



May 10, 2016

Mr. Keith B. Petersen
SixTen and Associates
P.O. Box 340430
Sacramento, CA 95834

Ms. Jill Kanemasu
State Controller's Office
Accounting and Reporting
3301 C Street, Suite 700
Sacramento, CA 95816

And Parties, Interested Parties, and Interested Persons (See Mailing List)

Re: Proposed Decision

Health Fee Elimination, 09-4206-I-24 and 10-4206-I-34
Former Education Code Section 72246 (Renumbered as 76355)
Statutes 1984, Chapter 1 (1983-1984 2nd Ex. Sess.) (AB2X 1);
Statutes 1987, Chapter 1118 (AB 2336)
Fiscal Years: 2002-2003, 2003-2004, 2004-2005, and 2005-2006
Foothill-DeAnza Community College District, Claimant

Dear Mr. Petersen and Ms. Kanemasu:

The proposed decision for the above-named matter is enclosed for your review.

Hearing

This matter is set for hearing on **Thursday, May 26, 2016**, at 10:00 a.m., State Capitol, Room 447, Sacramento, California. Please let us know in advance if you or a representative of your agency will testify at the hearing, and if other witnesses will appear. If you would like to request postponement of the hearing, please refer to section 1187.9(b) of the Commission's regulations.

Special Accommodations

For any special accommodations such as a sign language interpreter, an assistive listening device, materials in an alternative format, or any other accommodations, please contact the Commission Office at least five to seven *working* days prior to the meeting.

Sincerely,

Heather Halsey
Executive Director

ITEM 4
INCORRECT REDUCTION CLAIM
PROPOSED DECISION

Former Education Code Section 72246 (Renumbered as 76355)¹
Statutes 1984, Chapter 1 (1983-1984 2nd Ex. Sess.) (AB2X 1); and
Statutes 1987, Chapter 1118 (AB 2336)

Health Fee Elimination

Fiscal Years 2002-2003, 2003-2004, 2004-2005, and 2005-2006

09-4206-I-24 and 10-4206-I-34

Foothill-DeAnza Community College District, Claimant

EXECUTIVE SUMMARY

Overview

This analysis addresses these consolidated incorrect reduction claims (IRCs) filed by Foothill-DeAnza Community College District (claimant) regarding net reductions of \$284,615 made by the State Controller's Office (Controller) to reimbursement claims for costs incurred during fiscal years 2002-2003 through 2005-2006 under the *Health Fee Elimination* program.²

The following issues are in dispute:

- The period of limitation applicable to audits by the Controller;
- Adjustments in favor of the claimant for fiscal years 2004-2005 and 2005-2006;
- The reduction of costs based on asserted faults in the development and application of indirect cost rates; and
- The amount of offsetting revenue to be applied from health service fee authority.

Health Fee Elimination Program

Prior to 1984, former Education Code section 72246 authorized community college districts that voluntarily provided health supervision and services, direct and indirect medical and hospitalization services, or operation of student health centers to charge almost all students a health service fee not to exceed \$7.50 for each semester or \$5 for each quarter or summer

¹ Statutes 1993, chapter 8.

² The total net reduction over four years is \$284,615, based the Controller offsetting the understated health fee revenues against other unclaimed costs, which were not disputed by the claimant, and adjustments made to some of the reductions in the revised audit report.

session, to fund these services.³ In 1984, the Legislature repealed the community colleges' fee authority for health services.⁴ However, the Legislature also reenacted section 72246, operative on January 1, 1988, to reauthorize the fee, at \$7.50 for each semester (or \$5 per quarter or summer session).⁵

In addition to temporarily repealing community college districts' authority to levy a health services fee, the 1984 enactment required any district that provided health services during the 1983-1984 fiscal year, for which districts were previously authorized to charge a fee, to maintain health services at the level provided during the 1983-1984 fiscal year for every subsequent fiscal year until January 1, 1988.⁶ As a result, community college districts were required to maintain health services provided in the 1983-1984 fiscal year without any fee authority for this purpose until January 1, 1988.

In 1987, the Legislature amended former Education Code section 72246, operative January 1, 1988, to incorporate and extend the maintenance of effort provisions of former Education Code section 72246.5, which became inoperative by its own terms as of January 1, 1988.⁷ In addition, Statutes 1987, chapter 1118 restated that the fee would be reestablished at not more than \$7.50 for each semester, or \$5 for each quarter or summer session.⁸ As a result, beginning January 1, 1988 all community college districts were required to maintain the same level of health services they provided in the 1986-1987 fiscal year each year thereafter, with limited fee authority to offset the costs of those services. In 1992, section 72246 was amended to provide that the health fee could be increased by the same percentage as the Implicit Price Deflator whenever that calculation would produce an increase of one dollar.⁹

Procedural History

On January 12, 2005, claimant's fiscal year 2002-2003 and 2003-2004 claims were filed. On December 13, 2005, claimant's fiscal year 2004-2005 claim was filed. On July 2, 2007, claimant's fiscal year 2005-2006 claim was filed.¹⁰

³ Former Education Code section 72246 (Stats. 1981, ch. 763) [Low-income students, students that depend upon prayer for healing, and students attending a college under an approved apprenticeship training program, were exempt from the fee.].

⁴ Statutes 1984, 2nd Extraordinary Session, chapter 1, section 4 [repealing Education Code section 72246].

⁵ Statutes 1984, 2nd Extraordinary Session, chapter 1, section 4.5.

⁶ Education Code section 72246.5 (Stats. 1984, 2d. Ex. Sess., ch. 1, § 4.7).

⁷ Education Code section 72246 (as amended, Stats. 1987, ch. 1118). See also former Education Code section 72246.5 (Stats. 1984, 2d Ex. Sess., ch. 1, § 4.7).

⁸ Education Code section 72246 (as amended, Stats. 1987, ch. 1118).

⁹ Education Code section 72246 (as amended, Stats. 1992, ch. 753). In 1993, former Education Code section 72246, was renumbered as Education Code section 76355 (Stats. 1993, ch. 8).

¹⁰ Exhibit A, IRC 09-4206-I-24, page 18; 136; 145.

On October 25, 2006, the fiscal year 2002-2003 claim was first paid by the Controller. The fiscal year 2003-2004, 2004-2005, and 2005-2006 claims have not been paid.¹¹

On September 11, 2008, the audit entrance conference was held.¹² On May 20, 2009, the Controller issued its audit report.¹³ On October 5, 2009, the claimant filed IRC 09-4206-I-24.¹⁴ On August 18, 2010, the Controller issued a revised final audit report.¹⁵ On November 22, 2010, the claimant filed IRC 10-4206-I-34.¹⁶ On December 2, 2010, Commission staff issued the notice of complete filing and request for comments for 10-4206-I-34 and notice of consolidation of 09-4206-I-24 and 10-4206-I-34. On December 2, 2014, the Controller submitted late comments on these consolidated IRCs.¹⁷

Commission staff issued the Draft Proposed Decision on February 10, 2016.¹⁸ On February 12, 2010, the Controller filed comments on the Draft Proposed Decision.¹⁹ On March 1, 2016, the claimant filed comments on the Draft Proposed Decision.²⁰

Commission Responsibilities

Government Code section 17561(b) authorizes the Controller to audit the claims filed by local agencies and school districts and to reduce any claim for reimbursement of state-mandated costs that the Controller determines is excessive or unreasonable.

Government Code Section 17551(d) requires the Commission to hear and decide a claim that the Controller has incorrectly reduced payments to the local agency or school district. If the Commission determines that a reimbursement claim has been incorrectly reduced, section 1185.9 of the Commission's regulations requires the Commission to send the decision to the Controller and request that the costs in the claim be reinstated.

The Commission must review questions of law, including interpretation of parameters and guidelines, de novo, without consideration of legal conclusions made by the Controller in the context of an audit. The Commission is vested with exclusive authority to adjudicate disputes over the existence of state-mandated programs within the meaning of article XIII B, section 6.²¹

¹¹ Exhibit A, IRC 09-4206-I-24, page 72; Exhibit C, Controller's Late Comments on IRC, page 22; Exhibit B, IRC 10-4206-I-34, pages 27-28.

¹² Exhibit A, IRC 09-4206-I-24, page 18.

¹³ Exhibit A, IRC 09-4206-I-24, page 9.

¹⁴ Exhibit A, IRC 09-4206-I-24, page 1.

¹⁵ Exhibit B, IRC 10-4206-I-34, page 6.

¹⁶ Exhibit B, IRC 10-4206-I-34, page 1.

¹⁷ Exhibit C, Controller's Late Comments on IRC.

¹⁸ Exhibit D, Draft Proposed Decision.

¹⁹ Exhibit E, Controller's Comments on the Draft Proposed Decision.

²⁰ Exhibit F, Claimant's Comments on the Draft Proposed Decision.

²¹ *Kinlaw v. State of California* (1991) 54 Cal.3d 326, 331-334; Government Code sections 17551, 17552.

