

CITY OF HUNTINGTON BEACH

Audit Report

IDENTITY THEFT PROGRAM

Chapter 956, Statutes of 2000

July 1, 2006, through June 30, 2013



BETTY T. YEE
California State Controller

September 2019



BETTY T. YEE
California State Controller

September 25, 2019

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Chuck Adams, Interim Chief Financial Officer
City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648

Dear Mr. Adams:

The State Controller's Office (SCO) audited the costs claimed by the City of Huntington Beach for the legislatively mandated Identity Theft Program for the period of July 1, 2006, through June 30, 2013.

The city claimed \$684,557 for the mandated program. Our audit found that \$351,133 is allowable and \$333,424 is unallowable because the city understated the number of identity theft cases, overstated the time increments required to perform the reimbursable activities, misclassified the employees who performed the reimbursable activities, and misstated employee productive hourly rates. The State made no payments to the city. The State will pay \$351,133, 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

cc: Sunny Rief, Assistant Controller
Finance Department
City of Huntington Beach
Dahle Bulosan, Finance Manager
Finance Department
City of Huntington Beach
The Honorable Erik Peterson, Mayor
City of Huntington Beach
Robert Handy, Chief of Police
City of Huntington Beach
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

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Huntington Beach for the legislatively mandated Identity Theft Program for the period of July 1, 2006, through June 30, 2013.

The city claimed \$684,557 for the mandated program. Our audit found that \$351,133 is allowable and \$333,424 is unallowable because the city understated the number of identity theft cases, overstated the time increments required to perform the reimbursable activities, misclassified the employees who performed the reimbursable activities, and misstated employee productive hourly rates (PHRs). The State made no payments to the city. The State will pay \$351,133, 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 program's 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 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 July 1, 2006, through June 30, 2013.

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 salaries, benefits, and indirect costs. 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;
- 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 two of the city's filed claims during the audit period (fiscal year [FY] 2011-12 and FY 2012-13), which comprised salary costs totaling \$107,281 of the \$371,755 claimed (28.9%). The specifics of the sampling plan are outlined in the Finding and Recommendation section;
- Used a random number table to select 212 identity theft cases out of 730 from the two years sampled. Tested the identity theft cases as follows:
 - Determined whether an approved police report supported that a violation of PC section 530.5 had occurred;
 - Calculated the average time required to gather the facts sufficient to determine where the identity theft occurred and what pieces of personal information were used for an unlawful purpose (begin an investigation) using data obtained from the city's Computer Aided Dispatch Records Management System (RMS) and compared the

results to the time increments claimed by the city. Compared the results to the average time increments claimed by the city and projected the errors found to the population of identity theft cases; and

- Compared job classifications of the employees who performed the mandated activities, as identified in the city's RMS, to the classifications claimed by the city. Calculated weighted average PHRs for the employee classifications that actually performed the activities.
- Interviewed Police Officers and Sergeants to obtain average time increments spent drafting, editing, reviewing, and approving a police report (taking a police report supporting a violation of PC section 530.5), which are not recorded in the city's RMS, and concluded that the city's claimed time increments for these reimbursable activities are reasonable;
- Projected the audit results of the two years tested by multiplying the actual case counts by the actual average time increments to perform the activities and the weighted PHRs. We applied a weighted two-year average of the sampling results to the remaining five years of the audit period because the populations for all years of the audit period were homogeneous;
- Traced the benefit and indirect cost rates claimed for each employee classification that performed the mandated activities to supporting documentation for each fiscal year in the audit period. Determined that the benefit and indirect cost rates claimed were not unreasonable or excessive; and
- Reviewed the city's Single Audit Reports and did not identify any Federal or pass-through programs that might result in offsetting savings or reimbursements applicable to the Identity Theft Program. Obtained verbal confirmation from city representatives at the entrance conference that the city received no offsetting revenues applicable to this mandated program.

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 instances of noncompliance 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 costs, as quantified in the Schedule and described in the Finding and Recommendation section of this audit report.

For the audit period, the City of Huntington Beach claimed \$684,557 for costs of the legislatively mandated Identity Theft Program. Our audit found that \$351,133 is allowable and \$333,424 is unallowable. The State made no payments to the city. The State will pay \$351,133, 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 Identity Theft Program.

