

SAN BERNARDINO COUNTY

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, 2003, through June 30, 2007



JOHN CHIANG
California State Controller

October 2009



JOHN CHIANG
California State Controller

October 28, 2009

Gary Ovitt, Chairman
Board of Supervisors
San Bernardino County
385 North Arrowhead Ave., 5th Floor
San Bernardino, CA 92415-0110

Dear Mr. Ovitt:

The State Controller's Office audited the costs claimed by San Bernardino County for 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, 2003, through June 30, 2007.

The county claimed \$3,978,748 for the mandated program. Our audit disclosed that \$3,753,060 is allowable and \$225,688 is unallowable. The costs are unallowable because the county claimed overstated and unsupported costs. In addition, the county did not report offsetting reimbursements that it received. The State paid the county \$3,048,496. Allowable costs claimed exceed the amount paid by \$704,564.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: The Honorable Larry Walker, Auditor/Controller-Recorder
San Bernardino County
Bonnie Ter Keurst, Manager, Reimbursable Projects
Auditor/Controller-Recorder's Office
San Bernardino County
Jai Prasad, Accountant II
Auditor/Controller-Recorder's Office
San Bernardino County
Cindy Monfort, Administrative Supervisor
District Attorney's Office
San Bernardino County
Todd Jerue, Program Budget Manager
Corrections and General Government
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Bernardino County for 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, 2003, through June 30, 2007.

The county claimed \$3,978,748 for the mandated program. Our audit disclosed that \$3,753,060 is allowable and \$225,688 is unallowable. The costs are unallowable because the county claimed overstated and unsupported costs. In addition, the county did not report offsetting reimbursements that it received. The State paid the county \$3,048,496. Allowable costs claimed exceed the amount paid by \$704,564.

Background

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

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

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

- Locating their children when they are unlawfully taken away;
- Gaining enforcement of custody and visitation decrees and orders to appear;
- Defraying expenses related to the return of an 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 [CSM]) determined that this legislation imposed a state mandate reimbursable under Government Code section 17561.

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

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Child Abduction and Recovery Program for the period of July 1, 2003, through June 30, 2007.

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

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

Conclusion

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

For the audit period, San Bernardino County claimed \$3,978,748 for costs of the Child Abduction and Recovery Program. Our audit disclosed that \$3,753,060 is allowable and \$255,688 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$886,393 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$1,035,650. Our audit disclosed that \$997,201 is allowable. The State will offset \$38,449 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2005-06 claim, the State paid the county \$876,547. Our audit disclosed that \$806,779 is allowable. The State will offset \$69,768 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2006-07 claim, the State paid the county \$1,136,299. Our audit disclosed that \$1,062,687 is allowable. The State will offset \$73,612 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

**Views of
Responsible
Official**

We issued a draft audit report on September 4, 2009. Bonnie Ter Keurst, Manager, Reimbursable Projects, responded by letter dated September 21, 2009 (Attachment), agreeing with the audit results except for Finding 4. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of San Bernardino 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

