

# LOS ANGELES COUNTY

Audit Report

## AIDS TESTING PROGRAM

Chapter 1597, Statutes of 1988

*July 1, 2000, through June 30, 2003*



**JOHN CHIANG**  
California State Controller

February 2007



**JOHN CHIANG**  
**California State Controller**

February 20, 2007

J. Tyler McCauley  
Auditor-Controller  
Los Angeles County  
500 West Temple Street, Room 525  
Los Angeles, CA 90012

Dear Mr. McCauley:

The State Controller's Office audited the costs claimed by Los Angeles County for the legislatively mandated AIDS Testing Program (Chapter 1597, Statutes of 1988) for the period of July 1, 2000, through June 30, 2003.

The county claimed \$1,989,568 for the mandated program. Our audit disclosed that \$1,664,168 is allowable and \$325,400 is unallowable. The unallowable costs occurred primarily because the county did not provide documentation to support labor hours and indirect costs claimed. The State paid the county \$1,346,600. Allowable costs claimed exceed the amount paid by \$317,568.

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

Sincerely,

*Original signed by:*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/wm:vb

Attachment

cc: Leonard Kaye, SB 90 Coordinator  
Auditor-Controller's Office  
Los Angeles County  
Todd Jerue, Program Budget Manger  
Corrections and General Government  
Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Los Angeles County for the legislatively mandated AIDS Testing Program (Chapter 1597, Statutes of 1988) for the period of July 1, 2000, through June 30, 2003. The last day of fieldwork was January 8, 2007.

The county claimed \$1,989,568 for the mandated program. Our audit disclosed that \$1,664,168 is allowable and \$325,400 is unallowable. The unallowable costs occurred primarily because the county did not provide documentation to support labor hours and indirect costs claimed. The State paid the county \$1,346,600. Allowable costs claimed exceed the amount paid by \$317,568.

## Background

Chapter 1597, Statutes of 1988, added Sections 647(f), 1202.1, 1202.6, and 12022.85 to the *Penal Code*. The law requires the court to order AIDS testing of specified sex offenders and prostitution offenders. It also requires the court to supply the test results to the defendant and the California Department of Justice. In addition, it requires counties to establish and administer an AIDS prevention educational program for persons convicted of soliciting or engaging in prostitution. Furthermore, it requires counties to provide an AIDS counseling program for sex offenders and victims.

The following activities are reimbursable.

- Performing AIDS tests for every convicted prostitution offender and convicted sex offenders who violated offenses specified in *Penal Code* Section 1202.1(d).
- Providing AIDS prevention education to first-time prostitution offenders as ordered by the court. If the county provides the education program to other sex offenders or drug abusers, reimbursement is limited to the proportionate share that first-time prostitution offenders bear to the total class size.
- Establishing and administering AIDS pre-test and post-test counseling programs for victims and persons convicted of offenses listed in *Penal Code* Section 1202.1(d).
- Filing written copies of AIDS test reports to (1) the court in which the defendant is to be sentenced; (2) the county health officer; and (3) the California Department of Health Services.
- Preparing a list of county agencies or nonprofit community-based organizations that provide AIDS prevention education and providing the referral list to the court.
- Providing the AIDS test results to defendants and the California Department of Justice, unless the county participates in the Trial Court Funding Program pursuant to *Government Code* Section 77300.

Chapter 1597, Statutes of 1988 was effective January 1, 1989. On June 23, 1989, the SCO issued claiming instructions for the AIDS Testing program, in compliance with *Government Code* Section 17558.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the AIDS Testing Program for the period of July 1, 2000, through June 30, 2003.

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 the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

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, Los Angeles County claimed \$1,989,568 for costs of the AIDS Testing Program. Our audit disclosed that \$1,664,168 is allowable and \$325,400 is unallowable.

For the fiscal year (FY) 2000-01 claim, the State paid the county \$640,852. Our audit disclosed that \$570,157 is allowable. The county should return \$70,695 to the State.

For the FY 2001-02 claim, the State paid the county \$704,937. Our audit disclosed that \$544,150 is allowable. The county should return \$160,787 to the State.

For the FY 2002-03 claim, the State paid the county \$811. Our audit disclosed that \$549,861 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$549,050, contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft audit report on January 19, 2007. J. Tyler McCauley, Auditor-Controller, responded by letter dated February 6, 2007 (Attachment), agreeing with the audit results. This final audit report includes the county's response.

