

LOS ANGELES COUNTY

Revised Audit Report

CHILD ABDUCTION AND RECOVERY PROGRAM

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

July 1, 1999, through June 30, 2002



JOHN CHIANG
California State Controller

January 2007



JOHN CHIANG
California State Controller

January 19, 2007

J. Tyler McCauley
Auditor-Controller
Los Angeles County
500 West Temple Street, Room 525
Los Angeles, CA 90012-2766

Dear Mr. McCauley:

The State Controller's Office audited the claims filed by Los Angeles County for costs of the legislatively mandated 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, 1999, through June 30, 2002. This revised final report supersedes the previously issued final report dated May 27, 2005. This final report revises Finding 3 from the previously issued report. As a result, allowable costs increased by \$37,614.

The county claimed \$4,569,590 for the mandated program. Our audit disclosed that \$4,503,684 is allowable and \$65,906 is unallowable. The unallowable costs occurred because the county claimed unsupported costs. The State paid the county \$4,473,785. Allowable costs claimed exceed the amount paid by \$29,899.

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

Sincerely,

Original signed by:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb:ams

cc: Leonard Kaye
SB 90 Coordinator
Los Angeles County
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance
Wallace Chan, Director
Division of Cost Allocation
U.S. Department of Health and Human Services

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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by Los Angeles County for costs of the legislatively mandated 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, 1999, through June 30, 2002. The last day of fieldwork was February 15, 2005.

The county claimed \$4,569,590 for the mandated program. The audit disclosed that \$4,503,684 is allowable and \$65,906 is unallowable. The unallowable costs occurred because the county claimed unsupported costs. The State paid the county \$4,473,785. Allowable costs claimed exceed the amount paid by \$29,899.

Background

Chapter 1399, Statutes of 1976, established the Child Abduction and Recovery mandated 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, and 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 illegally 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 [COSM]) determined that this legislation imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on January 21, 1981, and last amended it on August 26, 1999. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs to assist local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Child Abduction and Recovery Program for the period of July 1, 1999, through June 30, 2002.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and 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* Section 17558.5. 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 Revised Summary of Program Costs (Schedule 1) and in the Revised Findings and Recommendations section of this report.

For the audit period, Los Angeles County claimed \$4,569,590 for Child Abduction and Recovery Program costs. Our audit disclosed that \$4,503,684 is allowable and \$65,906 is unallowable.

For fiscal year (FY) 1999-2000, the State paid the county \$1,180,840. Our audit disclosed that \$1,114,934 is allowable. The county should return \$65,906 to the State.

For FY 2000-01, the State paid the county \$1,568,069. Our audit disclosed that the entire amount is allowable.

For FY 2001-02, the State paid the county \$1,724,876. Our audit disclosed that \$1,820,621 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$95,805, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on March 30, 2005. J. Tyler McCauley, Auditor-Controller, responded by letter dated April 15, 2005, (Attachment) agreeing with the audit results. This final audit report includes the county's response.

This revised final audit report revises Finding 3 from our final audit report issued May 27, 2005. As a result, allowable costs increased by \$37,614. We advised Leonard Kaye, SB 90 Coordinator, of the revised final audit report on December 20, 2006.