October 28, 2009

**Schedule 1—
Summary of Program Costs
July 1, 2003, through June 30, 2007**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 522,453	\$ 506,257	\$ (16,196)	Finding 1
Services and supplies	114,233	96,671	(17,562)	Finding 2
Total direct costs	636,686	602,928	(33,758)	
Indirect costs	293,566	284,465	(9,101)	Finding 1
Total direct and indirect costs	930,252	887,393	(42,859)	
Less offsetting savings/reimbursements	—	(1,000)	(1,000)	Finding 3
Total program costs	<u>\$ 930,252</u>	886,393	<u>\$ (43,859)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 886,393</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 595,428	\$ 576,970	\$ (18,458)	Finding 1
Services and supplies	85,385	85,385	—	
Travel and training	20,266	20,266	—	
Total direct costs	701,079	682,621	(18,458)	
Indirect costs	334,571	324,199	(10,372)	Finding 1
Total direct and indirect costs	1,035,650	1,006,820	(28,830)	
Less offsetting savings/reimbursements	—	(9,619)	(9,619)	Finding 3
Total program costs	<u>\$ 1,035,650</u>	997,201	<u>\$ (38,449)</u>	
Less amount paid by the State		(1,035,650)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (38,449)</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits	\$ 507,132	\$ 507,132	\$ —	
Services and supplies	57,150	57,150	—	
Travel and training	40,746	40,746	—	
Total direct costs	605,028	605,028	—	
Indirect costs	271,519	219,182	(52,337)	Finding 4
Total direct and indirect costs	876,547	824,210	(52,337)	
Less offsetting savings/reimbursements	—	(17,431)	(17,431)	Finding 3
Total program costs	<u>\$ 876,547</u>	806,779	<u>\$ (69,768)</u>	
Less amount paid by the State		(876,547)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (69,768)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits	\$ 661,386	\$ 661,386	\$ —	
Services and supplies	58,255	58,255	—	
Travel and training	55,973	55,973	—	
Total direct costs	775,614	775,614	—	
Indirect costs	361,712	288,100	(73,612)	Finding 4
Total direct and indirect costs	1,137,326	1,063,714	(73,612)	
Less offsetting savings/reimbursements	(1,027)	(1,027)	—	
Total program costs	<u>\$ 1,136,299</u>	1,062,687	<u>\$ (73,612)</u>	
Less amount paid by the State		(1,136,299)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (73,612)</u>		
<u>Summary: July 1, 2003, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits	\$ 2,286,399	\$ 2,251,745	\$ (34,654)	
Services and supplies	315,023	297,461	(17,562)	
Travel and training	116,985	116,985	—	
Total direct costs	2,718,407	2,666,191	(52,216)	
Indirect costs	1,261,368	1,115,946	(145,422)	
Total direct and indirect costs	3,979,775	3,782,137	(197,638)	
Less offsetting savings/reimbursements	(1,027)	(29,077)	(28,050)	
Total program costs	<u>\$ 3,978,748</u>	3,753,060	<u>\$ (225,688)</u>	
Less amount paid by the State		(3,048,496)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 704,564</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Overstated salaries
and benefits and
related indirect costs**

The county claimed unallowable salaries and benefits totaling \$34,654. The related indirect costs total \$19,473. For fiscal year (FY) 2003-04 and FY 2004-05, the county understated county-wide weighted-average annual productive hours and thus overstated employees’ productive hourly rates.

In calculating the annual productive hours, the county deducted 52 hours for estimated administration and meeting time. The county did not provide documentation showing the actual hours that employees spent for administration and meeting time.

The following table summarizes the audit adjustment:

	Fiscal Year		Total
	2003-04	2004-05	
Claimed weighted-average annual productive hours	1,623	1,623	
Allowable weighted-average annual productive hours	÷ 1,675	÷ 1,675	
Allowable percentage of salaries and benefits	96.9%	96.9%	
Salaries and benefits claimed	× \$522,453	× \$595,428	
Allowable salaries and benefits	506,257	576,970	
Less salaries and benefits claimed	(522,453)	(595,428)	
Unallowable salaries and benefits	(16,196)	(18,458)	\$(34,654)
Related indirect costs	(9,101)	(10,372)	(19,473)
Audit adjustment	<u>\$ (25,297)</u>	<u>\$ (28,830)</u>	<u>\$(54,127)</u>

The program’s parameters and guidelines require counties to report actual costs. They also require that costs claimed “. . . be traceable to source documents and/or worksheets that show evidence of and the validity of such costs.”

Recommendation

We recommend that the county calculate county-wide weighted-average annual productive hours by deducting only those actual non-productive hours that its payroll and timesheet records support.

County’s Response

The county agreed with the audit finding.

