

SACRAMENTO COUNTY

Audit Report

MANDATE REIMBURSEMENT PROCESS PROGRAM

Chapter 486, Statutes of 1975,
and Chapter 1459, Statutes of 1984

July 1, 1999, through June 30, 2002



STEVE WESTLY
California State Controller

February 2004



STEVE WESTLY
California State Controller

February 26, 2004

Mr. Mark Norris
Director of Finance
Sacramento County
700 H Street, Room 2720
Sacramento, CA 95814

Dear Mr. Norris:

The State Controller's Office has completed an audit of the claims filed by Sacramento County for costs of the legislatively mandated Mandate Reimbursement Process Program (Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984) for the period of July 1, 1999, through June 30, 2002.

The county claimed \$470,595 (\$470,683 in costs less an \$88 penalty for filing late) for the mandated program. Our audit disclosed that \$467,961 is allowable and \$2,634 is unallowable. The unallowable costs occurred because the county claimed unallowable indirect costs. The county was paid \$314,831. Allowable costs claimed in excess of the amount paid, totaling \$153,130, will be paid by the State based on available appropriations.

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

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:ams

cc: Julie Valverde
Assistant Auditor-Controller
Sacramento County
James Tilton, Program Budget Manager
Corrections and General Government
Department of Finance

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Summary of Program Costs	4
Finding and Recommendation	10
Attachment—County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Sacramento County for costs of the legislatively mandated Mandate Reimbursement Process Program (Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984) for the period of July 1, 1999, through June 30, 2002. The last day of fieldwork was April 29, 2003.

The county claimed \$470,595 (\$470,683 in costs less an \$88 penalty for filing late) for the mandated program. The audit disclosed that \$467,961 is allowable and \$2,634 is unallowable. The unallowable costs occurred because the county claimed unallowable indirect costs. The county was paid \$314,831. Allowable costs claimed in excess of the amount paid, totaling \$153,130, will be paid by the State based on available appropriations.

Background

Chapter 486, Statutes of 1975, established the Board of Control's authority to hear and make determinations on claims submitted by local governments that allege costs mandated by the State. In addition, Chapter 486 contains provisions authorizing the SCO to receive, review, and pay reimbursement claims for mandated costs submitted by local governments.

Chapter 1459, Statutes of 1984, created the Commission on State Mandates, which replaced the Board of Control with respect to hearing mandated cost claims. This law established the "sole and exclusive procedure" by which a local agency or school district is allowed to claim reimbursement as required by Article XIII B, Section 6, of the California Constitution, for state mandates under *Government Code* Section 17552.

Together, these laws establish the process by which local agencies receive reimbursement for state-mandated programs. As such, they prescribe the procedures that must be followed before mandated costs are recognized. They also dictate reimbursement activities by requiring local agencies and school districts to file claims according to instructions issued by the SCO.

On March 27, 1986, the Commission on State Mandates determined that local agencies and school districts incurred "costs mandated by the state" as a result of Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984. Specifically, the commission found that these two statutes imposed a new program by requiring local governments to file claims to establish the existence of a mandated program and to obtain reimbursement for the costs of mandated programs.

Parameters and Guidelines, adopted by the Commission on State Mandates, establishes state mandates and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist local agencies in claiming reimbursable costs.

The audit objective was to determine whether costs claimed are increased

Objective, Scope, and Methodology

costs incurred as a result of the legislatively mandated Mandate Reimbursement Process Program (Chapter 486, Statutes of 1975, and Chapter 1459, Statutes of 1984) for the period of July 1, 1999, through June 30, 2002.

The auditors performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the county's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the county's management controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed an instance of noncompliance with the requirements outlined above. This instance is described in the accompanying Summary of Program Costs (Schedule 1) and in the Finding and Recommendation section of this report.

For the audit period, Sacramento County claimed \$470,595 (\$470,683 in costs less an \$88 penalty for filing late) for costs of the legislatively mandated Mandate Reimbursement Process Program. The audit disclosed that \$467,961 is allowable and \$2,634 is unallowable.

For fiscal year (FY) 1999-2000, the county was paid \$177,411 by the State. The audit disclosed that \$178,016 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$605, will be paid by the State based on available appropriations.