The Commission must also interpret the Government Code and implementing regulations in accordance with the broader constitutional and statutory scheme. In making its decisions, the Commission must strictly construe article XIII B, section 6 and not apply it as an “equitable remedy to cure the perceived unfairness resulting from political decisions on funding priorities.”²²

With regard to the Controller’s audit decisions, the Commission must determine whether they were arbitrary, capricious, or entirely lacking in evidentiary support. This standard is similar to the standard used by the courts when reviewing an alleged abuse of discretion of a state agency.²³

The Commission must also review the Controller’s audit in light of the fact that the initial burden of providing evidence for a claim of reimbursement lies with the claimant.²⁴ In addition, sections 1185.1(f)(3) and 1185.2(c) of the Commission’s regulations require that any assertions of fact by the parties to an IRC must be supported by documentary evidence. The Commission’s ultimate findings of fact must be supported by substantial evidence in the record.²⁵

Claims

The following chart provides a brief summary of the claims and issues raised and staff’s recommendation.

Issue	Description	Staff Recommendation
The limitation period applicable to the Controller’s audits of mandate reimbursement claims.	The claimant asserts that the fiscal year 2002-2003 and 2003-2004 claims, were filed and filed-as-amended, respectively, on January 12, 2005, and that therefore an audit entrance conference occurring on September 11, 2008 would not constitute timely initiation of the audit. The Controller argues that because the claims were not paid until October 25, 2006, the three year period did not begin to run until that time, pursuant to Government Code section 17558.5.	<i>The audit was timely initiated and timely completed – Section 17558.5 provides that if no payment is made on a reimbursement claim, the time to initiate an audit begins to run when initial payment is made: here, October 25, 2006. Thus the audit entrance conference prior to October 25, 2009 was timely. In addition, section 17558.5 requires an audit to</i>

²² *County of Sonoma v. Commission on State Mandates* (2000) 84 Cal.App.4th 1264, 1280, citing *City of San Jose v. State of California* (1996) 45 Cal.App.4th 1802, 1817.

²³ *Johnston v. Sonoma County Agricultural Preservation and Open Space District* (2002) 100 Cal.App.4th 973, 983-984. See also *American Bd. of Cosmetic Surgery, Inc. v. Medical Bd. of California* (2008) 162 Cal.App.4th 534, 547.

²⁴ *Gilbert v. City of Sunnyvale* (2005) 130 Cal.App.4th 1264, 1274-1275.

²⁵ Government Code section 17559(b), which provides that a claimant or the state may commence a proceeding in accordance with the provisions of section 1094.5 of the Code of Civil Procedure to set aside a decision of the Commission on the ground that the Commission’s decision is not supported by substantial evidence in the record.

		be completed within two years. Here, both the first final audit report and the revised final audit report were completed in less than two years from the entrance conference held September 11, 2008.
Adjustments of direct and indirect costs in the claimant's favor for fiscal years 2004-2005 and 2005-2006.	For fiscal year 2004-2005, the Controller recalculated indirect costs in favor of the claimant, and the claimant no longer disputes the audited rates. For fiscal year 2005-2006, the Controller found a net increase in allowable costs, and reimbursed the claimant to the full extent of the claim.	<i>No jurisdiction</i> – The Commission does not analyze the adjustments of direct and indirect costs for fiscal years 2004-2005 and 2005-2006 because there has been no reduction.
Reductions of indirect cost rates for fiscal years 2002-2003 and 2003-2004 based on asserted flaws in the development of indirect cost rates.	The claimant asserts that the Controller incorrectly reduced indirect costs claimed on grounds that the claimant did not claim indirect costs in accordance with the claiming instructions. Claimant argues that the claiming instructions are not enforceable, and the recalculation of indirect costs by the Controller was arbitrary and capricious.	<i>Correct</i> – This reduction based on claimant's failure to obtain federal approval for its claimed rates developed by the OMB circular A-21 methodology is correct as a matter of law, because the methodology itself requires federal approval. Recalculation of indirect costs for fiscal years 2002-2003 and 2003-2004 pursuant to the state FAM-29C method is not arbitrary, capricious, or entirely lacking in evidentiary support.
Reductions based on understated offsetting revenues from student health fees.	Claimant asserts that the Controller incorrectly reduced costs claimed based on the Controller's application of health service fees that the claimant was authorized to collect, but did not, as offsetting revenue.	<i>Correct</i> – In <i>Clovis Unified School District v. Chiang</i> (2010) 188 Cal.App.4th 794, the court held that to the extent a local agency or school district "has the authority" to charge for the mandated program or increased level of service, that charge cannot be recovered as a state-mandated cost. The claimant is required

		to report fee amounts that it is authorized to collect, not just the fee amounts it actually received.
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Staff Analysis

A. The Audit Was Timely Initiated and Timely Completed Pursuant to Government Code Section 17558.5.

The claimant argues that the Controller did not timely conduct the audit pursuant to Government Code section 17558.5. Section 17558.5, as applicable to the claim years here at issue, requires a valid audit to be initiated no later than three years after the date that the reimbursement claim is filed or last amended. However, the section also provides that *if no funds are appropriated or no payment is made* “to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim.”²⁶ “In any case,” section 17558.5 requires the audit to be completed no later than two years after it is commenced.²⁷

1. The Audit Was Timely Initiated Pursuant to Government Code Section 17558.5.

Government Code section 17558.5 states that if funds are not appropriated or no payment is made to the claimant for a given year, section 17558.5 states the “time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim.”²⁸

Here, the fiscal year 2002-2003 reimbursement claim was amended on or about January 12, 2005,²⁹ but was not paid, based on the evidence in the record, until October 25, 2006.³⁰ Therefore, the time to initiate an audit, in this case, commenced to run from October 25, 2006, and an audit initiated before October 25, 2009 would be timely.

Based on the evidence in the record, staff finds that the audit in issue was initiated no later than September 11, 2008, the date of the entrance conference, and the audit was therefore timely initiated.

2. The Audit Was Timely Completed.

Government Code section 17558.5 also prescribes the time in which an audit must be completed: “In any case, an audit shall be completed not later than two years after the date that the audit is

²⁶ Government Code section 17558.5 (as amended, Stats. 2002, ch. 1128 (AB 2834)).

²⁷ Government Code section 17558.5 (as amended, Stats. 2004, ch. 890 (AB 2856)).

²⁸ Government Code section 17558.5 (as amended, Stats. 2002, ch. 1128 (AB 2834)).

²⁹ The Controller’s final audit report states that the amended claim was received on January 13, 2004, but the claimant states that it was mailed on January 12, 2004. Whether the filing date for purposes of annual reimbursement claims is measured upon receipt or upon dispatch is not necessary to resolve the period of limitation issue in this claim. (Exhibit A, IRC 09-4206-I-24, page 72.)

³⁰ Exhibit A, IRC 09-4206-I-24, pages 19; 72.

commenced.”³¹ Based on the evidence in the record, the first audit report was issued May 20, 2009, well within two years of the entrance conference;³² the second was issued August 18, 2010, also prior to the expiration of the two year period beginning September 11, 2008.

Based on the foregoing, staff finds that both the first final audit report and the revised final audit report were timely completed in accordance with Government Code section 17558.5.

B. The Commission Does Not Have Jurisdiction to Analyze the Indirect Cost Rates Calculated by the Controller for Fiscal Year 2004-2005 and the Adjustments of Direct and Indirect Costs for Fiscal Year 2005-2006 Because There Has Been No Reduction of Costs.

1. There Is No Reduction of Indirect Costs Claimed for Fiscal Year 2004-2005, and the Claimant No Longer Disputes the Audited Rate Calculated by the Controller for This Fiscal Year.

For fiscal year 2004-2005, the Controller’s revised audit recalculated indirect costs including allowable depreciation expenses in accordance with the claiming instructions, resulting in an adjustment of \$92,881 in the claimant’s favor.³³

The claimant generally challenges the enforceability of the Controller’s claiming instructions with respect to indirect cost claiming in both its response to the draft audit report and its IRC narrative, and with respect to all years of the audit period. However, for fiscal year 2004-2005, the revised audit found a net increase, rather than a reduction, in indirect costs.³⁴ More importantly, the claimant no longer disputes the audited rate.³⁵

Accordingly, staff finds that the Commission does not have jurisdiction and recommends no findings with respect to the indirect cost rate for fiscal year 2004-2005.

2. There Is No Reduction of Direct and Indirect Costs Claimed for Fiscal Year 2005-2006.

The Controller found understated direct and indirect costs throughout the audit period, and adjusted the costs claimed in the claimant’s favor, as appropriate. However, for fiscal year 2005-2006, the total amount adjusted in the claimant’s favor exceeded the amount originally claimed, even after applying offsetting health service fees and offsetting savings or reimbursements.³⁶ Therefore, for fiscal year 2005-2006, the Controller adjusted direct and indirect costs in the claimant’s favor to the full extent of the amount claimed, but no further.

³¹ Government Code section 17558.5 (Stats. 2004, ch. 890).

³² Exhibit A, IRC 09-4206-I-24, page 52.

³³ Exhibit B, IRC 10-4206-I-34, page 32.

³⁴ Exhibit B, IRC 10-4206-I-34, page 32.

³⁵ Exhibit B, IRC 10-4206-I-34, page 9; Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 4.

³⁶ Exhibit B, IRC 10-4206-I-34, page 28.

