASD staff performed all of the city's mandated identity theft activities. LASD's audited identity theft increments were directly related to the Identity Theft Program's reimbursable activities and were properly supported. LASD performed the time study using staff at its Lakewood, Palmdale, and Santa Clarita stations. For the purposes of this audit, we used only the time study data created by LASD staff at the Palmdale Station. Using those time study results, we applied the time increments to each allowable police report that originated in the City of Palmdale.
- We reviewed the city's Single Audit Reports to identify potential sources of offsetting savings or reimbursements from federal or pass-through programs applicable to the Identity Theft Program. The city 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 Palmdale claimed \$578,186 for costs of the legislatively mandated Identity Theft Program. Our audit found that \$464,400 is allowable and \$113,786 is unallowable. The State made no payments to the city. The State will pay \$464,400, contingent upon available appropriations.

Following issuance of the final audit report, the Local Government Programs and Services Division of the SCO 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 April 13, 2022. We emailed Keith Kang, Finance Manager, on April 25, 2022, inquiring whether the city would be providing a response to the draft audit report. Mr. Kang did not respond to our email inquiry.

Restricted Use

This audit report is solely for the information and use of the City of Palmdale, 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

KIMBERLY TARVIN, CPA
Chief, Division of Audits

June 22, 2022

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 6,583	\$ -	\$ (6,583)
Begin an investigation of the facts	2,269	-	(2,269)
Total salaries	8,852	-	(8,852)
Contract services			
Taking a police report on a violation of PC §530.5	-	14,256	14,256
Begin an investigation of the facts	-	17,155	17,155
Total contract services	-	31,411	31,411
Total direct costs	8,852	31,411	22,559
Indirect costs	885	-	(885)
Total direct and indirect costs	9,737	31,411	21,674
Less allowable costs that exceed costs claimed ²	-	(21,674)	(21,674)
Total program costs	<u>\$ 9,737</u>	9,737	<u>\$ -</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 9,737</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 11,948	\$ -	\$ (11,948)
Begin an investigation of the facts	4,119	-	(4,119)
Total salaries	16,067	-	(16,067)
Contract services			
Taking a police report on a violation of PC §530.5	-	17,432	17,432
Begin an investigation of the facts	-	20,938	20,938
Total contract services	-	38,370	38,370
Total direct costs	16,067	38,370	22,303
Indirect costs	1,607	-	(1,607)
Total direct and indirect costs	17,674	38,370	20,696
Less allowable costs that exceed costs claimed ²	-	(20,696)	(20,696)
Total program costs	<u>\$ 17,674</u>	17,674	<u>\$ -</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 17,674</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit 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	\$ 31,976	\$ -	\$ (31,976)
Begin an investigation of the facts	11,275	-	(11,275)
Total salaries	43,251	-	(43,251)
Contract services			
Taking a police report on a violation of PC §530.5	-	20,092	20,092
Begin an investigation of the facts	-	24,061	24,061
Total contract services	-	44,153	44,153
Total direct costs	43,251	44,153	902
Indirect costs	4,325	-	(4,325)
Total program costs	\$ 47,576	44,153	\$ (3,423)
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		\$ 44,153	
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 33,554	\$ -	\$ (33,554)
Begin an investigation of the facts	11,549	-	(11,549)
Total salaries	45,103	-	(45,103)
Contract services			
Taking a police report on a violation of PC §530.5	-	19,195	19,195
Begin an investigation of the facts	-	22,955	22,955
Total contract services	-	42,150	42,150
Total direct costs	45,103	42,150	(2,953)
Indirect costs	4,510	-	(4,510)
Total program costs	\$ 49,613	42,150	\$ (7,463)
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		\$ 42,150	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit 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	\$ 44,151	\$ -	\$ (44,151)
Begin an investigation of the facts	15,378	-	(15,378)
Total salaries	59,529	-	(59,529)
Contract services			
Taking a police report on a violation of PC §530.5	-	22,429	22,429
Begin an investigation of the facts	-	26,739	26,739
Total contract services	-	49,168	49,168
Total direct costs	59,529	49,168	(10,361)
Indirect costs	5,953	-	(5,953)
Total program costs	\$ 65,482	49,168	\$ (16,314)
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		\$ 49,168	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 48,709	\$ -	\$ (48,709)
