

CITY OF BEVERLY HILLS

Audit Report

IDENTITY THEFT PROGRAM

Chapter 956, Statutes of 2000

July 1, 2002, through June 30, 2013



BETTY T. YEE
California State Controller

November 2020



BETTY T. YEE
California State Controller

November 18, 2020

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Jeff Muir, Director of Finance
City of Beverly Hills
455 North Rexford Drive, 3rd Floor
Beverly Hills, CA 90210

Dear Mr. Muir:

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

The city claimed \$695,061 for costs of the mandated program. Our audit found that \$264,950 is allowable; and \$430,111 is unallowable because the city overstated the time increments required to perform the reimbursable activities, misstated the employee job classifications that performed the reimbursable activities, and understated productive hourly rates. The State made no payments to the city. The State will pay \$264,950, contingent upon available appropriations.

Following issuance of this audit report, the Local Government Programs and Services Division of the State Controller's Office will notify the city of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period with the exception of fiscal year 2012-13; for which we determined that all claimed costs are allowable.

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/ac

cc: Tatiana Szerwinski, Assistant Director
Beverly Hills Finance Department
Roza Jakobffy, CPA, Accounting Manager
Beverly Hills Finance Department
The Honorable Lester J. Friedman, Mayor
City of Beverly Hills
Chief Dominick Rivetti
Beverly Hills Police Department
Sylvia Gelfman, Records and Jail Manager
Beverly Hills Police Department
Chris Hill, Principal Program Budget Analyst
Local Government Unit
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Local Reimbursement Section
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Audit Report

Summary

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

The city claimed \$695,061 for costs of the mandated program. Our audit found that \$264,950 is allowable; and \$430,111 is unallowable because the city overstated the time increments required to perform the reimbursable activities, misstated the employee job classifications that performed the reimbursable activities, and understated productive hourly rates. The State made no payments to the city. The State will pay \$264,950, contingent upon available appropriations.

Background

Penal Code (PC) section 530.6, subdivision (a), as added by Statutes of 2000, Chapter 956, requires local law enforcement agencies to take a police report and begin an investigation when a complainant residing within their jurisdiction reports suspected identity theft.

On March 27, 2009, the Commission of State Mandates (Commission) found that this legislation mandates a new program or higher level of service for local law enforcement agencies within the meaning of Article XIII B, section 6 of the California Constitution, and imposes costs mandated by the State pursuant to Government Code (GC) section 17514.

The Commission determined that each claimant is allowed to claim and be reimbursed for the following ongoing activities identified in the 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 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.¹

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

To achieve our objective, we:

- Analyzed the annual mandated cost claims filed by the city for the audit period and identified the significant cost components of each claim as salaries, benefits, and indirect costs. Determined whether there were any errors or unusual or unexpected variances from year to year. Determined whether 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 members 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 during the audit period based on information obtained from the Beverly Hills Police Department's (BHPD) Tiburon computer aided dispatch (CAD) system 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 15-25% or more of claimed salary costs, based on a moderate level of detection (audit) risk. Judgmentally selected two of the city's filed claims during the audit period (fiscal year [FY] 2008-09, and FY 2009-10), which comprised salary costs totaling \$120,185 of the \$381,013 claimed (32%). The sampling plan is described in the Finding and Recommendation section;

¹ Unreasonable and/or excessive costs include ineligible costs that are not identified in the program's parameters and guidelines as a reimbursable cost.

- Used a random-number table to select 199 identity theft cases out of 591 from the two years sampled. Tested the identity theft cases as follows:
 - Determined whether a contemporaneously prepared and approved police report supported that a violation of PC 530.5 occurred; and
 - Obtained the employee numbers, names, and employee classifications from the sampled police reports who performed the reimbursable activities; and
 - Compared the employee classifications obtained from the police reports to those claimed by the city.
- Interviewed Police Department personnel to determine the time increments required to take and review a police report. Used time increments recorded within the BHPD's CAD system to determine the time required to begin an investigation.
- 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 by the PHRs of the employees who performed them. We applied a weighted two-year average of the sampling results to the remaining nine years of the audit period due to the homogeneity of the population.
- Reviewed the city's Single Audit Reports to identify any offsetting savings or reimbursements from Federal or pass-through programs applicable to the Identity Theft Program. The city also certified in its claims that it did not receive any offsetting revenues applicable to this mandated program.