The claimant, however, asserts the Controller “incorrectly reduced allowable costs by \$114,614 for FY 2005-06 by reducing the ‘total program costs’ by this amount because it is in ‘excess’ of the total amount claimed.”³⁷ The claimant states “[t]his reduction was not an audit ‘finding’ by the Controller, it is just a mathematical computation that is a result of other audit findings.” The claimant reasons that Government Code section 17561 requires the Controller to adjust both underpayments and overpayments, and “the Controller does not have discretion to unilaterally determine that it will require reimbursement for audit adjustments in favor of the State and simply ignore audit adjustments in favor of the claimants.”³⁸

However, the Controller adjusted the claim for fiscal year 2005-2006 *in the claimant’s favor*, and to the full extent of the total claim for the fiscal year. Thus, there is no reduction of costs claimed for fiscal year 2005-2006. Government Code sections 17551(d) and 17558.7 only authorize the Commission to hear and decide incorrect *reduction* claims.

Staff finds that the Commission does not have jurisdiction over an audit of a reimbursement claim that results in no reduction of costs claimed, and therefore recommends no findings with respect to fiscal year 2005-2006.

C. The Controller’s Reduction of Indirect Costs Claimed for Fiscal Years 2002-2003 and 2003-2004 Is Correct as a Matter of Law, and the Recalculation Is Not Arbitrary, Capricious, or Entirely Lacking in Evidentiary Support.

For fiscal years 2002-2003 and 2003-2004, the claimant claimed indirect costs based on a rate calculated pursuant to the OMB Circular A-21 method, which was authorized under the claiming instructions at that time. However, the Controller found that the claimant did not obtain federal approval for its claimed rate, which is required by the OMB Circular. The Controller therefore reduced the indirect costs and recalculated based on the state FAM-29C method, using data available from the claimant’s annual financial and budget reporting to the Chancellor’s Office on the CCFS-311.

Staff finds that the Controller’s reduction of indirect costs for fiscal years 2002-2003 and 2003-2004 on the basis of the claimant’s failure to obtain federal approval for indirect cost rates developed in accordance with the OMB Circular A-21 method is correct as a matter of law, and recalculation was not arbitrary, capricious, or entirely lacking in evidentiary support. If a claimant chooses to use the OMB Circular A-21 methodology, the claimant must obtain federal approval for the rate calculated through formal negotiation, an informal correspondence process or a simplified method which sets the indirect cost rate using a salaries and wage base.³⁹ The end result of the negotiation process is a sponsored agreement in which final approval lies with the federal government negotiating the rate and must be supported by “adequate documentation to support costs charged to sponsored agreements.”⁴⁰ Moreover, there is no evidence that the Controller’s recalculation in accordance with the FAM-29C methodology described in the claiming instructions was arbitrary, capricious, or entirely lacking in evidentiary support.

³⁷ Exhibit B, IRC 10-4206-I-18, page 7.

³⁸ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 12.

³⁹ Exhibit G, OMB Circular A-21, pages 37-39.

⁴⁰ Exhibit G, OMB Circular A-21, page 6.

Additionally, staff finds that for fiscal years 2004-2005 and 2005-2006 the Controller did not reduce, but rather increased, indirect costs claimed, and the claimant no longer disputes this audit adjustment.

D. The Controller’s Reduction for Understated Offsetting Fee Authority Is Correct as a Matter of Law.

The Controller determined that the claimant understated its offsetting health fee authority by \$716,795 over the four fiscal years at issue.⁴¹ These reductions were made on the basis of the fee authority available to claimant, multiplied by the number of students subject to the fee, less the amount of offsetting revenue claimed.

Claimant disputes the reduction, arguing that the relevant Education Code provisions permit, but do not require, a community college district to levy a health services fee, and that the parameters and guidelines require a community college district to deduct from its reimbursement claims “[a]ny offsetting savings that the claimant *experiences* as a direct result of this statute...”⁴²

Staff finds that the correct calculation and application of offsetting revenue from student health fees has been resolved by the *Clovis Unified* decision,⁴³ and that a reduction to the extent that a school district has the authority to charge a fee for a state-mandated program or higher level of service, is correct as a matter of law. Therefore, the Controller’s reduction of reimbursement to the extent of the fee authority found in Education Code section 76355, and as applied to all students, not just those from whom the claimant is able to collect, is correct as a matter of law.

Conclusion

Staff finds that both the original and the revised audit report were timely initiated and timely completed. Staff further finds that the Commission does not have jurisdiction to consider the adjustments to indirect costs for fiscal year 2004-2005 that resulted in an increase to the reimbursement claim; and does not have jurisdiction to consider the 2005-2006 reimbursement claim in its entirety, because there is no reduction for that fiscal year. Staff concludes that reductions of indirect costs in fiscal years 2002-2003 and 2003-2004, based on the claimant’s failure to obtain federal approval for the development of its indirect cost rate, and the Controller’s recalculation of indirect costs using the method described in the claiming instructions, were correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support. And finally, the Commission finds that the reduction of costs over the audit period based on understated offsetting health fee authority was correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support.

Staff Recommendation

Staff recommends that the Commission adopt the proposed decision to deny these IRCs, and authorize staff to make any technical, non-substantive changes following the hearing.

⁴¹ Exhibit A, IRC 09-4206-I-24, page 66.

⁴² Exhibit A, IRC 09-4206-I-24, pages 67-68.

⁴³ *Clovis Unified School Dist. v. Chiang* (2010) 188 Cal.App.4th 794.

BEFORE THE
 COMMISSION ON STATE MANDATES
 STATE OF CALIFORNIA

IN RE INCORRECT REDUCTION CLAIM
 ON:

Former Education Code Section 72246
 (Renumbered as 76355)⁴⁴

Statutes 1984, Chapter 1 (1983-1984 2nd Ex.
 Sess.) (AB2X 1); and Statutes 1987, Chapter
 1118 (AB 2336)

Fiscal Years 2002-2003, 2003-2004,
 2004-2005, and 2005-2006

Foothill-DeAnza Community College District,
 Claimant

Case No.: 09-4206-I-24 and 10-4206-I-34

Health Fee Elimination

DECISION PURSUANT TO
 GOVERNMENT CODE SECTION 17500
 ET SEQ.; CALIFORNIA CODE OF
 REGULATIONS, TITLE 2, DIVISION 2,
 CHAPTER 2.5, ARTICLE 7

(Adopted May 26, 2016)

DECISION

The Commission on State Mandates (Commission) heard and decided these consolidated incorrect reduction claims (IRCs) during a regularly scheduled hearing on May 26, 2016. [Witness list will be included in the adopted decision.]

The law applicable to the Commission’s determination of a reimbursable state-mandated program is article XIII B, section 6 of the California Constitution, Government Code section 17500 et seq., and related case law.

The Commission [adopted/modified] the proposed decision to [approve/partially approve/deny] the IRC by a vote of [vote count will be included in the adopted decision] as follows:

Member	Vote
Ken Alex, Director of the Office of Planning and Research	
Richard Chivaro, Representative of the State Controller	
Mark Hariri, Representative of the State Treasurer, Vice Chairperson	
Sarah Olsen, Public Member	
Eraina Ortega, Representative of the Director of the Department of Finance, Chairperson	
Carmen Ramirez, City Council Member	
Don Saylor, County Supervisor	

⁴⁴ Statutes 1993, chapter 8.

Summary of the Findings

This analysis addresses these consolidated IRCs filed by Foothill-DeAnza Community College District (claimant) regarding reductions made by the State Controller's Office (Controller) to reimbursement claims for costs incurred during fiscal years 2002-2003 through 2005-2006 under the *Health Fee Elimination* program. Over the four fiscal years in question, reductions totaling \$284,615 were made based on understated offsetting health fees authorized to be collected and disallowed indirect costs.

The Commission finds that the audit was both timely initiated and timely completed in accordance with Government Code section 17558.5. Additionally, the Commission concludes that it does not have jurisdiction to consider the adjustments to indirect costs for fiscal year 2004-2005 that resulted in an increase to the reimbursement claim; and does not have jurisdiction to consider the 2005-2006 reimbursement claim in its entirety, because there is no reduction for that fiscal year. Furthermore, the Commission finds that reductions of indirect costs claimed for fiscal years 2002-2003 and 2003-2004, based on the claimant's failure to obtain federal approval for its indirect cost rate calculated pursuant to the federal OMB Circular A-21 method, and the Controller's recalculation of indirect costs using another method authorized by the parameters and guidelines and claiming instructions, were correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support. The Commission further finds that the reduction of costs based on understated offsetting health fee authority was correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support.⁴⁵

Accordingly, the Commission denies these IRCs.

COMMISSION FINDINGS

I. Chronology

- | | |
|------------|---|
| 09/11/2008 | The entrance conference for the audit of fiscal years 2002-2003 through 2005-2006 was held. |
| 02/06/2009 | Controller issued the draft audit report. ⁴⁶ |
| 02/23/2009 | Claimant responded by letter to the draft audit report. ⁴⁷ |
| 05/20/2009 | Controller issued the final audit report. ⁴⁸ |
| 10/05/2009 | Claimant filed IRC 09-4206-I-24. ⁴⁹ |

⁴⁵ The total net reduction for the audit period is only \$284,615, because understated indirect costs for fiscal years 2004-2005 and 2005-2006, as well as understated student insurance costs and understated salaries and benefits, were offset against the overstated indirect costs for fiscal years 2002-2003 and 2003-2004 and understated health fees for all four years.