For FY 2000-01, the county was paid \$77,492 by the State. The audit disclosed that \$151,555 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$74,063, will be paid by the State based on available appropriations.

For FY 2001-02, the county was paid \$59,928 by the State. The audit

disclosed that \$138,390 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$78,462, will be paid by the State based on available appropriations.

**Views of
Responsible
Official**

The SCO issued a draft audit report on December 23, 2003. Mark Norris, the county's Director of Finance, responded by letter dated January 26, 2004, stating that the county agreed with the audit results. The county's response is included as an attachment to this final audit report.

Restricted Use

This report is solely for the information and use of Sacramento 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, 1999, through June 30, 2002**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 1999, through June 30, 2000</u>			
Direct costs:			
Sheriff:			
Salaries	\$ 3,343	\$ 3,343	\$ —
Benefits	1,191	1,191	—
Services and supplies	30	30	—
Total Sheriff	<u>4,564</u>	<u>4,564</u>	<u>—</u>
Probation:			
Salaries	302	302	—
Benefits	89	89	—
Services and supplies	—	—	—
Total Probation	<u>391</u>	<u>391</u>	<u>—</u>
Medical Systems:			
Salaries	820	820	—
Benefits	275	275	—
Services and supplies	—	—	—
Total Medical Systems	<u>1,095</u>	<u>1,095</u>	<u>—</u>
Public Health:			
Salaries	630	630	—
Benefits	230	230	—
Services and supplies	—	—	—
Total Public Health	<u>860</u>	<u>860</u>	<u>—</u>
Registrar of Elections:			
Salaries	3,826	3,826	—
Benefits	1,722	1,722	—
Services and supplies	121	121	—
Total Registrar of Elections	<u>5,669</u>	<u>5,669</u>	<u>—</u>
Finance:			
Salaries	5,449	5,449	—
Benefits	1,904	1,904	—
Services and supplies	3,900	3,900	—
Total Finance	<u>11,253</u>	<u>11,253</u>	<u>—</u>
Finance-Tax Division:			
Salaries	812	812	—
Benefits	263	263	—
Services and supplies	—	—	—
Total Finance-Tax Division	<u>1,075</u>	<u>1,075</u>	<u>—</u>

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 1999, through June 30, 2000 (continued)</u>			
Multi-department:			
Salaries	—	—	—
Benefits	—	—	—
Services and supplies	141,500	141,500	—
Total Multi-department	141,500	141,500	—
Total direct costs	166,407	166,407	—
Indirect costs	11,887	11,697	(190)
Total costs	178,294	178,104	(190)
Less offsetting savings/reimbursements	—	—	—
Total net costs	178,294	178,104	(190)
Less late penalty	(88)	(88)	—
Total reimbursable costs	<u>\$ 178,206</u>	178,016	<u>\$ (190)</u>
Less amount paid by the State		(177,411)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 605</u>	
<u>July 1, 2000, through June 30, 2001</u>			
Direct costs:			
Sheriff:			
Salaries	\$ 28,128	\$ 28,128	\$ —
Benefits	12,166	12,166	—
Services and supplies	—	—	—
Total Sheriff	40,294	40,294	—
Probation:			
Salaries	388	388	—
Benefits	111	111	—
Services and supplies	—	—	—
Total Probation	499	499	—
Public Health:			
Salaries	302	302	—
Benefits	96	96	—
Services and supplies	—	—	—
Total Public Health	398	398	—
Finance:			
Salaries	10,029	10,029	—
Benefits	3,232	3,232	—
Services and supplies	—	—	—
Total Finance	13,261	13,261	—