**Restricted Use**

This report is solely for the information and use of Los Angeles 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

**Schedule 1—  
Summary of Program Costs  
July 1, 2000, through June 30, 2003**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2000, through June 30, 2001</u>				
Salaries	\$ 271,084	\$ 243,913	\$ (27,171)	Finding 1
Benefits	84,106	71,329	(12,777)	Finding 1
Services and supplies	161,520	224,252	62,732	Finding 2
Total direct costs	516,710	539,494	22,784	
Indirect costs	124,142	30,663	(93,479)	Findings 1, 3
Total program costs	<u>\$ 640,852</u>	570,157	<u>\$ (70,695)</u>	
Less amount paid by the State		(640,852)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (70,695)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 281,897	\$ 255,315	\$ (26,582)	Finding 1
Benefits	97,651	88,314	(9,337)	Finding 1
Services and supplies	167,616	166,751	(865)	Finding 2
Total direct costs	547,164	510,380	(36,784)	
Indirect costs	130,649	33,770	(96,879)	Findings 1, 3
Total program costs	<u>\$ 677,813</u>	544,150	<u>\$ (133,663)</u>	
Less amount paid by the State		(704,937)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (160,787)</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 262,075	\$ 238,714	\$ (31,361)	Finding 1
Benefits	98,181	86,339	(11,842)	Finding 1
Services and supplies	188,899	198,114	9,215	Finding 2
Total direct costs	549,155	515,167	(33,988)	
Indirect costs	121,748	34,694	(87,054)	Findings 1, 3
Total program costs	<u>\$ 670,903</u>	549,861	<u>\$ (121,042)</u>	
Less amount paid by the State		(811)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 549,050</u>		
<u>Summary: July 1, 2000, through June 30, 2003</u>				
Salaries	\$ 815,056	\$ 729,942	\$ (85,114)	Finding 1
Benefits	279,938	245,982	(33,956)	Finding 1
Services and supplies	518,035	589,117	71,082	Finding 2
Total direct costs	1,613,029	1,565,041	(47,988)	
Indirect costs	376,539	99,127	(277,412)	Findings 1, 3
Total program costs	<u>\$ 1,989,568</u>	1,664,168	<u>\$ (325,400)</u>	
Less amount paid by the State		(1,346,600)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 317,568</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## **FINDING 1— Unallowable salary and benefits costs claimed**

The county claimed unallowable salaries of \$85,114, benefits of \$33,956, and related indirect costs, based on claimed indirect cost rates, of \$28,713 for the audit period. The adjustments are as follows.

- The Sheriff’s Department overstated nurses’ time spent in counseling and blood drawn activities by \$90,185. In addition, the county understated the amount of time spent on AIDS Education by 15 minutes per offender for FY 2000-01 and FY 2001-02, totaling \$7,316. As a result, claimed salaries were overstated by \$82,869.
- For Sheriff’s Department costs, the county overstated the benefit rate claimed for FY 2000-01.
- The Department of Health Services (DHS) did not provide time logs for one county staff member totaling \$2,245 for FY 2000-01.

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Salaries:				
Sheriff’s Department	\$ (24,926)	\$ (26,582)	\$ (31,361)	\$ (82,869)
Department of Health Services	(2,245)	—	—	(2,245)
Total salaries	<u>(27,171)</u>	<u>(26,582)</u>	<u>(31,361)</u>	<u>(85,114)</u>
Benefits:				
Sheriff’s Department	(11,843)	(9,337)	(11,842)	(33,022)
Department of Health Services	(934)	—	—	(934)
Total benefits	<u>(12,777)</u>	<u>(9,337)</u>	<u>(11,842)</u>	<u>(33,956)</u>
Related indirect costs	<u>(7,528)</u>	<u>(9,120)</u>	<u>(12,065)</u>	<u>(28,713)</u>
Audit adjustment	<u>\$ (47,476)</u>	<u>\$ (45,039)</u>	<u>\$ (55,268)</u>	<u>\$ (147,783)</u>

*Government Code* Section 17561(d)(2) provides that the Controller “may audit the records of any local agency or school district to verify the actual amount of the mandated costs and may reduce any claim that the Controller determines is excessive or unreasonable.”

### Recommendation

We recommend that the county ensure that costs claimed are eligible increased costs incurred as a result of the mandate and that they are supported by appropriate documentation.

**FINDING 2—  
Misstated supplies  
claimed costs**

The county misstated supply costs by \$71,082 for the audit period as follows.

- The Sheriff’s Department understated the allocation costs of HIV testing costs by \$12,081.
- The DHS claimed supplies costs of \$20,141 that were unsupported.
- The DHS identified costs in its indirect costs pools that should be reclassified as direct mandate supply costs. As a result, \$79,142 was identified and allowed as direct supply costs.

