

CITY OF LANCASTER

Audit Report

IDENTITY THEFT PROGRAM

Chapter 956, Statutes of 2000

July 1, 2002, through June 30, 2013



BETTY T. YEE
California State Controller

September 2018



BETTY T. YEE
California State Controller

September 18, 2018

The Honorable R. Rex Parris, Mayor
City of Lancaster
44933 North Fern Avenue
Lancaster, CA 93534

Dear Mayor Parris:

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

The city claimed \$1,811,489 for the mandated program. Our audit found that \$242,137 is allowable (\$261,223 less a \$19,086 penalty for filing late claims) and \$1,569,352 is unallowable because the city overstated the number of identity theft cases, overstated the time increments required to perform the reimbursable activities, misclassified contract services costs as salary costs, misclassified the employees who performed the reimbursable activities, understated salaries, benefits, and related indirect costs for city employees who performed the reimbursable activities, and understated contract services costs. The State made no payments to the city. The State will pay \$242,137, 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.

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than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain IRC information 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

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Pam Statsmann, Finance Director
City of Lancaster
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
Steven Pavlov, Finance Budget Analyst
Local Government Unit
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Anita Dagan, Manager
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Audit Report

Summary

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

The city claimed \$1,811,489 for the mandated program. Our audit found that \$242,137 is allowable (\$261,223 less a \$19,086 penalty for filing late claims) and \$1,569,352 is unallowable because the city overstated the number of identity theft cases; overstated the time increments required to perform the reimbursable activities; misclassified contract services costs as salary costs; misclassified the employees who performed the reimbursable activities; understated salaries, benefits, and related indirect costs for city employees who performed the reimbursable activities; and understated contract services costs. The State made no payments to the city. The State will pay \$242,137, contingent upon available appropriations.

Background

Penal Code (PC) section 530.6, subdivision (a), as added by Chapter 956, Statutes of 2000, 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 only 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 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 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 objectives, 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 salaries. Determined whether there were any errors or unusual or unexpected variances from year to year, and reviewed the claimed activities 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 counts for each fiscal year in the audit period;
- Designed a statistical sampling plan to test claimed salary costs. Judgmentally selected two of the city's filed claims during the audit period (fiscal year [FY] 2011-12 and FY 2012-13) to test claimed salary costs. Claimed salary costs for those years comprised \$328,567 of the \$1,811,489 salary costs claimed during the audit period (18.1%). The specifics of the sampling plan are outlined in the Finding and Recommendation section;
- Used a random number table to select 206 identity theft cases out of 716 from the two years sampled. Tested the identity theft cases to determine whether an approved police report supported that a violation of PC section 530.5 had occurred;
- Used time increments to perform the reimbursable activities determined by the Los Angeles County Sheriff's Department (LASD), as the city contracted with LASD for its law enforcement services; therefore, LASD performed the city's mandated identity theft activities and would also have the data related to performing these activities. LASD's audited identity theft time increments were directly

related to the Identity Theft Program's reimbursable activities and are properly supported;

- Reclassified claimed costs from only salaries to salaries, benefits, contract services, and related indirect costs. Calculated weighted average productive hourly rates (PHRs) based on the extent that city employees performed the reimbursable activities. Calculated weighted contract services rates based on the contracted LASD employees who performed the reimbursable activities; and
- Projected the audit results of the two years tested by multiplying the actual case counts by the average time increments to perform the activities by the weighted average PHRs (for salaries) and by the weighted average contract services rates (for contract services). Due to the homogeneousness of the populations for all years of the audit period, we applied a weighted two-year average of the sampling results to the remaining nine years of the audit period.

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

Our audit found instances of noncompliance with the requirements outlined in the Objective, Scope, and Methodology section. These 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 of Lancaster claimed \$1,811,489 for costs of the legislatively mandated Identity Theft Program. Our audit found that \$242,137 is allowable (\$261,223 less a \$19,086 penalty for filing late claim) and \$1,569,352 is unallowable. The State made no payments to the city. The State will pay \$242,137, contingent upon available appropriations.

Following issuance of this audit report, the SCO's Local Government Programs 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 August 7, 2018. We contacted Pam Statsmann, Finance Director, by telephone on August 21, 2018. Ms. Statsmann declined to respond to the draft audit report.

