

BUTTE COUNTY

Audit Report

CUSTODY OF MINORS—CHILD ABDUCTION AND RECOVERY PROGRAM

Chapter 1399, Statutes of 1976; Chapter 162,
Statutes of 1992; and Chapter 988, Statutes of 1996

July 1, 2006, through June 30, 2009



JOHN CHIANG
California State Controller

December 2012



JOHN CHIANG
California State Controller

December 20, 2012

Steve Lambert, Chairperson
Board of Supervisors
Butte County
25 County Center Drive
Oroville, CA 95965

Dear Mr. Lambert:

The State Controller's Office audited the costs claimed by Butte County for the legislatively mandated Custody of Minors—Child Abduction and Recovery Program (Chapter 1399, Statutes of 1976; Chapter 162, Statutes of 1992; and Chapter 988, Statutes of 1996) for the period of July 1, 2006, through June 30, 2009.

The county claimed and was paid \$668,959 for the mandated program. Our audit disclosed that \$617,491 is allowable and \$51,468 is unallowable. The costs are unallowable primarily because the county overstated salaries and benefits. The State will offset \$51,468 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: The Honorable David Houser, Auditor-Controller
Butte County
Michael L. Ramsey, District Attorney
Butte County
Meegan Jessee, Deputy Chief Financial Officer
Administration Department, Finance and Risk Management
Butte County
Constance Carter, Chief
District Attorney's Office, Administrative Bureau
Butte County
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Butte County for the legislatively mandated Custody of Minors—Child Abduction and Recovery Program (Chapter 1399, Statutes of 1976; Chapter 162, Statutes of 1992; and Chapter 988, Statutes of 1996) for the period of July 1, 2006, through June 30, 2009.

The county claimed and was paid \$668,959 for the mandated program. Our audit disclosed that \$617,491 is allowable and \$51,468 is unallowable. The costs are unallowable primarily because the county overstated salaries and benefits. The State will offset \$51,468 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

Background

Chapter 1399, Statutes of 1976 established the mandated Custody of Minors—Child Abduction and Recovery Program based on the following laws:

- Civil Code section 4600.1 (repealed and added as Family Code section 3060–3064 by Chapter 162, Statutes of 1992);
- Penal Code sections 278 and 278.5 (repealed and added as Penal Code sections 277, 278, and 278.5 by Chapter 988, Statutes of 1996); and
- Welfare and Institutions Code section 11478.5 (repealed and added as Family Code section 17506 by Chapter 478, Statutes of 1999, last amended by Chapter 759, Statutes of 2002).

These laws require the District Attorney's Office to assist persons having legal custody of a child in:

- Locating their children when they are unlawfully taken away;
- Gaining enforcement of custody and visitation decrees and orders to appear;
- Defraying expenses related to the return of an unlawfully detained, abducted, or concealed child;
- Civil court action proceedings; and
- Guaranteeing the appearance of offenders and minors in court actions.

On September 19, 1979, the State Board of Control (now the Commission on State Mandates [CSM]) determined that this legislation imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted parameters and guidelines on January 21, 1981, and last amended them on August 26, 1999. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Custody of Minors—Child Abduction and Recovery Program for the period of July 1, 2006, through June 30, 2009.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We conducted the 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Butte County claimed and was paid \$668,959 for costs of the Custody of Minors—Child Abduction and Recovery Program. Our audit disclosed that \$617,491 is allowable and \$51,468 is unallowable. The State will offset \$51,468 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

Views of Responsible Officials

We discussed our audit results with the county's representatives during an exit conference conducted on December 12, 2012. Meegan Jessee, Deputy Chief Financial Officer, Finance and Risk Management, Administration Department; Constance Carter, Chief, Administration Bureau, District Attorney's Office; and Lori Stock, Senior Administrative Assistant, District Attorney's Office, agreed with the audit results. Ms. Carter declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of Butte County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