⁴⁶ Exhibit A, IRC 09-4206-I-24, page 75.

⁴⁷ Exhibit A, IRC 09-4206-I-24, page 75.

⁴⁸ Exhibit A, IRC 09-4206-I-24, page 52.

⁴⁹ Exhibit A, IRC 09-4206-I-24, page 1.

08/18/2010 Controller issued the revised final audit report.⁵⁰
11/22/2010 Claimant filed IRC 10-4206-I-34.⁵¹
12/02/2010 Commission staff issued a notice of complete filing, consolidation of 09-4206-I-24 and 10-4206-I-34, and request for comments.
12/02/2014 Controller filed late comments on the consolidated IRCs.⁵²
02/10/2016 Commission staff issued the Draft Proposed Decision.⁵³
02/12/2016 Controller filed comments on the Draft Proposed Decision.⁵⁴
03/01/2016 Claimant filed comments on the Draft Proposed Decision.⁵⁵

II. Background

Health Fee Elimination Program

Prior to 1984, former Education Code section 72246 authorized community college districts that voluntarily provided health supervision and services, direct and indirect medical and hospitalization services, or operation of student health centers to charge almost all students a health service fee not to exceed \$7.50 for each semester or \$5 for each quarter or summer session, to fund these services.⁵⁶ In 1984, the Legislature repealed the community colleges' fee authority for health services.⁵⁷ However, the Legislature also reenacted section 72246, to become operative on January 1, 1988, in order to reauthorize the fee, at \$7.50 for each semester (or \$5 per quarter or summer session).⁵⁸

In addition to temporarily repealing community college districts' authority to levy a health services fee, the 1984 enactment required any district that provided health services during the 1983-1984 fiscal year, for which districts were previously authorized to charge a fee, to maintain health services at the level provided during the 1983-1984 fiscal year for every subsequent fiscal year until January 1, 1988.⁵⁹ As a result, community college districts were required to maintain

⁵⁰ Exhibit B, IRC 10-4206-I-34, page 21.

⁵¹ Exhibit B, IRC 10-4206-I-34, page 1.

⁵² Exhibit C, Controller's Late Comments on IRC.

⁵³ Exhibit D, Draft Proposed Decision.

⁵⁴ Exhibit E, Controller's Comments on the Draft Proposed Decision.

⁵⁵ Exhibit F, Claimant's Comments on the Draft Proposed Decision.

⁵⁶ Former Education Code section 72246 (Stats. 1981, ch. 763) [Low-income students, students that depend upon prayer for healing, and students attending a college under an approved apprenticeship training program, were exempt from the fee.].

⁵⁷ Statutes 1984, 2nd Extraordinary Session, chapter 1, section 4 [repealing Education Code section 72246].

⁵⁸ Statutes 1984, 2nd Extraordinary Session, chapter 1, section 4.5.

⁵⁹ Education Code section 72246.5 (Stats. 1984, 2d. Ex. Sess., ch. 1, § 4.7).

health services provided in the 1983-1984 fiscal year without any fee authority for this purpose until January 1, 1988.

In 1987, the Legislature amended former Education Code section 72246, operative January 1, 1988, to incorporate and extend the maintenance of effort provisions of former Education Code section 72246.5, which became inoperative by its own terms as of January 1, 1988.⁶⁰ In addition, Statutes 1987, chapter 1118 restated that the fee would be reestablished at not more than \$7.50 for each semester, or \$5 for each quarter or summer session.⁶¹ As a result, beginning January 1, 1988 all community college districts were required to maintain the same level of health services they provided in the 1986-1987 fiscal year each year thereafter, with limited fee authority to offset the costs of those services. In 1992, section 72246 was amended to provide that the health fee could be increased by the same percentage as the Implicit Price Deflator whenever that calculation would produce an increase of one dollar.⁶²

On November 20, 1986, the Commission determined that Statutes 1984, chapter 1 imposed a reimbursable state-mandated new program upon community college districts. On August 27, 1987, the Commission adopted parameters and guidelines for the *Health Fee Elimination* program. On May 25, 1989, the Commission amended the parameters and guidelines to reflect amendments made by Statutes 1987, chapter 1118.

The parameters and guidelines generally provide that eligible community college districts shall be reimbursed for the costs of providing a health services program, and that only services specified in the parameters and guidelines and provided by the community college in the 1986-1987 fiscal year may be claimed.

Controller's Audit and Summary of the Issues

These consolidated IRCs address two audit reports, the latter of which is stated by the Controller to supersede the former. The Commission finds that the revised audit was completed within the period of limitation and therefore may take jurisdiction over it.

The Controller's revised audit determined that the claimant understated direct costs for counseling-related services for the audit period in the amount of \$545,467, and related indirect cost of \$171,659 (Finding 1). The claimant does not dispute this finding.⁶³ In Finding 2, the Controller determined that the claimant understated student insurance premiums for the audit period by \$143,415, along with related indirect costs of \$43,881. The claimant does not dispute this finding.⁶⁴ In Finding 3, the Controller determined that the claimant overstated its indirect costs for fiscal years 2002-2003 and 2003-2004, by a total of \$436,827. The Controller determined that the claimant applied the OMB methodology for calculating indirect costs but

⁶⁰ Education Code section 72246 (as amended, Stats. 1987, ch. 1118). See also former Education Code section 72246.5 (Stats. 1984, 2d Ex. Sess., ch. 1, § 4.7).

⁶¹ Education Code section 72246 (as amended, Stats. 1987, ch. 1118).

⁶² Education Code section 72246 (as amended, Stats. 1992, ch. 753). In 1993, former Education Code section 72246, was renumbered as Education Code section 76355. (Stats. 1993, ch. 8.)

⁶³ Exhibit B, IRC 10-4206-I-34, page 30.

⁶⁴ Exhibit B, IRC 10-4206-I-34, page 31.

failed to obtain federal approval for its calculated rates.⁶⁵ For fiscal years 2004-2005 and 2005-2006, the Controller determined that the claimant used the state methodology (FAM 29-C), but did not correctly allocate direct and indirect costs, resulting in an understatement of \$195,796.⁶⁶ The claimant challenged the Controller's methodology for recalculating indirect costs generally, but later stated that it does not dispute the findings for fiscal years 2004-2005 and 2005-2006.⁶⁷ In Finding 4, the Controller found that the claimant understated offsetting health service fee authority, resulting in a reduction of \$716,795 for the audit period.⁶⁸ In Finding 5, the Controller found that the claimant understated offsetting savings or reimbursements by \$116,597 for the audit period.⁶⁹

The Controller reduced the costs claimed for fiscal years 2002-2003 through 2005-2006 under the *Health Fee Elimination* program, totaling \$284,615, based on the net of overstatements and understatements. The following issues are in dispute:

- The period of limitation applicable to audits by the Controller.
- The Controller's determination not to reimburse costs recalculated in the claimant's favor because the increase exceeded the amount claimed for that fiscal year;
- Reduction of indirect costs based on asserted faults in the development and application of indirect cost rates; and
- The amount of offsetting revenue to be applied from health service fee authority.

III. Positions of the Parties

Foothill-DeAnza Community College District

The claimant does not dispute the Controller's findings that the claimant understated counseling-related salaries and benefits, and student insurance costs for the audit period, resulting in a net increase in reimbursement of \$688,882 plus \$215,540 in related indirect costs (Findings 1 and 2).⁷⁰ However, the claimant disputes the Controller's reduction of \$511,782 in indirect costs (reduced in the revised audit report to \$241,031), on the ground that indirect costs were not correctly calculated consistently with the claiming instructions. The claimant argues that the claiming instructions are not enforceable, and that federal approval for the OMB-developed rates for fiscal years 2002-2003 and 2003-2004 is therefore not required.⁷¹ With respect to the *understated* indirect cost rates in fiscal years 2004-2005 and 2005-2006, the claimant states that

⁶⁵ Exhibit B, IRC 10-4206-I-34, page 32.

⁶⁶ Exhibit B, IRC 10-4206-I-34, page 32.

⁶⁷ Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 4.

⁶⁸ Exhibit B, IRC 10-4206-I-34, page 35.

⁶⁹ Exhibit B, IRC 10-4206-I-34, page 40.

⁷⁰ Exhibit A, IRC 09-4206-I-24, pages 10; 60-61.