Restricted Use

This report is solely for the information and use of the City of Lancaster, 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.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

September 18, 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 §530.5	\$ 55,371	\$ -	\$ (55,371)
Begin an investigation of the facts	69,642	-	(69,642)
Total salaries	125,013	-	(125,013)
Contract services	-	16,903	16,903
Total direct costs	125,013	16,903	(108,110)
Indirect costs	-	-	-
Total direct and indirect costs	125,013	16,903	(108,110)
Less late filing penalty ²	-	(1,690)	(1,690)
Total program costs	<u>\$ 125,013</u>	15,213	<u>\$ (109,800)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 15,213</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries and benefits			
Taking police report for violation of PC §530.5	\$ 51,402	\$ -	\$ (51,402)
Begin an investigation of the facts	64,414	-	(64,414)
Total salaries and benefits	115,816	-	(115,816)
Contract services	-	16,282	16,282
Total direct costs	115,816	16,282	(99,534)
Indirect costs	-	-	-
Total direct and indirect costs	115,816	16,282	(99,534)
Less late filing penalty ²	-	(1,628)	(1,628)
Total program costs	<u>\$ 115,816</u>	14,654	<u>\$ (101,162)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 14,654</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries and benefits			
Taking police report for violation of PC §530.5	\$ 69,991	\$ -	\$ (69,991)
Begin an investigation of the facts	87,195	-	(87,195)
Total salaries and benefits	157,186	-	(157,186)
Contract services	-	25,143	25,143
Total direct costs	157,186	25,143	(132,043)
Indirect costs	-	-	-
Total direct and indirect costs	157,186	25,143	(132,043)
Less late filing penalty ²	-	(2,514)	(2,514)
Total program costs	<u>\$ 157,186</u>	22,629	<u>\$ (134,557)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 22,629</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries and benefits			
Taking police report for violation of PC §530.5	\$ 62,902	\$ -	\$ (62,902)
Begin an investigation of the facts	78,135	-	(78,135)
Total salaries and benefits	141,037	-	(141,037)
Contract services	-	22,952	22,952
Total direct costs	141,037	22,952	(118,085)
Indirect costs	-	-	-
Total direct and indirect costs	141,037	22,952	(118,085)
Less late filing penalty ²	-	(2,295)	(2,295)
Total program costs	<u>\$ 141,037</u>	20,657	<u>\$ (120,380)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 20,657</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC §530.5	\$ 94,125	\$ 1,753	\$ (92,372)
Begin an investigation of the facts	116,242	1,565	(114,677)
Total salaries	210,367	3,318	(207,049)
Benefits	-	962	962
Contract services	-	24,539	24,539
Total direct costs	210,367	28,819	(181,548)
Indirect costs	-	332	332
Total direct and indirect costs	210,367	29,151	(181,216)
Less late filing penalty ²	-	(2,915)	(2,915)
Total program costs	\$ 210,367	26,236	\$ (184,131)
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		\$ 26,236	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC §530.5	\$ 97,559	\$ 1,874	\$ (95,685)
Begin an investigation of the facts	120,441	1,673	(118,768)
Total salaries	218,000	3,547	(214,453)
Benefits	-	1,135	1,135
Contract services	-	25,295	25,295
Total direct costs	218,000	29,977	(188,023)
Indirect costs	-	355	355
Total direct and indirect costs	218,000	30,332	(187,668)
Less late filing penalty ²	-	(3,033)	(3,033)
Total program costs	\$ 218,000	27,299	\$ (190,701)
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		\$ 27,299	

