

CITY OF LONG BEACH

Reissued Audit Report

IDENTITY THEFT PROGRAM

Chapter 956, Statutes of 2000

July 1, 2002, through June 30, 2013



BETTY T. YEE
California State Controller

August 2018



BETTY T. YEE
California State Controller

August 10, 2018

The Honorable Robert Garcia, Mayor
City of Long Beach
333 West Ocean Boulevard, 14th Floor
Long Beach, CA 90802

Dear Mayor Garcia:

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

This reissued report updates our previous report, dated June 28, 2018. The previous report incorrectly identified the intended recipient as the Director of the Financial Management instead of the Mayor.

The city claimed \$1,927,326 for the mandated program. Our audit found that \$202,368 is allowable and \$1,724,958 is unallowable. The costs are unallowable because the city understated the number of identity theft cases, overstated time increments required to perform reimbursable activities, misclassified employees who performed reimbursable activities, and misstated productive hourly rates. The State made no payments to the city. The State will pay \$202,368, contingent upon available appropriations.

Following issuance of this report, the SCO's Local Government Programs and Services Division will notify the city of the adjustment 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) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: John Gross, Director

Department of Financial Management

City of Long Beach

Geraldine Alejo, Revenue Management Officer

Budget Management Bureau, Department of Financial Management

City of Long Beach

Maura Velasco-Ventura, Chief Financial Officer, Financial Bureau

Long Beach Police Department

Chris Hill, Principal Program Budget Analyst

Local Government Unit

California Department of Finance

Steven Pavlov, Finance Budget Analyst

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Anita Dagan, Manager

Local Government Programs and Services Division

State Controller's Office

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Reissued Audit Report

Summary

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

The city claimed \$1,927,326 for the mandated program. Our audit found that \$202,368 is allowable and \$1,724,958 is unallowable. The costs are unallowable because the city understated the number of identity theft cases, overstated time increments required to perform reimbursable activities, misclassified employees who performed reimbursable activities, and misstated productive hourly rates (PHR). The State made no payments to the city. The State will pay \$202,368, contingent upon available appropriations.

Background

Penal Code (PC) section 530.6, subdivision (a), as added by Statutes 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 only 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, for further investigation of the facts, to the law enforcement agency in the jurisdiction where the suspected crime was committed are not reimbursable activities.

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. In compliance with GC section 17558, the SCO issues claiming instructions to assist local agencies, school districts, and community college 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 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 from July 1, 2002, through June 30, 2013.

To achieve our audit objective, we:

- Reviewed the annual mandated cost claims filed by the city for the audit period and verified that the material cost components of each claim are salaries, benefits, and indirect costs. Determined whether there were any errors or any unusual or unexpected variances from year to year, and 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, and discussed the claim preparation process with city staff to determine what information was obtained, who obtained it, and how it was used;
- Obtained system-generated lists of identity theft cases from the city to verify the existence, completeness, and accuracy of unduplicated case counts for each fiscal year in the audit period;
- Designed a statistical sampling plan to test approximately 25% of claimed salary costs. Judgmentally selected three of the city's filed claims during the audit period (fiscal year [FY] 2005-06, FY 2010-11, and FY 2012-13), which comprised salary costs totaling \$246,158 of the \$1,093,192 claimed (22.5%). The specifics of the sampling plan are outlined in the Finding and Recommendation section;
- Used a random number table to select 304 identity theft cases out of 982 from the three years sampled. Tested the identity theft cases as follows:
 - Determined whether an approved police report supported that a violation of PC section 530.5 occurred. No errors were noted.
 - Calculated the average time required to prepare the approved police reports and begin an investigation using data within the city's public safety software system Tiburon Computer Aided Dispatch and Records Management System (Tiburon system). Compared the results to the average time increments claimed by the city and projected the errors found to the population of identity theft cases.

