LOS ANGELES COUNTY SHERIFF'S DEPARTMENT

AUDIT AND ACCOUNTABILITY BUREAU

PC 4750 Claims and Revenue Process Audit

Financial Programs Bureau

Project No. 2024-36-A

Robert G. Luna, Sheriff

2024

Los Angeles County Sheriff's Department
Audit and Accountability Bureau

PC 4750 Claims and Revenue Process Audit
Financial Programs Bureau
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EXECUTIVE SUMMARY

Under the authority of the Los Angeles County Sheriff's Department (LASD or the Department) Executives, the Audit and Accountability Bureau (AAB) conducted a PC 4750 Claims and Revenue Process Audit for the Financial Programs Bureau (FPB). This audit was conducted to satisfy the recommendation noted by the Los Angeles County Auditor-Controller (A-C) specific to the *Management Monitoring of Internal Controls.* The following recommendation was made as a result of A-C's Inmate Billings and Collections Review[1]:

> *Sheriff management develop ongoing self-monitoring processes that include:*
>
> *a) Examination of process and control activities, such as review of an adequate number of transactions on a regular basis to ensure adherence to established procedures and internal controls, County rules, and best practices.*
>
> *b) Documenting the monitoring activity and retaining evidence so it can be subsequently validated.*
>
> *c) Elevating material exceptions to management on a timely basis to ensure awareness of relative control risk, and to ensure appropriate corrective actions are implemented.*

In addition, this audit was conducted to provide guidance to the Department in developing a tool to self-monitor its internal controls as required by the County of Los Angeles' County Fiscal Manual (CFM), Section 1.0.2, Management's Ownership for Internal Control, which states: "…County department management has primary responsibility for designing, implementing, and maintaining a system of preventive and detective internal controls including but not limited to controls outlined in the CFM; and for monitoring internal controls on an ongoing basis to ensure any weaknesses or non-compliance are promptly identified and corrected."

The scope of this audit was to examine the PC 4750 claims and revenue policies and desktop procedures, and the process and controls by the following responsible parties (process owners[2]):

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[1] See County of Los Angeles – Department of Auditor Controller "Inmate Billings and Collections Review," dated April 16, 2024

[2] A process owner is a person or team that is responsible for a specific process within an organization. They are accountable for the design, implementation, monitoring, and continuous improvement of the process, ensuring it operates seamlessly and delivers the expected results.

- **Court Services Transportation Bureau (CST):** Responsible for gathering all required claim documentation and preparing the initial draft of the official claim forms that will be sent to the State Controller's Office (SCO).

- **Special Accounts Unit (SAU)**: Responsible for reviewing and approving the claim documentation, submitting the official claim to the SCO, recording the revenue accrual, and tracking the receipt of revenue

The specific objectives of this audit were:

- **Objective No. 1 – Evaluation of PC 4750 Claims and Revenue policies and procedures:** To determine if the Department's existing policies and procedures regarding the PC 4750 claims conformed to the SCO, CFM and best practice.

- **Objective No. 2 – Evaluation of PC 4750 Claims and Revenue processes and controls:** To identify existing PC 4750 processes and controls, and to evaluate the effectiveness, efficiency, and accountability of process owners on operations and functions relating to PC 4750 claims and revenue, such as claims preparation and submission process, and claim revenue recognition and recording process.

PC 4750 Claims and Revenue Process and Control Sub-objectives	Sub-objective Sections
Objective No. 2(a) – Claim Preparation and Submission Process	Completeness and Accuracy of Claim Documentation
	Management Review and Approval of Claims
	Claim Submission to the SCO
Objective No. 2(b) – Claim Revenue Recognition and Recording Process	Accrual of Claim Revenue
	Recording of Claim Revenue Received

To accomplish the audit objectives, AAB performed the following procedures:

- Reviewed and evaluated existing PC 4750 claims and revenue policies and desk procedures (2023 PC 4750 Claims Desk Procedures, revised in August 2023).

- Conducted interviews and walkthroughs with process owners to identify PC 4750 claims and revenue processes and controls.
  Reviewed the PC 4750 claims submitted to the SCO and PC 4750 revenue received as of September 30, 2024.

A summary of the audit findings resulting from the evaluation of PC 4750 claims and revenue policies and desk procedures, and PC 4750 claims and revenue processes and controls can be found in the tables below:

<table>
<tr><th colspan="3">Objective No. 1 – PC 4750 Claims and Revenue Policies and Procedures</th></tr>
<tr><th>Finding No.</th><th>Process Owner</th><th>Finding</th></tr>
<tr><td>1</td><td>SAU</td><td>The existing procedures does not document a formal review and approval of the policy was conducted. Specifically, there is an absence of:
Approval Documentation: No records or signatures are present to confirm the policy has been reviewed and formally approved by management.
Approval Date: The policy lacked an associated approval date, which is critical for tracking the timeline of updates and ensuring the policy remains relevant and current. Other than the “revised date,” the absence of approval date makes it difficult to ascertain whether the policy has been subject to periodic reviews.</td></tr>
<tr><td>2</td><td>SAU</td><td>The existing procedures does not clearly define the purpose and scope of the desk procedures related to claims and revenue processes. It is essential the desk procedures provide clear guidance on the intended objectives, the specific areas they cover and the personnel responsible for executing the procedures. The lack of clear purpose and scope can lead to confusion among personnel, increasing the risk of non-compliance or inconsistent application.</td></tr>
<tr><td>3</td><td>SAU</td><td>The existing procedures does not identify all the key processes and controls related to filing claims, specifically regarding the deadline for filing claims as outlined in the State Controller’s Office (SCO) Claims Instructions for Local Court Costs and Other Related Charges Pursuant to Penal Code Section 4750. The deadline for filing claims is a critical control, as missing this deadline could result in the loss of reimbursements (revenue) due to delays or missed claims. It is essential that the policy incorporates specific guidance on deadlines and other requirements as stipulated in the SCO instructions to ensure compliance and timely processing of claims.</td></tr>
<tr><td>4</td><td>SAU</td><td>The existing procedures does not clearly specify who is primarily responsible for ensuring all allowable reimbursements are included in the claim. Currently, the policy states the involved division (Court Services Transportation Bureau) gather all required source documents, prepare an initial claim draft and submit it to Special Accounts Unit (SAU). The SAU is only responsible for ensuring the claim preparation is complete and the calculations are accurate, but there is no clear delineation of responsibility regarding the identification of reimbursable items. Since the claim is submitted to the SCO by the SAU, it is critical for SAU to be clearly accountable for reviewing and ensuring all allowable reimbursements are considered when preparing claims. This responsibility should be explicitly stated in the policy, along with identifying the key personnel responsible for this task.</td></tr>
<tr><td>5</td><td>SAU</td><td>The existing procedures states the “Special Accounts Manager is responsible for reviewing and signing the Summary of Costs (FAM-27) form…” however, the policy also mentions there are other designated signatories, such as the ASM II or Assistant Division Director, who may sign the FAM-27 form. In practice, the ASM II is the individual who most frequently signs the form.</td></tr>
<tr><td>6</td><td>SAU</td><td>The SAU submits claims very close to the deadline, often on the day of or just a few days before the deadline. Submitting claims so close to the deadline increases the risk of errors or missing documentation, limits the time for proper review and approval, and may result in delays or disallowed claims if any issues are identified at the last minute. Another factor contributing to the delay is that only a few personnel are knowledgeable about how to properly prepare the claims, further extending the preparation and submission time.</td></tr>
</table>