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 §530.5	\$ 83,740	\$ 1,508	\$ (82,232)
Begin an investigation of the facts	104,029	1,346	(102,683)
Total salaries	187,769	2,854	(184,915)
Benefits	-	942	942
Contract services	-	22,076	22,076
Total direct costs	187,769	25,872	(161,897)
Indirect costs	-	285	285
Total direct and indirect costs	187,769	26,157	(161,612)
Less late filing penalty ²	-	(2,616)	(2,616)
Total program costs	<u>\$ 187,769</u>	23,541	<u>\$ (164,228)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 23,541</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC §530.5	\$ 79,262	\$ 1,390	\$ (77,872)
Begin an investigation of the facts	98,317	1,241	(97,076)
Total salaries	177,579	2,631	(174,948)
Benefits	-	947	947
Contract services	-	20,108	20,108
Total direct costs	177,579	23,686	(153,893)
Indirect costs	-	263	263
Total direct and indirect costs	177,579	23,949	(153,630)
Less late filing penalty ²	-	(2,395)	(2,395)
Total program costs	<u>\$ 177,579</u>	21,554	<u>\$ (156,025)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 21,554</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC §530.5	\$ 67,195	\$ 1,186	\$ (66,009)
Begin an investigation of the facts	82,960	1,059	(81,901)
Total salaries	150,155	2,245	(147,910)
Benefits	-	876	876
Contract services	-	16,501	16,501
Total direct costs	150,155	19,622	(130,533)
Indirect costs	-	225	225
Total program costs	<u>\$ 150,155</u>	19,847	<u>\$ (130,308)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 19,847</u>	
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC §530.5	\$ 57,147	\$ 1,594	\$ (55,553)
Begin an investigation of the facts	97,966	1,423	(96,543)
Total salaries	155,113	3,017	(152,096)
Benefits	-	1,388	1,388
Contract services	-	20,614	20,614
Total direct costs	155,113	25,019	(130,094)
Indirect costs	-	302	302
Total program costs	<u>\$ 155,113</u>	25,321	<u>\$ (129,792)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 25,321</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2012, through June 30, 2013</u>			
Direct costs:			
Salaries			
Taking police report for violation of PC §530.5	\$ 59,773	\$ 1,378	\$ (58,395)
Reviewing online identity theft report	209	-	(209)
Begin an investigation of the facts	113,472	1,231	(112,241)
Total salaries	173,454	2,609	(170,845)
Benefits	-	1,305	1,305
Contract services	-	21,011	21,011
Total direct costs	173,454	24,925	(148,529)
Indirect costs	-	261	261
Total program costs	<u>\$ 173,454</u>	25,186	<u>\$ (148,268)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 25,186</u>	
<u>Summary: July 1, 2002, through June 30, 2013</u>			
Direct costs:			
Salaries			
Salaries	\$ 1,811,489	\$ 20,221	\$ (1,791,268)
Benefits	-	7,555	7,555
Contract services	-	231,424	231,424
Total direct costs	1,811,489	259,200	(1,552,289)
Indirect costs	-	2,023	2,023
Total direct and indirect costs	1,811,489	261,223	(1,550,266)
Less late filing penalties	-	(19,086)	(19,086)
Total program costs	<u>\$ 1,811,489</u>	242,137	<u>\$ (1,569,352)</u>
Less payment offsets made by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 242,137</u>	

¹ See the Finding and Recommendation section.

² The city filed its FY 2002-03 through FY 2009-10 initial reimbursement claims after the due date specified in GC section 17560. Pursuant to GC section 17561, subdivision (d)(3), the State assessed a late filing penalty equal to 10% of allowable costs, with no maximum penalty amount.

³ Payment information is current as of September 4, 2018.

Finding and Recommendation

**FINDING—
Overstated Identity
Theft Program costs**

The city claimed \$1,811,489 in salary costs for the Identity Theft Program for the audit period consisting of salaries with no related benefits or indirect costs. We found that \$261,223 is allowable and \$1,550,266 is unallowable. The unallowable costs occurred because the city overstated salary costs by \$1,791,268, understated employee benefit costs by \$7,555, understated contract services costs by \$231,424, and understated indirect costs by \$2,023.

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. Contract services costs are calculated in the same manner, except that weighted average contract rates are used for the employees performing the reimbursable activities.

The costs are unallowable because the city misinterpreted the program’s parameters and guidelines, which resulted in contract services costs misclassified as salary costs, overstated identity theft reports, overstated time increments required to perform the reimbursable activities, unclaimed salary costs for certain city employees who performed the reimbursable activities, and related unclaimed employee benefit and indirect costs.

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

Fiscal Year	Salaries			Related Benefit Adjustment	Related Indirect Cost Adjustment	Contract Services Adjustment	Total Audit Adjustment
	Amount Claimed	Amount Allowable	Audit Adjustment				
2002-03	\$ 125,013	\$ -	\$ (125,013)	\$ -	\$ -	\$ 16,903	\$ (108,110)
2003-04	115,816	-	(115,816)	-	-	16,282	(99,534)
2004-05	157,186	-	(157,186)	-	-	25,143	(132,043)
2005-06	141,037	-	(141,037)	-	-	22,952	(118,085)
2006-07	210,367	3,318	(207,049)	962	332	24,539	(181,216)
2007-08	218,000	3,547	(214,453)	1,135	355	25,295	(187,668)
2008-09	187,769	2,854	(184,915)	942	285	22,076	(161,612)
2009-10	177,579	2,631	(174,948)	947	263	20,108	(153,630)
2010-11	150,155	2,245	(147,910)	876	225	16,501	(130,308)
2011-12	155,113	3,017	(152,096)	1,388	302	20,614	(129,792)
2012-13	173,454	2,609	(170,845)	1,305	261	21,011	(148,268)
Total	\$1,811,489	\$ 20,221	\$ (1,791,268)	\$ 7,555	\$ 2,023	\$ 231,424	\$ (1,550,266)

Overstated counts of identity theft police reports

The city reported costs incurred for performing mandated activities related to 4,200 identity theft cases for violations of PC section 530.5 (identity theft). We found that 3,619 reports are allowable and that the city overstated its counts of police reports by 581 during the audit period.

