

CITY OF LONG BEACH

Audit Report

CRIME STATISTICS REPORTS FOR THE DEPARTMENT OF JUSTICE PROGRAM

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

July 1, 2001, through June 30, 2012



BETTY T. YEE
California State Controller

August 2019



BETTY T. YEE
California State Controller

August 2, 2019

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

John Gross, Director of Financial Management
City of Long Beach
333 West Ocean Boulevard, 6th Floor
Long Beach, CA 90802

Dear Mr. Gross:

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

The city claimed \$3,106,706 for the mandated program. Our audit found that \$1,358,649 is allowable and \$1,748,057 is unallowable because the city overstated salary and benefit costs, and overstated indirect cost rates. The State made no payments to the city. The State will pay \$1,358,649, contingent upon available appropriations.

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

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

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/hf

John Gross,
Director of Financial Management

-2-

August 2, 2019

cc: The Honorable Robert Garcia, Mayor
City of Long Beach
Geraldine Alejo, Revenue Management Officer
Financial Management Department
City of Long Beach
Robert G. Luna, Chief
Long Beach Police Department
Jonathan Mendoza, Senior Accountant
Long Beach Police Department
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
Debra Morton, Manager
Local Government Programs and Services Division
State Controller's Office

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	4
Follow-up on Prior Audit Findings	4
Views of Responsible Officials	4
Restricted Use	5
Schedule—Summary of Program Costs	6
Findings and Recommendations	10
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

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

The city claimed \$3,106,706 for the mandated program. Our audit found that \$1,358,649 is allowable and \$1,748,057 is unallowable because the city overstated salary and benefit costs and overstated indirect cost rates. The State made no payments to the city. The State will pay \$1,358,649, contingent upon available appropriations.

Background

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

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

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

The Commission found that the following activities are reimbursable:

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

- the victim's race, ethnicity, religion, sexual orientation, or physical or mental disability, or gender or national origin (PC section 13023);
- For district attorneys to report annually on or before June 30, to the Attorney General, on profiles by race, age, gender, and ethnicity any person charged with a felony or misdemeanor under PC section 12025 (carrying a concealed firearm) or section 12031 (carrying a loaded firearm in a public place), and any other offense charged in the same complaint, indictment, or information. The Commission found that this activity is a reimbursable mandate from July 1, 2001, through January 1, 2005. (PC sections 12025, subdivisions (h)(1) and (h)(3); and 12031, subdivisions (m)(1) and (m)(3));
 - For local law enforcement agencies to support all domestic-violence related calls for assistance with a written incident report (PC section 13730, subdivision (a), Chapter 1230, Statutes of 1993);
 - For local law enforcement agencies to report the following in a manner to be prescribed by the Attorney General:
 - Any information that may be required relative to hate crimes, as defined in PC section 422.55 as criminal acts committed, in whole or in part, because of one or more of the following perceived characteristics of the victim: (1) disability, (2) gender, (3) nationality, (4) race or ethnicity, (5) religion, (6) sexual orientation; and
 - Any information that may be required relative to hate crimes, defined in PC section 422.55 as criminal acts committed, in whole or in part, because of association with a person or group with one or more of the following actual or perceived characteristics: (1) disability, (2) gender, (3) nationality, (4) race or ethnicity, (5) religion, (6) sexual orientation.

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

Objective, Scope, and Methodology

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

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

To achieve our objective, we:

- Reviewed the annual mandated cost claims filed by the city for the audit period and identified the material cost components of each claim as domestic violence related calls for assistance. Determined whether there were any errors or unusual or unexpected variances from year to