**FINDING 2—
Overstated services
and supplies**

The county overstated allowable services and supplies by \$17,562. In its FY 2003-04 accounting records, the county recorded restitution payments received, totaling \$8,781, as a credit entry to an expenditure account, “Other Travel.” However, when the county prepared its mandated program claim, it incorrectly identified this amount as an expenditure rather than revenue received.

The parameters and guidelines state, “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.” In addition, they

require the county to deduct from costs claimed any offsetting savings that it experiences as a direct result of the mandated program’s statutory requirements.

Recommendation

We recommend that the county properly report revenue it receives that is attributable to the mandated program.

County’s Response

The county agreed with the audit finding.

**FINDING 3—
Understated offsetting
savings/reimbursements**

The county understated offsetting savings/reimbursements by \$28,050. The offsetting savings/reimbursements are attributable to court-ordered restitution, reimbursement for Peace Officer Standards and Training-certified training courses, extradition restitution, and other reimbursements.

During the audit period, the county inconsistently accounted for mandate-related offsetting savings/reimbursements. The county recorded revenue to three separate revenue accounts: “State Other” (object code 8840), “Other” (object code 9970), and “Gain/Loss” (object code 9982). In addition, the county commingled offsetting savings/reimbursements in its “Other Travel” expenditure account. This account ended with a credit balance of \$3,877 for FY 2005-06, which the county did not report on its mandated program claim.

The following table summarizes the adjustment:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Restitution and other reimbursements	\$ (1,000)	\$ —	\$ (8,354)	\$ (9,354)
POST reimbursement	—	(2,654)	(515)	(3,169)
Extradition reimbursements	—	(6,965)	(8,562)	(15,527)
Audit adjustment	<u>\$ (1,000)</u>	<u>\$ (9,619)</u>	<u>\$ (17,431)</u>	<u>\$ (28,050)</u>

The parameters and guidelines state, “. . . any offsetting savings the claimant experiences as a direct result of this statute must be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from the claim.”

Recommendation

We recommend that the county consistently record mandate-related offsetting savings/reimbursements in one revenue account. In addition, we recommend that the county deduct all offsetting savings/reimbursement received on its mandated program claim.

County’s Response

The county agreed with the audit finding.

**FINDING 4—
Unallowable indirect
costs**

The county claimed unallowable indirect costs totaling \$125,949. The costs are unallowable because the county overstated its indirect cost rates in FY 2005-06 and FY 2006-07. The county overstated its indirect cost rates because it incorrectly identified various employee classifications' payroll costs as direct or indirect.

The county provided detailed indirect cost rate proposal (ICRP) worksheets showing total District Attorney's Office payroll costs by employee classification. For the employee classifications discussed below, the county identified some employees' costs as direct costs attributable to special revenue fund programs such as Child Abduction and Recovery, Real Estate Fraud, Auto Insurance Fraud, Workers Compensation Fraud, Asset Forfeiture, and Special Prosecution. However, the county identified costs as both direct and indirect for general fund employees in the same classifications. The county allocated the general fund employees' indirect costs to direct costs of both the general and special revenue funds. The county did not provide documentation showing that the general fund employees performed activities that benefitted the entire department, including the Child Abduction Unit.

District Attorney (DA) Senior Investigator

The county allocated 10% of general fund employees' costs to the indirect cost pool. The county stated that 10% represented the estimated time that DA Senior Investigators spent performing administrative activities. The county did not provide evidence showing that the amount allocated included costs attributable to administrative activities that the special revenue fund employees performed. In addition, the county did not provide any documentation to support actual time spent performing administrative activities. The county stated, "We believe the effort to track supervisory time would not be cost beneficial."

**District Attorney (DA) Supervising Investigator
Investigative Technician
Secretary I/II**

The county stated that these employee classifications are "traditionally indirect." However, the county did not allocate all costs to its indirect cost pool. Instead, the county identified certain employees assigned to programs funded from outside sources and allocated these employees' costs as direct costs. The county allocated the remaining employees' costs as indirect costs. The county stated that it allocated some employees' costs as direct because the funded programs benefit from these employees more than other programs do. For the DA Supervising Investigator classification, the county stated, "Employees do not currently document their direct task time because we believe the effort would not be cost beneficial."