December 20, 2012

**Schedule 1—
Summary of Program Costs
July 1, 2006, through June 30, 2009**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Salaries	\$ 120,035	\$ 95,010	\$ (25,025)	Finding 1
Benefits	63,374	47,281	(16,093)	Finding 1
Services and supplies ²	45,429	37,387	(8,042)	Findings 1, 4
Travel and training	1,100	2,671	1,571	Finding 3
Total program costs	<u>\$ 229,938</u>	182,349	<u>\$ (47,589)</u>	
Less amount paid by the State		<u>(229,938)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (47,589)</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Salaries	\$ 107,561	\$ 112,547	\$ 4,986	Finding 1
Benefits	57,763	48,497	(9,266)	Finding 1
Services and supplies ²	50,502	57,486	6,984	Findings 1, 4
Travel and training	2,151	2,151	—	
Subtotal	217,977	220,681	2,704	
Allowable costs that exceed claimed costs ³	—	<u>(2,704)</u>	<u>(2,704)</u>	
Total program costs	<u>\$ 217,977</u>	217,977	<u>\$ —</u>	
Less amount paid by the State		<u>(217,977)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Salaries	\$ 115,896	\$ 111,324	\$ (4,572)	Finding 1
Benefits	63,844	56,340	(7,504)	Finding 1
Services and supplies	—	9,939	9,939	Finding 2
Travel and training	—	2,140	2,140	Finding 3
Total direct costs	179,740	179,743	3	
Indirect costs	41,304	37,422	(3,882)	Findings 1, 4
Total program costs	<u>\$ 221,044</u>	217,165	<u>\$ (3,879)</u>	
Less amount paid by the State		<u>(221,044)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (3,879)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2006, through June 30, 2009</u>				
Direct costs:				
Salaries	\$ 343,492	\$ 318,881	\$ (24,611)	
Benefits	184,981	152,118	(32,863)	
Services and supplies	95,931	104,812	8,881	
Travel and training	3,251	6,962	3,711	
Total direct costs	627,655	582,773	(44,882)	
Indirect costs	41,304	37,422	(3,882)	
Subtotal	668,959	620,195	(48,764)	
Allowable costs that exceed claimed costs	—	(2,704)	(2,704)	
Total program costs	<u>\$ 668,959</u>	617,491	<u>\$ (51,468)</u>	
Less amount paid by the State		(668,959)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (51,468)</u>		

¹ See the Findings and Recommendations section.

² The county claimed indirect costs as services and supplies in FY 2006-07 and FY 2007-08.

³ Government Code 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 2007-08.

Findings and Recommendations

FINDING 1— Overstated and understated salaries, benefits, and indirect costs

The county overstated and understated allowable salaries. For the audit period, salaries were overstated by \$24,611. The related benefits and indirect costs total \$32,863 and \$10,887, respectively.

The county overstated and understated allowable salaries and benefits because of a system error. For the audit period, the county claimed salaries and benefits from the Child Abduction Unit's expenditure report. This report is generated from the county's accounting system. The county implemented a new payroll system to account for actual salaries and benefits. The county enters information into the payroll system; subsequently, this information should be uploaded to the accounting system. Therefore, both systems should reflect the same information. However, changes and updates made in the payroll system were not being accurately updated and accounted for in the accounting system. Therefore, salaries and benefits reported on the expenditure report did not reflect actual costs. The county provided the payroll detail distribution reports and payroll journals generated by the payroll system for the salaries and benefits that should have been claimed.

For fiscal year (FY) 2006-07, the county's payroll journals show that the county overstated salaries and benefits totaling \$41,118 for three investigators, two investigative assistants, and a legal secretary.

For FY 2007-08, the county's payroll journals show that the county understated salaries by a total of \$4,986 and overstated benefits by a total of \$9,266 for two investigators, an investigative assistant, and an office assistant.

For FY 2008-09, the county's payroll journals show that the county overstated salaries and benefits totaling \$12,076 for a lieutenant, two investigators, and three investigative assistants.

The following table summarizes the audit adjustment for salaries, benefits, and the related indirect costs:

	Fiscal Year			Total
	2006-07	2007-08	2008-09	
Salaries	\$ (25,025)	\$ 4,986	\$ (4,572)	\$ (24,611)
Benefits	(16,093)	(9,266)	(7,504)	(32,863)
Services and supplies ¹	(7,060)	(1,052)	—	(8,112)
Indirect costs	—	—	(2,775)	(2,775)
Audit adjustment	<u>\$ (48,178)</u>	<u>\$ (5,332)</u>	<u>\$ (14,851)</u>	<u>\$ (68,361)</u>

¹ The county claimed indirect costs as services and supplies in FY 2006-07 and FY 2007-08.

The program’s parameters and guidelines require counties to report actual costs. The parameters and guidelines state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. . . .

Recommendation

We recommend that the county claim only those costs that its accounting records support and ensure that its accounting records accurately reflect actual costs.

**FINDING 2—
Understated services
and supplies**

The county understated services and supplies totaling \$9,939 for FY 2008-09. The county erroneously excluded mandate-related services and supplies from its mandated program claim.

The parameters and guidelines require counties to report actual costs. The parameters and guidelines state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. . . .

Recommendation

We recommend that the county claim all mandate-related services and supplies that its accounting records support.

**FINDING 3—
Understated travel and
training costs**

The county understated travel and training costs for FY 2006-07 and FY 2008-09. The understated costs total \$3,711.

For FY 2006-07, the county claimed unallowable travel costs totaling \$990. The costs are unallowable because they are attributable to employees who were not assigned to the Child Abduction Unit. County representatives stated that the county claimed these costs in error. In addition, the county erroneously excluded other mandate-related travel costs from its claim. The understated costs total \$2,561.

The county understated travel and training costs for FY 2008-09. The county erroneously excluded mandate-related travel and training costs from its mandated program claim.