- Compared the employee job classifications that performed the mandated activities, as identified in the Tiburon system, to the job classifications claimed by the city. Calculated weighted average PHRs for the employee classifications that performed the activities.
- Projected the audit results of the three years tested by multiplying the actual case counts by the actual average time increments to perform the activities by the weighted average productive hourly rates. Due to the homogeneousness of the populations for all years of the audit period, we applied a weighted three-year average of the sampling results to the remaining eight years of the audit period; and
- Traced the benefit rates claimed for each job classification that performed the mandated activities to supporting documentation for each fiscal year in the audit period and determined that the benefit rates claimed were not unreasonable or excessive.

The authority to conduct this audit is provided by GC sections 12410, 17558.5, and 17561. 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

Our audit found instances of noncompliance with the requirements outlined in the Objective, Scope, and Methodology section. The instances are quantified in the accompanying Schedule (Summary of Program Costs) and described in the Finding and Recommendation section of this report.

For the audit period, the city claimed \$1,927,326 for costs of the Identity Theft Program. Our audit found that \$202,368 is allowable and \$1,724,958 is unallowable. The State made no payments to the city. The State will pay \$202,368, contingent upon available appropriations.

Following issuance of this report, the SCO's Local Government Programs and Services Division will notify the city of the adjustment 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 May 25, 2018. John Gross, Director of Financial Management, responded by letter dated June 4, 2018 (Attachment), agreeing with the audit results. We issued the initial final report on June 28, 2018.

On July 16, 2018, we informed Geraldine Alejo, Revenue Management Officer, via email of this reissued report and the reason for the reissuance. This reissued final audit report includes the city's response.

**Reason for
Reissuance**

This report has been reissued to correct the intended recipient to the Mayor from the Director of Financial Management.

Restricted Use

This report is solely for the information and use of the City of Long Beach, 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 report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 10, 2018