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Sheriff’s Department	\$ 7,914	\$ 3,774	\$ 393	\$ 12,081
Department of Health Services:				
Unsupported costs	(3,709)	(16,432)	—	(20,141)
Costs reclassified from indirect costs to direct costs	58,527	11,793	8,822	79,142
Audit adjustment	\$ 62,732	\$ (865)	\$ 9,215	\$ 71,082

*Government Code* Section 17561(d)(2) provides that the Controller “may audit the records of any local agency or school district to verify the actual amount of the mandated costs and may reduce any claim that the Controller determines is excessive or unreasonable.”

Recommendation

We recommend that the county ensure that costs claimed are eligible increased costs incurred as a result of the mandate and that they are supported by appropriate documentation.

**FINDING 3—  
Unsupported indirect  
claimed costs**

The DHS indirect cost pool used to develop the indirect cost rate included costs that are being claimed as a direct mandate cost for the audit period. The DHS requested that these costs be reclassified as an allowable direct mandate cost. As a result, the DHS chose not to claim any indirect costs.

However, the SCO’s claiming instructions allow a 10% indirect cost rate on salaries without the development of an indirect cost rate proposal (ICRP). Therefore, we allowed an indirect rate of 10% and adjusted the DHS claimed indirect costs as follows.

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Department of Health Services:				
Indirect costs claimed	\$ 107,239	\$ 109,902	\$ 93,979	\$ 311,120
Allowable indirect costs	21,288	22,143	18,990	62,421
Audit adjustment	\$ (85,951)	\$ (87,759)	\$ (74,989)	\$(248,699)

Recommendation

We recommend that the county ensure that all claimed costs are eligible increased costs incurred as a result of the mandate and that it properly allocates costs between direct costs and indirect costs.

**FINDING 4—  
Indirect cost pools  
overstated**

The Sheriff's Department's indirect cost pools included direct mandate-related costs claimed for the audit period. Therefore, the indirect cost pools and the resulting indirect cost rates were overstated. As a result, the Sheriff's Department recovered duplicate costs when it applied its indirect cost rates to federal and state-funded programs.

The Sheriff's Department's FY 2000-01, FY 2001-02, and FY 2002-03 indirect cost pools included mandate-related direct services and supplies costs totaling \$131,582, \$100,090, and \$138,667, respectively. We allowed the direct costs claimed because the costs are mandate-related and properly supported. Although the indirect cost rates claimed were overstated, we concluded that the mandate-related indirect costs claimed were not materially affected. Therefore, we allowed the related indirect costs claimed. However, we did not calculate the duplicate costs that the district recovered by applying the overstated indirect cost rates to other federal and state-funded programs.

Office of Management and Budget (OMB) Circular A-87, Attachment A, states that direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are costs incurred for a common or joint purpose benefiting more than one cost objective, but are not readily assignable to the cost objectives benefited without effort disproportionate to the results achieved.

**Recommendation**

We recommend that the county notify the U.S. Department of Health and Human Services that the Sheriff's Department overstated its indirect cost rates by including mandate-related direct costs in its indirect cost pools. We also recommend that the county adjust subsequent years' indirect cost rates to account for the rates that were overstated during the audit period.

**Attachment—  
County’s Response to  
Draft Audit Report**

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J. TYLER McCAULEY  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
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February 6, 2007

Mr. James L. Spano, Chief  
Compliance Audits Bureau  
Division of Audits  
State Controller's Office  
Post Office Box 942850  
Sacramento, California 94250-5874

Dear Mr. Spano:

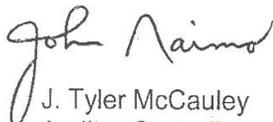
**Los Angeles County's Response  
State Controller's Office [SCO] Draft Audit Report  
Aids Testing Program: Chapter 1597, Statutes of 1988**

We have examined SCO's draft audit report, allowing \$1,664,168 or 84% of the \$1,989,568 of Aids Testing Program costs incurred during the audit period July 1, 2000 through June 30, 2003.

Of the \$325,400 of unallowable costs, \$169,557, or 52% of the total, related to indirect cost claimed by our Department of Health Services [DHS]. We concur that this indirect cost reduction, as well as the remaining \$155,843 reduction, itemized in your audit report, was reasonable and proper.

Leonard Kaye of my staff is available at (213) 974-8564 to answer questions you may have concerning this submission.

Very truly yours,

 FOR  
J. Tyler McCauley  
Auditor-Controller

JTM:CY:LK

*"To Enrich Lives Through Effective and Caring Service"*

**State Controller's Office  
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**<http://www.sco.ca.gov>**