The city did not have its own police force during the audit period and contracted with Los Angeles County for the LASD to provide its law enforcement services. LASD's Lancaster Station provided law enforcement services to residents of the city under a Municipal Law Enforcement Service Agreement (contract), which included identity theft cases. Therefore, LASD had the relevant information about the identity theft case counts related to the city.

The LASD's database system, the Los Angeles Regional Crime Information System (LARCIS), provides unduplicated counts of initial police reports filed for violations of PC section 530.5 and identifies the specific origin of each report. We received a detailed system-generated list from LASD of identity theft reports by case number originating from the City of Lancaster for the entire 11 year audit period. We reviewed the list and noted that the city overstated its report counts for every year of the audit period.

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

Fiscal Year	Claimed	Per LARCIS	Allowable	Difference
2002-03	345	262	255	(90)
2003-04	311	245	239	(72)
2004-05	418	374	365	(53)
2005-06	354	323	315	(39)
2006-07	501	453	442	(59)
2007-08	483	440	429	(54)
2008-09	398	366	357	(41)
2009-10	365	325	317	(48)
2010-11	309	268	261	(48)
2011-12	354	320	307	(47)
2012-13	362	335	332	(30)
Total	4,200	3,711	3,619	(581)

Once we determined the actual counts of identity theft cases for the audit period, we developed further tests to determine whether:

- A contemporaneously prepared and approved police report supported each identity theft case; and
- Each police report supported that a violation of PC section 530.5 had occurred.

In order to test claimed salary costs, we began by judgmentally selecting two of the city's filed claims during the audit period (FY 2011-12 and FY 2012-13). Claimed salary costs for those years comprised \$328,567 (or 18.1%) of the \$1,811,489 salary costs claimed during the audit period. Due to the homogeneousness of the population of identity theft reports for all years of the audit period, we determined that the two years selected would be reasonably representative of any other year of the audit period.

We designed a statistical sample 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 police reports 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 102 reports from FY 2011-12 and 104 reports from FY 2012-13. We selected the identity theft reports for each of the two years by using random number tables.

To test whether police reports supported identity theft cases, we reviewed each report selected to verify the existence of actual cost documentation (case reports) that also supported violations of PC section 530.5.

Our testing disclosed the following:

- For FY 2011-12, we selected 102 cases from the population of 320 PC section 530.5 cases for testing. We found that 4% of the cases were unallowable because they were not a violation of PC section 530.5 (four instances).
- For FY 2012-13, we selected 104 cases from the population of 335 PC section 530.5 cases for testing. We found that 1% of the cases were unallowable because they were not a violation of PC section 530.5 (one instance).

Using these testing results, we calculated an average error rate of 2.5% (4% for FY 2011-12 and 1% for FY 2012-13) and applied the average error rate to FY 2002-03 through FY 2010-11.

We extrapolated and projected the results of our substantive tests of statistical samples of identity theft cases to determine the number of allowable and unallowable identity theft incident reports for the entire 11-year audit period. As shown in the table on the previous page, we found that 3,619 incident reports are allowable (4,200 less a 2.5% average error rate), and 581 incident reports for the audit period were not violations of PC section 530.5.

Overstated time increments

The city claimed salary costs during the audit period based on estimated time increments for performing the reimbursable activities of:

- Taking a police report (drafting, reviewing, and editing) – (Activity 1a),
- Reviewing a police report submitted online (Activity 1b), and
- Beginning an investigation (Activity 2).

The city did not provide any supporting documentation for the time increments it claimed for the first nine fiscal years of the audit period (FY 2002-03 through FY 2010-11). The city provided a declaration of time increments for FY 2012-13 prepared by a city Community Service Officer (CSO) and a Crime Analyst at LASD's Crime Assessment Center. This declaration of time increments documented the time spent by city and

LASD staff performing each identity theft reimbursable activity. The declaration indicated the following time increments:

Reimbursable Activity	Employee Classification	Minutes Required
1a – Take a police report	CSO	14
	Deputy Sheriff	56
	Total – Activity 1a	70
1b – Review online reports	Deputy Sheriff Bonus I	20
2 – Begin an investigation	Deputy Sheriff Bonus I	120

The city CSO and the LASD Crime Analyst indicated on the declaration form that it took them 30 minutes to gather data and complete the form, without explaining how they determined the time increments to perform the reimbursable activities. Therefore, we determined that these time increments are estimated and unsupported.

