

CITY OF SANTA ANA

Audit Report

CRIME STATISTICS REPORTS FOR THE DEPARTMENT OF JUSTICE PROGRAM

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

July 1, 2001, through June 30, 2012



BETTY T. YEE
California State Controller

December 2018



BETTY T. YEE
California State Controller

December 5, 2018

The Honorable Miguel Pulido
Mayor of the City of Santa Ana
20 Civic Center Plaza, M-31
Santa Ana, CA 92701

Dear Mayor Pulido:

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

The city claimed \$3,009,526 for the mandated program. Our audit found that \$2,675,678 is allowable (\$2,863,270 less \$187,592 in audit adjustments that exceed costs claimed) and \$333,848 is unallowable because the city overstated salary and benefit costs, and overstated the indirect cost rates. The State made no payments to the city. The State will pay \$2,675,678, 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 for which there is an audit adjustment.

This final audit report contains an adjustment to costs claimed by the city. If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission). Pursuant to the Commission's regulations, outlined in Title 2, *California Code of Regulations*, section 1185.1, subdivision (c), an IRC challenging this adjustment must be filed with the Commission no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain IRC information on the Commission's website at www.csm.ca.gov/forms/IRCFORM.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Sergio Vidal, Assistant Director
Finance and Management Services
City of Santa Ana
David Valentin, Chief
Santa Ana City Police Department
Robert Carroll, Police Administrative Manager
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Audit Report

Summary

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

The city claimed \$3,009,526 for the mandated program. Our audit found that \$2,675,678 is allowable (\$2,863,270 less \$187,592 in audit adjustments that exceed costs claimed) and \$333,848 is unallowable because the city overstated salary and benefit costs, and overstated the indirect cost rates. The State made no payments to the city. The State will pay \$2,675,678, contingent upon available appropriations.

Background

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

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

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

The Commission found that the following activities are reimbursable:

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

emotional suffering, or property damage where there is a reasonable cause to believe that the crime was motivated, in whole or in part, by the victim's race, ethnicity, religion, sexual orientation, physical or mental disability, or gender or national origin (PC section 13023).

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

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

Objective, Scope, and Methodology

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

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

To achieve our objective, we:

- Reviewed the annual mandated cost claims filed by the city for the audit period to identify the material cost components of each claim as

- the Domestic Violence Related Calls for Assistance cost component. Determined whether there were any errors or any 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, and discussed the claim preparation process with city staff to determine what information was obtained, who obtained it, and how it was used;
 - Interviewed city staff to determine what employee classifications were involved in performing the reimbursable activities during the audit period, and
 - Traced productive hourly rate (PHR) calculations for all employee classifications performing the mandated activities to supporting information in the city's payroll system (see Finding 1);
 - Traced benefit rate calculations for all employee classifications performing the mandated activities to supporting information in the city's payroll system (see Finding 1);
 - Assessed whether the average time increments claimed for each fiscal year in the audit period to perform the reimbursable activities were reasonable per the requirements of the program and supported by source documentation;
 - Reviewed and analyzed the claimed domestic violence incident report counts and homicide report counts for consistency and possible exclusions, and verified that counts were supported by the reports that the city submitted to the DOJ;
 - Traced a judgmentally selected non-statistical sample of 264 (24 reports per fiscal year in the audit period) out of 43,372 domestic violence calls for assistance to written incident reports. Errors found were not projected to the intended population;
 - Verified whether indirect costs claimed for each fiscal year in the audit period were for common or joint purposes and whether indirect cost rates were properly supported and applied (see Finding 2); and
 - Reviewed potential sources of offsetting revenues/reimbursements for the audit period. We inquired with district staff, reviewed single audit reports (with accompanying financial statements), and reviewed revenue reports for the audit period for other sources of funding.

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

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

not assess the efficiency or effectiveness of program operations. We did not audit the city's financial statements.