**Views of
Responsible
Officials**

We issued a draft audit report on August 16, 2019. Chuck Adams, Interim Chief Financial Officer, responded by letter dated August 19, 2019 (Attachment), accepting 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 Huntington 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

September 25, 2019

Schedule— Summary of Program Costs July 1, 2006, through June 30, 2013

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 in violation of PC §530.5	\$ 14,062	\$ 15,230	\$ 1,168
Begin an investigation of facts	37,498	13,438	(24,060)
Total salaries	51,560	28,668	(22,892)
Benefits	36,597	17,476	(19,121)
Total direct costs	88,157	46,144	(42,013)
Indirect costs	10,209	5,676	(4,533)
Total program costs	<u>\$ 98,366</u>	51,820	<u>\$ (46,546)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 51,820</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries:			
Taking police report in violation of PC §530.5	\$ 12,690	\$ 13,761	\$ 1,071
Begin an investigation of facts	33,840	11,970	(21,870)
Total salaries	46,530	25,731	(20,799)
Benefits	32,595	15,437	(17,158)
Total direct costs	79,125	41,168	(37,957)
Indirect costs	16,472	9,109	(7,363)
Total program costs	<u>\$ 95,597</u>	50,277	<u>\$ (45,320)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 50,277</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries:			
Taking police report in violation of PC §530.5	\$ 16,080	\$ 16,414	\$ 334
Begin an investigation of facts	42,882	14,574	(28,308)
Total salaries	58,962	30,988	(27,974)
Benefits	29,157	13,631	(15,526)
Total direct costs	88,119	44,619	(43,500)
Indirect costs	19,281	10,133	(9,148)
Total program costs	<u>\$ 107,400</u>	54,752	<u>\$ (52,648)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 54,752</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries:			
Taking police report in violation of PC §530.5	\$ 13,610	\$ 13,644	\$ 34
Begin an investigation of facts	36,293	11,740	(24,553)
Total salaries	49,903	25,384	(24,519)
Benefits	34,966	14,977	(19,989)
Total direct costs	84,869	40,361	(44,508)
Indirect costs	14,022	7,133	(6,889)
Total program costs	\$ 98,891	47,494	\$ (51,397)
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		\$ 47,494	
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries:			
Taking police report in violation of PC §530.5	\$ 15,687	\$ 14,698	\$ (989)
Begin an investigation of facts	41,832	13,479	(28,353)
Total salaries	57,519	28,177	(29,342)
Benefits	23,249	10,171	(13,078)
Total direct costs	80,768	38,348	(42,420)
Indirect costs	16,853	8,256	(8,597)
Total program costs	\$ 97,621	46,604	\$ (51,017)
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		\$ 46,604	
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries:			
Taking police report in violation of PC §530.5	\$ 15,772	\$ 14,007	\$ (1,765)
Begin an investigation of facts	42,060	13,316	(28,744)
Total salaries	57,832	27,323	(30,509)
Benefits	25,648	10,916	(14,732)
Total direct costs	83,480	38,239	(45,241)
Indirect costs	16,887	7,978	(8,909)
Total program costs	\$ 100,367	46,217	\$ (54,150)
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		\$ 46,217	

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 in violation of PC §530.5	\$ 13,486	\$ 17,841	\$ 4,355
Begin an investigation of facts	35,963	14,309	(21,654)
Total salaries	49,449	32,150	(17,299)
Benefits	27,272	15,582	(11,690)
Total direct costs	76,721	47,732	(28,989)
Indirect costs	9,594	6,237	(3,357)
Total program costs	<u>\$ 86,315</u>	53,969	<u>\$ (32,346)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 53,969</u>	
<u>Summary: July 1, 2006, through June 30, 2013</u>			
Salaries	\$ 371,755	\$ 198,421	\$ (173,334)
Benefits	209,484	98,190	(111,294)
Indirect costs	103,318	54,522	(48,796)
Total program costs	<u>\$ 684,557</u>	351,133	<u>\$ (333,424)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 351,133</u>	

¹ See the Finding and Recommendation section.

² Payment amount current as of June 20, 2019.

Finding and Recommendation

FINDING— Overstated Identity Theft Program costs

The city claimed \$684,557 (\$371,755 in salaries, \$209,484 in related benefits, and \$103,318 in related indirect costs) for the Identity Theft Program. We found that \$351,133 is allowable and \$333,424 is unallowable.

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

The costs are unallowable because the city misinterpreted the program's parameters and guidelines, which resulted in an understated number of identity theft reports, overstated time increments required to perform the reimbursable activities, misclassification of employees who performed the reimbursable activities, and misstated employee PHRs. Unallowable related benefit costs total \$111,294 and unallowable related indirect costs total \$48,796.