- year. Reviewed the activities claimed to determine whether they adhered to the SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing key city staff. Discussed the claim preparation process with city staff to determine what information was obtained, who obtained it, and how it was used;
 - Interviewed city staff to determine what employee classifications were involved in performing the reimbursable activities;
 - Interviewed city staff and reviewed a current time study—created using the Tiburon system—which captures information related to report writing beginning and ending times to determine allowable average time increments (ATIs) for reimbursable activities. We noted that the city overstated the ATI for the reimbursable activities;
 - Reviewed summary reports generated from the city's Records Management System (RMS) to provide support for the number of domestic violence-related calls for assistance incident reports for each fiscal year of the audit period. Based on our review of the summary reports, we found that in fiscal year (FY) 2001-02, through FY 2005-06, the city claimed unsupported calls which did not result in a written report;
 - Validated domestic violence-related calls for assistance reports by judgmentally selecting a non-statistical sample of 220 (20 reports per fiscal year of the audit period) out of 20,685 total domestic violence-related calls for assistance incident reports. We reviewed the domestic violence-related calls for assistance incident reports, and noted immaterial exceptions;
 - Reviewed the city's electronic salary reports generated from the city's Human Resources Management System for the audit period. We recalculated the allowable productive hourly rates (PHRs) for each classification claimed using the provided supporting documentation. We found that the city overstated the PHRs for each classification for the audit period;
 - Reviewed the city's Indirect Cost Rate Proposals (ICRPs), and expenditure and salary reports for the audit period. We recalculated the allowable benefit rates for each classification using the provided supporting documentation. We found that the city understated benefit rates in FY 2004-05, FY 2005-06, and FY 2008-09 through FY 2011-12;
 - Verified that indirect costs claimed for the audit period were for common or joint purposes and that the indirect cost rates were properly supported and applied. We recalculated the indirect cost rates for the audit period and found that the city overstated the indirect cost rates claimed in FY 2003-04 and FY 2011-12; and
 - Reviewed potential sources of offsetting revenues for the audit period. We interviewed city staff, reviewed single audit reports (with accompanying financial statements), and reviewed revenue reports for the audit period for other funding sources. We determined that claimed costs were not funded by another source.

GC sections 12410, 17558.5, and 17561 provide the legal authority to conduct this audit. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations. We did not audit the city's financial statements.

Conclusion

As a result of performing the audit procedures, we found that the city did not comply with the requirements described in our audit objective. We found that the city did not claim costs that were funded by other sources; however, it did claim unsupported and ineligible costs, as quantified in the Schedule and described in the Findings and Recommendations section of this audit report.

For the audit period, the City of Long Beach claimed \$3,106,706 for the legislatively mandated Crime Statistics Reports for the Department of Justice Program. Our audit found \$1,358,649 is allowable and \$1,748,057 is unallowable. The State made no payments to the city. The State will pay \$1,358,649, contingent upon available appropriations.

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

Follow-up on Prior Audit Findings

We have not previously conducted an audit of the city's legislatively mandated Crime Statistics Reports for the Department of Justice Program.

Views of Responsible Officials

We issued a draft audit report on June 28, 2019. John Gross, Director of Financial Management, responded by letter dated July 1, 2019 (Attachment), agreeing with the audit results. This final audit report includes the city's response.

Restricted Use

This audit 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 audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

August 2, 2019

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 211,891	\$ 85,643	\$ (126,248)	Finding 1
Total direct costs	211,891	85,643	(126,248)	
Indirect costs	67,208	27,164	(40,044)	Finding 1
Total program costs	<u>\$ 279,099</u>	112,807	<u>\$ (166,292)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 112,807</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 398,097	\$ 84,667	\$ (313,430)	Finding 1
Total direct costs	398,097	84,667	(313,430)	
Indirect costs	66,499	14,143	(52,356)	Finding 1
Total program costs	<u>\$ 464,596</u>	98,810	<u>\$ (365,786)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 98,810</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 212,285	\$ 88,887	\$ (123,398)	Finding 1
Total direct costs	212,285	88,887	(123,398)	
Indirect costs	87,816	31,079	(56,737)	Finding 1, 2
Total program costs	<u>\$ 300,101</u>	119,966	<u>\$ (180,135)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 119,966</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 194,544	\$ 86,921	\$ (107,623)	Finding 1
Total direct costs	194,544	86,921	(107,623)	
Indirect costs	14,965	6,013	(8,952)	Finding 1
Total program costs	<u>\$ 209,509</u>	92,934	<u>\$ (116,575)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 92,934</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 162,675	\$ 86,557	\$ (76,118)	Finding 1
Total direct costs	162,675	86,557	(76,118)	
Indirect costs	12,514	5,920	(6,594)	Finding 1
Total program costs	<u>\$ 175,189</u>	92,477	<u>\$ (82,712)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 92,477</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 154,527	\$ 76,102	\$ (78,425)	Finding 1
Total direct costs	154,527	76,102	(78,425)	
Indirect costs	33,928	16,709	(17,219)	Finding 1
Total program costs	<u>\$ 188,455</u>	92,811	<u>\$ (95,644)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 92,811</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 201,730	\$ 99,727	\$ (102,003)	Finding 1
Total direct costs	201,730	99,727	(102,003)	
Indirect costs	47,475	23,471	(24,004)	Finding 1
Total program costs	<u>\$ 249,205</u>	123,198	<u>\$ (126,007)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 123,198</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 208,693	\$ 102,982	\$ (105,711)	Finding 1
Total direct costs	208,693	102,982	(105,711)	
Indirect costs	63,459	30,506	(32,953)	Finding 1
Total program costs	<u>\$ 272,152</u>	133,488	<u>\$ (138,664)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 133,488</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 217,835	\$ 115,371	\$ (102,464)	Finding 1
Total direct costs	217,835	115,371	(102,464)	
Indirect costs	68,764	35,540	(33,224)	Finding 1
Total program costs	<u>\$ 286,599</u>	150,911	<u>\$ (135,688)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 150,911</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 230,604	\$ 119,110	\$ (111,494)	Finding 1
Total direct costs	230,604	119,110	(111,494)	
Indirect costs	74,874	37,606	(37,268)	Finding 1
Total program costs	<u>\$ 305,478</u>	156,716	<u>\$ (148,762)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 156,716</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Hate crime reports	\$ 857	\$ 857	\$ -	
Domestic violence related calls for assistance	269,513	142,477	(127,036)	Finding 1
Total direct costs	270,370	143,334	(127,036)	
Indirect costs	105,953	41,197	(64,756)	Finding 1, 2
Total program costs	<u>\$ 376,323</u>	184,531	<u>\$ (191,792)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 184,531</u>		
<u>Summary: July 1, 2001, through June 30, 2012</u>				
Direct costs:				
Hate crime reports	\$ 857	\$ 857	\$ -	
Domestic violence related calls for assistance	2,462,394	1,088,444	(1,373,950)	Finding 1
Total direct costs	2,463,251	1,089,301	(1,373,950)	
Indirect costs	643,455	269,348	(374,107)	Finding 1, 2
Total program costs	<u>\$3,106,706</u>	1,358,649	<u>\$ (1,748,057)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$1,358,649</u>		