Conclusion

Our audit found instances of noncompliance with the requirements outlined in the Objective, Scope, and Methodology section. We found that the city did not claim costs that were funded by other sources; however, it did claim unsupported and ineligible costs, as quantified in the accompanying Schedule 1 (Summary of Program Costs) and Schedule 2 (Summary of Indirect Cost Rate Adjustments), and described in the Findings and Recommendations section of this report.

For the audit period, the City of Santa Ana claimed \$3,009,526 for costs of the legislatively mandated Crime Statistics Reports for the Department of Justice Program. Our audit found that \$2,675,678 is allowable (\$2,863,270 less \$187,592 in audit adjustments that exceed costs claimed) and \$333,848 is unallowable.

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 for which there is an audit adjustment.

Follow-up on Prior Audit Findings

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

Views of Responsible Officials

We discussed our audit results with the city's representatives during an exit conference conducted on September 12, 2018. Sarah Ro, Accounting Manager, Finance and Management Services; Robert Carroll, Police Administrative Manager, Budget and Human Resources Division, Santa Ana Police Department; Rita Ramirez, Police Administrative Manager, Records/Evidence, Santa Ana Police Department; Leo Martinez, Management Analyst, Santa Ana Police Department; and Jasmine Yu, Senior Accountant, Finance and Management Services, neither agreed nor disagreed with the audit results. The city's representatives 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 the City of Santa Ana, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