Begin an investigation of the facts	16,692	-	(16,692)
Total salaries	65,401	-	(65,401)
Contract services			
Taking a police report on a violation of PC §530.5	-	25,669	25,669
Begin an investigation of the facts	-	30,603	30,603
Total contract services	-	56,272	56,272
Total direct costs	65,401	56,272	(9,129)
Indirect costs	6,540	-	(6,540)
Total program costs	\$ 71,941	56,272	\$ (15,669)
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		\$ 56,272	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit 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	\$ 40,062	\$ -	\$ (40,062)
Begin an investigation of the facts	14,382	-	(14,382)
Total salaries	<u>54,444</u>	-	<u>(54,444)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	22,739	22,739
Begin an investigation of the facts	-	27,106	27,106
Total contract services	<u>-</u>	<u>49,845</u>	<u>49,845</u>
Total direct costs	54,444	49,845	(4,599)
Indirect costs	<u>5,444</u>	-	<u>(5,444)</u>
Total program costs	<u>\$ 59,888</u>	49,845	<u>\$ (10,043)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 49,845</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 33,714	\$ -	\$ (33,714)
Begin an investigation of the facts	11,971	-	(11,971)
Total salaries	<u>45,685</u>	-	<u>(45,685)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	21,953	21,953
Begin an investigation of the facts	-	26,197	26,197
Total contract services	<u>-</u>	<u>48,150</u>	<u>48,150</u>
Total direct costs	45,685	48,150	2,465
Indirect costs	<u>4,569</u>	-	<u>(4,569)</u>
Total program costs	<u>\$ 50,254</u>	48,150	<u>\$ (2,104)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 48,150</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit 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	\$ 30,897	\$ -	\$ (30,897)
Begin an investigation of the facts	10,632	-	(10,632)
Total salaries	41,529	-	(41,529)
Contract services			
Taking a police report on a violation of PC §530.5	-	20,524	20,524
Begin an investigation of the facts	-	24,448	24,448
Total contract services	-	44,972	44,972
Total direct costs	41,529	44,972	3,443
Indirect costs	4,153	-	(4,153)
Total program costs	\$ 45,682	44,972	\$ (710)
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		\$ 44,972	
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 34,342	\$ -	\$ (34,342)
Begin an investigation of the facts	12,352	-	(12,352)
Total salaries	46,694	-	(46,694)
Contract services			
Taking a police report on a violation of PC §530.5	-	23,546	23,546
Begin an investigation of the facts	-	28,043	28,043
Total contract services	-	51,589	51,589
Total direct costs	46,694	51,589	4,895
Indirect costs	4,669	-	(4,669)
Total direct and indirect costs	51,363	51,589	226
Less allowable costs that exceed costs claimed ²	-	(226)	(226)
Total program costs	\$ 51,363	51,363	\$ -
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		\$ 51,363	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit 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	\$ 72,893	\$ -	\$ (72,893)
Begin an investigation of the facts	26,176	-	(26,176)
Total salaries	<u>99,069</u>	<u>-</u>	<u>(99,069)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	23,216	23,216
Begin an investigation of the facts	-	27,700	27,700
Total contract services	<u>-</u>	<u>50,916</u>	<u>50,916</u>
Total direct costs	99,069	50,916	(48,153)
Indirect costs	9,907	-	(9,907)
Total program costs	<u>\$ 108,976</u>	50,916	<u>\$ (58,060)</u>
Less amount paid by the State ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 50,916</u>	
<u>Summary: July 1, 2002, through June 30, 2013</u>			
Direct costs:			
Salaries			
Taking a police report on a violation of PC §530.5	\$ 388,829	\$ -	\$ (388,829)
Begin an investigation of the facts	136,795	-	(136,795)
Total salaries	<u>525,624</u>	<u>-</u>	<u>(525,624)</u>
Contract services			
Taking a police report on a violation of PC §530.5	-	231,051	231,051
Begin an investigation of the facts	-	275,945	275,945
Total contract services	<u>-</u>	<u>506,996</u>	<u>506,996</u>
Total direct costs	525,624	506,996	(18,628)
Indirect costs	52,562	-	(52,562)
Total direct and indirect costs	578,186	506,996	(71,190)
Less allowable costs that exceed costs claimed ²	<u>-</u>	<u>(42,596)</u>	<u>(42,596)</u>
Total program costs	<u>\$ 578,186</u>	464,400	<u>\$ (113,786)</u>
Less amount paid by the State ³		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 464,400</u>	

¹ See the Finding and Recommendation section.

² GC section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's *Mandated Cost Manual*. That deadline has passed for FY 2002-03, FY 2003-04, and FY 2011-12.

³ Payment amount current as of May 24, 2022.