¹ See the Findings and Recommendations section.

² Payment amount current as of July 2, 2019.

Findings and Recommendations

**FINDING 1—
Overstated salary and
benefit costs**

The city claimed \$2,462,394 in salaries and benefits for the Domestic Violence Related Calls for Assistance cost component. We found that \$1,088,444 is allowable and \$1,373,950 is unallowable. Unallowable related indirect costs total \$354,933, for a total finding of \$1,728,883.

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

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

During testing, we found the city had overstated the number of domestic violence related calls for assistance, overstated the PHRs, understated the benefit rates, overstated the ATIs used to perform the mandated activities, and overstated related indirect costs because the city did not claim costs in accordance with the program’s parameters and guidelines or the SCO’s mandated cost manual.

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

Fiscal Year	Salaries and Benefits			Unallowable Indirect Costs	Total Audit Adjustment
	Amount Claimed	Amount Allowable	Audit Adjustment		
2001-02	\$ 211,891	\$ 85,643	\$ (126,248)	\$ (40,044)	\$ (166,292)
2002-03	398,097	84,667	(313,430)	(52,356)	(365,786)
2003-04	212,285	88,887	(123,398)	(51,046)	(174,444)
2004-05	194,544	86,921	(107,623)	(8,952)	(116,575)
2005-06	162,675	86,557	(76,118)	(6,594)	(82,712)
2006-07	154,527	76,102	(78,425)	(17,219)	(95,644)
2007-08	201,730	99,727	(102,003)	(24,004)	(126,007)
2008-09	208,693	102,982	(105,711)	(32,953)	(138,664)
2009-10	217,835	115,371	(102,464)	(33,224)	(135,688)
2010-11	230,604	119,110	(111,494)	(37,268)	(148,762)
2011-12	269,513	142,477	(127,036)	(51,273)	(178,309)
Total	\$ 2,462,394	\$ 1,088,444	\$ (1,373,950)	\$ (354,933)	\$ (1,728,883)

Incident Reports

The city overstated the number of domestic violence related calls for assistance, which resulted in net overstated salary and benefit costs totaling \$196,113. Unallowable related indirect costs total \$38,512, for a total adjustment of \$234,625.