The parameters and guidelines state, "All costs claimed must be traceable to source documents and/or worksheets that show evidence of and the validity of such costs." The parameters and guidelines also state that counties may claim indirect costs using the procedures provided in Title 2, Code of Federal Regulations (CFR), Part 225 (Office of

Management and Budget (OMB) Circular A-87). The following OMB Circular A-87 criteria are relevant:

- Appendix 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.”
- Appendix A, part F.1, states:
 Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective. . . . To facilitate *equitable* [emphasis added] distribution of indirect expenses to the objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department. . . .
- Appendix B, part 8.h(4), states that employees must maintain personnel activity reports or equivalent documentation when they work on an indirect and a direct cost activity.
- Appendix E, part A.1, states:
 After direct costs have been determined and assigned . . . indirect costs are those remaining to be allocated to *benefited* [Emphasis added] cost objectives. 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.
- Appendix E, part C.1.b, states:
 Where a governmental unit’s department or agency has several major functions which benefit from its indirect costs in varying degrees, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefited functions

We recalculated the county’s ICRPs by reallocating all costs as direct costs for the following employee classifications: DA Senior Investigator, DA Supervising Investigator, Investigative Technician II, and Secretary I/II.

The following tables summarize the audit adjustments to the county’s indirect cost rates:

	Costs Reported	Allowable Costs	Audit Adjustment
<u>FY 2005-06</u>			
Direct costs:			
Salaries and benefits (A)	\$ 35,809,022	\$ 38,387,616	\$ 2,578,594
Indirect costs:			
Salaries and benefits	\$ 13,622,509	\$ 11,043,915	\$ (2,578,594)
Temporary help	13,102	13,102	—
Services and supplies	4,084,482	4,084,482	—
Countywide cost allocation	1,450,875	1,450,875	—
Total indirect costs (B)	<u>\$ 19,170,968</u>	<u>\$ 16,592,374</u>	<u>\$ (2,578,594)</u>
Indirect cost rate, FY 2005-06 (B ÷ A)	<u>53.54%</u>	<u>43.22%</u>	<u>(10.32)%</u>

FY 2006-07

Direct costs:			
Salaries and benefits (C)	\$ 40,028,744	\$ 43,131,831	\$ 3,103,087
Indirect costs:			
Salaries and benefits	\$ 15,728,184	\$ 12,625,097	\$ (3,103,087)
Temporary help	46,429	46,429	—
Services and supplies	4,867,791	4,867,791	—
Countywide cost allocation	1,247,729	1,247,729	—
Total indirect costs (D)	\$ 21,890,133	\$ 18,787,046	\$ (3,103,087)
Indirect cost rate, FY 2006-07 (D ÷ C)	54.69%	43.56%	(11.13)%

The following table summarizes the audit adjustment:

	Fiscal Year		Total
	2005-06	2006-07	
Allowable salaries and benefits	\$ 507,132	\$ 661,386	
Allowable indirect cost rate	× 43.22%	× 43.56%	
Allowable indirect costs	219,182	288,100	\$ 507,282
Less indirect costs claimed	(271,519)	(361,712)	(633,231)
Audit adjustment	\$ (52,337)	\$ (73,612)	\$ (125,949)

Recommendation

We recommend that the county consistently allocate costs incurred for the same purpose, in like circumstances, as either direct or indirect costs. The county should use multiple indirect cost pools as needed to distribute indirect costs equitably. When employees perform both direct and indirect activities, we recommend that the county allocate costs between those activities based on personnel activity reports or equivalent documentation that meets Title 2, CFR, Part 225, requirements.