⁷¹ Exhibit A, IRC 09-4206-I-24, pages 11-14; Exhibit F, Claimant's Comments on the Draft Proposed Decision, pages 4-8.

the Controller's method is reasonable, and it no longer disputes the audited rates.⁷² However, the claimant argues that for fiscal year 2005-2006, in which the total of all adjustments resulted in a *net increase* in allowable costs, but which the Controller reimbursed only to the extent of the total claim, and no further, the Controller was required to reimburse the "\$114,614 disallowed as excess."⁷³ The claimant argues that "[t]o not reimburse the excess is to not reimburse the sum total of the audit and Commission findings."⁷⁴ And, in the claimant's response to the Draft Proposed Decision, the claimant no longer disputes the Controller's finding that the claimant understated authorized offsetting health fee authority, required to be deducted, by \$716,795 for the audit period.⁷⁵

Finally, the claimant argues that the Controller's audit of reimbursement claims for fiscal years 2002-2003 and 2003-2004 was not timely; that the period of limitation for these claims expired on January 12, 2008, based on the filing date of January 12, 2005,⁷⁶ but the audit entrance conference did not occur until September 11, 2008.⁷⁷ Although the audit report states that the audit was timely because initial payment on the claims did not occur until October 25, 2006, the claimant argues that this alternative time period, as authorized in Government Code section 17558.5, is impermissibly vague, and is contrary to the purpose of a statute of limitations.⁷⁸

State Controller's Office

The Controller determined that the claimant understated counseling-related salaries and benefits for the audit period, plus related indirect costs, resulting in a net increase of \$717,126.⁷⁹ In addition, the Controller determined that the claimant understated allowable student insurance costs, plus related indirect costs, totaling \$187,296 for the audit period.⁸⁰ The Controller offset these increases in direct costs against authorized health fee revenues that were greater than what was claimed, except in the 2005-2006 fiscal year, in which the total of all adjustments resulted in a net increase in allowable costs, which the Controller reimbursed only to the extent of the total amount claimed for that year. The Controller denied reimbursement for \$114,614 in calculated allowable costs for fiscal year 2005-2006 because that amount exceeded the amount claimed.⁸¹

⁷² Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 4.

⁷³ Exhibit F, Claimant's Comments on the Draft Proposed Decision, pages 10-11.

⁷⁴ Exhibit F, Claimant's Comments on the Draft Proposed Decision, pages 10-11.

⁷⁵ See Exhibit A, IRC 09-4206-I-24, pages 10-18; 63-70; Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 10.

⁷⁶ Exhibit A, IRC 09-4206-I-24, pages 18-19 (Note that the 2002-2003 and 2003-2004 claims were filed at the same time).

⁷⁷ Exhibit A, IRC 09-4206-I-24, page 18.

⁷⁸ Exhibit A, IRC 09-4206-I-24, pages 18-21; Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 2.

⁷⁹ Exhibit A, IRC 09-4206-I-24, page 61.

⁸⁰ Exhibit A, IRC 09-4206-I-24, page 62.

⁸¹ Exhibit B, IRC 10-4206-I-34, page 28.

The Controller further asserted that the claimant overstated its indirect costs for fiscal years 2002-2003 and 2003-2004, finding that the claimant did not obtain federal approval for its indirect cost rate developed pursuant to OMB Circular A-21 guidelines, totaling \$436,827. And, the Controller found that the claimant understated its indirect costs for fiscal years 2004-2005 and 2005-2006, based on recalculation pursuant to the Controller's FAM-29C method, including allowable depreciation expenses that were excluded in the prior years. This resulted in an increase of \$195,796.⁸²

The Controller also found that the claimant understated its authorized health service fees for the audit period by \$716,795. Using enrollment and exemption data obtained from the California Community Colleges Chancellor's Office, the Controller recalculated the health fees that the claimant was authorized to collect, and reduced the claim by the amount not stated as offsetting revenues.⁸³ The Controller states: "We agree that community college districts may choose not to levy a health service fee or to levy a fee less than the authorized amount...[but] Education Code section 76355, subdivision (a) provides districts the *authority* to levy the fee."⁸⁴ The Controller concludes that: "To the extent that districts have authority to charge a fee, they are not required to incur a cost."⁸⁵ This finding is unchanged in the revised audit report.⁸⁶

The Controller stated in comments on the Draft Proposed Decision that it supports the Commission's decision with respect to the timeliness of the audit of the 2002-2003 and 2003-2004 reimbursement claims. The Controller also agrees with the proposed findings on the substantive issues.⁸⁷

IV. Discussion

Government Code section 17561(b) authorizes the Controller to audit the claims filed by local agencies and school districts and to reduce any claim for reimbursement of state mandated costs that the Controller determines is excessive or unreasonable.

Government Code Section 17551(d) requires the Commission to hear and decide a claim that the Controller has incorrectly reduced payments to the local agency or school district. If the Commission determines that a reimbursement claim has been incorrectly reduced, section 1185.9 of the Commission's regulations requires the Commission to send the decision to the Controller and request that the costs that were incorrectly reduced be reinstated.

The Commission must review questions of law, including interpretation of the parameters and guidelines, *de novo*, without consideration of legal conclusions made by the Controller in the context of an audit. The Commission is vested with exclusive authority to adjudicate disputes

⁸² Exhibit B, IRC 10-4206-I-34, page 32.

⁸³ Exhibit A, IRC 09-4206-I-24, page 66.

⁸⁴ Exhibit A, IRC 09-4206-I-24, page 69.

⁸⁵ Exhibit A, IRC 09-4206-I-24, page 70.

⁸⁶ Exhibit B, IRC 10-4206-I-34, pages 35-39.

⁸⁷ Exhibit E, Controller's Comments on the Draft Proposed Decision.

over the existence of state-mandated programs within the meaning of article XIII B, section 6.⁸⁸ The Commission must also interpret the Government Code and implementing regulations in accordance with the broader constitutional and statutory scheme. In making its decisions, the Commission must strictly construe article XIII B, section 6 and not apply it as an “equitable remedy to cure the perceived unfairness resulting from political decisions on funding priorities.”⁸⁹

With regard to the Controller’s audit decisions, the Commission must determine whether they were arbitrary, capricious, or entirely lacking in evidentiary support. This standard is similar to the standard used by the courts when reviewing an alleged abuse of discretion of a state agency.⁹⁰ Under this standard, the courts have found that:

When reviewing the exercise of discretion, “[t]he scope of review is limited, out of deference to the agency’s authority and presumed expertise: ‘The court may not reweigh the evidence or substitute its judgment for that of the agency. [Citation.]’” ... “In general ... the inquiry is limited to whether the decision was arbitrary, capricious, or entirely lacking in evidentiary support. . . .” [Citations.] When making that inquiry, the “ ‘court must ensure that an agency has adequately considered all relevant factors, and has demonstrated a rational connection between those factors, the choice made, and the purposes of the enabling statute.’” [Citation.]’ ”⁹¹

The Commission must review the Controller’s audit in light of the fact that the initial burden of providing evidence for a claim of reimbursement lies with the claimant.⁹² In addition, sections 1185.1(f)(3) and 1185.2(c) of the Commission’s regulations require that any assertions of fact by the parties to an IRC must be supported by documentary evidence. The Commission’s ultimate findings of fact must be supported by substantial evidence in the record.⁹³

A. The Audit Was Timely Initiated and Timely Completed Pursuant to Government Code Section 17558.5.

⁸⁸ *Kinlaw v. State of California* (1991) 54 Cal.3d 326, 331-334; Government Code sections 17551, 17552.

⁸⁹ *County of Sonoma v. Commission on State Mandates* (2000) 84 Cal.App.4th 1264, 1280, citing *City of San Jose v. State of California* (1996) 45 Cal.App.4th 1802, 1817.

⁹⁰ *Johnston v. Sonoma County Agricultural Preservation and Open Space District* (2002) 100 Cal.App.4th 973, 983-984. See also *American Bd. of Cosmetic Surgery, Inc. v. Medical Bd. of California* (2008) 162 Cal.App.4th 534, 547.

⁹¹ *American Bd. of Cosmetic Surgery, Inc. v. Medical Bd. of California* (2008) 162 Cal.App.4th 534, 547-548.

⁹² *Gilbert v. City of Sunnyvale* (2005) 130 Cal.App.4th 1264, 1274-1275.

⁹³ Government Code section 17559(b), which provides that a claimant or the state may commence a proceeding in accordance with the provisions of section 1094.5 of the Code of Civil Procedure to set aside a decision of the Commission on the ground that the Commission’s decision is not supported by substantial evidence in the record.

The claimant argues that the Controller did not timely conduct the audit pursuant to Government Code section 17558.5. Section 17558.5, as applicable to the claim years here at issue, requires a valid audit to be initiated no later than three years after the date that the reimbursement claim is filed or last amended. However, the section also provides that *if no funds are appropriated or no payment is made* “to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim.”⁹⁴ “In any case,” section 17558.5 requires the audit to be completed no later than two years after it is commenced.⁹⁵

1. The Audit Was Timely Initiated Pursuant to Government Code Section 17558.5.

The claimant asserts that the audit of the 2002-2003 and 2003-2004 claim years was not timely initiated, based on the date that the claims were “filed or last amended” (January 12, 2005), and the date that the audit entrance conference took place (September 11, 2008). However, the Controller points out that the fiscal year 2002-2003 claim was not paid until October 25, 2006, and that therefore section 17558.5 provides for a timely audit to be initiated as late as October 25, 2009.⁹⁶

Government Code section 17558.5 states that “[a] reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended” However, if funds are not appropriated or no payment is made to the claimant for a given year, section 17558.5 states the “time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim.”⁹⁷

The claimant argues that this provision “is void because it is impermissibly vague,”⁹⁸ and that “the only specific and enforceable time limitation to commence an audit is three years from the

⁹⁴ Government Code section 17558.5 (as amended, Stats. 2002, ch. 1128 (AB 2834)).