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

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

<u>Fiscal Year¹</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2001-02	2,300	1,923	(377)
2002-03	4,373	1,883	(2,490)
2003-04	2,261	1,833	(428)
2004-05	2,240	1,713	(527)
2005-06	1,701	1,632	(69)
Total	<u>12,875</u>	<u>8,984</u>	<u>(3,891)</u>

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

The following table summarizes the audit adjustment:

<u>Fiscal Year¹</u>	<u>Salaries and Benefits</u>	<u>Related Indirect Costs</u>	<u>Audit Adjustment</u>
2001-02	\$ (19,137)	\$ (6,070)	\$ (25,207)
2002-03	(125,890)	(21,029)	(146,919)
2003-04	(22,219)	(9,192)	(31,411)
2004-05	(25,209)	(1,939)	(27,148)
2005-06	(3,658)	(282)	(3,940)
Total	<u>\$ (196,113)</u>	<u>\$ (38,512)</u>	<u>\$ (234,625)</u>

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

Time Increments

The city overstated the time increments claimed for Police Department staff performing the mandated activities, which resulted in net overstated salary and benefit costs totaling \$1,097,585. The unallowable related indirect costs total \$286,123, for a total adjustment of \$1,383,708.

For the audit period, the city estimated that it took Police Officers 89 minutes to write and Sergeants 18 minutes to review and edit an incident report. The city did not maintain documentation to support time increments claimed for Police Department Staff performing mandated activities. However, during our audit, the city requested, and we allowed, the city to conduct a time study. Based on our review of this time study,

we determined that it takes a Police Officer 42.67 minutes to write an incident report. The Police Department's subject matter expert stated that the time study was representative of the time it takes Police Officers to perform the mandated activities. We also interviewed key personnel staff and determined that it takes Sergeants 15 minutes to review and edit an incident report. Therefore, we determined that it is reasonable to allow 42.67 minutes for Police Officers to write and 15 minutes for Sergeants to review and edit an incident report. The city overstated claimed salaries and benefit costs as a result of overstated time increments. We recalculated the allowable costs based on the allowable time increments.

The following table summarizes the audit adjustment:

Fiscal Year	Salaries and Benefits	Related Indirect Costs	Audit Adjustment
2001-02	\$ (95,137)	\$ (30,176)	\$ (125,313)
2002-03	(177,005)	(29,567)	(206,572)
2003-04	(94,901)	(39,257)	(134,158)
2004-05	(87,391)	(6,723)	(94,114)
2005-06	(72,485)	(5,576)	(78,061)
2006-07	(68,604)	(15,063)	(83,667)
2007-08	(89,702)	(21,109)	(110,811)
2008-09	(93,442)	(28,331)	(121,773)
2009-10	(97,011)	(30,532)	(127,543)
2010-11	(103,233)	(33,424)	(136,657)
2011-12	(118,674)	(46,365)	(165,039)
Total	<u>\$ (1,097,585)</u>	<u>\$ (286,123)</u>	<u>\$ (1,383,708)</u>

Productive Hourly Rates

The city overstated the average PHRs claimed for the Police Officer and Sergeant classifications, which resulted in net overstated salary and benefit costs totaling \$112,931. Unallowable related indirect costs total \$30,298, for a total adjustment of \$143,229.

For the audit period, the city calculated average PHRs for the Police Officer and Sergeant classifications using salaries for all officers in each classification. Based on our review of the source documentation and discussions with city staff, we found that the city included "skill pays" for all officers in these classifications to calculate the average PHRs. "Skill pays" are incentive and special pay that officers may be eligible to receive if they meet certain criteria outlined in the memorandum of understanding. The memorandum of understanding for Police Officers and Sergeants identifies "skill pays" for detective, investigator motor officer, helicopter pilot, helicopter observer, marksmanship, etc. Officers who receive these "skill pays" do not perform the mandated activities of writing, reviewing, and editing incident reports. As a result, we calculated an average PHR for each classification by calculating a weighted average of the classifications' actual base pay that excluded "skill pays." We recalculated the allowable costs based on the allowable PHRs.

The following table summarizes the audit adjustment:

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Related Indirect Costs</u>	<u>Audit Adjustment</u>
2001-02	\$ (11,974)	\$ (3,798)	\$ (15,772)
2002-03	(10,535)	(1,760)	(12,295)
2003-04	(6,278)	(2,597)	(8,875)
2004-05	(3,776)	(290)	(4,066)
2005-06	(9,562)	(736)	(10,298)
2006-07	(9,821)	(2,156)	(11,977)
2007-08	(12,301)	(2,895)	(15,196)
2008-09	(15,170)	(4,622)	(19,792)
2009-10	(8,486)	(2,692)	(11,178)
2010-11	(11,807)	(3,844)	(15,651)
2011-12	(13,221)	(4,908)	(18,129)
Total	<u>\$ (112,931)</u>	<u>\$ (30,298)</u>	<u>\$ (143,229)</u>

Benefit Rates

The city understated the benefit costs claimed in FY 2004-05, FY 2005-06, and FY 2008-09 through FY 2011-12, totaling \$32,679. The city calculated benefit rates using actual salaries and benefit costs for the Police Officer and Sergeant classifications. As discussed in the PHR section of this finding, the city included “skill pays” in the average salary calculation for each classification. As a result, the salary base used to calculate the benefit rates for these fiscal years was overstated. We recalculated the benefit rates (average benefit costs divided by base salaries), which resulted in understated benefit costs.