Objective No. 2 – PC 4750 Claims and Revenue Processes and Controls			
Objective No. 2(a) – Claim Preparation and Submission Process			
Finding No.	Sub-objective Section	Compliance %	Finding
1	Completeness and Accuracy of Claim Documents	98%	<u>Staff's Billable Hours</u> The hours of the Administrative Services Manager I (ASMI), who plays a key role in determining allowable costs, were not included as part of the "Claim Preparation Costs".
2		91%	<u>Supporting Documents</u> The Reimbursable Incident listed on the Form 1A is "PC 4750 Section (G)," but the attached documentation supported a "writ of habeas corpus," which should have been categorized under "PC 4750 Section (C)".
3		98%	<u>Hourly Rate Calculation</u> Discrepancies were noted in the calculation of "Hours Worked" for prisoner claims that affected the Deputies' Total Salaries, Benefits, and Indirect Costs, It was also noted the fiscal year (FY) 2023-2024 hourly rate was used for claim preparation costs for one month instead of the correct FY 2024-2025 rate.
4		83%	<u>Accuracy of Claim Amounts</u> There were inconsistencies in the amounts recorded in Form 1A, where the line-item amounts did not add up to the total claim amount.
5	Management Review and Approval of Claims	33%	It cannot be determined whether the ASM II or ASM III reviewed the claim forms for January and February 2024 due to the missing "Routing Slip" in the shared files.
6	Claim Submission to the SCO	33%	The scanned claim packets for January 2024 and March 2024 were missing supporting documents for some prisoner costs.
Objective No. 2(b) – Claim Revenue Recognition and Recording Process			
7	Accrual of Claim Revenue	88%	The July 2023 claim was not recorded as accrued revenue in eCAPS upon submission to the SCO, which resulted in a delay in its recognition in eCAPS.
8	Recording of Claim Revenue Received	88%	The July 2023 claim, which was paid by the SCO through a fund transfer and received by the Los Angeles County Auditor-Controller's office, was not recognized as collected revenue in eCAPS until two months after the payment was received.

AAB made 15 recommendations based on these findings. Our recommendations are intended to improve the existing policies and procedures and strengthen the processes and controls relating to PC 4750 claims and revenue. Additionally, AAB recommended for FPB to develop an "Internal Control Monitoring Guide" to ensure PC 4750 claims and revenue policies and procedures are being adhered to, which is the responsibility of FPB management. An established "Internal Control Monitoring Guide" desk procedures also minimize the reliance on current personal knowledge on how to perform the self-monitoring process.

The following report provides detailed audit findings and recommendations for improvement and management responses.

AUDIT REPORT

PURPOSE

The Audit and Accountability Bureau (AAB) conducted the PC 4750 Claims and Revenue Process Audit under the authority of the Los Angeles County Sheriff's Department (LASD or the Department) to determine whether the Department and Financial Programs Bureau (FPB) complied with policies and procedures as it relates to the PC 4750 Claims and Revenue processes.

The AAB conducted this audit under the guidance of Generally Accepted Government Auditing Standards (GAGAS)[3], specifically pertaining to performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The AAB believes the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit did not constitute an audit of financial statements, or an attestation level report as defined under GAGAS.

BACKGROUND

On April 16, 2024, the Los Angeles County Auditor-Controller (A-C) conducted an Inmate Billings and Collections Review to evaluate the design of the Department's inmate billing procedures and controls. The A-C conducted this review to determine whether the inmate procedures and controls provide reasonable assurance to management that inmate billings are processed, monitored, and maximized in accordance with the County of Los Angeles' County Fiscal Manual (CFM) requirements, Department policies, other governmental entity guidelines, and best practices. The A-C's review noted five issues and recommendations. Recommendation number four noted by the A-C was specific to *Management Monitoring of Internal Controls*, in which the following recommendation was made:

Sheriff management develop ongoing self-monitoring processes that include:

> *a) Examination of process and control activities, such as review of an adequate number of transactions on a regular basis to ensure adherence to established procedures and internal controls, County rules, and best practices.*
>
> *b) Documenting the monitoring activity and retaining evidence so it can be subsequently validated.*
>
> *c) Elevating material exceptions to management on a timely basis to ensure awareness of relative control risk, and to ensure appropriate corrective actions are implemented.*

[3] United States Government Accountability Office – By the Comptroller General of the United States, Government Auditing Standards, July 2018 Revision (Technical Update 2021).

To satisfy the recommendation by the A-C, the Financial Programs Bureau requested the AAB conduct a periodic review of the Department's processes for PC 4750 claims and revenue. The periodic review would include an evaluation of the PC 4750 claims and revenue desk procedures, as well as an evaluation of the PC 4750 claims preparation and submission process and claim revenue recognition and recording process.