Government Code (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 did not find that the city claimed costs that were funded by another source; however, we did find that the unallowable costs are ineligible and unsupported, as quantified in the Schedule and described in the Finding and Recommendation section of this audit report.

For the audit period, the City of Beverly Hills claimed \$695,061 for costs of the legislatively mandated Identity Theft Program. Our audit found that \$264,950 is allowable \$430,111 is unallowable. The State made no payments to the city. The State will pay \$264,950, 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 with the exception of FY 2012-13; for which we determined that all claimed costs are allowable.

**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 discussed our audit results with the city's representative during an exit conference conducted on October 15, 2020. Roza Jakabffy, CPA, Accounting Manager, agreed with the audit results. Ms. Jakabffy declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This audit report is solely for the information and use of the City of Beverly Hills, the California Department of Finance, and 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

November 18, 2020

**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 in violation of Penal Code § 530.5	\$ 5,425	\$ 2,240	\$ (3,185)
Begin an investigation of facts	10,976	3,889	(7,087)
Total salaries	16,401	6,129	(10,272)
Benefits	5,905	2,207	(3,698)
Total direct costs	22,306	8,336	(13,970)
Indirect costs	1,640	613	(1,027)
Total program costs	<u>\$ 23,946</u>	8,949	<u>\$ (14,997)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,949</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries:			
Taking police report in violation of Penal Code § 530.5	\$ 6,771	\$ 2,256	\$ (4,515)
Begin an investigation of facts	13,700	3,976	(9,724)
Total salaries	20,471	6,232	(14,239)
Benefits	7,370	2,244	(5,126)
Total direct costs	27,841	8,476	(19,365)
Indirect costs	2,047	623	(1,424)
Total program costs	<u>\$ 29,888</u>	9,099	<u>\$ (20,789)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 9,099</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries:			
Taking police report in violation of Penal Code § 530.5	\$ 7,422	\$ 2,869	\$ (4,553)
Begin an investigation of facts	15,016	4,984	(10,032)
Total salaries	22,438	7,853	(14,585)
Benefits	8,078	2,827	(5,251)
Total direct costs	30,516	10,680	(19,836)
Indirect costs	2,244	785	(1,459)
Total program costs	<u>\$ 32,760</u>	11,465	<u>\$ (21,295)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 11,465</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries:			
Taking police report in violation of Penal Code § 530.5	\$ 6,773	\$ 2,452	\$ (4,321)
Begin an investigation of facts	13,704	4,258	(9,446)
Total salaries	20,477	6,710	(13,767)
Benefits	7,372	2,416	(4,956)
Total direct costs	27,849	9,126	(18,723)
Indirect costs	2,048	671	(1,377)
Total program costs	<u>\$ 29,897</u>	9,797	<u>\$ (20,100)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 9,797</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries:			
Taking police report in violation of Penal Code § 530.5	\$ 9,038	\$ 3,213	\$ (5,825)
Begin an investigation of facts	18,283	5,656	(12,627)
Total salaries	27,321	8,869	(18,452)
Benefits	9,835	3,193	(6,642)
Total direct costs	37,156	12,062	(25,094)
Indirect costs	2,732	887	(1,845)
Total program costs	<u>\$ 39,888</u>	12,949	<u>\$ (26,939)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 12,949</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries:			
Taking police report in violation of Penal Code § 530.5	\$ 13,012	\$ 4,832	\$ (8,180)