⁹⁵ Government Code section 17558.5 (as amended, Stats. 2004, ch. 890 (AB 2856)).

⁹⁶ Government Code section 17558.5 (as amended, Statutes 2004, ch. 890 (AB 2856)). Neither the filing date of the subject reimbursement claims, nor the date the audit was commenced, controls whether the later-amended version(s) of section 17558.5 are applicable. See *Scheas v. Robertson* (1951) 38 Cal.2d 119, 126 [“It is settled that the Legislature may enact a statute of limitations ‘applicable to existing causes of action or shorten a former limitation period...’”]; *California Employment Stabilization Commission v. Payne* (1947) 31 Cal.2d 210, 215 [“...the power of the Legislature to lessen a statute of limitations is subject to the restriction that an existing right cannot be cut off summarily without giving a reasonable time after the act becomes effective to exercise such right. [citation] This principle, however, does not apply where the state gives up a right previously possessed by it or by one of its agencies. Except where such an agency is given powers by the Constitution, it derives its authority from the Legislature, which may add to or take away from those powers and therefore a statute which adversely affects only the right of the state is not invalid merely because it operates to cut off an existing remedy of an agency of the state.”].

⁹⁷ Government Code section 17558.5 (as amended, Stats. 2002, ch. 1128 (AB 2834)).

⁹⁸ Exhibit A, IRC 09-4206-I-24, page 21.

date the claim was filed.” The claimant argues that “the annual reimbursement claims for FY 2002-03 and FY 2003-04 were past this time period when the audit was commenced on September 11, 2008.”⁹⁹

But article III, section 3.5 of the California Constitution states that an administrative agency has no power “[t]o declare a statute unenforceable, or refuse to enforce a statute, on the basis of it being unconstitutional unless an appellate court has made a determination that such statute is unconstitutional...”¹⁰⁰ Here, the fiscal year 2002-2003 reimbursement claim was amended on or about January 12, 2004,¹⁰¹ but was not paid, based on the evidence in the record, until October 25, 2006.¹⁰² Therefore, the time to initiate an audit, in this case, commenced to run from October 25, 2006, and an audit initiated before October 25, 2009 would be timely.

Based on the evidence in the record, the Commission finds that the audit in issue was initiated no later than September 11, 2008, the date of the entrance conference, and the audit was therefore timely initiated.

2. The Audit Was Timely Completed.

Government Code section 17558.5 also prescribes the time in which an audit must be completed: “In any case, an audit shall be completed not later than two years after the date that the audit is commenced.”¹⁰³ Based on the evidence in the record, the audit in issue was initiated no later than September 11, 2008, the date of the entrance conference.¹⁰⁴ And here, there are two final audit reports in the record that identify and explain the adjustments in accordance with Government Code section 17558.5(c).¹⁰⁵ The first audit report was issued May 20, 2009, well

⁹⁹ Exhibit A, IRC 09-4206-I-24, page 21; Exhibit F, Claimant’s Comments on the Draft Proposed Decision, pages 2-3.

¹⁰⁰ California Constitution, article III, section 3.5 (added June 6, 1978, by Proposition 5).

¹⁰¹ The Controller’s final audit report states that the amended claim was received on January 13, 2004, but the claimant states that it was mailed on January 12, 2004. Whether the filing date for purposes of annual reimbursement claims is measured upon receipt or upon dispatch is not necessary to resolve the period of limitation issue in this claim. (Exhibit A, IRC 09-4206-I-24, page 72.)

¹⁰² Exhibit A, IRC 09-4206-I-24, pages 19; 72.

¹⁰³ Government Code section 17558.5 (Stats. 2004, ch. 890).

¹⁰⁴ Exhibit A, IRC 09-4206-I-24, pages 18; 72.

¹⁰⁵ Government Code section 17558.5(c) states the following:

The Controller shall notify the claimant in writing within 30 days after issuance of a remittance advice of any adjustment to a claim for reimbursement that results from an audit or review. The notification shall specify the claim components adjusted, the amounts adjusted, interest charges on claims adjusted to reduce the overall reimbursement to the local agency or school district, and the reason for the adjustment. Remittance advices and other notices of payment actions shall not constitute notice of adjustment from an audit or review.

within two years of the entrance conference;¹⁰⁶ the second was issued August 18, 2010, also prior to the expiration of the two year period beginning September 11, 2008.

Based on the foregoing, the Commission finds that both the first final audit report and the revised final audit report were timely completed in accordance with Government Code section 17558.5.

B. The Commission Does Not Have Jurisdiction Over the Indirect Cost Rates Calculated by the Controller for Fiscal Year 2004-2005 and the Adjustments of Direct and Indirect Costs for Fiscal Year 2005-2006 Because There Has Been No Reduction of Costs.

1. There Is No Reduction of Indirect Costs Claimed for Fiscal Year 2004-2005, and the Claimant No Longer Disputes the Audited Rate Calculated by the Controller for This Fiscal Year.

For fiscal year 2004-2005, the Controller's revised audit recalculated indirect costs including allowable depreciation expenses in accordance with the claiming instructions, resulting in an adjustment of \$92,881 in the claimant's favor.¹⁰⁷

The claimant generally challenges the enforceability of the Controller's claiming instructions with respect to indirect cost claiming in both its response to the draft audit report and its IRC narrative, and with respect to all years of the audit period. However, for fiscal year 2004-2005, the revised audit found a net increase, rather than a reduction, in indirect costs.¹⁰⁸ More importantly, the claimant no longer disputes the audited rate.¹⁰⁹ Accordingly, the Commission does not have jurisdiction and makes no findings with respect to the indirect cost rate for fiscal year 2004-2005.

2. There Is No Reduction of Direct and Related Indirect Costs Claimed for Fiscal Year 2005-2006.

The Controller found understated direct and indirect costs throughout the audit period, and adjusted the costs claimed in the claimant's favor, as appropriate. However, for fiscal year 2005-2006, the total amount adjusted in the claimant's favor exceeded the amount originally claimed, even after applying offsetting health service fees and offsetting savings or reimbursements.¹¹⁰ Therefore, for fiscal year 2005-2006, the Controller adjusted direct and indirect costs in the claimant's favor to the full extent of the amount claimed, but no further.

The claimant, however, seeks reimbursement for the understated direct and related indirect costs determined by the Controller that exceed the amounts claimed. In this respect, the claimant asserts the Controller "incorrectly reduced allowable costs by \$114,614 for FY 2005-06 by reducing the 'total program costs' by this amount because it is in 'excess' of the total amount

¹⁰⁶ Exhibit A, IRC 09-4206-I-24, page 52.

¹⁰⁷ Exhibit B, IRC 10-4206-I-34, page 32.

¹⁰⁸ Exhibit B, IRC 10-4206-I-34, page 32.

¹⁰⁹ Exhibit B, IRC 10-4206-I-34, page 9; Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 4.

¹¹⁰ Exhibit B, IRC 10-4206-I-34, page 28.

claimed.”¹¹¹ The claimant states “[t]his reduction was not an audit ‘finding’ by the Controller, it is just a mathematical computation that is a result of other audit findings.” The claimant states that the audit report relies on Government Code section 17568, which provides “[i]n no case shall a reimbursement claim be paid that is submitted more than one year after the deadline specified in Section 17560.” The claimant continues:

The State did not pay these claims in full or in part within one year of the filing deadline, and rarely does so, so that citation does not appear relevant. Section 17568 pertains to the timely filing of an annual claim in order to be eligible for payment, not to the amount of ultimate payment or the contents of the claim itself.¹¹²

The claimant reasons that “[t]he issue to be adjudicated is that the FY 2005-06 claim has been reduced by \$114,614 without a legal basis...” and that “[t]o not reimburse the excess is to not reimburse the sum total of the audit and Commission findings.”¹¹³ Finally, the claimant concludes that Government Code section 17561 requires the Controller to adjust both underpayments and overpayments, and “the Controller does not have discretion to unilaterally determine that it will require reimbursement for audit adjustments in favor of the State and simply ignore audit adjustments in favor of the claimants.”¹¹⁴

However, the Controller adjusted the claim for fiscal year 2005-2006 *in the claimant’s favor*, and to the full extent of the total claim for the fiscal year. Thus, there is no reduction of costs claimed for fiscal year 2005-2006. Government Code sections 17551(d) and 17558.7 only authorize the Commission to hear and decide incorrect *reduction* claims. The Commission does not have jurisdiction over a reimbursement claim that results in no reduction of costs. Thus, the Commission does not have jurisdiction and makes no findings with respect to the 2005-2006 reimbursement claim.

C. The Controller’s Reduction of Indirect Costs Claimed for Fiscal Years 2002-2003 and 2003-2004 Is Correct as a Matter of Law, and Not Arbitrary, Capricious, or Entirely Lacking in Evidentiary Support.

For fiscal years 2002-2003 and 2003-2004, the claimant claimed indirect costs based on a rate calculated pursuant to the OMB Circular A-21 method, which was authorized under the claiming instructions at that time. However, the Controller found that the claimant did not obtain federal approval for its claimed rate, which is required by the OMB Circular. The Controller therefore reduced the indirect costs and recalculated the rate based on the state FAM-29C method, using data available from the claimant’s annual financial and budget reporting to the Chancellor’s Office on the CCFS-311.