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2000, through June 30, 2001 (continued)</u>			
Board of Supervisors:			
Salaries	247	247	—
Benefits	78	78	—
Services and supplies	—	—	—
Total Board of Supervisors	<u>325</u>	<u>325</u>	<u>—</u>
Consultant:			
Salaries	—	—	—
Benefits	—	—	—
Services and supplies	73,500	73,500	—
Total Consultant	<u>73,500</u>	<u>73,500</u>	<u>—</u>
Total direct costs	128,277	128,277	—
Indirect costs	25,052	23,278	(1,774)
Total costs	153,329	151,555	(1,774)
Less offsetting savings/reimbursements	—	—	—
Total net costs	153,329	151,555	(1,774)
Less late penalty	—	—	—
Total reimbursable costs	<u>\$ 153,329</u>	151,555	<u>\$ (1,774)</u>
Less amount paid by the State		(77,492)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 74,063</u>	
<u>July 1, 2001, through June 30, 2002</u>			
Direct costs:			
Sheriff:			
Salaries	\$ 11,196	\$ 11,196	\$ —
Benefits	4,030	4,030	—
Services and supplies	—	—	—
Total Sheriff	<u>15,226</u>	<u>15,226</u>	<u>—</u>
Probation:			
Salaries	428	428	—
Benefits	116	116	—
Services and supplies	—	—	—
Total Probation	<u>544</u>	<u>544</u>	<u>—</u>
Public Health:			
Salaries	150	150	—
Benefits	48	48	—
Services and supplies	—	—	—
Total Public Health	<u>198</u>	<u>198</u>	<u>—</u>

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
<u>July 1, 2001, through June 30, 2002 (continued)</u>			
Finance:			
Salaries	16,461	16,461	—
Benefits	5,178	5,178	—
Services and supplies	—	—	—
Total Finance	<u>21,639</u>	<u>21,639</u>	<u>—</u>
Board of Supervisors:			
Salaries	253	253	—
Benefits	78	78	—
Services and supplies	—	—	—
Total Board of Supervisors	<u>331</u>	<u>331</u>	<u>—</u>
County Executive:			
Salaries	62	62	—
Benefits	19	19	—
Services and supplies	—	—	—
Total County Executive	<u>81</u>	<u>81</u>	<u>—</u>
Consultant:			
Salaries	—	—	—
Benefits	—	—	—
Services and supplies	77,175	77,175	—
Total Consultant	<u>77,175</u>	<u>77,175</u>	<u>—</u>
Total direct costs	115,194	115,194	—
Indirect costs	23,866	23,196	(670)
Total costs	139,060	138,390	(670)
Less offsetting savings/reimbursements	—	—	—
Total net costs	139,060	138,390	(670)
Less late penalty	—	—	—
Total reimbursable costs	<u>\$ 139,060</u>	138,390	<u>\$ (670)</u>
Less amount paid by the State		<u>(59,928)</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 78,462</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
Summary: July 1, 1999, through June 30, 2002			
Direct costs:			
Sheriff:			
Salaries	\$ 42,667	\$ 42,667	\$ —
Benefits	17,387	17,387	—
Services and supplies	30	30	—
Total Sheriff	60,084	60,084	—
Probation:			
Salaries	1,118	1,118	—
Benefits	316	316	—
Services and supplies	—	—	—
Total Probation	1,434	1,434	—
Medical Systems:			
Salaries	820	820	—
Benefits	275	275	—
Services and supplies	—	—	—
Total Medical Systems	1,095	1,095	—
Public Health:			
Salaries	1,082	1,082	—
Benefits	374	374	—
Services and supplies	—	—	—
Total Public Health	1,456	1,456	—
Registrar of Elections:			
Salaries	3,826	3,826	—
Benefits	1,722	1,722	—
Services and supplies	121	121	—
Total Registrar of Elections	5,669	5,669	—
Finance:			
Salaries	31,939	31,939	—
Benefits	10,314	10,314	—
Services and supplies	3,900	3,900	—
Total Finance	46,153	46,153	—
Finance-Tax Division:			
Salaries	812	812	—
Benefits	263	263	—
Services and supplies	—	—	—
Total Finance-Tax Division	1,075	1,075	—

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments ¹
Summary: July 1, 1999, through June 30, 2002 (continued)			
Multi-department:			
Salaries	—	—	—
Benefits	—	—	—
Services and supplies	141,500	141,500	—
Total Multi-department	141,500	141,500	—
Board of Supervisors:			
Salaries	500	500	—
Benefits	156	156	—
Services and supplies	—	—	—
Total Board of Supervisors	656	656	—
County Executive:			
Salaries	62	62	—
Benefits	19	19	—
Services and supplies	—	—	—
Total County Executive	81	81	—
Consultant:			
Salaries	—	—	—
Benefits	—	—	—
Services and supplies	150,675	150,675	—
Total Consultant	150,675	150,675	—
Total direct costs	409,878	409,878	—
Indirect costs	60,805	58,171	(2,634)
Total costs	470,683	468,049	(2,634)
Less offsetting savings/reimbursements	—	—	—
Total net costs	470,683	468,049	(2,634)
Less late penalty	(88)	(88)	—
Total reimbursable costs	<u>\$ 470,595</u>	467,961	<u>\$ (2,634)</u>
Less amount paid by the State		(314,831)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 153,130</u>	