Finding and Recommendation

FINDING— Overstated Identity Theft Program costs

The city claimed \$578,186 (\$525,624 in salaries and \$52,562 in related indirect costs) for the Identity Theft Program. We found that \$506,996 is allowable and \$71,190 is unallowable.¹

We found that the city incorrectly claimed salary costs instead of contract service costs. The city contracted with the LASD for its law enforcement services during the audit period; therefore, it incurred contract services costs, not salary costs. We reallocated the costs to the appropriate cost category of Contract Services.

The city used the correct methodology to calculate its salary costs; it multiplied the number of identity theft police reports by the estimated time required to perform the reimbursable activities, and then by the hourly rates obtained from the city's contracts with Los Angeles County. The county based its hourly rates in the contracts on salaries, benefits, and indirect costs. However, because no city staff members performed the reimbursable activities, these costs should have been classified as contract services costs, not salaries.

The costs are unallowable primarily because the city misclassified costs and claimed unallowable indirect costs. In addition, the city understated the number of identity theft reports taken. We also noted differences in the time increments required to perform the reimbursable activities.

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

Fiscal Year	Total Amount Claimed	Salaries		Contract Services Adjustment	Indirect Cost Adjustment	Total Audit Adjustment	Total Amount Allowable
		Amount Claimed	Audit Adjustment				
2002-03	\$ 9,737	\$ 8,852	\$ (8,852)	\$ 31,411	\$ (885)	\$ 21,674	\$ 31,411
2003-04	17,674	16,067	(16,067)	38,370	(1,607)	20,696	38,370
2004-05	47,576	43,251	(43,251)	44,153	(4,325)	(3,423)	44,153
2005-06	49,613	45,103	(45,103)	42,150	(4,510)	(7,463)	42,150
2006-07	65,482	59,529	(59,529)	49,168	(5,953)	(16,314)	49,168
2007-08	71,941	65,401	(65,401)	56,272	(6,540)	(15,669)	56,272
2008-09	59,888	54,444	(54,444)	49,845	(5,444)	(10,043)	49,845
2009-10	50,254	45,685	(45,685)	48,150	(4,569)	(2,104)	48,150
2010-11	45,682	41,529	(41,529)	44,972	(4,153)	(710)	44,972
2011-12	51,363	46,694	(46,694)	51,589	(4,669)	226	51,589
2012-13	108,976	99,069	(99,069)	50,916	(9,907)	(58,060)	50,916
Total	\$ 578,186	\$ 525,624	\$ (525,624)	\$ 506,996	\$ (52,562)	\$ (71,190)	\$ 506,996

¹ For FY 2002-03, we found that \$31,411 is allowable, which is \$21,674 in excess of claimed costs. For FY 2003-04, we found that \$38,370 is allowable, which is \$20,696 in excess of claimed costs. For FY 2011-12, we found that \$51,589 is allowable, which is \$226 in excess of claimed costs. GC section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions and that deadline has expired for FY 2002-03, FY 2003-04, and FY 2011-12. Therefore, total allowable costs for the audit period are \$464,400 (\$506,996 less \$42,596 in excess of claimed costs for FY 2002-03, FY 2003-04, and FY 2011-12).

Identity theft incident reports

The city claimed that it took 4,052 identity theft incident reports for the audit period. We found that the city understated the number of reports taken by 247, and 4,299 are allowable.

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

Fiscal Year	Claimed Reports	Supported Population	Allowable Reports	Audit Adjustment
2002-03	85	332	322	237
2003-04	150	395	383	233
2004-05	397	451	437	40
2005-06	393	406	394	1
2006-07	489	445	432	(57)
2007-08	503	494	465	(38)
2008-09	414	394	394	(20)
2009-10	339	382	370	31
2010-11	296	356	345	49
2011-12	320	397	385	65
2012-13	666	384	372	(294)
Total	4,052	4,436	4,299	247

The city provided a system-generated unduplicated list from LASD's crime reports and management system (Los Angeles Regional Crime Information System) to support the claimed number of identity theft incident reports taken. This list supported 4,436 identity theft police reports filed for violations of PC section 530.5.

We determined the accuracy of the unduplicated counts of initial police reports by verifying that:

- 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.

We developed a statistical sampling plan to test at least 25% of claimed costs based on a low level of detection risk. We generated statistical samples of identity theft cases for these two procedures so that we could project our sample results to the population of identity theft cases. We selected our statistical samples of identity theft cases originating from the city based on a 95% confidence level, a sampling error of $\pm 8\%$, and an expected (true) error rate of 50%. We judgmentally selected FY 2007-08, FY 2008-09, and FY 2012-13 for testing because the city claimed salary costs for these three years totaling \$218,916, which constitutes 41.6% of the total claimed during the audit period.

