

# **CITY OF FRESNO**

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 2016



**BETTY T. YEE**  
California State Controller

December 30, 2016

The Honorable Ashley Swearengin  
Mayor of the City of Fresno  
2600 Fresno Street, Room 2075  
Fresno, CA 93721

Dear Mayor Swearengin:

The State Controller's Office audited the costs claimed by the City of Fresno for the legislatively mandated 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) for the period of July 1, 2001, through June 30, 2012.

The city claimed \$6,217,012 for the mandated program. Our audit found that \$5,657,053 is allowable and \$559,959 is unallowable. The costs are unallowable because the city claimed overstated salaries and benefits costs and claimed overstated indirect cost rates. The State made no payments to the city. The State will pay allowable costs claimed, contingent upon available appropriations.

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

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/rg

cc: Michael Lima, Controller/Finance Director  
City of Fresno  
Jerry Dyer, Chief of Police  
Police Department, City of Fresno  
Kim Jackson, Administrative Manager  
Finance Department, City of Fresno  
Mary Halterman, Principal Program Budget Analyst  
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State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Fresno for the legislatively mandated 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) for the period of July 1, 2001, through June 30, 2012.

The city claimed \$6,217,012 for the mandated program. Our audit found that \$5,657,053 is allowable and \$559,959 is unallowable. The costs are unallowable because the city claimed overstated salaries and benefits costs and claimed overstated indirect cost rates. The State made no payments to the city. The State will pay allowable costs claimed, contingent upon available appropriations.

## Background

Penal Code section 12025, subdivisions (h)(1) and (h)(3); section 12031, subdivisions (m)(1) and (m)(3); sections 13014 and 13023; and section 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 section 17514.

On July 31, 2009, the Commission heard an amended test claim on Penal Code 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 California Department of Justice 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 (Penal Code 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, or physical or mental disability, or gender or national origin (Penal Code 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 Penal Code section 12025 (carrying a concealed firearm) or section 12031 (carrying a loaded firearm in a public place), and any other offense charged in the same complaint, indictment, or information. The Commission finds that this is a reimbursable mandate from July 1, 2001 (the beginning of the reimbursement period for this test claim) until January 1, 2005. (Penal Code section 12025, subdivisions (h)(1) and (h)(3), and 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).

The Commission also found that beginning January 1, 2005, local law enforcement agencies are entitled to reimbursement for reporting 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 Penal Code 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.
- Any information that may be required relative to hate crimes, defined in Penal Code 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 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 Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

## **Objectives, Scope, and Methodology**

We conducted this performance audit to determine whether costs claimed represent increased costs resulting from the Crime Statistics Reports for the Department of Justice Program for the period of July 1, 2001, through June 30, 2012.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We conducted this 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 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.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

To achieve our audit objectives, we performed the following procedures:

- Reviewed claims to identify the material cost components of each claim, any errors, and any unusual or unexpected variances from year-to-year;
- Completed an internal control questionnaire and performed a walk-through of the claim preparation process to determine what information was used, who obtained it, and how it was obtained;
- Assessed whether computer-processed data provided by the claimant to support claimed costs was complete and accurate and could be relied upon;
- Interviewed city staff to determine the employee classifications involved in performing the reimbursable activities during the audit period;
- Traced productive hourly rate calculations for auditee employees to supporting information in the auditee's payroll system;
- Determined whether indirect costs claimed were for common or joint purposes and whether indirect cost rates were properly supported and applied;
- Assessed whether average time increments claimed to perform the reimbursable activities were reasonable per the requirements of the program;
- Reviewed and analyzed the claimed domestic violence incident report counts, homicide report counts, and hate crime counts for consistency and possible exclusions; and verified that counts were supported by the reports the city submitted to the DOJ;
- Verified incident report counts by tracing a sample of domestic violence calls for assistance to case files to ensure that the calls for assistance were supported by written incident reports; and
- Recalculated allowable costs claimed using audited data.

**Conclusion**

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

For the audit period, the City of Fresno claimed \$6,217,012 for costs of the Crime Statistics Reports for the Department of Justice Program. Our audit found that \$5,657,053 is allowable and \$559,959 is unallowable.