The claimant disputes the enforceability of the claiming instructions as a whole, arguing that “[n]either state law nor the parameters and guidelines make compliance with the Controller’s

¹¹¹ Exhibit B, IRC 10-4206-I-34, page 7.

¹¹² Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 10.

¹¹³ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, pages 10-11.

¹¹⁴ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 12.

claiming instructions a condition of reimbursement.”¹¹⁵ And, the claimant asserts that the Controller has not made a determination that the claimed indirect cost rates were either excessive or unreasonable, and that the only available audit standard requires such a determination.¹¹⁶ The claimant further argues that “there is no reason to obtain federal approval [of claimed indirect cost rates] if the claiming instructions are not enforceable.”¹¹⁷

Based on the analysis herein, the Commission finds that the Controller’s reduction of indirect costs for fiscal years 2002-2003 and 2003-2004 on the basis of the claimant’s failure to obtain federal approval for indirect cost rates developed in accordance with the OMB Circular A-21 method is correct as a matter of law, and recalculation in accordance with the FAM-29C methodology described in the claiming instructions was not arbitrary, capricious, or entirely lacking in evidentiary support.

1. If a Claimant Chooses to Claim Indirect Costs Using the Federal OMB Circular A-21 Method, the Claimant Must Obtain Federal Approval for the Claimed Indirect Cost Rates.

The parameters and guidelines adopted for this program, in addition to identifying the reimbursable activities, provide instructions for eligible claimants to prepare reimbursement claims for the direct and indirect costs of the program.¹¹⁸ The Commission’s adoption of parameters and guidelines is quasi-judicial and, therefore, the parameters and guidelines are final and binding on the parties unless set aside by a court pursuant to Government Code section 17559 or amended by the filing of a request pursuant to Government Code section 17557.¹¹⁹ In this case, the parameters and guidelines for the *Health Fee Elimination* program have not been challenged, and no party has requested they be amended. The parameters and guidelines are therefore binding and must be applied to the reimbursement claims here.

Section VI. of the parameters and guidelines provide that “*indirect costs may be claimed in the manner described by the State Controller in his claiming instructions.*”¹²⁰ Claimant argues that the word “may” in the indirect cost language of the parameters and guidelines is permissive, and that therefore the parameters and guidelines do not require that indirect costs be claimed in the manner described by the Controller.¹²¹

¹¹⁵ Exhibit A, IRC 09-4206-I-24, page 14.

¹¹⁶ *Ibid.*

¹¹⁷ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 8.

¹¹⁸ Government Code section 17557; California Code of Regulations, title 2, section 1183.7.

¹¹⁹ *California School Boards Assoc. v. State of California* (2009) 171 Cal.App.4th 1183, 1200, which stated the following: “[U]nless a party to a quasi-judicial proceeding challenges the agency’s adverse findings made in that proceeding, by means of a mandate action in superior court, those findings are binding in later civil actions.” [Citation omitted.] See also, Government Code section 17557.

¹²⁰ Exhibit A, IRC 09-4206-I-24, page 35.

¹²¹ Exhibit A, IRC 09-4206-I-24, page 11.

Claimant's argument is unsound: the parameters and guidelines plainly state that "indirect costs may be claimed in the manner described by the State Controller in his claiming instructions." The interpretation that is consistent with the plain language of the parameters and guidelines is that "indirect costs may be claimed," or may not, but if a claimant chooses to claim indirect costs, the claimant must adhere to the parameters and guidelines and claim indirect costs in the manner described in the Controller's claiming instructions.

The claiming instructions specific to the *Health Fee Elimination* mandate, are found in the Controller's Mandated Cost Manual which is revised each year and contains claiming instructions applicable to all community college mandated programs. The cost manual issued by the Controller's Office in September 2003 governs the reimbursement claim filed for fiscal year 2002-2003.¹²² This cost manual provides two options for claiming indirect costs:

A college has the option of using a federally approved rate, utilizing the cost accounting principles from *Office of Management and Budget Circular A-21* "Cost Principles for Educational Institutions," or the Controller's methodology outlined in the following paragraphs. If the federal rate is used, it must be from the same fiscal year in which the costs were incurred.

The Controller allows the following methodology for use by community colleges in computing an indirect cost rate for state mandates. The objective of this computation is to determine an equitable rate for use in allocating administrative support to personnel that performed the mandated cost activities claimed by the community college. This methodology assumes that administrative services are provided to all activities of the institution in relation to the direct costs incurred in the performance of those activities. *Form FAM-29C* has been developed to assist the community college in computing an indirect cost rate for state mandates. . . .

[¶]

The [FAM-29C] computation is based on total expenditures as reported in "California Community Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311)." Expenditures classified by activity are segregated by the function they serve. Each function may include expenses for salaries, fringe benefits, supplies, and capital outlay. OMB Circular A-21 requires expenditures for capital outlays to be excluded from the indirect cost rate computation.

Generally, a direct cost is one incurred specifically for one activity, while indirect costs are of a more general nature and are incurred for the benefit of several activities. As previously noted, the objective of this computation is to equitably allocate administrative support costs to personnel that perform mandated cost activities claimed by the college. For the purpose of this computation we have defined indirect costs to be those costs which provide administrative support to personnel who perform mandated cost activities. We have defined direct costs to be those indirect costs that do not provide administrative support to personnel who perform mandated costs activities and those costs that are directly related to

¹²² Exhibit G, School Mandated Cost Manual excerpt, 2002-2003.

instructional activities of the college. Accounts that should be classified as indirect costs are: Planning and Policy Making, Fiscal Operations, General Administrative Services, and Logistical Services. If any costs included in these accounts are claimed as a mandated cost, i.e., salaries of employee performing mandated cost activities, the cost should be reclassified as a direct cost. Accounts in the following groups of accounts should be classified as direct costs: Instruction, Instructional Administration, Instructional Support Services, Admissions and Records, Counseling and Guidance, Other Student Services, Operation and Maintenance of Plant, Community Relations, Staff Services, Non-instructional Staff-Retirees' Benefits and Retirement Incentives, Community Services, Ancillary Services and Auxiliary Operations. A college may classify a portion of the expenses reported in the account Operation and Maintenance of Plant as indirect. The claimant has the option of using a 7% or a higher expense percentage is allowable if the college can support its allocation basis.

The rate, derived by determining the ratio of total indirect expenses and total direct expenses when applied to the direct costs claimed, will result in an equitable distribution of the college's mandate related indirect costs. . . .¹²³

The claiming instructions for fiscal year 2003-2004 were substantially similar.¹²⁴

If a claimant chooses to use the OMB Circular A-21 methodology, claimant must obtain federal approval for the rate calculated through formal negotiation, an informal correspondence process or a simplified method which sets the indirect cost rate using a salaries and wage base.¹²⁵ The end result of the negotiation process is a sponsored agreement in which final approval lies with the federal government negotiating the rate and must be supported by "adequate documentation to support costs charged to sponsored agreements."¹²⁶ The OMB Circular A-21 establishes principles for determining costs applicable to grants, contracts, and other agreements between the federal government and educational institutions. Section G(11) of the OMB Circular A-21 governs the determination of indirect cost rates and requires the federal approval of a proposed rate by the "cognizant federal agency," which is normally either the federal Department of Health and Human Services or the Department of Defense's Office of Naval Research.¹²⁷ Thus, a claimant that has received federal approval for their indirect cost rate has negotiated specific direct costs with the relevant federal approving agency.

Here, claimant did not negotiate a particular rate, but applied the general principles of the OMB Circular A-21 to direct costs it determined to be applicable. Claimant used the methodology in the OMB Circular A-21 for fiscal years 2002-2003 and 2003-2004, and asserts that its indirect cost rates are more consistent from year to year, and that the Controller has the burden to show that the rates were excessive or unreasonable, "not to recalculate the rate according to its

¹²³ Exhibit G, Community Colleges Mandated Cost Manual, issued September 2003.

¹²⁴ Exhibit G, Community Colleges Mandated Cost Manual, issued February 2005.

¹²⁵ Exhibit G, OMB Circular A-21, pages 37-39.

¹²⁶ Exhibit G, OMB Circular A-21, page 6.

¹²⁷ Exhibit G, OMB Circular A-21.

unenforceable ministerial preferences.”¹²⁸ That assertion is in essence a challenge to the Controller’s entire claiming instructions as an underground regulation adopted without complying with the APA.

However, the Commission does not need to reach the alleged underground regulation issue for the use of the FAM-29C because the claimant failed to obtain federal approval for its use of the OMB Circular A-21 methodology as required by the OMB Circular A-21 itself.

As claimant did not negotiate with a federal agency to determine appropriate direct costs used to calculate the indirect costs rate, it cannot be determined whether the claimed rates would have received federal approval. Moreover, federal approval is clearly required by both the claiming instructions and the OMB methodology itself, but the Controller has no power to grant federal approval for an OMB-calculated rate.