The following table summarizes the audit adjustment:

<u>Fiscal Year¹</u>	<u>Audit Adjustment</u>
2004-05	\$ 8,753
2005-06	9,587
2008-09	2,901
2009-10	3,033
2010-11	3,546
2011-12	4,859
Total	<u>\$ 32,679</u>

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

Criteria

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

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of

such costs, when they were incurred, and their relationship to the reimbursable activities....The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities. Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate.

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

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

Recommendation

The Crime Statistics Reports for the Department of Justice Program was suspended from FY 2012-13 through FY 2018-19. If the program becomes active again, we recommend that the city:

- Follow the mandated program claiming instructions and parameters and guidelines when claiming reimbursement for mandated costs;
- Claim costs based on the ATIs required to perform the mandated cost activities;
- Claim costs based on the number of domestic violence related calls for assistance that are supported with a written report; and
- Calculate PHRs and benefit rates based on the employee classification that perform the mandated activities.

City's Response

The city agrees with the audit finding.

FINDING 2— Overstated indirect cost rates

The city overstated the indirect cost rates used to calculate indirect costs for FY 2003-04 and FY 2011-12, which resulted in overstated indirect costs totaling \$19,174.

During our review of the city's FY 2003-04 expenditure report, we found that the departmental costs did not reconcile to the reported amounts. To test the validity of the reported costs identified in the city's FY 2003-04 ICRP, we recalculated the ICRP by allocating costs based on the allocation of costs in other fiscal years. The city claimed an indirect cost rate of 57.5%. Based on our review, we determined that the documentation provides support for an indirect cost rate of 48.6%, a difference of 8.9%. We applied the error rate to allowable salaries and found that the city overstated indirect costs by \$5,691.

We reviewed the city's FY 2011-12 expenditure report and found that the departmental costs did not reconcile to the reported amounts. During our review, we found that when the city calculated the departmental salary and

benefit costs for its ICRP it excluded salaries, wages, and benefit costs that had been transferred from the city’s General Fund to its grant funds. These costs should have been offset at the end of salary and benefit cost calculations to identify departmental costs and appropriately allocate costs as direct or indirect. During testing, we learned that the city documents the majority of its costs in its General Fund, then uses object code 199 to move salaries, wages, and benefits to grant funds or other departments as necessary. Based on our understanding of this account, and our review of documentation for prior fiscal years, we determined that the General Fund fairly represented the Department’s salary and benefit costs for both the General Fund and grant funds prior to the fund transfers. The excluded salaries, wages, and benefits identified under object code 199 resulted in an understatement of departmental salary and benefit costs in the city’s ICRP.

We also found that the city incorrectly calculated the benefit costs that were included in the FY 2011-12 indirect cost pool. Rather than calculating the benefit costs based on the departmental benefit rate (as it had done in all prior fiscal years), the city included over \$14 million in benefit costs that was transferred to the administrative bureau for the entire Department. Only the percentage of benefit costs related to the indirect salaries should have been included in the indirect cost pool. Therefore, we recalculated the benefit costs related to the indirect salaries by applying the calculated departmental benefit rate of 53.27% (total departmental benefits divided by total departmental salaries) to the indirect salaries.

We recalculated the city’s FY 2011-12 ICRP and found that the city overstated the indirect cost rate. The city claimed an indirect cost rate of 58.4%. Based on our review, we determined that the documentation provides support for an indirect cost rate of 44.0%, a difference of 14.4%. We applied the error rate to allowable salaries and found that the city overstated indirect costs by \$13,483.