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 4,433	\$ 8,942	\$ 4,509
Begin an investigation of facts	132,018	17,904	(114,114)
Total salaries	136,451	26,846	(109,605)
Benefits	45,711	8,994	(36,717)
Total direct costs	182,162	35,840	(146,322)
Indirect costs	30,429	5,987	(24,442)
Total program costs	<u>\$ 212,591</u>	41,827	<u>\$ (170,764)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 41,827</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 2,259	\$ 2,662	\$ 403
Begin an investigation of facts	66,676	5,329	(61,347)
Total salaries	68,935	7,991	(60,944)
Benefits	26,885	3,116	(23,769)
Total direct costs	95,820	11,107	(84,713)
Indirect costs	39,637	4,595	(35,042)
Total program costs	<u>\$ 135,457</u>	15,702	<u>\$ (119,755)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 15,702</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 3,797	\$ 3,302	\$ (495)
Begin an investigation of facts	104,140	6,611	(97,529)
Total salaries	107,937	9,913	(98,024)
Benefits	48,572	4,461	(44,111)
Total direct costs	156,509	14,374	(142,135)
Indirect costs	10,793	991	(9,802)
Total program costs	<u>\$ 167,302</u>	15,365	<u>\$ (151,937)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 15,365</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 3,846	\$ 3,544	\$ (302)
Begin an investigation of facts	114,143	7,101	(107,042)
Total salaries	117,989	10,645	(107,344)
Benefits	53,095	4,790	(48,305)
Total direct costs	171,084	15,435	(155,649)
Indirect costs	11,799	1,065	(10,734)
Total program costs	<u>\$ 182,883</u>	16,500	<u>\$ (166,383)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 16,500</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 5,126	\$ 3,942	\$ (1,184)
Begin an investigation of facts	151,764	7,891	(143,873)
Total salaries	156,890	11,833	(145,057)
Benefits	72,483	5,467	(67,016)
Total direct costs	229,373	17,300	(212,073)
Indirect costs	50,362	3,798	(46,564)
Total program costs	<u>\$ 279,735</u>	21,098	<u>\$ (258,637)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 21,098</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 4,580	\$ 3,778	\$ (802)
Begin an investigation of facts	136,162	7,564	(128,598)
Total salaries	140,742	11,342	(129,400)
Benefits	75,157	6,057	(69,100)
Total direct costs	215,899	17,399	(198,500)
Indirect costs	50,808	4,094	(46,714)
Total program costs	<u>\$ 266,707</u>	21,493	<u>\$ (245,214)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 21,493</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 4,058	\$ 2,918	\$ (1,140)
Begin an investigation of facts	121,220	5,843	(115,377)
Total salaries	125,278	8,761	(116,517)
Benefits	50,654	3,543	(47,111)
Total direct costs	175,932	12,304	(163,628)
Indirect costs	53,243	3,723	(49,520)
Total program costs	<u>\$ 229,175</u>	16,027	<u>\$ (213,148)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 16,027</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 2,812	\$ 2,079	\$ (733)
Begin an investigation of facts	83,998	4,163	(79,835)
Total salaries	86,810	6,242	(80,568)
Benefits	35,039	2,520	(32,519)
Total direct costs	121,849	8,762	(113,087)
Indirect costs	38,283	2,753	(35,530)
Total program costs	<u>\$ 160,132</u>	11,515	<u>\$ (148,617)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 11,515</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 3,188	\$ 2,666	\$ (522)
Begin an investigation of facts	95,765	5,342	(90,423)
Total salaries	98,953	8,008	(90,945)
Benefits	41,591	3,367	(38,224)
Total direct costs	140,544	11,375	(129,169)
Indirect costs	45,420	3,676	(41,744)
Total program costs	<u>\$ 185,964</u>	15,051	<u>\$ (170,913)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 15,051</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 802	\$ 2,416	\$ 1,614
Begin an investigation of facts	23,189	4,837	(18,352)
Total salaries	23,991	7,253	(16,738)
Benefits	11,912	3,602	(8,310)
Total direct costs	35,903	10,855	(25,048)
Indirect costs	14,011	4,236	(9,775)
Total program costs	<u>\$ 49,914</u>	15,091	<u>\$ (34,823)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 15,091</u>	
<u>July 1, 2012, through June 30, 2013</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC section 530.5	\$ 9,328	\$ 2,149	\$ (7,179)
Begin an investigation of facts	19,888	4,307	(15,581)
Total salaries	29,216	6,456	(22,760)
Benefits	11,580	2,559	(9,021)
Total direct costs	40,796	9,015	(31,781)
Indirect costs	16,670	3,684	(12,986)
Total program costs	<u>\$ 57,466</u>	12,699	<u>\$ (44,767)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 12,699</u>	
<u>Summary: July 1, 2002, through June 30, 2013</u>			
Direct costs:			
Salaries	\$ 1,093,192	\$ 115,290	\$ (977,902)
Benefits	472,679	48,476	(424,203)
Total direct costs	1,565,871	163,766	(1,402,105)
Indirect costs	361,455	38,602	(322,853)
Total program costs	<u>\$ 1,927,326</u>	202,368	<u>\$ (1,724,958)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 202,368</u>	

¹ See the Finding and Recommendation section.

² Payment information current as of January 8, 2018.

Finding and Recommendation

FINDING— Overstated salaries and related benefits and indirect costs

The city claimed \$1,093,192 in salary costs for the Identity Theft Program for the audit period. We found that \$115,290 is allowable and \$977,902 is unallowable. In addition, unallowable related benefits total \$424,203 and unallowable related indirect costs total \$322,853, for a total adjustment of \$1,724,958.

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

The city overstated salary costs because it misinterpreted the program's parameters and guidelines, which resulted in understated identity theft police reports, overstated time increments required to perform the reimbursable activities, misclassified employees who performed the reimbursable activities, and misstated employee PHRs.

The following table summarizes the audit adjustment by fiscal year:

Fiscal Year	Salaries			Related Benefit Adjustment	Related Indirect Cost Adjustment	Total Audit Adjustment
	Amount Claimed	Amount Allowable	Audit Adjustment			
2002-03	\$ 136,451	\$ 26,846	\$ (109,605)	\$ (36,717)	\$ (24,442)	\$ (170,764)
2003-04	68,935	7,991	(60,944)	(23,769)	(35,042)	(119,755)
2004-05	107,937	9,913	(98,024)	(44,111)	(9,802)	(151,937)
2005-06	117,989	10,645	(107,344)	(48,305)	(10,734)	(166,383)
2006-07	156,890	11,833	(145,057)	(67,016)	(46,564)	(258,637)
2007-08	140,742	11,342	(129,400)	(69,100)	(46,714)	(245,214)
2008-09	125,278	8,761	(116,517)	(47,111)	(49,520)	(213,148)
2009-10	86,810	6,242	(80,568)	(32,519)	(35,530)	(148,617)
2010-11	98,953	8,008	(90,945)	(38,224)	(41,744)	(170,913)
2011-12	23,991	7,253	(16,738)	(8,310)	(9,775)	(34,823)
2012-13	29,216	6,456	(22,760)	(9,021)	(12,986)	(44,767)
Total	\$ 1,093,192	\$ 115,290	\$ (977,902)	\$ (424,203)	\$ (322,853)	\$ (1,724,958)

Understated counts of identity theft police reports

The city reported costs incurred for performing mandated activities related to 3,345 police reports for violations of PC section 530.5 (identity theft). We found that 4,932 reports are allowable and that the city understated its counts of police reports by 1,587 during the audit period.

During audit fieldwork, the city provided a system-generated list of unduplicated police reports filed during the audit period that indicates the primary offense of PC section 530.5. The City of Long Beach Police Department (LBPD) explained that its Tiburon system assigns a unique case number to each police report. Tiburon system records the police report date, the Penal Code section(s) charged, and the author of the report. It also contemporaneously records the start and end times of all calls related to each case. Each case number would potentially have several

calls, as the city's Dispatch Unit assigned the case to other staff or departments. We reviewed the city-provided list and noted that the city understated its report counts for every fiscal year of the audit period. We used the allowable number of identity theft reports to calculate allowable costs for the audit period.

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

Fiscal Year	Claimed	Allowable	Difference
2002-03	457	1,290	833
2003-04	231	379	148
2004-05	362	468	106
2005-06	365	466	101
2006-07	459	513	54
2007-08	391	466	75
2008-09	319	340	21
2009-10	221	234	13
2010-11	244	265	21
2011-12	60	260	200
2012-13	236	251	15
Total	3,345	4,932	1,587

Once we determined the actual counts of identity theft cases within the city's Tiburon system for the audit period, we developed further tests to determine whether:

- A contemporaneously prepared and approved police report supported each identity theft case;
- Each police report supported that a violation of PC section 530.5 had occurred; and
- The system identified how long it took to perform the reimbursable activities and who performed them.

In order to test approximately 25% of claimed salary costs, we began by judgmentally selecting three of the city's claims filed during the audit period (FY 2005-06, FY 2010-11, and FY 2012-13). Claimed salary costs for these years comprised \$246,158 of the \$1,093,192 salary costs claimed during the audit period (which is 22.5%). Due to the homogeneousness of the populations of identity theft reports for all years of the audit period, we determined that the three years selected would be reasonably representative of any other year of the audit period.

We designed a statistical sampling plan to test the attributes identified above so that we could project our sample results to the population of identity theft reports. We selected our statistical samples of identity theft cases based on a 95% confidence level, a sampling error of +/-8%, and an expected (true) error rate of 50%. Our sampling plan required that we test 114 cases out of 466 for FY 2005-06, 96 cases out of 265 for FY 2010-11, and 94 cases out of 251 for FY 2012-13. We then selected the identity theft cases for each of the three years by using random number tables.

To test whether police reports supported identify theft cases, we reviewed each case selected to verify the existence of actual cost documentation (case reports) that also supported violations of PC section 530.5 (Identity Theft) that occurred within each fiscal year. We found that 100% of the cases tested for each of the three years were allowable because they were supported by contemporaneously prepared and approved police reports for violations of PC section 530.5.