OBJECTIVE, SCOPE, AND METHODOLOGY

Audit Objectives

The specific objectives of this audit were as follows:

- **Objective No. 1 – Evaluation of PC 4750 Claims and Revenue policies and procedures:** To determine if the Department's existing policies and procedures regarding the PC 4750 claims conformed to the State Controller's Office (SCO), CFM and best practice.

- **Objective No. 2 – Evaluation of PC 4750 Claims and Revenue processes and controls:** To identify existing PC 4750 processes and controls, and to evaluate the effectiveness, efficiency, and accountability of process owners on operations and functions relating to PC 4750 claims and revenue, such as claims preparation and submission process, and claim revenue recognition and recording process.

PC 4750 Claims and Revenue Process and Control Sub-objectives	Sub-objective Sections
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	Recording of Claim Revenue Received

Audit Scope

The scope of this audit was to examine the PC 4750 claims and revenue policies and procedures, and the process and controls by the following responsible parties (process owners):

- Court Services Transportation Bureau (CST): Responsible for gathering all required claim documentation and preparing the initial draft of the official claim forms that will be sent to the SCO.

- Special Accounts Unit (SAU) Unit: Responsible for reviewing and approving the claim documentation, submitting the official claim to the SCO, recording the revenue accrual, and tracking the receipt of revenue.

This audit focused on the review and evaluation of the following policies and procedures related to the PC 4750 claims and revenue:

Process Owner	PC 4750 Claims and Revenue Policy and Procedure	Policy Date
SAU	PC 4750 Claims Desk Procedures	August 2023 (revised)

This audit also focused on evaluating the processes for the claim preparation and submission, revenue accrual, and revenue recognition and recording by reviewing the supporting documents maintained by the SAU Unit, including:

- Signed Cover Letter

- Required SCO forms:

  FAM-27 – Statement of Costs. Form FAM-27 summarizes the costs incurred and must appear as the face sheet of the claim. The form includes a Certification of Claim statement and must be signed in blue ink by an authorized signatory.

  Form 1A – Cost Report. Form 1A must be completed for each prisoner. An additional Form 1A may be completed for claim preparation costs for the claim period.

  Form 1B – Summary Report. Form 1B is a summary of all the Form 1A submissions.

- Supporting documentation for the reimbursable costs reported in the Form 1A – Cost Report for each prisoner, such as Statewide Transportation Details, Manifest & Transportation Route Sheets, Court Orders, Booking Details, Expense Claims (including copies of receipts) for travel costs incurred by Department personnel in transporting prisoners, etc.

- Supporting documentation for the reimbursable costs reported in the Form 1A – Cost Report for each Department personnel involved in claim preparation, such as their Administrative Activity Log and a copy of the Employee Salary Inquiry.

- Electronic Countywide Accounting and Purchasing (eCAPS) Posting Slip for Receivable (RE)[4] and invoice.

- eCAPS records such as Revenue Detail Report and Receivable Cash Transfer (RECT)[5] for the revenue received.

[4] When certain criteria are met for earned revenue or other collections, an accounts receivable can be established through the creation of a RE document in eCAPS. The RE document generates invoices for billing purposes.
[5] When the collection is received, the RE document is opened and a RECT is created to cancel the receivable, update the customer account, and record the revenue.

Audit Criteria

The Department's compliance was measured against relevant criteria, which included process owner's desk procedures and available Department policies.

Audit Population and Sampling

The audit population included all PC 4750 claims submitted to the SCO and PC 4750 revenue received as of September 30, 2024.

During the audit period, the Department submitted three PC 4750 claims to the SCO for the months of January 2024, February 2024, and March 2024, as reported in SAU's PC 4750 FY2023-2024 Log.

Month of Claim	Invoice #	Date of Submission	Invoice Amount
January 2024	250132JL	July 30, 2024	$1,214,068
February 2024	250300JL	August 29, 2024	$1,107,451
March 2024	250607JL	September 26, 2024	$1,093,169
		Total	**$3,414,688**

During the audit period, the Department received a total of $8,793,308 in PC 4750 revenue for FY2023-2024 claims, as reported in the Revenue Detail reports generated from eCAPS.

Payment Date	Billing Period	Invoice #	Invoice Amount	Payment Received
April 9, 2024	July 2023	241935VL	$1,341,923	**$1,341,923**
May 6, 2024	August 2023	242238VL	$1,286,249	**$1,286,249**
June 7, 2024	September 2023	242614VL	$1,215,049	**$1,215,049**
July 12, 2024	October 2023	243149VL	$1,336,645	**$1,336,645**
August 5, 2024	November 2023	243282VL	$1,192,810	**$1,192,810**
August 30, 2024	December 2023	243580VL	$1,206,564	**$1,206,564**
September 23, 2024	January 2024	250132JL	$1,214,068	**$1,214,068**
			Total	**$8,793,308**

Detailed Findings and Recommendations

Objective No. 1 – Evaluation of PC 4750 Claims and Revenue Policies and Procedures

Criteria

The Department's compliance will be evaluated against relevant criteria, which include SCO policies, CFM, and best practice.

Procedures

Auditors evaluated the existing PC 4750 Claims and Revenue policies and procedures established by the process owners (2023 PC 4750 Claims Desk Procedures, revised in August 2023) to determine conformity and consistency with the SCO policies, the CFM and applicable Department policies and procedures. During the evaluation, auditors assessed the sufficiency and relevance of the desk procedures by determining if the following elements were present:

1. The desk procedures were properly labeled with a header (at a minimum would include division/department name, policy title, version, approval date, prior approval date, procedure owner, etc.).
2. The purpose and scope of the desk procedures were clearly defined.
3. All key processes and controls were identified.
4. The roles and responsibilities of all staff and supervisors involved in the procedure were adequately defined.
5. Procedures were detailed and described "how" to complete each step within the procedures.
6. The list of documentation for each procedure was identified.
7. Any updates or revisions were documented.

Findings and Recommendations

The tables on the following pages summarize the PC 4750 claims and revenue policies and procedures identified, the process owners, the results of the evaluation and the recommendations by AAB.