When the city submitted its claims to SCO, the city provided evidence that it had contracted with LASD for all of its law enforcement services. The city also provided evidence that mandated activities were performed both by city employees and contract LASD staff. We made numerous attempts to obtain supporting documentation for the claimed time increments from the city. However, the city did not provide the requested documentation. As an alternative, we used audited LASD identity theft time increment amounts for the following reasons:

- The city contracted with LASD for its law enforcement services. Therefore, LASD performed the city’s mandated identity theft activities and would also have the data related to performing these activities;
- We previously audited the time increments spent by LASD staff to perform the reimbursable activities. SCO issued its audit report on June 12, 2017, for our audit of identity theft claims submitted by Los Angeles County over the period of July 1, 2004, through June 30, 2013; and
- LASD’s audited identity theft time increments are directly related to the Identity Theft Program’s reimbursable activities and are properly supported.

In our June 12, 2017 audit report, we noted that LASD conducted a time survey to determine how long it took to perform the reimbursable activities. In that survey, LASD broke down reimbursable activity 1.a (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 the activities because activity 1a.1 is performed by various LASD staff, while activity 1a.2 is performed only by Watch Sergeants.

The table below summarizes the audited time increments for LASD staff to perform activities 1a.1, 1a.2, and 2:

Reimbursable Activity	Audited Time Increment
1a.1 – Taking a police report	26.94
1a.2 – Reviewing police reports	7.31
2 – Beginning an investigation	24.06

Costs claimed for reviewing police reports submitted online for PC section 530.5 violations (reimbursable activity 1b) are unallowable because identity theft is one of the crimes that cannot be reported online with LASD.

The following table summarizes the time claimed and allowable for reimbursable activities 1a.1, 1a.2, 1b, and 2 by fiscal year:

Fiscal Year	Claimed Minutes				Allowable Minutes			
	Activity 1a.1 Taking a Police Report	Activity 1a.2 Reviewing a Police Report	Activity 1b Reviewing Online Report	Activity 2 Beginning an Investigation	Activity 1a.1 Taking a Police Report	Activity 1a.2 Reviewing a Police Report	Activity 1b Reviewing Online Report	Activity 2 Beginning an Investigation
2002-03	70.00	30.00	-	120.00	26.94	7.31	-	24.06
2003-04	70.00	30.00	-	120.00	26.94	7.31	-	24.06
2004-05	70.00	30.00	-	120.00	26.94	7.31	-	24.06
2005-06	70.00	30.00	-	120.00	26.94	7.31	-	24.06
2006-07	70.00	30.00	-	120.00	26.94	7.31	-	24.06
2007-08	70.00	30.00	-	120.00	26.94	7.31	-	24.06
2008-09	70.00	30.00	-	120.00	26.94	7.31	-	24.06
2009-10	70.00	30.00	-	120.00	26.94	7.31	-	24.06
2010-11	70.00	30.00	-	120.00	26.94	7.31	-	24.06
2011-12	70.00	-	-	120.00	26.94	7.31	-	24.06
2012-13	70.00	-	20.00	120.00	26.94	7.31	-	24.06

Misclassified Costs

Actual Personnel Status and Job Classifications

The city misclassified its claimed costs as salaries when they were actually primarily contract services. As noted previously, LASD staff provided the city’s law enforcement services during the audit period, although city staff performed some clerical functions related to the mandated activities. We found that the city’s costs consisted entirely of contract services for the first four years of the audit period, and in various percentages ranging from 63% to 72% for the remaining seven years.

To validate the city’s assertion as to which employees performed the reimbursable activities, we:

- Reviewed the employee numbers and names from the LASD LARCIS

- system-generated lists of the city’s identity theft cases for each fiscal year of the audit period to identify who performed the reimbursable activities;
- Requested information supporting the actual personnel status, job classifications, and PHRs of those who performed the mandated activities for the sampled PC 530.5 police reports for FY 2011-12, and FY 2012-13; and
 - Determined the extent/percentage of city employees and LASD employees who performed the mandated activities for the identity theft cases.

We reviewed the LASD system-generated LARCIS lists of PC 530.5 cases for the audit period. Lancaster city employees used six-character alphanumeric LARCIS codes (e.g. LN9999) and LASD contract law enforcement staff used six-character numeric codes. We used these codes to identify the authors of identity theft cases (authors). All other agencies used a six-character alphanumeric code beginning with something other than “LN” (e.g. PL9999 for a City of Palmdale employee), by which we identified authors who were not employees or contractors of the City of Lancaster and therefore of no cost to the city.