Overstated time increments

The city claimed salary costs during the audit period based on the following time increments for performing the reimbursable activities of taking a police report (Activity 1a) and beginning an investigation (Activity 2):

Reimbursable Activity	FY 2002-03 through		
	FY 2010-11	FY 2011-12	FY 2012-13
1a	17.5	18	45
2	480.0	480	90

However, the city estimated these time increments and did not provide any documentation supporting the time increments claimed. During our review of the cases selected for testing to verify the accuracy of the number of identity theft cases, we observed that the city's Tiburon system identified several calls related to each unique PC section 530.5 case number. We also observed that the system did not differentiate or break down time spent between taking a police report (reimbursable Activity 1a) and beginning an investigation (reimbursable Activity 2).

The LBPD's Identity Theft Detail (ITD) worked with us to provide a breakdown of time spent between the two mandated activities. LBPD ITD interviewed a Police Officer and a Clerk Typist who performed the mandated activities during the audit period. Based on these interviews, LBPD ITD provided a statement on letterhead that time spent by staff on identity theft cases should be allocated as 33% for taking a police report and 67% for beginning an investigation. LBPD ITD further stated that the same person/job classification performed the two mandated activities during the initial call for the identity theft case identified by the PC section 530.5 police report.

As previously noted, the city's Tiburon system contemporaneously records the start and end times of all calls related to each case. Using this information, we prepared a schedule of the time increments pertaining to the initial calls for service for the three fiscal years tested for case counts.

We calculated an average time increment per case for each fiscal year tested. The average time increments for the initial identity theft calls using the time breakdowns identified in the city’s Tiburon system reports are as follows:

FY 2005-06 and FY 2010-11

- 44 minutes for each PC section 530.5 police report
- Reimbursable Activity 1a – 15 minutes per police report
- Reimbursable Activity 2 – 29 minutes per police report

FY 2012-13

- 38 minutes for each PC section 530.5 police report
- Reimbursable Activity 1a – 13 minutes per police report
- Reimbursable Activity 2 – 25 minutes per police report

Based on these results, we calculated an average time increment of 14 minutes for reimbursable Activity 1a and 28 minutes for reimbursable Activity 2. We applied these averages to the other years of the audit period (FY 2002-03 through FY 2004-05, FY 2006-07 through FY 2009-10, and FY 2011-12).

The following table summarizes the time claimed and allowable for reimbursable Activities 1a and 2 by fiscal year:

Fiscal Year	Claimed Minutes		Allowable Minutes	
	Activity 1a Taking a Police Report	Activity 2 Beginning an Investigation	Activity 1a Taking a Police Report	Activity 2 Beginning an Investigation
2002-03	17.50	480.00	14.00	28.00
2003-04	17.50	480.00	14.00	28.00
2004-05	17.50	480.00	14.00	28.00
2005-06	17.50	480.00	15.00	29.00
2006-07	17.50	480.00	14.00	28.00
2007-08	17.50	480.00	14.00	28.00
2008-09	17.50	480.00	14.00	28.00
2009-10	17.50	480.00	14.00	28.00
2010-11	17.50	480.00	15.00	29.00
2011-12	18.00	480.00	14.00	28.00
2012-13	45.00	90.00	13.00	25.00

Misclassified employee classifications

The city claimed salaries and benefits based on PHRs of the following four job classifications:

- Police Officers (for Activities 1a and 2);
- Police Services Specialists (for Activity 1a);
- Police Services Assistants (for Activity 1a); and

- Police Officer Detectives (Activity 2 for FY 2012-13 only).
To validate the city’s assertion as to who performed the reimbursable activities, we:
- Prepared a schedule of the employee numbers and names from the sample selections that we used from the Tiburon system reports;
- Requested information from the LBPB ITD supporting the actual job classifications for the employees identified in the Tiburon system reports; and
- Verified that the employee names and numbers were specifically for the initial call related to the sample selections.

Based on these procedures, we found that Police Officer Detectives and Police Services Assistants did not perform any of the mandated activities. We also noted that Police Officer Cadets, Special Services Officers, and Clerk Typists performed the mandated activities, but were not claimed by the city.