Our testing disclosed the following:

- For FY 2007-08, we found that 98 of the 115 selected identity theft incident reports had been purged due to LASD's record retention policy. As a result, we decreased our sample size to 17. We found that one of the 17 identity theft incident reports was unallowable because it was a courtesy report. Therefore, we calculated an error rate of 5.9% for FY 2007-08.

- For FY 2008-09, we found that 54 of the 109 selected identity theft incident reports had been purged due to LASD’s record retention policy. As a result, we decreased our sample size to 55. We found that all 55 identity theft incident reports were allowable. Therefore, we calculated an error rate of 0% for FY 2008–09.
- For FY 2012-13, we found that 46 of the 108 selected identity theft incident reports had been purged due to LASD’s record retention policy. As a result, we decreased our sample size to 62. We found that two of the 62 identity theft incident reports were unallowable because they were for infractions other than identity theft. Therefore, we calculated an error rate of 3.2% for FY 2012-13.

Based on these results, we calculated a 3% average error rate for the three years that we tested (FY 2007-08, FY 2008-09, and FY 2012-13). We extrapolated this average error rate to the other nine years of the audit period (FY 2002-03 through FY 2006-07 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 shows the number of allowable and unallowable incident reports taken by fiscal year:

Fiscal Year	(A)	(B)		(C)=(A)×(B)	(D)=(A)-(C)
	Audited Population	Error Rate	Average Error Rate	Total Unallowable Reports	Total Allowable Reports
2002-03	332	N/A	3.0%	10	322
2003-04	395	N/A	3.0%	12	383
2004-05	451	N/A	3.0%	14	437
2005-06	406	N/A	3.0%	12	394
2006-07	445	N/A	3.0%	13	432
2007-08	494	5.9%	N/A	29	465
2008-09	394	0.0%	N/A	-	394
2009-10	382	N/A	3.0%	12	370
2010-11	356	N/A	3.0%	11	345
2011-12	397	N/A	3.0%	12	385
2012-13	384	3.2%	N/A	12	372
Total	4,436			137	4,299

Time increments

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

- 44 minutes for taking/drafting a police report by the Deputy/Officer;
- 11 minutes for the Sergeant to review the police report;
- 11 minutes for the Detective to begin an investigation; and
- Seven minutes for the Sergeant to begin an investigation.

LASD conducted a one-month time study in June 2012 at its Lakewood, Palmdale, and Santa Clarita stations to determine how long it took to perform the reimbursable activities that directly relate to the Identity Theft Program. In that time study, LASD separated reimbursable Activity 1a (taking a police report) into two sub-activities. Those sub-activities

included writing and editing the initial police report (Activity 1a.1), and reviewing the police report (Activity 1a.2). LASD separated these activities because various LASD staff performed Activity 1a.1, while only Sergeants performed Activity 1a.2.

For the purposes of this audit, we used only the time study data created by LASD staff at the Palmdale Station. Using those time study results, we applied the following time increments for each allowable police report that originated in the City of Palmdale:

- 26.25 minutes (0.44 hours) for Deputy Sheriffs to perform activity 1a.1 – taking a police report on violations of PC section 530.5;
- 4.5 minutes (0.08 hours) for Sergeants to perform activity 1a.2 – reviewing incident reports on violations of PC section 530.5; and
- 36.38 minutes (0.61 hours) for Deputy Sheriffs to perform activity 2 – beginning an investigation of the facts.

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

Fiscal Year	Claimed Minutes				Allowable Minutes		
	1a.1 Taking a Police Report	1a.2 Reviewing a Police Report	2 Beginning an Investigation- Detective	2 Beginning an Investigation- Sergeant	1a.1 Taking a Police Report	1a.2 Reviewing a Police Report	2 Beginning an Investigation
2002-03	44.00	11.00	11.00	7.00	26.25	4.50	36.38
2003-04	44.00	11.00	11.00	7.00	26.25	4.50	36.38
2004-05	44.00	11.00	11.00	7.00	26.25	4.50	36.38
2005-06	44.00	11.00	11.00	7.00	26.25	4.50	36.38
2006-07	44.00	11.00	11.00	7.00	26.25	4.50	36.38
2007-08	44.00	11.00	11.00	7.00	26.25	4.50	36.38
2008-09	44.00	11.00	11.00	7.00	26.25	4.50	36.38
2009-10	44.00	11.00	11.00	7.00	26.25	4.50	36.38
2010-11	44.00	11.00	11.00	7.00	26.25	4.50	36.38
2011-12	44.00	11.00	11.00	7.00	26.25	4.50	36.38
2012-13	44.00	11.00	11.00	7.00	26.25	4.50	36.38

Contract Hourly Rates

For the audit period, the city provided a copy of the signed Municipal Law Enforcement Services Agreement that it negotiated with Los Angeles County. The contract specifies that the services performed and requested by the city must be “indicated on a LASD SH-AD 575 Deployment of Personnel form.” The county uses this form to indicate the authorized LASD staffing level for each year that the contract is in effect, and the rates billed to the city for various LASD staff.