The following table summarizes the audit adjustment:

	Fiscal Year		Total
	2006-07	2008-09	
Travel and training			
Understated costs	\$ 2,561	\$ 2,140	\$ 4,701
Non-mandate-related costs	(990)	—	(990)
Audit adjustment	<u>\$ 1,571</u>	<u>\$ 2,140</u>	<u>\$ 3,711</u>

The parameters and guidelines require counties to report actual costs. The parameters and guidelines state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. . . .

Recommendation

We recommend that the county claim all mandate-related travel and training costs that its accounting records support.

FINDING 4— Overstated and understated indirect cost rates

The county overstated its indirect cost rates for FY 2006-07 and FY 2008-09. The county understated its indirect cost rate for FY 2007-08. The overstated and understated rates occurred because the county incorrectly calculated the carry-forward adjustment attributable to each fiscal year’s provisional indirect cost rate. The overstated and understated indirect cost rates resulted in understated costs totaling \$5,947 for the audit period.

The county prepared its indirect cost rate proposals (ICRPs) using a “fixed rate” methodology. However, the county incorrectly calculated the carry-forward adjustments that are included in the indirect cost rate calculations. For example, the county calculated the carry-forward adjustment for its FY 2006-07 provisional indirect cost rate based on the difference between the FY 2004-05 actual indirect cost rate and the FY 2002-03 actual indirect cost rate. Instead, the correct carry-forward adjustment is the difference between the FY 2004-05 actual indirect cost rate and the FY 2004-05 provisional indirect cost rate.

The FY 2004-05 and FY 2005-06 provisional indirect cost rates are the allowable indirect cost rates identified in our previous audit report for the county’s Custody of Minors—Child Abduction and Recovery Program, which was published on June 13, 2008.

The following table summarizes the audit adjustments to the county’s provisional indirect cost rates:

	<u>Indirect Cost Rate Claimed</u>	<u>Allowable Indirect Cost Rate</u>
<u>FY 2006-07</u>		
Actual indirect cost rate, FY 2004-05	15.82%	15.82%
Less FY 2002-03 actual indirect cost rate	(14.47)%	—
Less FY 2004-05 provisional indirect cost rate	—	(15.16)%
Carry-forward adjustment	1.35%	0.66%
Actual indirect cost rate, FY 2004-05	15.82%	15.82%
FY 2006-07 provisional indirect cost rate	<u>17.17%</u>	<u>16.48%</u>

	Indirect Cost Rate Claimed	Allowable Indirect Cost Rate
<u>FY 2007-08</u>		
Actual indirect cost rate, FY 2005-06	19.27%	19.27%
Less FY 2003-04 actual indirect cost rate	(13.97)%	—
Less FY 2005-06 provisional indirect cost rate	—	(8.98)%
Carry-forward adjustment	5.30%	10.29%
Indirect cost rate, FY 2005-06	19.27%	19.27%
FY 2007-08 provisional indirect cost rate	<u>24.57%</u>	<u>29.56%</u>
<u>FY 2008-09</u>		
Actual indirect cost rate, FY 2006-07	19.40%	19.40%
Less FY 2004-05 actual indirect cost rate	(15.82)%	—
Less FY 2006-07 provisional indirect cost rate	—	(16.48)%
Carry-forward adjustment	3.58%	2.92%
Indirect cost rate, FY 2006-07	19.40%	19.40%
FY 2008-09 provisional indirect cost rate	<u>22.98%</u>	<u>22.32%</u>

The following table summarizes the audit adjustments to services and supplies, and indirect costs based on the allowable indirect cost rates:

	Fiscal Year			Total
	2006-07	2007-08	2008-09	
Allowable indirect cost rate	16.48%	29.56%	22.32%	
Claimed indirect cost rate	(17.17)%	(24.57)%	(22.98)%	
(Overstated)/understated indirect cost rate	(0.69)%	4.99%	(0.66)%	
Allowable salaries and benefits	× \$ 142,291	× \$ 161,044	× \$ 167,664	
Audit adjustment, services and supplies ¹	(982)	8,036	—	\$ 7,054
Audit adjustment, indirect costs	—	—	(1,107)	(1,107)
Total audit adjustment	<u>\$ (982)</u>	<u>\$ 8,036</u>	<u>\$ (1,107)</u>	<u>\$ 5,947</u>

¹ The county claimed indirect costs as services and supplies in FY 2006-07 and FY 2007-08.

The parameters and guidelines require counties to report actual costs. The parameters and guidelines state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. . . .

The parameters and guidelines also state that counties may claim indirect costs using the procedures provided in Office of Management and Budget (OMB) Circular A-87 (Title 2, Code of Federal Regulations, Part 225).

OMB Circular A-87, Attachment E, Part B.6 addresses the issues of fixed rates and carry-forward adjustments. It states:

“Fixed rate” means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

Recommendation

We recommend that the county correctly calculate each fiscal year’s provisional indirect cost rate carry-forward adjustment based on the difference between the actual and provisional indirect costs rates for the second preceding fiscal year.

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