Process Owner	Financial Programs Bureau - Special Accounts Unit (SAU)
PC 4750 Claims and Revenue Process	Approval of Desk Procedures
Findings	The SAU's existing process does not ensure a formal review and approval of the unit's desk procedures is conducted and documented. Specifically, there is an absence of: • Approval Documentation: No records or signatures are present to confirm the desk procedures were reviewed and formally approved by management. • Approval Date: The desk procedures lack an associated approval date, which is critical for tracking the timeline of updates and ensuring the procedures remain relevant and current. Other than the "revised date", the absence of approval date makes it difficult to ascertain whether the desk procedures have been subject to periodic reviews.
Recommendations	The SAU should implement a formalized process for reviewing, approving, and documenting updates to the claims and revenue desk procedures. The SAU should also ensure approval dates are included for each version to maintain an accurate history of revisions.

Process Owner	Financial Programs Bureau - Special Accounts Unit (SAU)
PC 4750 Claims and Revenue Process	Purpose and Scope of Desk Procedures
Finding	The existing desk procedures do not clearly define the purpose and scope of the related to claims and revenue processes. It is essential the desk procedures provide clear guidance on the intended objectives, the specific areas they cover and the personnel responsible for executing the procedures. The lack of clear purpose and scope can lead to confusion among personnel, increasing the risk of inconsistent application and non-compliance with internal or regulatory standards.
Recommendation	The SAU should revise the desk procedures to explicitly define the purpose (e.g., to ensure compliance, improve accuracy, streamline claims processing) and scope (e.g., which aspects of the claims and revenue process they cover), providing clarity to all personnel involved.

Process Owner	Financial Programs Bureau - Special Accounts Unit (SAU)
PC 4750 Claims and Revenue Process	Claim Preparation and Submission Process
Finding	The existing desk procedures do not identify all the key processes and controls related to filing claims, specifically regarding the deadline for filing claims as outlined in the State Controller's Office (SCO) Claims Instructions for Local Court Costs and Other Related Charges Pursuant to Penal Code Section 4750. The deadline for filing claims is a critical control, as missing this deadline could result in the loss of reimbursements (revenue) due to delays or missed claims. It is essential the desk procedures incorporate specific guidance on deadlines and other requirements as stipulated in the SCO instructions to ensure compliance and timely processing of claims.
Recommendation	The SAU should update the desk procedures to clearly include all key processes and controls, specifically highlighting the deadline for filing claims in accordance with the SCO's instructions. Revisions to the desk procedures should include clear guidelines for meeting deadlines and any other state-mandated requirements to avoid errors and ensure compliance.

Process Owner	Financial Programs Bureau - Special Accounts Unit (SAU)
PC 4750 Claims and Revenue Process	Claim Preparation and Submission Process
Finding	The existing desk procedures do not clearly specify who is primarily responsible for ensuring all allowable reimbursements are included in the claim. Currently, the desk procedures state the division involved (Court Services Transportation Bureau) gathers all required source documents, prepares an initial claim draft and submits it to Special Accounts Unit (SAU). The SAU is only responsible for ensuring the claim preparation is complete and the calculations are accurate, but there is no clear delineation of responsibility regarding the identification of reimbursable items. Since the claim is submitted to the SCO by the SAU, it is critical for SAU to be accountable for reviewing and ensuring all allowable reimbursements are considered when preparing claims. This responsibility should be explicitly stated in the desk procedures, along with identifying the key personnel responsible for this task.
Recommendation	The SAU should clearly define in the desk procedures their role in identifying allowable reimbursements and specifying the individual or team responsible for ensuring all reimbursements are included in the claim. The SAU should still maintain the responsibility for ensuring claim preparation is complete, and calculations are accurate, but policy should make a clear distinction between the CST's responsibility for identifying reimbursable items and SAU's role in finalizing the claim.

Process Owner	Financial Programs Bureau - Special Accounts Unit (SAU)
PC 4750 Claims and Revenue Process	Claim Preparation and Submission Process
Finding	The existing desk procedures state the "Special Accounts Manager is responsible for reviewing and signing the Summary of Costs (FAM-27) form…" however, the desk procedures also mention there are other designated signatories, such as the ASM II or Assistant Division Director, who may sign the FAM-27 form. In practice, the ASM II is the individual who most frequently signs the form.
Recommendation	The SAU should update the desk procedures to reflect the Special Accounts Manager or designated signatories (such as the ASM II or Assistant Division Director) are responsible for reviewing and signing the Summary of Costs (FAM-27) form, to ensure consistency with actual practices.

Process Owner	Financial Programs Bureau - Special Accounts Unit (SAU)
PC 4750 Claims and Revenue Process	Claim Preparation and Submission Process
Finding	The SAU submits claims very close to the SCO's deadline, often on the day of or just a few days before the deadline. Submitting claims so close to the deadline increases the risk of errors or missing documentation, limits the time for proper review and approval, and may result in delays or disallowed claims if any issues are identified at the last minute. Another factor contributing to the delay is that only a few personnel are knowledgeable about how to properly prepare the claims, further extending the preparation and submission time.
Recommendations	The SAU should implement a proactive approach to submitting claims well in advance of the SCO's deadline, allowing adequate time for review, corrections, and approval. To address delays in preparation, the SAU should cross-train additional personnel on the claim preparation process and consider hiring and training new staff if the current personnel involved are unavailable. This will ensure greater staffing flexibility, reduce the risk of last-minute submissions and errors, and enhance the overall efficiency of meeting deadlines. The SAU should also update the desk procedures to provide adequate guidance for staff and supervisors in performing their specific duties. The desk procedures should include steps on how to process the claims, how to identify allowable expenses to claim, and when the claims should be reviewed, approved, and submitted.

Process Owner	Financial Programs Bureau - Special Accounts Unit (SAU)
PC 4750 Claims and Revenue Process	Management Monitoring of Internal Controls
Finding	The process owner has not developed written procedures to self-monitor their internal controls, specifically related to the PC 4750 claim and revenue. Self-monitoring of internal controls is the responsibility of management (process owner), as stated in CFM Section 1.0.2. *…County department management has primary responsibility for designing, implementing, and maintaining a system of preventative and detective internal controls including but not limited to controls outlined in the CFM; and for monitoring internal controls on an ongoing basis to ensure any weaknesses or non-compliance are promptly identified and corrected.*
Recommendation	The process owner should develop an *Internal Control Monitoring Guide* to ensure the PC 4750 claims revenue policies and procedures are being adhered to. Although AAB was tasked to conduct a periodic review to satisfy the A-C's recommendation regarding Management Monitoring of Internal Controls, conducting regular "self-monitoring" is the responsibility of the process owner. AAB could assist the process owner in developing a self-monitoring guide/tool, if needed.