The State paid the made no payments to the city. Our audit found that \$5,657,053 is allowable. The State will pay allowable costs claimed, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft report on November 16, 2016. Kim Jackson, Administrative Manager, Finance Department, responded by email on November 29, 2016, agreeing with the findings.

**Restricted Use**

This report is solely for the information and use of the City of Fresno, 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, CPA  
Chief, Division of Audits

December 30, 2016

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

Cost Elements	Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Homicide reports	\$ 468	\$ 468	\$ -	
Hate crime reports	160	-	(160)	Finding 1
Domestic violence related calls for assistance	286,005	286,005	-	
Total direct costs	286,633	286,473	(160)	
Indirect costs	197,549	152,310	(45,239)	Findings 1, 2
Total program costs	<u>\$ 484,182</u>	438,783	<u>\$ (45,399)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 438,783</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Homicide reports	\$ 472	\$ 472	\$ -	
Hate crime reports	167	-	(167)	Finding 1
Domestic violence related calls for assistance	273,402	273,402	-	
Total direct costs	274,041	273,874	(167)	
Indirect costs	200,904	138,228	(62,676)	Findings 1, 2
Total program costs	<u>\$ 474,945</u>	412,102	<u>\$ (62,843)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 412,102</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Homicide reports	\$ 478	\$ 478	\$ -	
Hate crime reports	170	-	(170)	Finding 1
Domestic violence related calls for assistance	288,767	288,767	-	
Total direct costs	289,415	289,245	(170)	
Indirect costs	222,254	163,299	(58,955)	Findings 1, 2
Total program costs	<u>\$ 511,669</u>	452,544	<u>\$ (59,125)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 452,544</u>		

## Schedule (continued)

Cost Elements	Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Homicide reports	\$ 484	\$ 484	\$ -	
Hate crime reports	98	41	(57)	Finding 1
Domestic violence related calls for assistance	284,557	284,557	-	
Total direct costs	285,139	285,082	(57)	
Indirect costs	214,569	167,251	(47,318)	Findings 1, 2
Total program costs	<u>\$ 499,708</u>	452,333	<u>\$ (47,375)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 452,333</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Homicide reports	\$ 462	\$ 462	\$ -	
Hate crime reports	249,027	249,027	-	
Domestic violence related calls for assistance	43	43	-	
Total direct costs	249,532	249,532	-	
Indirect costs	212,203	187,970	(24,233)	Finding 2
Total program costs	<u>\$ 461,735</u>	437,502	<u>\$ (24,233)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 437,502</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Homicide reports	\$ 520	\$ 520	\$ -	
Hate crime reports	36	36	-	
Domestic violence related calls for assistance	319,784	319,784	-	
Total direct costs	320,340	320,340	-	
Indirect costs	237,946	164,021	(73,925)	Finding 2
Total program costs	<u>\$ 558,286</u>	484,361	<u>\$ (73,925)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 484,361</u>		

## Schedule (continued)

Cost Elements	Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Homicide reports	\$ 540	\$ 540	\$ -	
Hate crime reports	45	45	-	
Domestic violence related calls for assistance	341,293	341,293	-	
Total direct costs	341,878	341,878	-	
Indirect costs	254,779	186,404	(68,375)	Finding 2
Total program costs	<u>\$ 596,657</u>	528,282	<u>\$ (68,375)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 528,282</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Homicide reports	\$ 592	\$ 592	\$ -	
Hate crime reports	55	55	-	
Domestic violence related calls for assistance	336,215	336,215	-	
Total direct costs	336,862	336,862	-	
Indirect costs	238,138	193,250	(44,888)	Finding 2
Total program costs	<u>\$ 575,000</u>	530,112	<u>\$ (44,888)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 530,112</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Homicide reports	\$ 650	\$ 650	\$ -	
Hate crime reports	92	92	-	
Domestic violence related calls for assistance	358,924	358,924	-	
Total direct costs	359,666	359,666	-	
Indirect costs	225,279	205,205	(20,074)	Finding 2
Total program costs	<u>\$ 584,945</u>	564,871	<u>\$ (20,074)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 564,871</u>		