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

**Revised Schedule 1—
Summary of Program Costs
July 1, 1999, through June 30, 2002**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
Salaries	\$ 689,908	\$ 689,908	\$ —	
Benefits	231,175	173,588	(57,587)	Finding 1
Services and supplies	12,919	12,919	—	
Travel and training	17,819	17,819	—	
Fixed assets	—	—	—	
Total direct costs	951,821	894,234	(57,587)	
Indirect costs	229,019	220,700	(8,319)	Findings 2, 3
Total program costs	<u>\$ 1,180,840</u>	1,114,934	<u>\$ (65,906)</u>	
Less amount paid by the State		<u>(1,180,840)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (65,906)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries	\$ 997,701	\$ 997,701	\$ —	
Benefits	237,348	237,348	—	
Services and supplies	10,770	10,770	—	
Travel and training	85,216	85,216	—	
Fixed assets	—	—	—	
Total direct costs	1,331,035	1,331,035	—	
Indirect costs	237,034	237,034	—	Finding 3
Total program costs	<u>\$ 1,568,069</u>	1,568,069	<u>\$ —</u>	
Less amount paid by the State		<u>(1,568,069)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 974,958	\$ 974,958	\$ —	
Benefits	356,180	356,180	—	
Services and supplies	10,770	10,770	—	
Travel and training	66,924	66,924	—	
Fixed assets	4,385	4,385	—	
Total direct costs	1,413,217	1,413,217	—	
Indirect costs	407,464	407,464	—	Finding 3
Total program costs	<u>\$ 1,820,681</u>	1,820,681	<u>\$ —</u>	
Less amount paid by the State		<u>(1,724,876)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 95,805</u>		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>Summary: July 1, 1999, through June 30, 2002</u>				
Salaries	\$ 2,662,567	\$ 2,662,567	\$ —	
Benefits	824,703	767,116	(57,587)	Finding 1
Services and supplies	34,459	34,459	—	
Travel and training	169,959	169,959	—	
Fixed assets	4,385	4,385	—	
Total direct costs	3,696,073	3,638,486	(57,587)	
Indirect costs	873,517	865,198	(8,319)	Findings 2, 3
Total program costs	<u>\$ 4,569,590</u>	4,503,684	<u>\$ (65,906)</u>	
Less amount paid by the State		(4,473,785)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 29,899</u>		

¹ See the Revised Findings and Recommendations section.

Revised Findings and Recommendations

**FINDING 1—
Unallowable employee
benefit costs claimed**

The county claimed unallowable employee benefit costs totaling \$57,587 in fiscal year (FY) 1999-2000. Source documentation did not support the employee benefit rate claimed.

The county claimed employee benefit costs based on a benefit rate of 34.042%. The county’s benefit rate worksheet indicates that the county calculated its FY 1999-2000 employee benefit rate based on FY 1996-97 actual costs. However, the county’s FY 1996-97 County Accounting Purchasing System (CAPS) did not support the salary and benefit costs included in the county’s benefit rate calculation. The county’s CAPS reports document actual salary and benefit costs that support an employee benefit rate of 25.695%. The unsupported employee benefit rate is 8.347%. The audit adjustment is calculated below.

	<u>FY 1999-2000</u>
Allowable salary costs	\$ 689,908
Unallowable employee benefit rate	× (8.347)%
Audit adjustment	<u>\$ 57,587</u>

Parameters and Guidelines states, “For auditing purposes, all costs claimed must be traceable to source documents and/or worksheets that show evidence of and the validity of such costs.”

Recommendation

We recommend the county ensure that its expenditure reports support the county’s employee benefit rate calculations.

County’s Response

The county agreed with the finding.

**FINDING 2—
Unallowable indirect
costs claimed**

The county claimed unallowable indirect costs totaling \$8,319 in FY 1999-2000. The district attorney departmental indirect cost rate proposal (ICRP) was not supported by actual expenditures documented in the county’s CAPS reports.

The district attorney departmental ICRP identifies costs by various units within the department: Executive Office, Executive Bureau, Management and Budget, Branch and Area Bureau, Central Operations Bureau, Special Operations Bureau, Investigations Bureau, and Family Support Unit. The Special Operations Bureau and the Investigations Bureau perform the child abduction and recovery mandated activities. These bureaus’ indirect cost rates are comprised of four parts: (1) countywide overhead costs; (2) department overhead costs applicable to all district attorney (DA) department units and the family support unit; (3) department overhead costs applicable to the DA department, excluding the family support unit; and (4) each DA department bureau’s overhead costs.

The DA departmental ICRP did not reconcile to CAPS and supporting worksheets, either by individual bureau or in total. In addition, the ICRP included employee benefit costs calculated based on an overstated employee benefit rate (refer to Finding 1). We recalculated the DA departmental ICRP based on actual costs documented in CAPS and the department’s supporting worksheets, and the audited employee benefit rate.