Objective No. 2 – Evaluation of PC 4750 Claims and Revenue Processes and Controls

Criteria

Special Accounts Unit, PC 4750 Claims Desk Procedures (Revised August 2023).

See the following tables for the specific PC 4750 Desk Procedures criteria for each sub-objective.

Procedures

Auditors obtained and examined the documentation for each PC 4750 claim submitted to the SCO to determine whether they adhered to the applicable policies and procedures. During the examination, auditors reviewed the completeness and accuracy of the claim documentation, determined whether appropriate levels of review and approvals were obtained during each key step in the process, and verified if the claim was submitted on time. The auditors also verified the claim amounts by vouching 131 samples (128 prisoner claim costs and 3 claim preparation costs), representing 10% of the total claim costs.

The AAB auditors also obtained and examined eCAPS records to determine whether the claimed revenue was properly accrued and recorded. Lastly, the AAB auditors obtained and examined the available supporting documents for each PC 4750 claim revenue received, including records of electronic fund transfers from the SCO, to determine if revenue was deposited into the appropriate revenue account in a timely manner and if the revenue was properly recorded in eCAPS.

Objective No. 2(a) – Claim Preparation and Submission Process

This sub-objective included an evaluation of the PC 4750 claim documentation to determine the completeness and accuracy of the information, whether appropriate levels of review and approvals were obtained during each key step of the process, and if the claim was submitted timely.

<table>
<tr><th colspan="2">Objective No. 2(a) – Claim Preparation and Submission Process</th></tr>
<tr><th colspan="2">Sub-objective Section: Completeness and Accuracy of Claim Documentation</th></tr>
<tr><td>Criteria</td><td><u>Claim Preparation</u>

1) The involved division (Division) gathers all required source documentation and prepares an initial draft of the official claim forms that will be sent to the State Controller’s Office (SCO). Claims are prepared on a monthly basis.
2) The Division sends all forms and documentation to the Special Accounts.
3) If any changes are needed, the Division will work with Special Accounts directly.
4) To include the costs of preparing the claims, the Division submits documents that shows actual hours worked for each employee to Special Accounts.
    a) Special Accounts staff creates Administrative Activity Logs for their work.
5) If overtime was authorized/worked, a unique (PC 4750 only) Overtime Control Number should have been requested and used, and a copy of the overtime slip should also be uploaded.</td></tr>
<tr><td>Procedures</td><td>For each PC 4750 claim, AAB reviewed the claim packet submitted by the CST to SAU to determine whether all required forms and supporting documentation were attached. The auditors recalculated the amount of the claim reported on the FAM-27 - Statement of Costs, Form 1A – Cost Report and Form 1B - Summary Report, ensuring the correct rates (Indirect Cost Rates) were used, as needed. The auditors also determined the claim amount reported on the Form 1B Summary Report exists by vouching 131 samples (128 prisoners claim costs and three claim preparation costs) to the supporting documents to determine if a Form 1A – Cost Report exists, the correct reimbursable incident/activity was selected, the costs were incurred in the month reported, the total claim amount was accurate, and the attachments submitted were sufficient and adequate.</td></tr>
<tr><td>Findings</td><td><u>Staff’s Billable Hours</u>
Of the 131 samples reviewed, AAB noted that only the Operations Assistant II (OAII) and Deputy’s hours were included in the three claim preparation costs. The Administrative Services Manager I (ASMI) at CST is heavily involved in claim preparation and is primarily responsible for determining the allowable/reimbursable costs. However, the hours worked by the ASMI are not recorded and reported as part of the “Claim Preparation Costs”.

This yielded a compliance rate of 98%.

<u>Supporting Documents</u>
Of the 131 samples reviewed, AAB noted that the Reimbursable Incident (Applicable PC Section) indicated on the claim forms for 12 prisoners was “PC 4750 Section (G)”, but the document attached in the claim packet supported “writ of habeas corpus” as defined in the PC 4750 Clams Desk Procedures.

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This yielded a compliance rate of 91%.

<u>Hourly Rate Calculation</u>
Of the 131 samples reviewed, AAB noted errors in the calculation of “Hours Worked” that resulted in a discrepancy in the amount of the Deputies’ “Total Salaries and Benefits and Indirect Costs” for two prisoner claims. AAB also noted that for the February 2024 claim packet, the hourly rate used for the claim preparation costs was derived from the FY 2023-2024 productive hourly rate calculation. Based on the Administrative Activity Log for both OAII and Deputy, the claim research and preparation of files commenced on July 1, 2024, which is the start of the new fiscal year. Therefore, the FY 2024-2025 productive hourly rate calculation should have been used.

This yielded a compliance rate of 98%.

<u>Accuracy of Claim Amounts</u>
Of the 131 samples reviewed, AAB noted inconsistencies in filling out the amounts on Form 1A. In most cases, the amounts recorded were rounded up to two decimal places and added up to the total claim amount. However, AAB noted that for 22 prisoner costs, the line-item amounts did not add up to the total claim amount on Form 1A.

This yielded a compliance rate of 83%.</td></tr>
<tr><td>Recommendations</td><td><u>Staff’s Billable Hours</u>
The SAU should formally update the current desk procedures for processing PC 4750 claims to include the ASMI’s hours in the "Claim Preparation Costs." Given the ASMI’s essential role in determining allowable and reimbursable costs, their contribution to claim preparation should be recognized and documented within the established guidelines. Revising the policy to reflect the inclusion of the ASMI’s hours will promote consistency in future claims, ensure continued compliance with reimbursement requirements, and maximize the PC 4750 claim amount the Department could claim. This update will also clarify expectations for all parties involved and enhance the accuracy and completeness of claim submissions.</td></tr>
</table>