## Schedule (continued)

Cost Elements	Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Homicide reports	\$ 2,424	\$ 2,424	\$ -	
Hate crime reports	26	26	-	
Domestic violence related calls for assistance	400,389	384,816	(15,573)	Finding 1
Total direct costs	402,839	387,266	(15,573)	
Indirect costs	349,515	289,754	(59,761)	Finding 2
Total program costs	<u>\$ 752,354</u>	677,020	<u>\$ (75,334)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 677,020</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Homicide reports	\$ 562	\$ 562	\$ -	
Domestic violence related calls for assistance	421,124	421,124	-	
Total direct costs	421,686	421,686	-	
Indirect costs	295,845	257,457	(38,388)	Finding 2
Total program costs	<u>\$ 717,531</u>	679,143	<u>\$ (38,388)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 679,143</u>		
<u>Summary: July 1, 2001, through June 30, 2012</u>				
Direct costs:				
Homicide reports	\$ 7,652	\$ 7,652	\$ -	
Hate crime reports	249,876	249,322	(554)	
Domestic violence related calls for assistance	3,310,503	3,294,930	(15,573)	
Total direct cost	3,568,031	3,551,904	(16,127)	
Indirect costs	2,648,981	2,105,149	(543,832)	
Total program costs	<u>\$ 6,217,012</u>	5,657,053	<u>\$ (559,959)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,657,053</u>		

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

# Findings and Recommendations

## FINDING 1— Overstated salaries and benefits costs

The city overstated salaries and benefits by \$16,127 for the audit period. The related indirect costs total \$13,917. The audit adjustments related to the Domestic Violence Related Calls for Assistance and Hate Crime Reports cost components. The city overstated the costs because it computed costs using an overstated number of domestic violence incident reports for fiscal year (FY) 2010-11 and claimed costs for hate crime reports outside of the reimbursable period.

The following table summarizes the overstated salaries and benefits costs:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2001-02	\$ 286,633	\$ 286,473	\$ (160)
2002-03	274,041	273,874	(167)
2003-04	289,415	289,245	(170)
2004-05	285,139	285,082	(57)
2005-06	249,532	249,532	-
2006-07	320,340	320,340	-
2007-08	341,878	341,878	-
2008-09	336,862	336,862	-
2009-10	359,666	359,666	-
2010-11	402,839	387,266	(15,573)
2011-12	421,686	421,686	-
Total	<u>\$ 3,568,031</u>	<u>\$ 3,551,904</u>	<u>\$ (16,127)</u>

### Domestic Violence Related Calls for Assistance

For FY 2010-11, the city overstated salaries and benefits costs for the Domestic Violence Related Calls for Assistance component by \$15,573. The related indirect cost is \$13,512. The costs for this component include supporting each related call for assistance with a written incident report. Reimbursable activities consist of writing, reviewing, and editing the incident reports. Costs claimed were calculated by multiplying the number of incident reports by a time increment to process a report, then multiplying the resulting total hours by a productive hourly rate. The costs are overstated because the city overstated the number of incident reports it prepared to support domestic violence-related calls for assistance.

For the audit period, the city provided the monthly reports it submitted to the DOJ to support the number of domestic violence-related calls for assistance it reported. We reviewed the monthly reports and calculated the number of incident reports that were produced within each fiscal year. We found that the monthly reports did not support the claimed number of domestic violence-related calls for assistance for FY 2010-11; the city overstated the number of incidents by 210. As a result, we recalculated the costs for the effected fiscal year using the number of incidents reported to the DOJ.

## Hate Crime Reports

The city overstated salaries and benefits costs for the Hate Crime Reports component by \$554. The related indirect cost is \$405. The costs for this component consist of extracting, reporting, and verifying hate crime information submitted to the DOJ. The costs are ineligible because the city claimed costs for hate crime reports outside of the reimbursable period.

For the audit period, the city provided support for the number of hate crimes it reported to the DOJ. Our review of city records disclosed that no hate crimes were reported prior to 2004. In addition, the program's parameters and guidelines indicate that the mandated activity is eligible for reimbursement beginning January 1, 2005. Therefore, costs claimed for reporting hate crimes prior to January 1, 2005, are not eligible for reimbursement.