December 5, 2018

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Homicide reports	\$ 371	\$ 371	\$ -	
Domestic violence related calls for assistance	174,359	138,534	(35,825)	Finding 1
Total direct costs	174,730	138,905	(35,825)	
Indirect costs	13,441	11,951	(1,490)	Finding 1
Total program costs	<u>\$ 188,171</u>	150,856	<u>\$ (37,315)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 150,856</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Homicide reports	\$ 362	\$ 362	\$ -	
Domestic violence related calls for assistance	167,131	162,059	(5,072)	Finding 1
Total direct costs	167,493	162,421	(5,072)	
Indirect costs	88,766	75,788	(12,978)	Finding 1, 2
Total program costs	<u>\$ 256,259</u>	238,209	<u>\$ (18,050)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 238,209</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Homicide reports	\$ 364	\$ 364	\$ -	
Domestic violence related calls for assistance	193,825	189,552	(4,273)	Finding 1
Total direct costs	194,189	189,916	(4,273)	
Indirect costs	90,480	81,621	(8,859)	Finding 1, 2
Total program costs	<u>\$ 284,669</u>	271,537	<u>\$ (13,132)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 271,537</u>		
 <u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Homicide reports	\$ 483	\$ 483	\$ -	
Domestic violence related calls for assistance	198,766	217,939	19,173	Finding 1
Total direct costs	199,249	218,422	19,173	
Indirect costs	52,844	55,467	2,623	Finding 1, 2
Total program costs	252,093	273,889	21,796	
Audit adjustments that exceed costs claimed ³	-	(21,796)	(21,796)	
Total program costs	<u>\$ 252,093</u>	252,093	<u>\$ -</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 252,093</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Homicide reports	\$ 498	\$ 498	\$ -	
Domestic violence related calls for assistance	<u>204,739</u>	<u>201,899</u>	<u>(2,840)</u>	Finding 1
Total direct costs	205,237	202,397	(2,840)	
Indirect costs	<u>51,796</u>	<u>49,013</u>	<u>(2,783)</u>	Finding 1, 2
Total program costs	<u>\$ 257,033</u>	251,410	<u>\$ (5,623)</u>	
Less amount paid by the State ²		<u>-</u>		
Allowable costs claimed in excess of amount paid		<u>\$ 251,410</u>		
 <u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Homicide reports	\$ 439	\$ 439	\$ -	
Domestic violence related calls for assistance	<u>196,960</u>	<u>192,206</u>	<u>(4,754)</u>	Finding 1
Total direct costs	197,399	192,645	(4,754)	
Indirect costs	<u>51,267</u>	<u>50,032</u>	<u>(1,235)</u>	Finding 1
Total program costs	<u>\$ 248,666</u>	242,677	<u>\$ (5,989)</u>	
Less amount paid by the State ²		<u>-</u>		
Allowable costs claimed in excess of amount paid		<u>\$ 242,677</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Homicide reports	\$ 653	\$ 653	\$ -	
Domestic violence related calls for assistance	57,284	189,382	132,098	Finding 1
Total direct costs	57,937	190,035	132,098	
Indirect costs	14,229	47,927	33,698	Finding 1, 2
Subtotal	72,166	237,962	165,796	
Audit adjustments that exceed costs claimed ³	-	(165,796)	(165,796)	
Total program costs	<u>\$ 72,166</u>	72,166	<u>\$ -</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 72,166</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Homicide reports	\$ 855	\$ 855	\$ -	
Domestic violence related calls for assistance	200,490	177,603	(22,887)	Finding 1
Total direct costs	201,345	178,458	(22,887)	
Indirect costs	51,941	44,634	(7,307)	Finding 1, 2
Total program costs	<u>\$ 253,286</u>	223,092	<u>\$ (30,194)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 223,092</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Homicide reports	\$ 1,176	\$ 1,176	\$ -	
Domestic violence related calls for assistance	<u>233,225</u>	<u>222,861</u>	<u>(10,364)</u>	Finding 1
Total direct costs	234,401	224,037	(10,364)	
Indirect costs	<u>56,865</u>	<u>51,061</u>	<u>(5,804)</u>	Finding 1, 2
Total program costs	<u>\$ 291,266</u>	275,098	<u>\$ (16,168)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 275,098</u>		
 <u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 354,740	\$ 267,606	\$ (87,134)	Finding 1
Total direct costs	354,740	267,606	(87,134)	
Indirect costs	<u>114,820</u>	<u>63,679</u>	<u>(51,141)</u>	Finding 1, 2
Total program costs	<u>\$ 469,560</u>	331,285	<u>\$ (138,275)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 331,285</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Domestic violence related calls for assistance	\$ 354,556	\$ 300,628	\$ (53,928)	Finding 1
Total direct costs	354,556	300,628	(53,928)	
Indirect costs	81,801	66,627	(15,174)	Finding 1, 2
Total program costs	<u>\$ 436,357</u>	367,255	<u>\$ (69,102)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 367,255</u>		
<u>Summary: July 1, 2001, through June 30, 2012</u>				
Direct costs:				
Homicide reports	\$ 5,201	\$ 5,201	\$ -	
Domestic violence related calls for assistance	2,336,075	2,260,269	(75,806)	Finding 1
Total direct costs	2,341,276	2,265,470	(75,806)	
Indirect costs	668,250	597,800	(70,450)	Finding 1, 2
Subtotal	3,009,526	2,863,270	(146,256)	
Audit adjustments that exceed costs claimed ³	-	(187,592)	(187,592)	
Total program costs	<u>\$3,009,526</u>	2,675,678	<u>\$ (333,848)</u>	
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$2,675,678</u>		

¹ See the Findings and Recommendations section.

² Payment amount current as of September 12, 2018.

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 2004-05 and FY 2007-08.

**Schedule 2—
Summary of Indirect Cost Rate Adjustments
July 1, 2002, through June 30, 2006; and
July 1, 2007, through June 30, 2012¹**

Cost Categories	Indirect Cost Rate Claimed ²	Allowable Indirect Cost Rate ²	Indirect Cost Rate Adjustments ³
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Salaries	\$ 42,192,304	\$ 43,422,232	\$ 1,229,928
Indirect costs:			
Salaries and benefits	11,258,016	9,891,133	(1,366,883)
Services and supplies	10,159,019	10,146,487	(12,532)
Cost Allocation Plan costs	4,715,721	3,617,892	(1,097,829)
Total indirect costs	\$ 26,132,756	\$ 23,655,512	\$ (2,477,244)
Indirect cost rate ³	61.9%	54.5%	(7.4)%
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries	\$ 44,672,533	\$ 45,885,626	\$ 1,213,093
Indirect costs:			
Salaries and benefits	11,925,053	10,482,945	(1,442,108)
Services and supplies	9,490,246	9,490,246	-
Cost Allocation Plan costs	3,327,073	3,472,513	145,440
Total indirect costs	\$ 24,742,372	\$ 23,445,704	\$ (1,296,668)
Indirect cost rate ³	55.4%	51.1%	(4.3)%
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries	\$ 47,819,944	\$ 48,056,675	\$ 236,731
Indirect costs:			
Salaries and benefits	2,334,952	2,336,806	1,854
Services and supplies	9,786,855	9,799,880	13,025
Cost Allocation Plan costs	4,776,953	4,123,263	(653,690)
Total indirect costs	\$ 16,898,760	\$ 16,259,949	\$ (638,811)
Indirect cost rate ³	35.3%	33.8%	(1.5)%