Objective No. 2(a) – Claim Preparation and Submission Process (Continued)	
Sub-objective Section: Completeness and Accuracy of Claim Documentation (Continued)	
Recommendations	<u>Supporting Documents</u> The SAU should update the PC 4750 claims desk procedures to ensure greater accuracy and consistency in the reporting of reimbursable incidents. Specifically, the SAU should implement a thorough review process to verify the Reimbursable Incident (Applicable PC Section) indicated on the claim forms matches the supporting documentation provided in the claim packet. The desk procedures should also define and be more specific about what constitutes a "writ of habeas corpus" and outline the required documentation that must be attached to support such claims, providing consistency and clear guidance. This will help eliminate discrepancies, improve the accuracy of claims, and ensure that the Department receives the appropriate reimbursements for eligible claims. <u>Hourly Rate Calculation</u> The SAU should implement a more rigorous review process to ensure the accuracy of the calculations used in preparing the PC 4750 claims. The current desk procedures should be updated to include specific guidelines, such as cross-checking the hours worked against supporting documentation, to prevent discrepancies and ensure the total claim amounts are correct. Additionally, a secondary review process or a post-submission audit of claims should be implemented as additional steps to catch discrepancies that may have been missed during the initial higher-level review, particularly in cases where multiple fiscal year rates are involved. <u>Accuracy of Claim Amount</u> The SAU should revise the procedures for completing Form 1A to ensure consistency and accuracy in the reporting of amounts. Specifically, the SAU should implement a more detailed review process to verify the line-item amounts on Form 1A correctly add up to the total claim amount. This process could include using automated checks or formulas to prevent rounding errors and calculation discrepancies. Additionally, training for staff responsible for completing the forms should be enhanced to ensure proper attention to detail and adherence to the required reporting standards.

<table>
<tr><th colspan="2">Objective No. 2(a) – Claim Preparation and Submission Process
(Continued)</th></tr>
<tr><th colspan="2">Sub-objective Section: Management Review and Approval of Claims</th></tr>
<tr><td>Criteria</td><td><u>Claim Preparation</u>

6) Special Accounts reviews the documentation, and makes additions, edits, and revisions as needed.
a) Review the items sent by the Division. Check that all calculations are correct, and that the correct rates (S&EB, OH, Housing rate, mileage etc.) have been used. Make corrections as needed.
b) Where needed, compile and complete summary documents (for example, summarizing the claim preparation costs, preparing a Form 1A for the related costs, and updating Form 1B and the Statement of Costs face sheet).
c) Print the claim forms and supporting documentation. Prepare a folder for management review, placing support documents for the rates used on the left-hand side of the folder.
d) Prepare a draft cover letter for Financial Programs Bureau Director’s signature to include in the folder. A cover letter is not required by the SCO; however, a cover letter is prepared to remain consistent with other Department claim, and in line with the other County departments who file PC 4750 claims with the SCO (the District Attorney’s office and the Public Defender).
e) Prepare routing slip. Routes the folder up the chain of command, for review and signature.
7) Special Accounts/Revenue & Billing Section Managers (ASM I and ASM II) reviews the claim and supporting documents and forwards to the Manager (ASM III).
8) Special Accounts Manager reviews and signs the Summary of Costs (FAM-27) form and instructs the preparer, or administrative staff (OA II), to send the draft cover letter to the Director’s secretary for printing on Sheriff’s letterhead.</td></tr>
<tr><td>Procedures</td><td>For each PC 4750 claim, AAB reviewed the claim packet submitted by the CST to the SAU to determine if the designated personnel at SAU conducted the necessary review and approvals prior to submitting the claims to the SCO.

• Administrative Staff (OA II) reviewed the initial draft submitted by the CST.
• Special Accounts/Revenue & Billing Section Managers (ASM I and ASM II) reviewed the claim and supporting documents.
• Special Accounts Manager (ASM III) or any of the authorized/designated signatory reviewed and signed the FAM-27 - Summary of Costs.
• FPB Director signed the cover letter printed on Department letterhead</td></tr>
<tr><td>Findings</td><td>Of the three claim packets reviewed, AAB was unable to verify whether the ASM II or ASM III reviewed the claim forms for the months of January 2024 and February 2024, due to the absence of the "Routing Slip" in the shared files, which is essential for tracking the approval process.

This yielded a compliance rate of 33%.</td></tr>
<tr><td>Recommendation</td><td>The SAU should establish a process to ensure the "Routing Slip" and all other required documents are properly maintained and uploaded to the Special Accounts shared folders on the Sheriff’s Data Network. Per SAU’s current desk procedures, the final claim submission must include all complete documents to facilitate future research, reviews, and/or audits. This process will ensure clear documentation of the review and approval process and promote accountability and compliance with internal approval protocols.</td></tr>
</table>

Objective No. 2(a) – Claim Preparation and Submission Process (Continued)	
Sub-objective Section: Claim Submission to the SCO	
Criteria	<u>*Claim Preparation*</u> *9) The signed claim and supporting documents are scanned and sent via email to the SCO. The involved Division will be copied on the email….* *11) The final claim submission will be copied to the Special Accounts shared folders on the Sheriff's Data Network (SDN), at: \\1-hoj-fs02\sharedfiles04\Special Accounts\PC 4750 Claims, for later research, reviews, and/or audits.* *12) Special Accounts manages the files/documents in the SDN shared folders, ensuring all documentation is complete, accurate, and supports the claim for the claim period (month).*
Procedures	For each PC 4750 claim, AAB reviewed the claim packet submitted by the SAU to the SCO to determine if the documentation sent via e-mail was complete, accurate and signed. In addition, auditors determined if the claim was submitted by or before the deadline set by the SCO (six months after the close of the month in which the costs were incurred).
Findings	Of the three claim packets reviewed, AAB noted that the scanned claim packets for the months of January 2024 and March 2024 were missing supporting documents for some of the prisoner costs. This yielded a compliance rate of 33%.
Recommendation	The SAU should implement a more thorough review process to ensure all supporting documents are included in the claim packets before submission to the SCO. This includes creating a checklist to verify all required documentation, particularly for prisoner costs, is attached and complete. Additionally, the SAU should consider implementing a final verification step before submission to ensure all necessary documents are scanned and included, thereby reducing the risk of incomplete claims. Providing additional training for staff on documentation requirements and deadlines will help ensure the accuracy of claims, prevent future omissions, and ultimately minimize the risk of claims being rejected or missing potential claim revenue.