¹ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Claimed indirect
costs overstated**

The county claimed indirect services and supplies that were also included as direct costs in the Sheriff’s Department detention housing rate for the main jail.

Federal Office of Management and Budget (OMB) Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments), Attachment A, Section C.1.f., specifies that costs must be accorded consistent treatment. A cost may not be assigned as a direct cost if other costs incurred for the same purpose in like circumstances have been allocated as indirect costs.

Section C.3.c. specifies that any cost allocable to a particular program or cost objective may not also be charged to other programs or cost objectives.

The SCO auditors excluded direct charged services and supplies from the claimed indirect services and supplies. As a result, claimed costs were overstated as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Indirect costs claimed	\$ 11,887	\$ 25,052	\$ 23,866	\$ 60,805
Indirect costs allowed	<u>(11,697)</u>	<u>(23,278)</u>	<u>(23,196)</u>	<u>(58,171)</u>
Adjustment	<u>\$ (190)</u>	<u>\$ (1,774)</u>	<u>\$ (670)</u>	<u>\$ (2,634)</u>

Recommendation

The county should ensure that claimed indirect costs do not include costs that are reportable as direct charges.

County’s Response

The county concurred with the finding.

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



COUNTY OF SACRAMENTO
DEPARTMENT OF FINANCE
AUDITOR-CONTROLLER DIVISION

700 H Street, Room 3650, Sacramento, California 95814
 Telephone: (916) 874-7422 Facsimile: (916) 874-6454

MARK NORRIS
 Director of Finance
 Auditor-Controller

JULIE VALVERDE
 Assistant Auditor-Controller

January 26, 2004

Jim Spano
 Chief, Compliance Audits Bureau
 State Controller's Office
 P. O. Box 942850
 Sacramento, CA 94250-5874

**Subject: RESPONSE TO DRAFT AUDIT REPORT OF THE MANDATE REIMBURSEMENT
 PROCESS PROGRAM FOR THE PERIOD OF JULY 1, 1999, THROUGH JUNE 30, 2002**

Dear Mr. Spano:

The letter is in response to the draft audit report of the Mandated Reimbursement Process Program for the period of July 1, 1999, through June 30, 2002. The draft report contained the following finding and recommendation:

“The county claimed indirect services and supplies that were also included as direct costs in the Sheriff's Department detention housing rate for the main jail.

Federal Office of Management and Budget (OMB) Circular A-87 (Cost Principles for State, Local and Indian Tribal Governments), Attachment A, Section C.1.f., specifies that costs must be accorded consistent treatment. A cost may not be assigned as a direct cost if other costs incurred for the same purpose in like circumstances have been allocated as indirect costs.

Section C.3.c. specifies that any cost allocable to a particular program or cost objective may not also be charged to other programs or cost objectives.

The SCO auditors excluded direct charged services and supplies from the claimed indirect services and supplies. As a result, claimed costs were overstated as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Indirect costs claimed	\$ 11,887	\$ 25,052	\$ 23,866	\$ 60,805
Indirect costs allowed	(11,697)	(23,278)	(23,196)	(58,171)
Adjustment	\$ (190)	\$ (1,774)	\$ (670)	\$ (2,634)

Jim Spano
January 26, 2004
Page 2

Recommendation

The county should ensure that claimed indirect costs do not include costs that are reportable as direct charges.”

Management Response

The Sheriff’s Department is in agreement with the finding and recommendation. In the future when a claim is prepared staff will ensure that there are no duplication of costs.

Should you have any questions regarding the County’s response, please contact Julie Valverde, Assistant Auditor-Controller, at 874-7248.

Sincerely,



Mark Norris
Director of Finance

Cc: Bill Bischoff, Sheriff’s Department
Gene Webb, Sheriff’s Department

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>