Schedule 2 (continued)

Cost Categories	Indirect Cost Rate Claimed ²	Allowable Indirect Cost Rate ²	Indirect Cost Rate Adjustments ³
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries	\$ 49,378,997	\$ 48,983,088	\$ (395,909)
Indirect costs:			
Salaries and benefits	2,415,096	2,415,050	(46)
Services and supplies	10,284,205	10,262,850	(21,355)
Cost Allocation Plan costs	4,405,961	3,561,070	(844,891)
Total indirect costs	\$ 17,105,262	\$ 16,238,970	\$ (866,292)
Indirect cost rate ³	34.6%	33.2%	(1.4)%
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries	\$ 57,954,666	\$ 56,193,964	\$ (1,760,702)
Indirect costs:			
Salaries and benefits	2,559,087	2,558,417	(670)
Services and supplies	12,048,633	12,046,807	(1,826)
Cost Allocation Plan costs	4,790,244	4,745,823	(44,421)
Total indirect costs	\$ 19,397,964	\$ 19,351,047	\$ (46,917)
Indirect cost rate ³	33.5%	34.4%	0.9%
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries	\$ 58,423,168	\$ 58,423,168	\$ -
Indirect costs:			
Salaries and benefits	4,127,331	4,127,331	-
Services and supplies	11,719,111	11,343,825	(375,286)
Cost Allocation Plan costs	4,954,321	4,446,003	(508,318)
Total indirect costs	\$ 20,800,763	\$ 19,917,159	\$ (883,604)
Indirect cost rate ³	35.6%	34.1%	(1.5)%

Schedule 2 (continued)

Cost Categories	Indirect Cost Rate Claimed ²	Allowable Indirect Cost Rate ²	Indirect Cost Rate Adjustments ³
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries	\$ 56,807,164	\$ 56,807,164	\$ -
Indirect costs:			
Salaries and benefits	3,385,777	3,385,777	-
Services and supplies	10,903,128	10,903,128	-
Cost Allocation Plan costs	4,822,337	3,516,363	(1,305,974)
Total indirect costs	\$ 19,111,242	\$ 17,805,268	\$ (1,305,974)
Indirect cost rate ³	33.6%	31.3%	(2.3)%
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries	\$ 40,142,598	\$ 55,000,453	\$ 14,857,855
Indirect costs:			
Salaries and benefits	3,252,871	3,191,990	(60,881)
Services and supplies	10,075,041	10,695,559	620,518
Cost Allocation Plan costs	5,054,979	3,503,529	(1,551,450)
Total indirect costs	\$ 18,382,891	\$ 17,391,078	\$ (991,813)
Indirect cost rate ³	45.8%	31.6%	(14.2)%
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries	\$ 53,173,163	\$ 54,022,358	\$ 849,195
Indirect costs:			
Salaries and benefits	2,617,404	2,617,404	-
Services and supplies	10,367,922	10,382,249	14,327
Cost Allocation Plan costs	4,651,205	3,630,302	(1,020,903)
Total indirect costs	\$ 17,636,531	\$ 16,629,955	\$ (1,006,576)
Indirect cost rate ³	33.2%	30.8%	(2.4)%

¹ There is no adjustment to the FY 2001-02 indirect cost rate, as the city claimed a flat 10%, which is allowable per the programs parameters and guidelines. In addition, there is no adjustment to the FY 2006-07 indirect cost rate, as the error determined during the audit was immaterial.