Begin an investigation of facts	26,323	8,444	(17,879)
Total salaries	39,335	13,276	(26,059)
Benefits	14,160	4,779	(9,381)
Total direct costs	53,495	18,055	(35,440)
Indirect costs	3,933	1,328	(2,605)
Total program costs	<u>\$ 57,428</u>	19,383	<u>\$ (38,045)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 19,383</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries:			
Taking police report in violation of Penal Code § 530.5	\$ 18,501	\$ 6,870	\$ (11,631)
Begin an investigation of facts	37,435	10,697	(26,738)
Total salaries	55,936	17,567	(38,369)
Benefits	20,137	6,324	(13,813)
Total direct costs	76,073	23,891	(52,182)
Indirect costs	5,593	1,757	(3,836)
Total program costs	<u>\$ 81,666</u>	25,648	<u>\$ (56,018)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 25,648</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries:			
Taking police report in violation of Penal Code § 530.5	\$ 21,252	\$ 7,923	\$ (13,329)
Begin an investigation of facts	42,997	15,294	(27,703)
Total salaries	64,249	23,217	(41,032)
Benefits	23,130	14,116	(9,014)
Total direct costs	87,379	37,333	(50,046)
Indirect costs	6,425	2,322	(4,103)
Total program costs	<u>\$ 93,804</u>	39,655	<u>\$ (54,149)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 39,655</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries:			
Taking police report in violation of Penal Code § 530.5	\$ 17,872	\$ 6,050	\$ (11,822)
Begin an investigation of facts	36,224	10,564	(25,660)
Total salaries	54,096	16,614	(37,482)
Benefits	30,656	9,415	(21,241)
Total direct costs	84,752	26,029	(58,723)
Indirect costs	60,843	18,686	(42,157)
Total program costs	<u>\$ 145,595</u>	44,715	<u>\$ (100,880)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 44,715</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries:			
Taking police report in violation of Penal Code § 530.5	\$ 21,627	\$ 7,763	\$ (13,864)
Begin an investigation of facts	22,932	13,305	(9,627)
Total salaries	44,559	21,068	(23,491)
Benefits	27,858	13,172	(14,686)
Total direct costs	72,417	34,240	(38,177)
Indirect costs	54,609	15,887	(38,722)
Total program costs	<u>\$ 127,026</u>	50,127	<u>\$ (76,899)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 50,127</u>	
<u>July 1, 2012, through June 30, 2013</u>			
Direct costs:			
Salaries:			
Taking police report in violation of Penal Code § 530.5	\$ 6,132	\$ 8,130	\$ 1,998
Begin an investigation of facts	9,598	13,635	4,037
Total salaries	15,730	21,765	6,035
Benefits	8,176	11,313	3,137
Total direct costs	23,906	33,078	9,172
Indirect costs	9,257	12,808	3,551
Total direct and indirect costs	33,163	45,886	12,723
Less allowable costs that exceed costs claimed ³	-	(12,723)	(12,723)
Total program costs	<u>\$ 33,163</u>	33,163	<u>\$ -</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 33,163</u>	
<u>Summary: July 1, 2002, through June 30, 2013</u>			
Salaries	\$ 381,013	149,300	\$ (231,713)
Benefits	162,677	72,006	(90,671)
Indirect costs	151,371	56,367	(95,004)
Total direct and indirect costs	695,061	277,673	(417,388)
Less allowable costs that exceed costs claimed ³	-	(12,723)	(12,723)
Total program costs	<u>\$ 695,061</u>	264,950	<u>\$ (430,111)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 264,950</u>	

¹ See the Finding and Recommendation section.

² Payment amount current as of November 4, 2020.

³ GC section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2012-13.

Finding and Recommendation

**FINDING—
Overstated Identity
Theft Program costs**

The city claimed \$695,061 (\$381,013 in salaries, \$162,677 in related benefits, and \$151,371 in related indirect costs) for the Identity Theft Program. We found that \$264,950 is allowable and \$430,111 is unallowable.