The following table summarizes the ineligible costs:

	Fiscal Year				Audit
	2001-02	2002-03	2003-04	2004-05	Adjustment
Salaries and benefits	\$ (160)	\$ (167)	\$ (170)	\$ (57)	\$ (554)
Related indirect costs	(110)	(123)	(130)	(42)	(405)
Total	<u>\$ (270)</u>	<u>\$ (290)</u>	<u>\$ (300)</u>	<u>\$ (99)</u>	<u>\$ (959)</u>

## Criteria

The program's parameters and guidelines (section IV) 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.

The parameters and guidelines (section IV—Ongoing Activities D. Domestic Violence Related Calls for Assistance) allow ongoing activities related to costs supporting domestic violence-related calls for assistance with a written incident report, and reviewing and editing the report.

Concerning hate crime reports, the parameters and guidelines (section III) state, in part:

...Penal Code section 13023, as amended by Statutes 2004, chapter 700, became operative and effective on January 1, 2005. Therefore, the costs incurred for compliance with the mandated activities found in Penal Code section 13023, as amended by Statutes 2004 chapter 700, are reimbursable on or after January 1, 2005.

Recommendation

The Crime Statistics Reports for the Department of Justice Program was suspended in FY 2012-13 through FY 2016-17. If the program becomes active, we recommend that the city claim costs based on the actual number of domestic violence related calls for assistance that were supported by written incident reports and reported to the DOJ. We also recommend that the city claim costs within the reimbursable period identified in the program’s parameters and guidelines.

**FINDING 2—  
Overstated indirect costs**

The city overstated indirect costs by \$529,915 for the audit period. The overstatement results primarily from the application of overstated indirect cost rates during the audit period. As a result, we recalculated the indirect cost rates and applied them to the corresponding eligible direct costs.

The following table summarizes the overstated indirect costs:

	Fiscal Year				Audit Adjustment
	2001-02	2002-03	2003-04	2004-05	
Allowable indirect cost rate	62.10%	59.00%	66.90%	70.40%	
Less claimed indirect cost rate	(80.50)%	(85.70)%	(91.00)%	(90.30)%	
Unallowable indirect cost rate	(18.40)%	(26.70)%	(24.10)%	(19.90)%	
Allowable salaries	× \$ 245,267	× \$ 234,281	× \$ 244,089	× \$ 237,569	
Total	\$ (45,129)	\$ (62,553)	\$ (58,825)	\$ (47,276)	\$ (213,783)
	Fiscal Year				
	2005-06	2006-07	2007-08	2008-09	
Allowable indirect cost rate	86.10%	63.90%	68.70%	71.25%	
Less claimed indirect cost rate	(97.20)%	(92.70)%	(93.90)%	(87.80)%	
Unallowable indirect cost rate	(11.10)%	(28.80)%	(25.20)%	(16.55)%	
Allowable salaries	× \$ 218,314	× \$ 256,683	× \$ 271,331	× \$ 271,226	
Total	\$ (24,233)	\$ (73,925)	\$ (68,375)	\$ (44,888)	(211,421)
	Fiscal Year				
	2009-10	2010-11	2011-12		
Allowable indirect cost rate	73.60%	104.00%	89.20%		
Less claimed indirect cost rate	(80.80)%	(120.60)%	(102.50)%		
Unallowable indirect cost rate	(7.20)%	(16.60)%	(13.30)%		
Allowable salaries	× \$ 278,811	× \$ 278,609	× \$ 288,629		
Total	\$ (20,074)	\$ (46,249)	\$ (38,388)		(104,711)
Total					\$ (529,915)

The overstatements resulted for the following reasons, broken down by fiscal year:

For FY 2001-02 through FY 2005-06, the indirect cost rate proposals (ICRP) for the Police Department had been previously audited for other mandate programs. However, instead of calculating indirect costs using the previously audited indirect cost rates, the city revised audited indirect cost rates to recover indirect costs for these fiscal years. The city revised indirect cost rates to include additional salaries in the indirect cost pool. However, the city did not provide documentation to support that the increased salaries should be included in the indirect cost pool. Therefore, we recalculated indirect costs using the previously audited rates.