² The indirect cost rate is determined by dividing total indirect costs by salaries.

³ See Finding 2, Overstated indirect cost rates.

Findings and Recommendations

**FINDING 1—
Overstated salaries
and benefits**

The city overstated salaries and benefits by \$75,806 for the audit period. The related indirect costs total \$10,495, for a total audit finding of \$86,301.

The audit adjustments are related to the Domestic Violence Related Calls for Assistance cost component. During testing, we found that the city overstated costs because it overstated and understated the number of domestic violence-related calls for assistance; overstated PHRs; and overstated benefit rates used to calculate costs to write, review and edit domestic violence-related calls for assistance incident reports. In addition, costs were calculated using salary information of classifications that did not perform the mandated activity. The noted issues occurred because the city misinterpreted the program’s parameters and guidelines when preparing the mandated cost claims.

The following table summarizes the claimed, allowable and unallowable salaries, benefits costs and related indirect costs for the Domestic Violence Related Calls for Assistance cost component for the audit period:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>	<u>Related Indirect Costs</u>	<u>Total Audit Adjustment</u>
2001-02	\$ 174,730	\$ 138,905	\$ (35,825)	\$ (1,490)	\$ (37,315)
2002-03	167,493	162,421	(5,072)	(2,688)	(7,760)
2003-04	194,189	189,916	(4,273)	(1,991)	(6,264)
2004-05	199,249	218,422	19,173	5,085	24,258
2005-06	205,237	202,397	(2,840)	(716)	(3,556)
2006-07	197,399	192,645	(4,754)	(1,235)	(5,989)
2007-08	57,937	190,035	132,098	32,444	164,542
2008-09	201,345	178,458	(22,887)	(5,344)	(28,231)
2009-10	234,401	224,037	(10,364)	(2,052)	(12,416)
2010-11	354,740	267,606	(87,134)	(22,526)	(109,660)
2011-12	354,556	300,628	(53,928)	(9,982)	(63,910)
Total	\$ 2,341,276	\$ 2,265,470	\$ (75,806)	\$ (10,495)	\$ (86,301)

Domestic Violence Related Calls for Assistance

The costs for this component include supporting each domestic violence-related call for assistance with a written incident report. Reimbursable activities consist of writing, reviewing, and editing the incident reports. Claimed costs were calculated by multiplying the number of the incident reports by a time increment to process a report, then multiplying the resulting hours by a PHR and related benefit rate.

Incident Reports

The city overstated and understated the number of domestic violence-related calls for assistance, which resulted in net understated salary and benefit costs totaling \$112,178. Understated related indirect costs total \$27,735. We reviewed the monthly reports that the city had provided to

DOJ, as well as summary reports that the city created in its Records Management System (RMS). Our review disclosed that the RMS information did not support the claimed number of domestic violence-related calls for assistance in all fiscal years with the exception of FY 2009-10. For 10 of the 11 fiscal years, the claimed number of domestic violence-related calls for assistance was either overstated or understated based on the monthly report to DOJ. As a result, the city claimed net understated salaries and benefit costs.

The following table summarizes the overstated number of incident reports:

Fiscal Year	Claimed Incident Reports	Incident Reports Identified in the City's System	Difference
2001-02	3,969	3,528	(441)
2002-03	4,086	3,962	(124)
2003-04	4,492	4,393	(99)
2004-05	3,971	4,353	382
2005-06	3,971	3,917	(54)
2006-07	3,606	3,520	(86)
2007-08	1,023	3,381	2,358
2008-09	3,044	2,874	(170)
2009-10	3,536	3,536	-
2010-11	3,675	3,575	(100)
2011-12	3,522	3,720	198
Total	38,895	40,759	1,864

The following schedule summarizes the audit adjustment:

Fiscal Year	Salaries and Benefit Costs	Related Indirect Costs	Audit Adjustment
2001-02	\$ (19,372)	\$ (1,490)	\$ (20,862)
2002-03	(5,072)	(2,688)	(7,760)
2003-04	(4,273)	(1,991)	(6,264)
2004-05	19,173	5,085	24,258
2005-06	(2,840)	(716)	(3,556)
2006-07	(4,754)	(1,235)	(5,989)
2007-08	132,098	32,444	164,542
2008-09	(11,266)	(2,906)	(14,172)
2009-10	-	-	-
2010-11	(7,804)	(2,526)	(10,330)
2011-12	16,288	3,758	20,046
Total	\$ 112,178	\$ 27,735	\$ 139,913

Productive hourly rates

The city overstated salary and benefit costs by \$166,292 because it applied overstated PHRs to the claimed number of hours during the audit period. Overstated related indirect costs total \$38,230.

During our review of the PHRs, we found that the city overstated the average PHRs in four fiscal years. For FY 2008-09 through FY 2010-11

the overstatement occurred because the city calculated the average PHRs using the base salary rates for the June pay period rather than the employees' actual regular annual salaries. For FY 2011-12, the overstatement occurred because the city calculated the average PHR using monthly salaries for June and included the costs of police officers who were assigned to positions such as corporal and investigator, and detectives who did not perform the mandated activity of writing incident reports.

The following schedule summarizes the audit adjustment:

<u>Fiscal Year</u>	<u>Salaries and Benefits</u>	<u>Related Indirect Costs</u>	<u>Audit Adjustment</u>
2008-09	\$ (11,621)	\$ (2,438)	\$ (14,059)
2009-10	(10,364)	(2,052)	(12,416)
2010-11	(74,091)	(20,000)	(94,091)
2011-12	<u>(70,216)</u>	<u>(13,740)</u>	<u>(83,956)</u>
Total	<u>\$ (166,292)</u>	<u>\$ (38,230)</u>	<u>\$ (204,522)</u>

Benefit Rates

The city overstated benefit costs by \$21,692.

For FY 2001-02 and FY 2010-11, the city overstated the benefit rates that it used to calculate benefit costs for the Domestic Violence Related Calls for Assistance cost component. The city's records did not support the claimed benefit rates for these fiscal years. For FY 2001-02, the city claimed a benefit rate of 30%. Our review determined that the departmental benefit rate for that fiscal year is 16.2%. Based on the information provided, the city overstated the benefit rate by 13.8% for this fiscal year. For FY 2010-11, the city claimed 41.5%. Our review determined that the documentation supported a benefit rate of 38.9%, a difference of 2.6%. We applied the error rates to allowable salaries identified for the Domestic Violence Related Calls for Assistance cost component to derive the unallowable benefit costs.

The following schedule summarizes the audit adjustment:

	<u>Fiscal Year</u>		<u>Total</u>
	<u>2001-02</u>	<u>2010-11</u>	
Allowable benefit rate	16.20%	38.90%	
Claimed benefit rate	<u>(30.00%)</u>	<u>(41.50%)</u>	
Error Rate	(13.80%)	(2.60%)	
Allowable salaries	× \$ 119,222	× \$ 201,517	
Unallowable benefit costs	<u>\$ (16,453)</u>	<u>\$ (5,239)</u>	<u>\$ (21,692)</u>

Criteria

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

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be

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

Section IV of the parameters and guidelines also state, in part:

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities. Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate.

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

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

Recommendation

The Crime Statistics Reports for the Department of Justice Program was suspended in FY 2012-13 through FY 2017-18. If the program becomes active again, we recommend that the city:

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

FINDING 2— Overstated indirect cost rates

For the audit period, the city overstated the indirect cost rates, which resulted in overstated indirect costs \$59,955. The overstatement occurred because the city included job classifications in the indirect cost pool that were either not supported or were duplicated; included central services costs that were not supported; and either overstated or understated departmental costs. For FY 2001-02, the city claimed a flat 10% rate, which was allowed per the program's parameters and guidelines, and the audited indirect rate variance for FY 2006-07 was immaterial.