The following table summarizes the audit adjustments by fiscal year:

Fiscal Year	Salaries			Related Benefits Adjustment	Related Indirect Cost Adjustment	Total Audit Adjustment
	Amount Claimed	Amount Allowable	Audit Adjustment			
2006-07	\$ 51,560	\$ 28,668	\$ (22,892)	\$ (19,121)	\$ (4,533)	\$ (46,546)
2007-08	46,530	25,731	(20,799)	(17,158)	(7,363)	(45,320)
2008-09	58,962	30,988	(27,974)	(15,526)	(9,148)	(52,648)
2009-10	49,903	25,384	(24,519)	(19,989)	(6,889)	(51,397)
2010-11	57,519	28,177	(29,342)	(13,078)	(8,597)	(51,017)
2011-12	57,832	27,323	(30,509)	(14,732)	(8,909)	(54,150)
2012-13	49,449	32,150	(17,299)	(11,690)	(3,357)	(32,346)
Total	<u>\$ 371,755</u>	<u>\$ 198,421</u>	<u>\$ (173,334)</u>	<u>\$ (111,294)</u>	<u>\$ (48,796)</u>	<u>\$ (333,424)</u>

Understated counts of identity theft police reports

The city reported costs incurred for performing mandated activities related to 2,478 identity theft cases for violations of PC section 530.5 (identity theft). We found that 2,599 cases are allowable and that the city understated its counts of police reports by 121 during the audit period.

During audit fieldwork, the city provided system-generated lists from the Huntington Beach Police Department's (HBPD) Computer Aided Dispatch Records Management System (RMS) of unduplicated police reports with primary offense under PC section 530.5 filed during the audit period. The list of unduplicated case numbers provided by fiscal year validated the existence and occurrence of 2,797 identity theft cases during the audit period. This detailed case count constitutes 319 police reports (or 13%) more than what the city claimed, a material difference.

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

Fiscal Year	Claimed	Per RMS	Allowable	Difference
2006-07	416	485	451	35
2007-08	366	422	392	26
2008-09	388	431	401	13
2009-10	375	395	367	(8)
2010-11	315	334	310	(5)
2011-12	317	353	329	12
2012-13	301	377	349	48
Total	<u>2,478</u>	<u>2,797</u>	<u>2,599</u>	<u>121</u>

Once we determined the actual counts of identity theft cases for the audit period, we developed further audit 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 \$107,281 (or 28.9%) of the \$371,755 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 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 reports based on a 95% confidence level, a sampling error of $\pm 8\%$, and an expected (true) error rate of 50%. Our sampling plan required that we test 105 reports out of 353 for FY 2011-12, and 107 reports out of 377 for FY 2012-13. We then 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 selected report 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 found that 6.67% of the cases are unallowable either because the HBPD did not perform the mandated identity theft activities (three instances) or because the case number was directly related to an earlier identity theft case (i.e. a duplicate case – four instances); and

- For FY 2012-13, we found that 7.48% of the cases are unallowable either because the HBPD did not perform the mandated identity theft activities (four instances) or because the case number was directly related to an earlier identity theft case (i.e. a duplicate case – four instances).

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 seven-year audit period. As shown in the table on the previous page, we found that 2,599 incident reports are allowable (2,797 less a 7.08% average error rate), which results in 121 understated police reports (2,599 allowable less 2,478 claimed).

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); and
- Beginning an investigation (determining where the crime occurred and what pieces of personal identifying information were used for an unlawful purpose (Activity 2).

We noted that the city's claims did not include time spent by Sergeants reviewing and approving identity theft police reports (Activity 1b).

The city provided a declaration of time increments for FY 2012-13, prepared and approved by an HBPD Captain during FY 2013-14. This declaration of time increments documented the time spent by city staff performing each identity theft reimbursable activity. The declaration indicated the following time increments:

Reimbursable Activity	Employee Classification	Description	Minutes Required
1a – Take a police report supporting a violation of Penal Code section 530.5	Police Officers	Draft, review, and edit the identity theft police report	45
		Total – Activity 1a	45
2 – Begin an investigation of the facts	Police Officers	Determine where the crime occurred and what pieces of personal identifying information were used for an unlawful purpose	120
		Total – Activity 2	120

During fieldwork, a HBPD Crime Analyst advised us that the city's RMS system keeps a contemporaneous record of time stamps related to each case. The city provided RMS time reports for the years that we tested, which included the following information:

- Case Number (**inci_id**);
- Incident Date (**date-rept**);
- Penal Code section (**arr-chrg**);
- Case Description (**offense**);
- Employee No. (**offer_id**);
- Time Dispatch (**timedisp**);
- Time Arrive (**timearrive**);
- Time Clear (**timeclear**); and
- Time Increment (**TimeDiff**).