The city provided copies of its SH-AD 575 forms for FY 2006 07, FY 2010-11, and FY 2012-13. The contract law enforcement staffing level in effect for the entire audit period included the classifications of Deputy Sheriff and Sergeant.

Based on our review of the sampled police reports, we found that Deputy Sheriffs performed reimbursable Activity 1a.1 (Taking a Police Report) and reimbursable Activity 2 (Beginning an Investigation). We also found that Sergeants reviewed and approved all of the reports (reimbursable Activity 1a.2).

We tested contract hourly rates for the Deputy Sheriff and Sergeant classifications using information provided by the city from its SH-AD 575 forms for FY 2006-07, FY 2011-12, and FY 2012-13. The city's contracts with LASD specify the number of service units, which vary from year to year, for the Deputy Sheriff classifications and the Sergeant classification.

For the Deputy Sheriffs, the city's contract specifies a liability percentage of 6% for FY 2006-07, and of 4% for FY 2010-11 and FY 2012-13. We applied the appropriate liability percentage to the contract costs for each fiscal year.

To calculate the average contract hourly rate for each fiscal year, we divided the total annual unit cost (including the liability percentage) for all Deputy Sheriffs by the total annual hours per service unit. To calculate the average contract hourly rate for Sergeants, we divided the total annual unit cost for all Sergeants by the total annual hours per service unit.

Based on our testing results for FY 2006-07, FY 2011-12, and FY 2012-13, we accepted the rates that the city claimed for the Deputy Sheriff and Sergeant classifications for all years of the audit period. However, the city's mandated cost consultant advised that the rates claimed for FY 2008-09 and FY 2009-10 for Deputy Sheriffs did not include the 6% liability percentage. Based on contract information provided by the city, we confirmed that this information was correct. Therefore, we adjusted the allowable rate for Deputy Sheriffs from \$106.68 to \$112.78 for FY 2008-09 and from \$109.80 to \$116.07 for FY 2009-10.

The following table summarizes the rates claimed and allowable for the audit period:

Fiscal Year	Rates Claimed			Rates Allowable		
	Sheriff's Deputy	Detective	Sergeant	Sheriff's Deputy	Detective	Sergeant
2002-03	\$ 87.34	\$ 97.91	\$ 73.07	\$ 87.34	\$ -	\$ 73.07
2003-04	89.62	100.16	76.01	89.62	-	76.01
2004-05	90.26	103.81	78.29	90.26	-	78.29
2005-06	95.51	105.73	83.66	95.51	-	83.66
2006-07	100.39	112.27	90.92	101.47	-	90.92
2007-08	107.89	118.03	96.64	107.89	-	96.64
2008-09	106.68	123.59	101.10	112.78	-	101.10
2009-10	109.80	125.32	103.27	116.07	-	103.27
2010-11	116.17	127.70	104.67	116.17	-	104.67
2011-12	119.91	133.58	107.73	119.91	-	107.73
2012-13	122.07	136.72	108.72	122.07	-	108.72

Using the contract rate information, the corrected number of case counts, and the corrected time increments, we determined allowable contract costs for each fiscal year. For example, the following table shows the calculation of allowable contract services costs for FY 2012-13:

[1]	[2]	[3]	[4]	[5]	[6]	
Activity Number	Reimbursable Activity	Employee Classification	Number of Cases	Time Increment (Hours)	Contract Rate (\$)	Allowable Costs (\$) (cols.[3]*[4]*[5])
1a	Take a police report	Deputy Sheriff	372	0.44	\$ 122.07	\$ 19,980
1b	Review a police report	Sergeant	372	0.08	108.72	3,236
2	Begin an investigation	Deputy Sheriff	372	0.61	122.07	27,700
Total						<u>\$ 50,916</u>

Indirect costs

The City of Palmdale claimed \$52,562 in related indirect costs for the audit period based on \$525,627 in claimed salaries. The city applied an indirect cost rate of 10% to the total salaries. However, the city did not incur any salary costs during the audit period. Therefore, the entire \$52,563 claimed for indirect costs is unallowable.

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 sheets, invoices, and receipts.

Section IV. 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) 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.

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

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

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

Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.

Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in 2 CFR Part 225 (Office of management and Budget [OMB] Circular A-87). Claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate exceeds 10%.

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 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.

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