Objective No. 2(b) – Claim Revenue Recognition and Recording Process

This sub-objective included an examination of the supporting documents for each PC 4750 claim revenue to determine whether the revenue was properly accrued and recorded in eCAPS, and whether the revenue received was accurately recorded in eCAPS.

Objective No. 2(b) – Claim Revenue Recognition and Recording Process	
Sub-objective Section: Accrual of Claim Revenue	
Criteria	<u>*Claim Preparation*</u> *10) Prepare Posting Slip and input RE document in eCAPS. Keep the invoice on file for internal tracking purpose.*
Procedures	For each PC 4750 claim revenue, AAB reviewed the eCAPS posting slip and invoice to determine if the claim amount was recognized as revenue as soon as the claim was submitted to the SCO and the accrual/account receivable was recorded in eCAPS.

Objective No. 2(b) – Claim Revenue Recognition and Recording Process (Continued)	
Sub-objective Section: Accrual of Claim Revenue (Continued)	
Findings	Of the seven PC 4750 claim revenue reviewed, AAB noted that the July 2023 claim, which was submitted on January 30, 2024, was not recognized as accrued revenue until March 5, 2024, that resulted in a delay in the revenue recording. This yielded a compliance rate of 88%.
Recommendation	The SAU should enhance its revenue recognition procedures by ensuring accrued revenue is promptly recorded in eCAPS as soon as claims are submitted to the SCO. This can be accomplished by establishing clear deadlines for recording claims in eCAPS, implementing a dual-check system for verifying claim submissions and revenue recognition, and exploring the possibility of linking the claims submission process with the revenue recognition system to automatically trigger revenue accruals. Standardizing procedures, strengthening internal controls, and providing continuous staff training will help ensure timely and accurate financial reporting and compliance with accounting standards.

Objective No. 2(b) – Claim Revenue Recognition and Recording Process (Continued)	
Sub-objective Section: Recording of Claim Revenue Received	
Criteria	<u>*Claim Preparation*</u> *11) Email confirmation is sent from SCO acknowledging receipt of claim. Auditor-Controller receives the reimbursement and deposits it to Sheriff's Department trust account TK7-7370, and OAII forward the check copy with invoice to Trust and Cashiering Section for RECT processing.*
Procedures	For each PC 4750 claim revenue, AAB reviewed the Revenue Detail report and RECT document to determine if the revenue was recorded in the appropriate revenue account in eCAPS.
Findings	Of the seven PC 4750 claims reviewed, the AAB identified an issue with the July 2023 claim. The claim, which was paid by the SCO through a fund transfer and received by the Los Angeles County Auditor-Controller's office on April 9, 2024, was not recorded as collected revenue until June 12, 2024. Additionally, the accrual for this claim, recorded on March 5, 2024, was reversed only on June 12, 2024. This yielded a compliance rate of 88%.
Recommendation	The SAU should ensure revenue is promptly recorded as collected in eCAPS upon receipt, aligning the accrual and revenue recognition processes. To prevent delays, a more efficient process should be established for the timely recording of revenue and the reversal of accruals. It is also recommended to implement a system to monitor and track claim payments and their corresponding revenue recognition to improve accuracy and ensure compliance with accounting standards. Regular training and reminders for staff involved in this process could further reduce the risk of delayed recordings.

SUMMARY OF RECOMMENDATIONS

The purpose of this report is to provide a detailed summary of the recommendations aimed at improving the existing policies and procedures and strengthening the processes and controls relating to PC 4750 claim and revenue. The AAB makes the following recommendations:

Summary of Recommendations			
No.	Objective No.	Audit Objectives	Recommendations
1	1	Evaluation of PC 4750 Claims and Revenue Policies and Procedures	The SAU should implement a formalized process for reviewing, approving, and documenting updates to the claims and revenue desk procedures. The SAU should also ensure approval dates are included for each version to maintain an accurate history of revisions.
2			The SAU should revise the desk procedures to explicitly define the purpose (e.g., to ensure compliance, improve accuracy, streamline claims processing) and scope (e.g., which aspects of the claims and revenue process they cover), providing clarity to all personnel involved.
3			The SAU should update the desk procedures to clearly include all key processes and controls, specifically highlighting the deadline for filing claims in accordance with the SCO's instructions. Revisions to the desk procedures should include clear guidelines for meeting deadlines and any other state-mandated requirements to avoid errors and ensure compliance.
4			The SAU should clearly define in the desk procedures their role in identifying allowable reimbursements and specifying the individual or team responsible for ensuring all reimbursements are included in the claim. The SAU should still maintain the responsibility for ensuring claim preparation is complete, and calculations are accurate, but policy should make a clear distinction between the CST's responsibility for identifying reimbursable items and SAU's role in finalizing the claim.
5			The SAU should update the desk procedures to reflect the Special Accounts Manager or designated signatories (such as the ASM II or Assistant Division Director) are responsible for reviewing and signing the Summary of Costs (FAM-27) form, to ensure consistency with actual practices.
6			The SAU should implement a proactive approach to submitting claims well in advance of the SCO's deadline, allowing adequate time for review, corrections, and approval. To address delays in preparation, the SAU should cross-train additional personnel on the claim preparation process and consider hiring and training new staff if the current personnel involved are unavailable. This will ensure greater staffing flexibility, reduce the risk of last-minute submissions and errors, and enhance the overall efficiency of meeting deadlines.