"Timearrive" is the time that the Police Officer arrives at the victim's residence or business and "timeclear" is the time that the Police Officer leaves the victim's residence or business. We concluded that "TimeDiff" is the time that the Police Officer determined where the crime occurred and what pieces of personal identifying information were used for an unlawful purpose (Activity 2). The Police Officer could not draft and write a police report supporting a violation of PC section 530.5 without also performing the activity of beginning an investigation.

We calculated an average time increment per case for each fiscal year tested. Based on our review and calculations of time from "timearrive" to "timeclear", we determined the following average time increments:

- 41 minutes for 98 sampled identity theft cases for FY 2011-12; and
- 46 minutes for 100 sampled identity theft cases for FY 2012-13.

Based on these results, we calculated an average time increment of 44 minutes for reimbursable Activity 2. We applied this average to the other years of the audit period (FY 2006-07 through FY 2010-11).

In order to understand what reimbursable activities HBPD's RMS did not capture in the contemporaneous time increments recorded, we interviewed HBPD Police Officers and Sergeants. We noted that the city claimed 45 minutes for time spent by Police Officers taking a police report, which includes drafting, reviewing, and editing each identity theft police report. We found that time spent by Police Officers writing a police report as well as time spent by Sergeants reviewing and approving police reports are reimbursable activities not captured by the RMS. Based on our interviews, we determined the following average time increments:

- For FY 2011-12, Police Officers spent an average of 34 minutes writing and editing a PC section 530.5 report, and Sergeants spent an average of seven minutes reviewing and approving those reports; and
- For FY 2012-13, Police Officers spent an average of 46 minutes writing and editing a PC section 530.5 report, and Sergeants spent an average of eight minutes reviewing and approving those reports.

Based on these results, we calculated an average time increment of 39 minutes for Police Officers to write and edit a PC section 530.5 report (reimbursable activity 1a) and seven minutes for Sergeants to review and approve the reports (reimbursable activity 1b). We applied these average time increments to the other years of the audit period (FY 2006-07 through FY 2010-11).

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

Fiscal Year	Claimed Minutes		Allowable Minutes		
	Activity 1a	Activity 2	Activity 1a	Activity 1b	Activity 2
	Taking a	Beginning	Taking a	Review and	Beginning
	Police	an	Police	Approve a	an
	Report	Investigation	Report	Police Report	Investigation
2006-07	45	120	39	7	44
2007-08	45	120	39	7	44
2008-09	45	120	39	7	44
2009-10	45	120	39	7	44
2010-11	45	120	39	7	44
2011-12	45	120	34	7	41
2012-13	45	120	46	8	46

Misclassified employee classifications

The city claimed salaries and benefits based on PHRs for Police Officers for all fiscal years of the audit period. To validate the city's assertion of who performed the reimbursable activities, we:

- Prepared a schedule of the employee names and numbers associated with the sample selections from the RMS reports;
- Requested information from the HBPD supporting the actual job classifications for the employees identified in the RMS reports; and
- Verified that employee names and numbers were specifically for the initial call related to the sample selections.

Based on these procedures, we found that Police Officers and Cadets performed 87% and 13%, respectively, of the reimbursable activities, as captured by the RMS time records for reimbursable activities 1a and 2. We also noted, from viewing copies of the filed police reports, that Sergeants approved all of the reports (reimbursable activity 1b).

Misstated productive hourly rates

The city provided a schedule of the actual salary rates for the employee classifications that performed the reimbursable activities. Based on this information, we found that the city claimed the correct salary rates for Police Officers. However, the city's claims did not take the actual participation percentages into account (Police Officer Cadets performed 13% of reimbursable activities 1a and 2, and Sergeants performed 100% of reimbursable activity 1b). Therefore, we calculated weighted average

PHRs for the employees who performed the reimbursable activities using the hourly rate information provided by the city.

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

Fiscal Year	PHRs Claimed	PHRs Allowable		
	Police Officer	Police Officer	Cadet	Sergeant
2006-07	45.07	45.07	10.95	63.08
2007-08	46.23	46.23	10.95	68.91
2008-09	55.26	55.26	11.44	74.74
2009-10	48.39	48.39	11.68	75.64
2010-11	66.40	66.40	11.74	76.07
2011-12	66.34	66.34	11.66	77.23
2012-13	59.74	59.74	11.57	75.89

Using this salary rate information, the corrected number of case counts, the corrected time increments, and the participation percentages of Police Officers, Cadets, and Sergeants 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 2011-12:

Reimbursable Activity	Number of Cases (a)	Time Increment (b)	Minutes c = (a) * (b)	Hours d = c/60	PHR (e)	Percentage Involvement (f)	Allowable Costs = d × e × f
1a – Officers	329	34	11,186	186.43	\$ 66.34	87%	\$ 10,760
1a – Cadets	329	34	11,186	186.43	\$ 11.66	13%	283
1b – Sergeants	329	7	2,303	38.38	\$ 77.23	100%	2,964
2 – Officers	329	41	13,489	224.82	\$ 66.34	87%	12,975
2 – Cadets	329	41	13,489	224.82	\$ 11.66	13%	341
Total							<u>\$ 27,323</u>

Unallowable related employee benefits

Benefits costs are determined by multiplying allowable salary costs by each year's benefit rate. Employee benefits related to the unallowable salaries 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 verified that the benefit rates claimed were not unreasonable or excessive. We also noted that cadets are part-time employees, and therefore do not have associated benefit costs for the audit period.

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

Fiscal Year	Police Officers			Sergeants			Total
	Salaries Audit Adjustment	Allowable Benefit Rates	Unallowable Benefit Costs	Allowable Salaries	Allowable Benefit Rates	Allowable Benefit Costs	Unallowable Benefit Costs
2006-07	\$ (29,505)	70.98%	\$ (20,943)	\$ 3,319	54.90%	\$ 1,822	\$ (19,121)
2007-08	(26,887)	70.05%	(18,834)	3,151	53.20%	1,676	(17,158)
2008-09	(35,046)	49.45%	(17,330)	3,497	51.60%	1,804	(15,526)
2009-10	(30,635)	70.07%	(21,466)	3,239	45.60%	1,477	(19,989)
2010-11	(35,398)	40.42%	(14,308)	2,751	44.70%	1,230	(13,078)
2011-12	(36,640)	44.35%	(16,250)	2,964	51.20%	1,518	(14,732)
2012-13	(24,551)	55.15%	(13,540)	3,531	52.40%	1,850	(11,690)
	<u>\$ (218,662)</u>		<u>\$(122,671)</u>	<u>\$ 22,452</u>		<u>\$ 11,377</u>	<u>\$ (111,294)</u>

Unallowable related indirect costs

Indirect costs are determined by multiplying allowable salary costs by each year's indirect cost rate. Indirect costs related to the unallowable salaries previously identified are also unallowable.

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

Fiscal Year	Salaries Audit Adjustment	Claimed Indirect Cost Rates	Indirect Costs Adjustment
2006-07	\$ (22,892)	19.80%	\$ (4,533)
2007-08	(20,799)	35.40%	(7,363)
2008-09	(27,974)	32.70%	(9,148)
2009-10	(24,519)	28.10%	(6,890)
2010-11	(29,342)	29.30%	(8,597)
2011-12	(30,509)	29.20%	(8,909)
2012-13	(17,299)	19.40%	(3,356)
Total	<u>\$ (173,334)</u>		<u>\$ (48,796)</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 IV. (Reimbursable Activities) of the parameters and guidelines also states:

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

1. Either a) or b) below:
 - a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or
 - b) Reviewing the identity theft report completed on-line by the identity theft victim. 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.

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 California State Legislature suspended the Identity Theft Program in the FY 2013-14 through FY 2018-19 Budget Acts. If the program becomes active again, we recommend that the city:

- Follow the mandated program's parameters and guidelines and the SCO's claiming instructions when preparing 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 has reviewed the draft report and accepts the SCO's findings pertaining to time increments and job classifications that performed the reimbursable activities for the period July 1, 2006 through June 30, 2013. Additionally, the City accepts the SCO's finding pertaining to the number of cases claimed for the audit period. The City will implement a more detailed process for future claimed case counts, representation of time increments required to perform the reimbursable activities, and identification of employee classifications performing the reimbursable activities going forward.

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



CITY OF HUNTINGTON BEACH

Finance Department

August 19, 2019

RE: State Mandated Cost Audit Program – Identity Theft Program

Dear Mr. Venneman,

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

The City has reviewed the draft report and accepts the SCO's findings pertaining to time increments and job classifications that performed the reimbursable activities for the period July 1, 2006 through June 30, 2013. Additionally, the City accepts the SCO's finding pertaining to the number of cases claimed for the audit period. The City will implement a more detailed process for future claimed case counts, representation of time increments required to perform the reimbursable activities, and identification of employee classifications performing the reimbursable activities going forward.

We appreciate the information and recommendations provided by the SCO audit. Thank you for the 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 (714) 536-5225.

Sincerely,

A handwritten signature in blue ink, appearing to read "Chuck Adams", is written over a light blue horizontal line.

Chuck Adams
Interim Chief Financial Officer

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

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