We found that no city employees performed mandated activities between FY 2002-03 and FY 2005-06. We noted that city employees performed some mandated identity theft activities beginning in FY 2006-07.

We provided the city with a list of the authors of identity theft cases for FY 2011-12 and FY 2012-13. The city subsequently identified each listed name as a city employee or an LASD employee and provided job classification information. We used this claimant-generated information to determine the employment status and job classifications of the authors of sampled PC 530.5 cases for the two fiscal years tested. We noted that CSOs were the only city employees that performed the mandated activities between FY 2006-07 and FY 2012-13. Based on the information provided and reviewed for FY 2011-12 and FY 2012-13, we determined an average percentage of employee involvement, which we applied to FY 2006-07 through FY 2010-11.

The following table summarizes the results of our review for the actual job classifications that performed the reimbursable activities during the audit period and their percentages of involvement in the reimbursable activities:

Classification	Fiscal Year			
	2002-03 through 2005-06	2006-07 through 2010-11	2011-12	2012-13
City employees	0%	32%	36%	28%
LASD employees	100%	68%	63%	72%
Non city/LASD employees	0%	0%	1%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Overstated and misclassified salaries

The city claimed salary costs for all years of the audit period based on PHRs for the following job classifications:

- Deputy Sheriff Generalist (Generalist);
- Deputy Sheriff Bonus I (Bonus I); and
- Sergeants.

However, all of these employees were LASD staff members who provided law enforcement services to the city pursuant to the city’s contract with LASD. Therefore, all of the claimed costs were misclassified, resulting in overstated salary costs. We performed an analysis to determine allowable contract services costs. That analysis is presented under the heading of Allowable Contract Services Costs.

As noted above, we found that no city employees performed mandated identity theft activities between FY 2002-03 and FY 2005-06, and that city CSOs performed some of the reimbursable activities between FY 2006-07 and FY 2012-13. The percentage involvement in these activities by city employees is noted in the previous table. Specifically, CSOs were involved with activities 1a.1 (Taking a police report) and 2 (Beginning an investigation). The city did not include any costs for CSOs in its claims for those years. Therefore, we performed an analysis to determine the amount of allowable salary costs for CSOs during the audit period.

The city provided the following hourly salary rates for its CSOs for FY 2006-07 through FY 2012-13:

Fiscal Year	Salary Rate
2006-07	\$ 27.60
2007-08	30.40
2008-09	29.38
2009-10	30.51
2010-11	31.62
2011-12	32.11
2012-13	33.01

Using this salary rate information, the corrected number of case counts, the corrected time increments, and the percentage involvement of CSOs during the audit period, we determined allowable salaries for each fiscal year. For example, the following table shows the calculation of allowable salary costs for FY 2006-07:

Reimbursable Activity	Number of Cases (a)	Time Increment (b)	Minutes c= (a) * (b)	Hours d = c/60	CSO PHR [e]	Percentage Involvement (f)	Allowable Costs = d * e * f
1a	442	26.94	11,907	198.45	\$ 27.60	32%	\$ 1,753
2	442	24.06	10,635	177.25	27.60	32%	1,565
Total							<u>\$ 3,318</u>

The following table presents the allowable salary costs for CSOs by fiscal year:

Fiscal Year	Allowable Salaries
2006-07	\$ 3,318
2007-08	3,547
2008-09	2,854
2009-10	2,631
2010-11	2,245
2011-12	3,017
2012-13	<u>2,609</u>
Total	<u>\$ 20,221</u>

Allowable related employee benefits

Benefit costs are determined by multiplying allowable salary costs by each year's benefit rate. Employee benefits related to the allowable salaries identified above are also allowable. The city provided the benefit rates for its CSOs for FY 2006-07 through FY 2012-13. Using this information, we calculated allowable benefit costs.

The following table summarizes the allowable related employee benefit costs by fiscal year:

Fiscal Year	Allowable Salaries	Allowable Benefit Rate	Allowable Benefit Costs
2002-03	\$ -	0%	\$ -
2003-04	-	0%	-
2004-05	-	0%	-
2005-06	-	0%	-
2006-07	3,318	29%	962
2007-08	3,547	32%	1,135
2008-09	2,854	33%	942
2009-10	2,631	36%	947
2010-11	2,245	39%	876
2011-12	3,017	46%	1,388
2012-13	<u>2,609</u>	50%	<u>1,305</u>
Total	<u>\$ 20,221</u>		<u>\$ 7,555</u>

Allowable related indirect costs

Indirect costs are determined by multiplying the salary costs by the indirect cost rate. Indirect costs related to the allowable salaries previously identified are also allowable. The parameters and guidelines offer two options for claiming indirect costs, which are (1) use 10% of labor, excluding fringe benefits; or (2) prepare an Indirect Cost Rate Proposal (ICRP) for each year of the audit period. As the city did not prepare an ICRP for any year of the audit period, we calculated allowable indirect costs using the 10% of labor, excluding fringe benefits option.