Salary costs are determined by multiplying the number of identity theft police reports by the time increments required to perform the reimbursable activities, then multiplying the resulting hours by the weighted average productive hourly rates (PHRs) 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 overstated number of identity theft reports, overstated time increments required to perform the reimbursable activities, misstated job classifications, and understated PHRs for the city employees who performed the reimbursable activities.

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

Fiscal Year	Salaries		Audit Adjustment	Related Benefit Adjustment	Related Indirect Cost Adjustment	Total Audit Adjustment
	Amount Claimed	Amount Allowable				
2002-03	\$ 16,401	\$ 6,129	\$ (10,272)	\$ (3,698)	\$ (1,027)	\$ (14,997)
2003-04	20,471	6,232	(14,239)	(5,126)	(1,424)	(20,789)
2004-05	22,438	7,853	(14,585)	(5,251)	(1,459)	(21,295)
2005-06	20,477	6,710	(13,767)	(4,956)	(1,377)	(20,100)
2006-07	27,321	8,869	(18,452)	(6,642)	(1,845)	(26,939)
2007-08	39,335	13,276	(26,059)	(9,381)	(2,605)	(38,045)
2008-09	55,936	17,567	(38,369)	(13,813)	(3,836)	(56,018)
2009-10	64,249	23,217	(41,032)	(9,014)	(4,103)	(54,149)
2010-11	54,096	16,614	(37,482)	(21,241)	(42,157)	(100,880)
2011-12	44,559	21,068	(23,491)	(14,686)	(38,722)	(76,899)
2012-13	15,730	15,730	-	-	-	-
Total	\$ 381,013	\$ 143,265	\$ (237,748)	\$ (93,808)	\$ (98,555)	\$ (430,111)

Overstated counts of identity theft police reports

The city claimed costs incurred for taking police reports related to 2,381 identity theft cases during the audit period. The city provided us with system-generated unduplicated lists of identity theft case numbers of police reports filed for violations of PC section 530.5. The lists that the city provided differentiated officer-reported cases from cases taken at the counter of the police station for each fiscal year. However, the city’s claims did not differentiate between police reports taken by a Police Officer versus those taken at the counter of the police station by a Sergeant.

We determined the accuracy of the unduplicated counts of initial police reports by determining whether:

- Each identity theft case was supported by a contemporaneously prepared and approved police report; and
- The police report supported a violation of PC section 530.5.

We developed a statistical sampling plan and generated statistical samples of identity theft cases for these two procedures in order to project our sample results to the population of identity theft cases. We selected our statistical samples of identity theft cases originating from the city based on a 95% confidence level, a sampling error of +/-8%, and an expected (true) error rate of 50%. We judgmentally selected cases from FY 2008-09 and FY 2009-10 for testing.

Our testing disclosed the following:

- For FY 2008-09, we selected 97 cases from the population of 277 reported cases for testing. We found that one case was unallowable because it did not support a violation of PC section 530.5 (20.41% exception rate).
- For FY 2009-10, we selected 102 cases from the population of 314 reported cases for testing. We found that three cases were allowable because they did not support violations of PC section 530.5.

We extrapolated and projected the results of our substantive tests of statistical samples to determine the number of allowable and unallowable identity theft reports for the entire 11-year audit period. As shown in the table below, we found that 3,880 police reports are allowable because 910 officer-reported incident reports did not support violations of PC section 530.5. We calculated a 1.99% average error rate for the two years that we tested (FY 2009-10 and FY 2012-13). We applied this average error rate to the other nine years of the audit period (FY 2002-03 through FY 2008-09, and FY 2010-11 through FY 2011-12).