<table>
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(Continued)</th></tr>
<tr><th>No.</th><th>Objective No.</th><th>Audit Objectives</th><th>Recommendations</th></tr>
<tr><td>7</td><td rowspan="2">1</td><td rowspan="2">Evaluation of PC 4750 Claims and Revenue Policies and Procedures</td><td>The SAU should also update the desk procedures to provide adequate guidance for staff and supervisors in performing their specific duties. The desk procedures should include steps on how to process the claims, how to identify allowable expenses to claim, and when the claims should be reviewed, approved, and submitted.</td></tr>
<tr><td>8</td><td>The process owner should develop an Internal Control Monitoring Guide to ensure the PC 4750 claims and revenue policies and procedures are being adhered to. Although AAB was tasked to conduct a periodic review to satisfy the A-C's recommendation regarding Management Monitoring of Internal Controls, conducting regular "self-monitoring" is the responsibility of the process owner. AAB could assist the process owner in developing a self-monitoring guide/tool, if needed.</td></tr>
<tr><td>9</td><td rowspan="2">2(a)</td><td rowspan="2">Evaluation of PC 4750 Claims and Revenue Processes and Controls (Completeness and Accuracy of Claim Documentation)</td><td>The SAU should formally update the current desk procedures for processing PC 4750 claims to include the ASMI's hours in the "Claim Preparation Costs." Given the ASMI's essential role in determining allowable and reimbursable costs, their contribution to claim preparation should be recognized and documented within the established guidelines. Revising the policy to reflect the inclusion of the ASMI's hours will promote consistency in future claims, ensure continued compliance with reimbursement requirements, and maximize the PC 4750 claim amount the Department could claim. This update will also clarify expectations for all parties involved and enhance the accuracy and completeness of claim submissions.</td></tr>
<tr><td>10</td><td>The SAU should update the PC 4750 claims desk procedures to ensure greater accuracy and consistency in the reporting of reimbursable incidents. Specifically, the SAU should implement a thorough review process to verify the Reimbursable Incident (Applicable PC Section) indicated on the claim forms matches the supporting documentation provided in the claim packet. The desk procedures should also define and be more specific about what constitutes a "writ of habeas corpus" and outline the required documentation that must be attached to support such claims, providing consistency and clear guidance. This will help eliminate discrepancies, improve the accuracy of claims, and ensure the Department receives the appropriate reimbursements for eligible claims.</td></tr>
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Summary of Recommendations (Continued)			
No.	Objective No.	Audit Objectives	Recommendations
11	2(a)	Evaluation of PC 4750 Claims and Revenue Processes and Controls (Completeness and Accuracy of Claim Documentation)	The SAU should implement a more rigorous review process to ensure the accuracy of the calculations used in preparing the PC 4750 claims. The current desk procedures should be updated to include specific guidelines, such as cross-checking the hours worked against supporting documentation, to prevent discrepancies and ensure the total claim amounts are correct. Additionally, a secondary review process or a post-submission audit of claims should be implemented as additional steps to catch discrepancies that may have been missed during the initial higher-level review, particularly in cases where multiple fiscal year rates are involved.
12			The SAU should revise the desk procedures for completing Form 1A to ensure consistency and accuracy in the reporting of amounts. Specifically, the SAU should implement a more detailed review process to verify the line-item amounts on Form 1A correctly add up to the total claim amount. This process could include using automated checks or formulas to prevent rounding errors and calculation discrepancies. Additionally, training for staff responsible for completing the forms should be enhanced to ensure proper attention to detail and adherence to the required reporting standards.
13		Evaluation of PC 4750 Claims and Revenue Processes and Controls (Management Review and Approval of Claims)	The SAU should establish a process to ensure the "Routing Slip" and all other required documents are properly maintained and uploaded to the Special Accounts shared folders on the Sheriff's Data Network. Per SAU's current desk procedures, the final claim submission must include all complete documents to facilitate future research, reviews, and/or audits. This process will ensure clear documentation of the review and approval process and promote accountability and compliance with internal approval protocols.
14		Evaluation of PC 4750 Claims and Revenue Processes and Controls (Claim Submission to the SCO)	The SAU should implement a more thorough review process to ensure all supporting documents are included in the claim packets before submission to the SCO. This includes creating a checklist to verify all required documentation, particularly for prisoner costs, is attached and complete. Additionally, the SAU should consider implementing a final verification step before submission to ensure all necessary documents are scanned and included, thereby reducing the risk of incomplete claims. Providing additional training for staff on documentation requirements and deadlines will help ensure the accuracy of claims, prevent future omissions, and ultimately minimize the risk of claims being rejected or missing potential claim revenue.

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<tr><th>No.</th><th>Objective No.</th><th>Audit Objectives</th><th>Recommendations</th></tr>
<tr><td>15</td><td rowspan="2">2(b)</td><td>Claim Revenue Recognition and Recording Process (Accrual of Claim Revenue)</td><td>The SAU should enhance its revenue recognition procedures by ensuring accrued revenue is promptly recorded in eCAPS as soon as claims are submitted to the SCO. This can be accomplished by establishing clear deadlines for recording claims in eCAPS, implementing a dual-check system for verifying claim submissions and revenue recognition, and exploring the possibility of linking the claims submission process with the revenue recognition system to automatically trigger revenue accruals. Standardizing procedures, strengthening internal controls, and providing continuous staff training will help ensure timely and accurate financial reporting and compliance with accounting standards.</td></tr>
<tr><td>16</td><td>Claim Revenue Recognition and Recording Process (Recording of Claim Revenue)</td><td>The SAU should ensure revenue is promptly recorded as collected in eCAPS upon receipt, aligning the accrual and revenue recognition processes. To prevent delays, a more efficient process should be established for the timely recording of revenue and the reversal of accruals. It is also recommended to implement a system to monitor and track claim payments and their corresponding revenue recognition to improve accuracy and ensure compliance with accounting standards. Regular training and reminders for staff involved in this process could further reduce the risk of delayed recordings.</td></tr>
</table>

CONCLUSION

The AAB was assigned the responsibility of conducting a review of the claims and revenue process as requested by the A-C. To gather a comprehensive understanding, walkthrough interviews were conducted with relevant stakeholders. During these interviews, all personnel conveyed their commitment to maximizing the revenue potential for the Department. However, they emphasized the need for additional dedicated staff to ensure business continuity and optimize the process.

The AAB considers the results of this audit to be a helpful management tool for FPB and the process owners to improve their existing PC 4750 claims and revenue policies and procedures and strengthen the processes and controls relating to PC 4750 claims. It is also imperative that FBP management develop a self-monitoring guide to ensure their internal controls are more effective and the operational framework of all process owners are aligned.

View of Responsible Officials

On March 10, 2025, the FPB management submitted a formal response to the AAB concurring with the audit results. The AAB presented the final audit report to the Division Director, Office of Constitutional Policing.

03/12/25

GEOFFREY N. CHADWICK DATE
Captain
Audit and Accountability Bureau
Los Angeles County Sheriff's Department