County’s Response

The auditor's written finding uses this quote from OMB A-87 Attachment A, Section F.1 “indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective... To facilitate equitable distribution of indirect expenses to the objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department...” to suggest that program-specific ICRPs should be developed. However, the entire quote leads to a different conclusion that establishing pools is based on a cost-benefit decision: “Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) **not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.** [Emphasis added] The term ‘indirect costs,’ as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. **Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.** [Emphasis added]”

For many years, the State and the County accepted that the effort required to develop program-specific rates would be disproportionate to the benefit received. In a department-wide ICRP, both departmental and program indirect costs are included in the indirect cost pool. The resulting cross allocation of total indirect costs to all programs inherently results in some costs being over- or under-allocated to specific programs. The rationale for using a department-wide rate is that program-level deviations are not significant enough overall to require the use of program rates. The added cost, to both the State and the County, of developing and auditing multiple rates is not justified by the related benefit. In addition, the Parameters and Guidelines for this program do not require the County to use a program-specific ICRP but state “the claimant shall have the choice of one of the following methodologies: [department-wide or program-specific].” For both of these reasons, we request that this finding be revised to approve the continued use of the department-wide rates on our claims.

SCO’s Comment

Our finding and recommendation are unchanged. The county states that we cited OMB Circular A-87 criteria “to suggest that program-specific ICRPs should be developed.” Our finding contains no such suggestion.

The county emphasized OMB Circular A-87 language that states, “Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits received.” It appears that the county used this criterion to support its position that the subject costs are appropriate indirect costs because the county would otherwise expend a disproportionate effort to assign the costs to cost objectives specifically benefitted. The quoted criterion is irrelevant to the county’s argument; it does not address the effort that the county expends to distribute costs. The quoted criterion addresses instances when claimants use multiple bases to distribute indirect cost pools to benefitted cost objectives; it states that the bases used should produce an equitable distribution for each indirect cost pool. OMB Circular A-87, Appendix E, part C.3.c, explains this concept further, stating:

Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping to benefitted functions. When an allocation can be made by assignment of a cost grouping directly to the function benefitted, the allocation shall be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made through the use of a selected base which produces results that are equitable to both the Federal Government and the governmental unit. In general, any cost element or related factor associated with the governmental unit’s activities is potentially adaptable for use as an allocation base provided that: it can readily be expressed in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, staff hours applied, square feet used, hours of usage, number of documents processed, population served, and the like), and it is common to the benefitted functions during the base period.

The county also emphasized OMB Circular A-87 language that states, “Indirect costs are those . . . not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.” However, the county failed to consider the additional criteria cited in our audit finding.

OMB Circular A-87, Appendix A, part C.3, states that a cost is allocable to a cost objective in accordance with the relative benefits received. For the employee classifications that we identified, the county allocated some employees’ costs from each classification directly to the mandated program. For the remaining employees in each classification, the county provided no documentation showing that the employees performed activities benefitting the mandated program.

OMB Circular A-87, Appendix A, part F.1, states that it might be necessary to establish several indirect cost pools to facilitate equitable distribution within a department. Further, Appendix E, part A.1, states that the county may not allocate a cost as an indirect cost if it assigns any other cost incurred for the same purpose as a direct cost. For the employee classifications identified, the county assigned some employees’ costs as direct and allocated other employees’ costs as indirect. This contradicts the criterion cited. For these employee classifications, the county stated that it did not assign all costs to the indirect cost pool because its funded programs (which include the mandated program) benefitted from these classifications to a greater degree. In this case, the county must either (1) allocate all costs as direct costs to comply with OMB Circular A-87, Appendix E, part A.1; or (2) allocate all costs as indirect costs by establishing separate indirect cost pools to facilitate equitable distribution within the department, in accordance with OMB Circular A-87, Appendix A, part F.1.

OMB Circular A-87, Appendix B, part 8.h(4), requires that employees maintain personnel activity reports when they work on both direct and indirect cost activities. For the DA Senior Investigator classification, the county allocated 10% of general fund employees’ costs to the indirect cost pool. The county provided no documentation supporting the actual time that employees spent performing indirect cost activities. The county also provided no documentation showing that these employees performed activities that benefitted the mandated program. The county did not address this portion of the finding.