For FY 2006-07 and FY 2007-08, the city’s ICRPs for the Police Department excluded salaries attributable to grant programs, (e.g., Cops in School grant, the HUD Capitol Program, and Airport Public Safety Program). Title 2, *Code of Federal Regulations*, Part 225 (Office of Management and Budget [OMB] Circular A-87), Appendix A, Part C, subdivision 3(b), states, “All activities which benefit from the governmental unit’s indirect cost...will receive an appropriate allocation of indirect costs.” We adjusted direct salaries to include the costs of grant programs.

The city’s ICRP also included direct salaries and benefits costs of police sergeants and police specialists in its indirect cost pool. The parameters and guidelines define indirect costs as costs that are incurred for a common or joint purpose, benefiting more than one program. Further, indirect costs are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. The city’s job specifications for each classification indicate that the duties of police sergeants and police specialists are readily assignable specific cost objectives. The city did not provide additional documentation, such as time records, to support that the costs should be allocated as indirect costs. As a result, we recalculated the indirect cost rates and applied the rates to eligible direct costs.

For FY 2008-09 through FY 2011-12, the city’s ICRPs for the Police Department had been previously audited. In the previous audit, we noted that the ICRPs excluded direct salaries attributable to grant programs. OMB A-87 provides that all activities benefiting from a unit’s indirect costs will receive an appropriate allocation of indirect costs. In the previous audit, we recalculated the indirect cost rates by adjusting the direct salaries to include the grant programs. For this audit we applied the previously audited indirect cost rates to eligible direct costs.

The following table summarizes the calculation of the allowable indirect cost rates for the effected fiscal years:

Cost Component	Costs Reported	Allowable Costs	Audit Adjustment
<u>FY 2006-07</u>			
Direct costs:			
Salaries (A)	\$ 54,625,621	\$ 68,106,699	\$ 13,481,078
Indirect Costs:			
Salaries and benefits	28,084,685	21,265,051	(6,819,634)
Sevices and supplies	22,233,978	22,233,978	-
Total indirect costs (B)	\$ 50,318,663	\$ 43,499,029	\$ (6,819,634)
Allowable indirect cost rate FY 2006-07 ((B) ÷ (A))		63.9%	
<u>FY 2007-08</u>			
Direct costs:			
Salaries (C)	\$ 60,923,576	\$ 72,785,704	\$ 11,862,128
Indirect Costs:			
Salaries and benefits	31,533,866	24,347,789	(7,186,077)
Sevices and supplies	25,683,573	25,683,573	-
Total indirect costs (D)	\$ 57,217,439	\$ 50,031,362	\$ (7,186,077)
Allowable indirect cost rate FY 2007-08 ((D) ÷ (C))		68.7%	

## Criteria

The parameters and guidelines (section IV) state, in part:

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.

The parameters and guidelines (section V B) provide that counties may prepare an ICRP to recover indirect costs using the procedure identified in OMB Circular A-87.

Title 2, *Code of Federal Regulations*, Part 225 (OMB Circular A-87) provides guidance relative to local government ICRPs. Appendix A, Part C, subdivision 3(b), states, "All activities which benefit from the governmental unit's indirect costs ... will receive an appropriate allocation of indirect costs."

OMB Circular A-87 also provides the following guidance:

- Attachment A, Part C, section 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 B, section 8(h), requires that employees must maintain personnel activity reports or equivalent documentation when they work on an indirect cost activity and a direct cost activity.
- Attachment E, Part A, section 1, provides 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 the FY 2012-13 through FY 2016-17. If the program becomes active, we recommend the city prepare ICRPs that are supported by its expenditure ledgers and inclusive of all departmental costs; allocate salaries and wages between direct and indirect activities based on personnel activity reports or equivalent documentation that meet the requirements of OMB Circular A-87; and, when applicable, calculate indirect costs using the prior audited indirect cost rate.

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