The following table summarizes the actual job classifications of the employees who performed the reimbursable activities for FY 2005-06, FY 2010-11, and FY 2012-13; their percentages of involvement in the reimbursable activities; and the weighted average percentages for the three fiscal years:

Classification	Fiscal Year			Weighted Average
	2005-06	2010-11	2012-13	
Police Officers	61%	69%	52%	61%
Police Officer Cadets	0%	1%	0%	0%
Police Services Specialists	4%	1%	0%	2%
Special Services Officers	4%	9%	1%	5%
Clerk Typists	31%	20%	47%	32%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Misstated productive hourly rates

We requested, and the LBPB Financial Bureau provided, a schedule of the actual hourly salary rates for the employee classifications that performed the reimbursable activities. Based on this information, we found that the salary rates claimed for Police Officers and Police Services Specialists were overstated. Therefore, we calculated weighted average PHRs for employee job classifications that performed the mandated activities for each fiscal year of the audit period based on the percentages shown in the table above and the hourly rate information provided by the city.

For example, the following table shows the calculation of the weighted average PHR for FY 2002-03:

<u>Classification</u>	<u>Hourly Rate</u>	<u>Percentage Involvement</u>	<u>Weighted Rate</u>
Police Officers	\$30.74	61%	\$ 18.75
Police Services Specialists	19.76	2%	0.40
Special Services Officers	19.76	5%	0.99
Clerk Typists	17.48	32%	5.59
Raw Weighted Hourly Rate			25.73
times Conversion Factor			<u>× (2,080/1,800)</u>
Weighted Average PHR			<u>\$ 29.73</u>

The following table summarizes the auditor-recalculated weighted-average PHR for each fiscal year in the audit period:

<u>Fiscal Year</u>	<u>Weighted Average PHR</u>
2002-03	\$ 29.73
2003-04	30.12
2004-05	30.26
2005-06	31.15
2006-07	32.95
2007-08	34.77
2008-09	36.81
2009-10	38.11
2010-11	41.21
2011-12	39.85
2012-13	40.61

Unallowable related employee benefits

Benefit costs are determined by multiplying each year's salary costs by each year's benefit rate. Employee benefits related to the unallowable salaries identified above are also unallowable.

We traced the claimed benefit rates for each job classification that performed the mandated activities to supporting documentation for each fiscal year in the audit period and determined that the benefit rates claimed were not unreasonable or excessive. As such, we calculated allowable benefit costs using the claimed benefit rates for each fiscal year in the audit period.

The following table summarizes the related benefit audit adjustment by fiscal year:

Fiscal Year	Salaries Audit Adjustment	Claimed Benefit Rate	Related Benefit Cost Adjustment
2002-03	\$ (109,605)	33.500%	\$ (36,717)
2003-04	(60,944)	39.000%	(23,769)
2004-05	(98,024)	45.000%	(44,111)
2005-06	(107,344)	45.000%	(48,305)
2006-07	(145,057)	46.200%	(67,016)
2007-08	(129,400)	53.400%	(69,100)
2008-09	(116,517)	40.433%	(47,111)
2009-10	(80,568)	40.362%	(32,519)
2010-11	(90,945)	42.030%	(38,224)
2011-12	(16,738)	49.650%	(8,310)
2012-13	(22,760)	39.635%	(9,021)
Total	<u>\$ (977,902)</u>		<u>\$ (424,203)</u>

Unallowable related indirect costs

Indirect costs are determined by multiplying each year's salary costs by each year's indirect cost rate. Indirect costs related to the unallowable salaries previously identified are also unallowable. We calculated allowable indirect costs using the claimed indirect cost rates for each fiscal year in the audit period.

The following table summarizes the related indirect cost audit adjustment by fiscal year:

Fiscal Year	Salaries Audit Adjustment	Claimed Indirect Cost Rate	Related Indirect Cost Adjustment
2002-03	\$ (109,605)	22.30%	\$ (24,442)
2003-04	(60,944)	57.50%	(35,042)
2004-05	(98,024)	10.00%	(9,802)
2005-06	(107,344)	10.00%	(10,734)
2006-07	(145,057)	32.10%	(46,564)
2007-08	(129,400)	36.10%	(46,714)
2008-09	(116,517)	42.50%	(49,520)
2009-10	(80,568)	44.10%	(35,530)
2010-11	(90,945)	45.90%	(41,744)
2011-12	(16,738)	58.40%	(9,775)
2012-13	(22,760)	57.06%	(12,986)
Total	<u>\$ (977,902)</u>		<u>\$ (322,853)</u>