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

Cost Categories	Indirect Cost Rate Claimed	Allowable Indirect Cost Rate	Indirect Cost Rate Adjustments
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries	\$ 59,334,071	\$ 59,368,661	\$ 34,590
Indirect costs:			
Salaries and benefits	10,349,974	10,352,595	2,621
Services and supplies	23,787,250	18,475,940	(5,311,310)
Total indirect costs	\$ 34,137,224	\$ 28,828,535	\$ (5,308,689)
Indirect cost rate	57.5%	48.6%	(8.9%)
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries	\$ 83,914,732	\$ 89,007,439	\$ 5,092,707
Indirect costs:			
Salaries and benefits	23,062,114	13,805,703	(9,256,411)
Services and supplies	20,645,680	19,998,381	(647,299)
Cost Allocation Plan	5,335,441	5,335,441	-
Total indirect costs	\$ 49,043,235	\$ 39,139,525	\$ (9,903,710)
Indirect cost rate	58.4%	44.0%	(14.4%)

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

	Fiscal Year		Total
	2003-04	2011-12	
Allowable indirect cost rate	48.6%	44.0%	
Claimed indirect cost rate	(57.5)%	(58.4)%	
Error rate	(8.9)%	(14.4)%	
Allowable salaries	\$ 63,947	\$ 93,629	
Audit adjustment	\$ (5,691)	\$ (13,483)	\$ (19,174)

Criteria

Section IV of the parameters and guidelines states, “Actual Costs must be traceable and supported by source documents that show the validity of such costs.” The parameters and guidelines also state that agencies may claim indirect costs using the procedures identified in Office of Management and Budget (OMB) Circular A-87.

Title 2, *Code of Federal Regulations*, Part 225 (OMB Circular A-87) provides guidance relative to local government ICRPs. In particular it states, “All activities which benefit from the governmental unit’s indirect costs...will receive an appropriate allocation of indirect costs.”

The circular also provides the following guidance:

- Attachment A, part C.3(a), states, “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”
- Attachment A, part C.3(c), states that any cost allocable to a particular cost objective may not be charged to other cost objectives to overcome fund deficiencies.
- Attachment B, part 8(d)(5), states that benefits, whether treated as indirect or direct costs, must be allocated to activities consistent with benefits attributable to the individuals or groups of employees whose salaries and wages are chargeable to the activity.
- Attachment E, part A.1, states that a cost may not be allocated as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned as a direct cost.

Recommendation

The Crime Statistics Reports for the Department of Justice Program was suspended from FY 2012-13 through FY 2018-19. If the program becomes active again, we recommend that the city ensure that:

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

City’s Response

The city agrees with the audit finding.

**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) 670-6465 • Fax (562) 570-6780

July 1, 2019

Mr. Jim L. Spano, Chief
Mandated Costs Audit Bureau
State Controller's Office, Division of Audits
3301 C Street, Suite 700
Sacramento, CA 95816

RE: State Mandated Cost Audit Program – Crime Statistics Reports for the Department of Justice 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 Crime Statistics Reports for the Department of Justice Program. The City has reviewed the draft report and agrees with the SCO's findings that the City overstated reimbursement claims for the audit period from July 1, 2001 to June 30, 2012 due to overstated cases, time increments, salaries, and indirect costs.

The City concurs with the SCO's finding that the City unintentionally overstated the number of cases and time increments 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 and representation of time increments required to perform the reimbursable activities.

The City understands and agrees with the SCO that the City's calculated average Productive Hour Rate (PHR) included "skill pays" unrelated to the mandated activities including detective, investigator motor officer, helicopter pilot, helicopter observer, marksmanship, etc. The City's unintentional misinterpretation of the Commission of State Mandates' parameters and guidelines for calculating the PHR was the key factor leading to SCO's audit finding. For the audit period, the City based the PHR on an average of total salaries for all employees within the classifications providing the mandated activities. The audit process has now clarified the parameters and guidelines for reimbursable activities. Specifically, that all costs included in calculating PHRs claimed must only be costs incurred to implement the mandated activities.

Additionally, the City concurs with the SCO finding that the City overstated its indirect costs for claim years FY 2003-04 and FY 2011-12 due to unintentional errors in reporting the Long Beach Police Department expenditure reports for those two claim years. Following the audit, the Long Beach Police Department will ensure a more detailed and accurate reporting process for expenditures.

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,

A handwritten signature in black ink, appearing to read 'John Gross', with a stylized flourish at the end.

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
Jonathan Mendoza, Senior Accountant, Long Beach Police Department
Grace H. Yoon, Budget Bureau Manager, Financial Management Department
Geraldine Alejo, Revenue Management Officer, Financial Management Department
Aida Honey, Budget Analyst, Financial Management Department

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

<http://www.sco.ca.gov>