The county claimed indirect cost rates of 33.448% and 33.028% for the Special Operations Bureau and the Investigations Bureau, respectively. Our audit disclosed allowable indirect cost rates of 32.209% and 31.844% for these bureaus. The allowable indirect cost rates result in an audit adjustment totaling \$8,319.

Parameters and Guidelines states, “For auditing purposes, all costs claimed must be traceable to source documents and/or worksheets that show evidence of and the validity of such costs.”

Recommendation

We recommend the county ensure that departmental ICRPs reconcile to actual costs documented in the county’s CAPS reports and supporting worksheets.

County’s Response

The county agreed with the finding.

**FINDING 3—
Indirect cost pools
overstated**

For the audit period, the DA department’s indirect cost pools included direct mandate-related costs claimed. Therefore, the indirect cost pools and the resulting indirect cost rates were overstated. As a result, the department recovered duplicate costs when it applied its indirect cost rates to federal and state-funded programs. We previously reported this issue in our audit of the county’s Child Abduction and Recovery Program, dated July 30, 1999.

The following table shows the mandate-related direct costs that were also included in the indirect cost pools.

	Fiscal Year		
	1999-2000	2000-01	2001-02
Services and supplies	\$ 12,919	\$ 10,770	\$ 10,770
Travel and training	17,819	85,216	66,924
Total	<u>\$ 30,738</u>	<u>\$ 95,986</u>	<u>\$ 77,694</u>

The DA department identifies all these costs as services and supplies in its indirect cost rate proposals. 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 DA department 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, Division of Cost Allocation, that the DA department overstated its indirect cost rates by including mandate-related direct costs in its indirect cost pools. We recommend that the county adjust subsequent years' indirect cost rates to account for the rates that were overstated during the audit period.

We also recommend that the DA department implement internal controls to properly allocate direct and indirect services and supplies costs in its indirect cost rate proposals.

County's Response

The county agreed with our original audit finding, which reflected an audit adjustment for offsetting reimbursements that resulted from direct mandate-related costs included in the indirect cost pools.

SCO's Comment

We revised the audit finding to eliminate the monetary audit adjustment. However, our audit finding continues to report that the county's indirect cost pools inappropriately include mandate-related direct costs. We recommend that the county adjust subsequent years' indirect cost rates accordingly and implement internal controls to properly allocate direct and indirect costs in its indirect cost rate proposals.

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



J. TYLER McCAULEY
AUDITOR-CONTROLLER

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

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500 WEST TEMPLE STREET, ROOM 525
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PHONE: (213) 974-8301 FAX: (213) 626-5427

April 15, 2005

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 Comments
State Controller's Office Draft Audit Report
Child Abduction and Recovery Program [Chapter 1399, Statutes of 1976]

We concur with your findings that of the \$4,569,590 claimed for the subject program for the period July 1, 1999 through June 30, 2002, \$103,520 is not allowable.

The \$103,520 in unallowable costs resulted from differences in computing employee fringe benefits [\$57,587], indirect costs [\$8,319] and revenue offsets [\$37,614].

Accordingly, we will be implementing policies and procedures to ensure that employee fringe benefits, indirect costs and revenue offsets are eligible and supported.

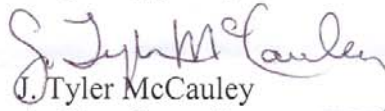
We note that all salary as well as service and supply expenditures claimed under this program were found to be allowable.

"To Enrich Lives Through Effective and Caring Service"

Mr. James L. Spano
April 15, 2005
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Leonard Kaye of my staff is available at (213) 974-8564 to answer questions you may have concerning this submission.

Very truly yours,


J. Tyler McCauley
Auditor-Controller

cc: Norbert Ruiz, Head
Fiscal & Budget Services Section
Fiscal Contracts and Staff Services Division
Bureau of Management and Budget
District Attorney
County of Los Angeles

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