Regarding the parameters and guidelines, the county quotes language that does not exist. The parameters and guidelines state:

Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in the OMB Circular A-87. Claimants have the option of using 10% of direct labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) for the department if the indirect cost rate claimed exceeds 10%. If more than one department is claiming indirect costs for the mandated program, each department must have its own ICRP prepared in accordance with OMB Circular A-87. An ICRP must be submitted with the claim when the indirect cost rate exceeds 10%.

In any case, this is not an issue of a department-wide rate versus individual program rates. Our finding concludes that the county prepared its department-wide rate inappropriately. Our finding does not state or imply that the county must prepare “program-specific” rates.

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

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

September 21, 2009

Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
State Controller's Office
Post Office Box 942850
Sacramento, California 94250-5874

RE: Draft Audit Report Response
Child Abduction and Recovery Program - Chapter 1399, Statutes of 1976

Dear Mr. Spano:

We have examined the State Controller's Office (SCO) draft audit report regarding the claims filed by San Bernardino County for the above legislatively mandated program for the period of July 1, 2003 through June 30, 2007. Our comments on the findings are as follow:

Finding 1 – Overstated salaries and benefits and related indirect costs:

State's Recommendation:

The State recommends that the county calculate county-wide weighted-average annual productive hours by deducting only those actual non-productive hours that its payroll and timesheet records support.

County's Response:

We agree with the audit finding.

Finding 2 – Overstated services and supplies:

State's Recommendation:

The State recommends that the county properly report revenue it receives that is attributable to the mandated program.

County's Response:

We agree with the audit finding.

Finding 3 – Understated offsetting savings/reimbursements:

State's Recommendation:

The State suggests that the county consistently record mandate-related offsetting savings/reimbursements in one revenue account. In addition, the county is also recommended to deduct all offsetting savings/reimbursements received on its mandated program claim.

County's Response:

We agree with the audit finding.

Finding 4 – Unallowable indirect costs:

State's Recommendation:

The State recommends that the county consistently allocate costs incurred for the same purpose, in like circumstances, as either direct or indirect costs. The county should use multiple indirect cost pools as needed to distribute indirect costs equitably. When employees perform both direct and indirect activities, the county is advised to allocate costs between those activities based on personnel activity reports or equivalent documentation that meets Title 2, CFR, Part 225, requirements.

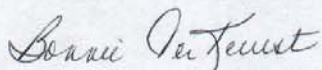
County's Response:

The auditor's written finding uses this quote from OMB A-87 Attachment A, Section F.1 "indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective... To facilitate equitable distribution of indirect expenses to the objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department..." to suggest that program-specific ICRPs should be developed. However, the entire quote leads to a different conclusion that establishing pools is based on a cost-benefit decision: "Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) **not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.** [Emphasis added] The term 'indirect costs,' as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. **Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.** [Emphasis added]"

For many years, the State and the County accepted that the effort required to develop program-specific rates would be disproportionate to the benefit received. In a department-wide ICRP, both departmental and program indirect costs are included in the indirect cost pool. The resulting cross allocation of total indirect costs to all programs inherently results in some costs being over- or under-allocated to specific programs. The rationale for using a department-wide rate is that program-level deviations are not significant enough overall to require the use of program rates. The added cost, to both the State and the County, of developing and auditing multiple rates is not justified by the related benefit. In addition, the Parameters and Guidelines for this program do not require the County to use a program-specific ICRP but state "the claimant shall have the choice of one of the following methodologies: [department-wide or program-specific]." For both of these reasons, we request that this finding be revised to approve the continued use of the department-wide rates on our claims.

If you have any questions, please contact me at (909) 386-8850.

Sincerely,



Bonnie Ter Keurst
Manager, Reimbursable Projects
Auditor/Controller Recorder's Office

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