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

Fiscal Year	Claimed	Per BHCAD	Allowable		Total	Difference
			Officer Reported	Counter Reported		
2002-03	119	119	35	75	110	(9)
2003-04	140	140	33	73	106	(34)
2004-05	149	159	41	88	129	(20)
2005-06	132	133	34	73	107	(25)
2006-07	171	171	43	95	138	(33)
2007-08	239	238	63	137	200	(39)
2008-09	330	330	87	189	276	(54)
2009-10	368	374	97	211	308	(60)
2010-11	301	301	72	157	229	(72)
2011-12	347	336	88	192	280	(67)
2012-13	85	379	99	216	315	230
Total	2,381	2,680	692	1,506	2,198	(183)

Overstated time increments

Claimed Time Increments

The city claimed time increments spent by BHPD sworn officers who performed the following reimbursable activities:

- Drafting, reviewing, and editing the identity theft police report taken by an officer (Take a police report supporting a violation of PC section 530.5 [Activity 1a]);
- Reviewing an identity theft police report taken at the police station counter (Activity 1a – Sergeant Review); and
- Determining where the crime occurred and what pieces of personal identifying information were used for an unlawful purpose (Begin an investigation of the facts of the identity theft cases [Activity 2]).

The city did not provide support for the time increments claimed. The parameters and guidelines for the mandated program state that “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 mandated activities.” As the city did not provide support that complies with this requirement, we determined that the time increments claimed are estimated and unsupported.

Allowable Time Increments

During audit fieldwork, the BHPD’s CAD system provided system-generated contemporaneous records of time, in minutes, spent by officers from the time they arrived at a victim’s residence or business located in the city (Time On Scene) to the time they completed the initial call for service (Time Completed). Detectives determined where the crime occurred and what pieces of personal information were used for unlawful purposes (Activity 2). The city did not have an online system for reporting identity theft (Activity 1b)

The CAD system did not record time spent drafting, reviewing, and editing officer-reported identity theft police reports (Activity 1a). Additionally, the CAD system did not record time spent reviewing reports filed by citizens at the counter of the police station (also Activity 1a). The city did not claim costs for reviewing cases filed by citizens at the counter of the police station. BHPD representatives provided testimonial evidence of the approximate time spent for reimbursable activities not recorded by the department’s CAD system.

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

Fiscal Year	Claimed Minutes		Allowable Minutes				
	1a Taking a Police Report	2 Beginning an Investigation	1a Taking a Police Report	1a Staff Review - Officer Reports	1a Sergeant Review - Counter Reports	1b Review Online Police Reports	2 Beginning an Investigation
2002-03	75	120	68	8.5	8.5	-	46
2003-04	75	120	68	8.5	8.5	-	46
2004-05	75	120	68	8.5	8.5	-	46
2005-06	75	120	68	8.5	8.5	-	46
2006-07	75	120	68	8.5	8.5	-	46
2007-08	75	120	68	8.5	8.5	-	46
2008-09	75	120	68	8.5	8.5	-	41
2009-10	75	120	68	8.5	8.5	-	51
2010-11	75	120	68	8.5	8.5	-	46
2011-12	75	120	68	8.5	8.5	-	46
2012-13	75	120	68	8.5	8.5	-	46

Misstated job classifications and PHRs

From FY 2002-03 through FY 2011-12, the city claimed the Police Officer classification for Activity 1a, and the Detective classification for Activity 2. In FY 2012-13, the city claimed the Police Officer classification for Activity 1a and the Sergeant classification for Activities 1a and 2.

In order to clarify which BHPD staff members performed the mandated activities, we:

- Prepared a schedule of employee numbers and names from copies of the sampled police reports;
- Requested information from the city supporting the actual job classifications for the employees identified;
- Calculated the extent (percentage of involvement) that various employees performed the mandated activities for the city's identity theft cases; and
- Verified with the city the results of the above steps to confirm the actual job classifications that performed the reimbursable activities of:
 - Taking a police report,
 - Reviewing police reports filed by police officers, and
 - Reviewing police reports taken from citizens at the police station.

The following table summarizes the actual job classifications of the employees who performed the reimbursable activities during FY 2008-09 and FY 2009-10, their percentages of involvement, and the average of involvement for the two fiscal years.