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

Fiscal Year	Allowable Salaries Audit Adjustment	Allowable Indirect Cost Rate	Related Indirect Cost Adjustment
2002-03	\$ -	10%	\$ -
2003-04	-	10%	-
2004-05	-	10%	-
2005-06	-	10%	-
2006-07	3,318	10%	332
2007-08	3,547	10%	354
2008-09	2,854	10%	285
2009-10	2,631	10%	263
2010-11	2,245	10%	225
2011-12	3,017	10%	302
2012-13	2,609	10%	262
Total	<u>\$ 20,221</u>		<u>\$ 2,023</u>

Allowable contract services costs

Understated contract services costs

The city did not include any costs for contract services in its claims during the audit period. However, as noted previously, the city contracted with Los Angeles County for its law enforcement services during the audit period, which included most of the activities related to identity theft.

During the audit, the city provided us with a copy of its contract dated June 29, 2004, between the city and Los Angeles County for the period of July 1, 2004, through June 30, 2009. That contract was subsequently renewed and was in effect throughout the rest of the audit period. The contract specifies that LASD will render law enforcement functions for the city and that law enforcement services requested by the city shall be authorized annually by the city and LASD each July 1st, using an LASD SH-AD-575 Deployment of Personnel Form (SH-AD-575 Form). This form is used to indicate the level of services provided and the amounts that the city will be billed based on the rates indicated for various LASD staff.

The city provided a copy of its signed SH-AD-575 Form for FY 2004-05, signed by the LASD Lancaster Station Commander and the Mayor of Lancaster. The contract law enforcement service staffing level in effect for FY 2004-05 included the following LASD employee classifications:

Sworn Officers

- Generalist
- Bonus I
- Sergeant

Civilian Support Staff

- Community Service Assistant (CSA)
- Station Clerk

As noted previously, we determined the extent to which LASD staff performed the mandated activities during the audit period. To determine the amount of allowable costs that the city incurred for contract services, we also needed to determine which LASD staff performed the reimbursable activities, the extent of their involvement during the audit period, and the billing rates assessed to the city by Los Angeles County for such staff.

LASD Contract Staffing Levels

Staff Claimed

For FY 2002-03 through FY 2012-13, the city claimed the PHRs of the Generalist classification for performing mandated reimbursable activities 1a.1 (Taking a police report) and 2 (Beginning an investigation).

For FY 2002-03 through FY 2010-11, the city claimed the PHRs of the Sergeant classification for performing reimbursable activity 1a.2 (Reviewing written incident reports).

For FY 2012-13, the city claimed the PHRs of the Bonus I classification for performing reimbursable activities 1b (Reviewing identity theft reports submitted online) and 2 (Beginning an investigation).

Staff Allowable

From the information provided during audit fieldwork, we prepared a schedule to determine the extent that LASD staff performed the reimbursable activities during FY 2011-12 and FY 2012-13. To do this, we used the same population of identity theft reports that we selected for testing. Once we determined which LASD employee classifications performed the activities and the extent of their involvement for the two years, we developed an average for the involvement of each LASD staff for the remaining years of the audit period.

The following table summarizes the actual job classifications that performed the reimbursable activities for FY 2011-12 and FY 2012-13, and their percentages of involvement in the reimbursable activities. The percentage levels shown for FY 2002-03 through FY 2010-11 represent an average based on FY 2011-12 and FY 2012-13.

Classification	Fiscal Year		
	2002-03 through 2010-11	2011-12	2012-13
<u>Activities 1a.1 and 2</u>			
Generalist	43%	50%	36%
Bonus I	22%	27%	16%
Security Officer	3%	0%	6%
CSA	32%	23%	42%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
<u>Activity 1a.2</u>			
Sergeant	<u>100%</u>	<u>100%</u>	<u>100%</u>

Contract Law Enforcement Rates

The city provided the LASD Law Enforcement Rates for FY 2002-03 through FY 2010-11 for all LASD contract staff. We also requested copies of the annual authorized SH-AD-575 Forms. These forms identify the specific contract staff who performed the reimbursable activities each fiscal year and the applicable contract rates assessed to the city for those staff. We attempted repeatedly to obtain this information. Subsequently, the city sent an email stating that no further information would be submitted.