For all fiscal years (excluding FY 2001-02 and FY 2006-07), the city either overstated or understated the total departmental costs. We noted that the departmental costs identified in the expenditure reports provided did not reconcile with the reported departmental expenditures used to calculate the indirect cost rate proposal. The city representative stated that the expenditure reports were most likely audited after the consultant had been provided with the expenditure reports prior to the claims process. Therefore, we were provided the audited expenditure reports after corrections were made.

For FY 2002-03 and FY 2003-04, the city included job classifications in its indirect cost pool that were not supported by city records. We reviewed the indirect salaries and found that the city included a duplicate number of Police Service Dispatchers in the indirect cost pool. The city included 27 Police Services Dispatchers in the indirect salaries calculations; however, city records indicated that the city employed only 15 Police Services Dispatchers, a difference of 12 positions. The indirect salaries included Lead Records Specialist and Communications Services Specialist classifications in the indirect cost pool. We were unable to locate these positions in the salary schedule; therefore, we excluded these classifications from the indirect cost pool, as we were unable to verify the costs.

For FY 2002-03 through FY 2011-12, we reviewed the city’s cost allocation plan to trace the costs included in the indirect cost rate proposal (ICRP) to the city’s cost plan allocation. Based on our discussions with city representatives, we understood that the city calculated a percentage of central services costs that should be applied to each department’s direct salaries to recover indirect costs for central services. We identified the percentage of central services costs applicable to the police department and applied that rate to the departmental direct salaries costs. We found that the calculated central services costs did not reconcile with the claimed central services costs included in the indirect cost pool. We recalculated the indirect cost rate for each fiscal year.

Schedule 2—Summary of Indirect Cost Rate Adjustments, summarizes the adjustment to the city’s indirect cost rates.

The following tables summarizes the adjustment to the city’s indirect costs by fiscal year:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Allowable indirect cost rate	54.5%	51.1%	33.8%	
Claimed indirect cost rate	(61.9)%	(55.4)%	(35.3)%	
Error Rate	(7.4)%	(4.3)%	(1.5)%	
Allowable salaries	139,060	159,727	164,104	
Audit adjustment	<u>\$ (10,290)</u>	<u>\$ (6,868)</u>	<u>\$ (2,462)</u>	(19,620)
	<u>2005-06</u>	<u>2007-08</u>	<u>2008-09</u>	
Allowable indirect cost rate	33.2%	34.4%	34.1%	
Claimed indirect cost rate	(34.6)%	(33.5)%	(35.6)%	
Error Rate	(1.4)%	0.9%	(1.5)%	
Allowable salaries	147,628	139,322	130,889	
Audit adjustment	<u>\$ (2,067)</u>	<u>\$ 1,254</u>	<u>\$ (1,963)</u>	(2,776)
	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	
Allowable indirect cost rate	31.3%	31.6%	30.8%	
Claimed indirect cost rate	(33.6)%	(45.8)%	(33.2)%	
Error Rate	(2.3)%	(14.2)%	(2.4)%	
Allowable salaries	163,135	201,517	216,325	
Audit adjustment	<u>\$ (3,752)</u>	<u>\$ (28,615)</u>	<u>\$ (5,192)</u>	(37,559)
Total Audit Adjustment				<u>\$ (59,955)</u>

Criteria

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

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

The circular also provides the following guidance:

- Attachment A, part C.3(a), states, “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”
- Attachment A, part C.3(c), states that any cost allocable to a particular cost objective may not be charged to other cost objectives to overcome fund deficiencies.
- Attachment B, part 8(h), states that employees must maintain personnel activity reports or equivalent documentation when they work on both indirect and direct cost activities.
- Attachment E, part A.1, states that a cost may not be allocated as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned as a direct cost.

Recommendation

The Crime Statistics Reports for the Department of Justice Program was suspended in FY 2012-13 through FY 2017-18. If the program becomes active again, we recommend that the city calculate the ICRP based on the audited expenditure reports and ensure that the correct central services costs are included in the calculation.

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