Criteria

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

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

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

Section V. (Claim Preparation and Submission) of the parameters and guidelines states:

1. Salaries and benefits

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

Recommendation

The Identity Theft Program was suspended in the FY 2013-14 through FY 2017-18 Budget Acts. If the program becomes active again, we recommend that the city:

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

City's Response

The city agrees with the finding, as stated, in part:

The City has reviewed the draft report and agrees with the SCO's finding that the City overstated reimbursement claims for the audit period from July 1, 2002, through June 30, 2013 due to overstated time increments, salaries, benefits, and indirect costs. This is primarily due to unintended misinterpretations of the relevant parameters and guidelines. Additionally, the City concurs with the SCO's finding that the City unintentionally understated the number of cases claimed for the audit period. Upon completion of our work with your staff and all parties involved in the City's claim preparation process, the Long Beach Police Department will implement a more detailed process to ensure accuracy in its claimed counts, representation of time increments required to perform the reimbursable activities, and identification of those employee classifications performing the reimbursable activities.

The City understands and agrees with the SCO that the City's unintentional misinterpretation of the Commission of State Mandates' parameters and guidelines for reimbursable activities allocated under the Identity Theft Program was the key factor leading to SCO's audit finding. The audit process has now clarified the parameters and

guidelines for reimbursable activities. Specifically, to “begin an investigation of the facts” is in reference to preliminary investigation of a potential identity theft incident, and is not inclusive of the time increments and related employee classifications required to completed an investigation for purposes of criminal prosecution.

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



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802 • (562) 570-6465 • Fax (562) 570-6780

June 4, 2018

Mr. Jim L. Spano, Assistant Division Chief
State Controller's Office, Division of Audits
P.O. Box 942850
Sacramento, CA 94250

RE: State Mandated Cost Audit Program – Identity Theft Program

Dear Mr. Spano:

Thank you for providing the City of Long Beach (City) with the draft findings for the State Controller's Office (SCO) audit on the Identify Theft Program State Mandated Program.

The City has reviewed the draft report and agrees with the SCO's finding that the City overstated reimbursement claims for the audit period from July 1, 2002 to June 30, 2013 due to overstated time increments, salaries, benefits, and indirect costs. This is primarily due to unintended misinterpretations of the relevant parameters and guidelines. Additionally, the City concurs with the SCO's finding that the City unintentionally understated the number of cases claimed for the audit period. Upon completion of our work with your audit staff and all parties involved in the City's claim preparation process, the Long Beach Police Department will implement a more detailed process to ensure accuracy in its claimed case counts, representation of time increments required to perform the reimbursable activities, and identification of those employee classifications performing the reimbursable activities.

The City understands and agrees with the SCO that the City's unintentional misinterpretation of the Commission of State Mandates' parameters and guidelines for reimbursable activities allocated under the Identity Theft Program was the key factor leading to SCO's audit finding. The audit process has now clarified the parameters and guidelines for reimbursable activities. Specifically, to "begin an investigation of the facts" is in reference to the preliminary investigation of a potential identity theft incident, and is not inclusive of the time increments and related employee classifications required to complete an investigation for purposes of criminal prosecution.

Staff will carefully consider the issues raised by the SCO audit, and will adjust the approach for future claims accordingly. We appreciate the information and recommendations provided by the SCO audit. Thank you for this opportunity to submit our comments for the draft report. If you have any questions about this response, please do not hesitate to contact me at (562) 570-6427.

Sincerely,

JOHN GROSS
Director of Financial Management

Cc:
Robert G. Luna, Chief of Police, Long Beach Police Department
Maura Velasco-Ventura, Chief Financial Officer, Long Beach Police Department
Brandon Walker, Financial Services Officer, Long Beach Police Department
Grace H. Yoon, Interim Budget Bureau Manager, Financial Management Department
Geraldine Alejo, Revenue Management Officer, Financial Management Department

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