Classification	Fiscal Year		Average
	2008-09	2009-10	
<u>Take a police report – officer-reported cases</u>			
Police Officer	94%	93%	93.5%
Police Officer (Seasonal Hourly)	4%	2%	3.0%
Police Officer Cadet	0%	2%	1.0%
Sergeant	2%	3%	2.5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
<u>Review a police report – officer-reported cases</u>			
Lieutenant	39%	15%	27.0%
Police Officer	2%	5%	4.0%
Police Officer (Seasonal Hourly)	7%	0%	4.0%
Sergeant	52%	80%	65.0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
<u>Review a police report – citizen-reported cases</u>			
Sergeant	<u>100%</u>	<u>100%</u>	<u>100%</u>

The officer-reported identity theft police reports that we reviewed showed that the employee classifications listed in the table above performed the activity of taking a police report and then reviewing/editing the report (Activity 1a). BHPD representatives stated that police reports taken at the counter of the police station are reviewed/edited by Sergeants. Detectives perform the activity of determining where the identity theft crime occurred and what pieces of personal identifying information were used for an unlawful purpose (Activity 2).

We requested and the city provided a schedule of the actual hourly billing rates for the employee classifications that performed the reimbursable activities for FY 2008-09 and FY 2009-10.

We used claimed PHRs for Detective. We based the rates for the remaining employee classifications on the rates supported for Police Officers for FY 2008-09 and FY 2009-10. Actual rates supported for those two years exceeded claimed rates. As the city did not provide PHR information for fiscal years before FY 2008-09 or after FY 2009-10, we calculated PHRs for employee classifications (other than for Detectives) as follows:

- For years prior to FY 2008-09, we calculated the percentage difference between claimed rates and actual rates for Police Officers during FY 2008-09 and adjusted the claimed rates for the prior years based on that percentage.

- For years after FY 2009-10, we calculated the percentage difference between claimed rates and actual rates for Police Officers during FY 2009-10 and adjusted the claimed rates for the subsequent years based on that percentage.
- We used the actual rates provided for all employee classifications for FY 2008-09 and FY 2009-10.

As a result, we found that the city understated its claimed PHRs for all years of the audit period.

The table below summarizes the auditor-recalculated PHRs for each fiscal year in the audit period.

Fiscal Year	PHRs Claimed		PHRs Allowable			
	Activity 1a	Activity 2	Activity 1a		Activity 2	
	Police Officers	Detectives	Take a Police Report	Officer Reported Review	Counter Reported Review	Begin an Investigation
2002-03	\$ 36.47	\$ 46.12	\$ 37.61	\$ 50.29	\$ 46.98	\$ 46.12
2003-04	38.69	48.93	39.90	53.35	49.84	48.93
2004-05	39.85	50.39	41.10	54.95	51.34	50.39
2005-06	41.05	51.91	42.34	56.61	52.88	51.91
2006-07	42.28	53.46	43.61	58.31	54.47	53.46
2007-08	43.55	55.07	44.92	60.06	56.11	55.07
2008-09	44.85	56.72	46.26	61.85	57.78	56.72
2009-10	46.20	58.42	47.83	63.96	59.75	58.42
2010-11	47.50	60.17	49.18	65.76	61.43	60.17
2011-12	49.86	61.98	51.62	69.03	64.48	61.98
2012-13	46.42	56.46	48.06	64.26	60.03	56.46

Using this salary rate information, the corrected number of case counts, the corrected time increments, and the employee classifications that performed the reimbursable activities during the audit period, we determined allowable salaries for each fiscal year. The following table shows the calculation of allowable salary costs for FY 2011-12:

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Reimbursable Activity Number	Reimbursable Activity	Number of Cases	Time Increment (Minutes)	Minutes (cols. [3] * [4])	Hours (cols. [5]/60)	PHR (\$)	Allowable Costs ¹ (\$) (cols. [6]*[7])
<u>Officer-reported cases</u>							
1a.1	Take a police report	88	68	5,984	99.73	\$ 51.62	\$ 5,148
1a.2	Review a police report	88	8.5	748	12.47	\$ 69.03	861
<u>Counter-reported cases</u>							
1a.2	Review a police report	192	8.5	1,632	27.20	\$ 64.48	1,754
<u>All cases</u>							
2	Begin an investigation	280	46	12,880	214.67	\$ 61.98	13,305
Total							<u>\$ 21,068</u>

Allowable related employee benefits

Benefit costs are determined by multiplying each year's allowable salary costs by each year's benefit rate. Employee benefits related to the allowable salaries identified above are also allowable. The city provided support for its employee benefit rates for only FY 2009-10 through FY 2012-13. For its FY 2002-03 through FY 2008-09 claims, the city used a benefit rate of 36%, which appears to be the calculated indirect cost rate for FY 2009-10.

We calculated allowable benefit costs using the benefit rates that the city provided in its claims for FY 2002-03 through FY 2008-09. We adjusted the benefit rate from 36% to 60.8% for FY 2009-10 based on information provided by the city in its claim for that year. We based benefit cost rates on information within the Indirect Cost Rate Proposals that the city prepared for the Police Department for FY 2011-11 through FY 2012-13. Except for the understated benefit rate for FY 2009-10, adjustments to claimed benefits are directly related to adjustments to claimed and allowable salaries.

The following table summarizes the claimed and allowable benefit rates, the amount of claimed and allowable related benefits, and audit adjustments by fiscal year:

Fiscal Year	Claimed Rate	Allowable Rate	Related Benefits		
			Claimed	Allowable	Audit Adj
2002-03	36.00%	36.00%	\$ 5,905	\$ 2,207	\$ (3,698)
2003-04	36.00%	36.00%	7,370	2,244	(5,126)
2004-05	36.00%	36.00%	8,078	2,827	(5,251)
2005-06	36.00%	36.00%	7,372	2,416	(4,956)
2006-07	36.00%	36.00%	9,835	3,193	(6,642)
2007-08	36.00%	36.00%	14,160	4,779	(9,381)
2008-09	36.00%	36.00%	20,137	6,324	(13,813)
2009-10	36.00%	60.80%	23,130	14,116	(9,014)
2010-11	56.67%	56.67%	30,656	9,415	(21,241)
2011-12	62.52%	62.52%	27,858	13,172	(14,686)
2012-13	51.98%	51.98%	8,176	8,176	-
			<u>\$ 162,677</u>	<u>\$ 68,869</u>	<u>\$ (93,808)</u>

Allowable related indirect costs

The city used the 10% option, or 10% of direct labor excluding fringe benefits, to claim indirect costs for FY 2002-03 through FY 2009-10. The city prepared Indirect Cost Rate Proposals for FY 2010-11 through FY 2012-13. We accepted the rates as claimed. Unallowable indirect costs are directly related to the previously identified unallowable salaries for FY 2002-03 through FY 2009-10 and unallowable salaries and benefits for FY 2010-11 through FY 2012-13.

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

Fiscal Year	Related indirect costs		
	Claimed	Allowable	Adjustment
2002-03	\$ 1,640	\$ 613	\$ (1,027)
2003-04	2,047	623	(1,424)
2004-05	2,244	785	(1,459)
2005-06	2,048	671	(1,377)
2006-07	2,732	887	(1,845)
2007-08	3,933	1,328	(2,605)
2008-09	5,593	1,757	(3,836)
2009-10	6,425	2,322	(4,103)
2010-11	60,843	18,686	(42,157)
2011-12	54,609	15,887	(38,722)
2012-13	9,257	9,257	-
	<u>\$ 151,371</u>	<u>\$ 52,816</u>	<u>\$ (98,555)</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.
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.

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 State Legislature suspended the Identity Theft Program in the FY 2013-14 through FY 2020-21 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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