We then contacted the LASD Contract Law Enforcement Bureau, which provided contract rates for the specific LASD staffing levels in effect during the audit period for the law enforcement services that LASD provided to the city. Using this LASD-generated information, we calculated weighted hourly contract rates for the Generalist, Bonus I, CSA, and Security Officer classifications. These LASD staff were all involved in performing the reimbursable activity of taking a police report (activity 1a.1) and beginning an investigation (activity 2). As only the Watch Sergeants reviewed the PC 530.5 police reports, we applied their hourly rates to the reimbursable activity of reviewing PC 530.5 police reports (activity 1a.2).

For example, the following table shows the calculation of the weighted average PHRs used to calculate allowable costs for FY 2002-03.

<u>Employee Classification</u>	<u>Hourly Rate</u>	<u>Percentage Involvement</u>	<u>Weighted Rate</u>
<u>Activities 1.a.1 and 2</u>			
Generalist	\$ 87.01	43%	\$ 37.41
Bonus I	92.28	22%	20.31
CSA	26.47	32%	8.47
Security Officer	39.68	3%	1.19
Weighted Hourly Rate			<u>\$ 67.38</u>
<u>Activity 1a.2</u>			
Sergeant	\$ 73.98	100%	<u>\$ 73.98</u>

We performed a similar calculation for all other years of the audit period using updated hourly rate information. The following table summarizes the weighted contract rates applicable to the reimbursable activities for each fiscal year of the audit period:

Fiscal Year	Allowable Contract Rates	
	Activities 1a.a and 2	Activity 1a.2
2002-03	\$ 67.38	\$ 73.98
2003-04	69.13	76.95
2004-05	69.69	79.20
2005-06	73.58	84.70
2006-07	76.89	90.92
2007-08	81.38	97.83
2008-09	85.41	102.35
2009-10	87.71	104.54
2010-11	87.05	105.96
2011-12	100.73	108.39
2012-13	81.63	109.39

Calculation of allowable costs

We calculated allowable costs for contract services during the audit period based on the audited counts of PC 530.5 identity theft reports, audited time increments, and weighted hourly contract rates. The weighted hourly contract rates were multiplied by 100% for FY 2002-03 through FY 2005-06, as no city employees performed the reimbursable activities for those fiscal years. The weighted rates were multiplied by 68% for FY 2006-07 through FY 2010-11, as city employees performed 32% of the reimbursable activities for those fiscal years. The weighted rates were multiplied by 63% for FY 2011-12 and 72% for FY 2012-13, as city employees performed 37% and 28%, respectively, of the reimbursable activities for those fiscal years.

For example, the following table shows the calculation of allowable contract services costs for FY 2012-13:

Reimbursable Activity	Case Count (a)	Allowable Time Increment (minutes) (b)	Allowable Time (hours) c = (a*b/60)	Weighted Contract Rate (d)	Percentage Involvement (e)	Allowable Costs (f) = (c*d*e)
1a.1	332	26.94	149.07	\$ 81.63	72%	\$ 8,761
1a.2	332	7.31	40.45	109.39	100%	4,425
2	332	24.06	133.13	81.63	72%	7,825
Total						<u>\$ 21,011</u>

The following table summarizes the allowable contract services costs by fiscal year:

Fiscal Year	Allowable Contract Services Costs
2002-03	\$ 16,903
2003-04	16,282
2004-05	25,143
2005-06	22,952
2006-07	24,539
2007-08	25,295
2008-09	22,076
2009-10	20,108
2010-11	16,501
2011-12	20,614
2012-13	21,011
	<u>\$ 231,424</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 sheets, invoices, and receipts.

Section IV of the parameters and guidelines also notes that evidence corroborating the source documents may include declarations. However, the parameters and guidelines also state that “corroborating documents *cannot be substituted* [emphasis added] for source documents.”

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.

2. Contracted services

Report the name of the contractor and services performed to implement the reimbursable activities and attach a copy of the contract to the claim. If the contractor bills for time and materials, report the number of hours spent on the activities and all costs charged. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services during the period covered by the reimbursement claim. If the contract services were also used for purposes other than the reimbursable activities only the pro-rata portion of the services used to implement the reimbursable activities can be claimed. Submit contract consultant and invoices with the claim and a description of the contract scope of services.

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:

- Adhere to the program's parameters and guidelines and claiming instructions 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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