The claimant asserts that this reasoning is “circular and outcome-driven,” and that “there is no reason to obtain federal approval if the claiming instructions are not enforceable.”¹²⁹ However, as the above discussion illustrates, the OMB method requires federal approval by its own terms. Thus, the claimant has not complied with the terms of the OMB methodology itself, and therefore the reduction of costs for failure to obtain federal approval is correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support.

2. The Controller’s Recalculation of Indirect Costs Is Not Arbitrary, Capricious, or Entirely Lacking in Evidentiary Support.

Here, instead of reducing indirect costs to \$0, the Controller recalculated claimant’s indirect cost rate by using its own Form FAM-29C, a method of calculating indirect costs that the Controller has included in its claiming instructions for many years, and which has been incorporated into parameters and guidelines for several state-mandated programs.

The claiming instructions provide:

Form FAM-29C has been developed to assist the community college in computing an indirect cost rate for state mandates. Completion of this form consists of three main steps:

1. The elimination of unallowable costs from the expenses reported on the financial statements.
2. The segregation of the adjusted expenses between those incurred for direct and indirect activities.
3. The development of a ratio between the total indirect expenses and the total direct expenses incurred by the community college.

The computation is based on total expenditures as reported in "California Community Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311)." Expenditures classified by activity are segregated by the function they serve. Each function may include expenses for salaries, fringe

¹²⁸ Exhibit B, IRC 10-4206-I-34, page 8; Exhibit A, IRC 09-4206-I-24, page 12.

¹²⁹ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 8.

benefits, supplies, and capital outlay. OMB Circular A-21 requires expenditures for capital outlays to be excluded from the indirect cost rate computation.

Generally, a direct cost is one incurred specifically for one activity, while indirect costs are of a more general nature and are incurred for the benefit of several activities. As previously noted, the objective of this computation is to equitably allocate administrative support costs to personnel that perform mandated cost activities claimed by the college. For the purpose of this computation we have defined indirect costs to be those costs which provide administrative support to personnel who perform mandated cost activities. We have defined direct costs to be those costs that do not provide administrative support to personnel who perform mandated cost activities and those costs that are directly related to instructional activities of the college.¹³⁰

Thus, the calculation of indirect costs under Form FAM-29C are similar to the calculation under OMB Circular A-21, but not identical. However, because the OMB method is intended to be negotiated with and approved by either the federal Department of Health and Human Services or the Department of Defense's Office of Naval Research,¹³¹ the Controller is not in a position to unilaterally recalculate and approve indirect costs under the OMB Circular A-21 method.

As previously stated, the standard of review which the Commission employs to review the Controller's audit provides that the Commission may "not reweigh the evidence or substitute its judgment for that of the agency."¹³² Thus, the Commission cannot compel the Controller to use other auditing procedures in place of the Form FAM-29C and there is no evidence that the Controller's recalculation of indirect costs was arbitrary, capricious, or entirely lacking in evidentiary support.

Accordingly, the Commission finds the reduction of indirect costs for fiscal years 2002-2003 and 2003-2004, and recalculation by the FAM-29C method, is correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support.

D. The Controller's Reduction for Understated Offsetting Revenues Is Correct as a Matter of Law.

The Controller determined that the claimant understated its authorized health fee revenues by \$716,795 over the four fiscal years at issue.¹³³ These reductions were made on the basis of the fee authority available to claimant, multiplied by the number of students subject to the fee, less the amount of offsetting revenue claimed. The plain language of Education Code section 76355 provides authority to collect health fees for all students except those who depend exclusively on prayer for healing, those attending a community college under an approved apprenticeship

¹³⁰ Exhibit G, Excerpt from Community Colleges Mandated Cost Manual, issued September, 2003.

¹³¹ Exhibit G, OMB Circular A-21.

¹³² *American Bd. of Cosmetic Surgery, Inc. v. Medical Board of California* (2008) 162 Cal.App.4th 534, 547-548.

¹³³ Exhibit A, IRC 09-4206-I-24, page 66.

training program, or those who demonstrate financial need.¹³⁴ For the audit period, the authorized fee amounts identified by the Chancellor ranged from \$9 per student to \$11 per student. The Controller states that it “obtained student enrollment and Board of Governors Grant (BOGG) recipient data from the CCCCCO” and identified exempt students based on the information available, and multiplied those enrollment data by the authorized fee amounts for each semester during the audit period.¹³⁵

Claimant disputes the reduction, arguing that the relevant Education Code provisions permit, but do not require, a community college district to levy a health services fee, and that the parameters and guidelines require a community college district to deduct from its reimbursement claims “[a]ny offsetting savings that the claimant *experiences* as a direct result of this statute...” Claimant argues that “[s]tudent fees *actually collected* must be used to offset costs, but not student fees that could have been collected and were not...”¹³⁶

The Commission finds that the correct calculation and application of offsetting revenue from student health fees has been resolved by the *Clovis Unified* decision,¹³⁷ and that a reduction to the extent of fee revenue *authorized*, rather than fee revenue collectible as a practical matter, is correct as a matter of law.

After the claimant filed IRC 09-4206-I-24, the Third District Court of Appeal issued its opinion in *Clovis Unified*, which specifically addressed the Controller’s practice of reducing claims of community college districts by the maximum fee amount that districts are statutorily authorized to charge students, whether or not a district chooses to charge its students those fees. As cited by the court, the Health Fee Rule states in pertinent part:

Eligible claimants will be reimbursed for health service costs at the level of service provided in the 1986/87 fiscal year. The reimbursement will be reduced by the amount of student health fees authorized per the Education Code [section] 76355.¹³⁸ (Underline in original.)

The Health Fee Rule relies on Education Code section 76355(a), which provides in relevant part:

(a)(1) The governing board of a district maintaining a community college may require community college students to pay a fee in the total amount of not more than ten dollars (\$10) for each semester, seven dollars (\$7) for summer school, seven dollars (\$7) for each intersession of at least four weeks, or seven dollars (\$7) for each quarter for health supervision and services, including direct or indirect medical and hospitalization services, or the operation of a student health center or centers, or both.

(a)(2) The governing board of each community college district may increase [the health service fee] by the same percentage increase as the Implicit Price Deflator

¹³⁴ Education Code section 76355.

¹³⁵ Exhibit A, IRC 09-4206-I-24, page 66.

¹³⁶ Exhibit A, IRC 09-4206-I-24, pages 67-68.

¹³⁷ *Clovis Unified School Dist. v. Chiang* (2010) 188 Cal.App.4th 794.

¹³⁸ *Clovis Unified School Dist.*, *supra*, 188 Cal.App.4th 794, 811.

for State and Local Government Purchase of Goods and Services. Whenever that calculation produces an increase of one dollar (\$1) above the existing fee, the fee may be increased by one dollar (\$1).¹³⁹

Pursuant to the plain language of Education Code section 76355(a)(2), the fee authority given to districts automatically increases at the same rate as the Implicit Price Deflator; when that calculation produces an increase of one dollar above the existing fee, the fee may be increased by one dollar.¹⁴⁰ The Chancellor of the California Community Colleges issues a notice to the governing boards of all community colleges when a fee increase is triggered.¹⁴¹ Therefore the *authority* to impose the health service fees increases automatically with the Implicit Price Deflator, as noticed by the Chancellor. Accordingly, the court in *Clovis Unified* upheld the Controller’s use of the Health Fee Rule to reduce reimbursement claims based on the fees districts are *authorized* to charge. In making its decision the court noted that the concept underlying the state mandates process that Government Code sections 17514 and 17556(d) embody is:

To the extent a local agency or school district “has the authority” to charge for the mandated program or increased level of service, that charge cannot be recovered as a state-mandated cost.¹⁴²

The court also noted that, “this basic principle flows from common sense as well. As the Controller succinctly puts it, ‘Claimants can choose not to require these fees, but not at the state’s expense.’”¹⁴³ Additionally, in responding to claimant’s argument that, “since the Health Fee Rule is a claiming instruction, its validity must be determined *solely* through the Commission’s P&G’s,”¹⁴⁴ the court held:

To accept this argument, though, we would have to ignore, and so would the Controller, the fundamental legal principles underlying state-mandated costs. We conclude *the Health Fee Rule is valid*.¹⁴⁵ (Italics added.)

Thus, pursuant to the court’s decision in *Clovis Unified*, the Health Fee Rule used by the Controller to adjust reimbursement claims filed by claimant for the *Health Fee Elimination*

¹³⁹ Education Code section 76355(d)(2) (Stats. 1993, ch. 8 (AB 46); Stats. 1993, ch. 1132 (AB 39); Stats. 1994, ch. 422 (AB 2589); Stats. 1995, ch. 758 (AB 446); Stats. 2005, ch. 320 (AB 982)) [Formerly Education Code section 72246(e) (Stats. 1987, ch. 118)].

¹⁴⁰ See Education Code section 76355 (Stats. 1995, ch. 758 (AB 446)). The Implicit Price Deflator for State and Local Purchase of Goods and Services is a number computed annually (and quarterly) by the United States Department of Commerce as part of its statistical series on measuring national income and product, and is used to adjust government expenditure data for the effect of inflation.

¹⁴¹ See, e.g., Exhibit G, Memorandum from Chancellor.

¹⁴² *Clovis Unified School Dist.*, *supra*, 188 Cal.App.4th 794, 812.

¹⁴³ *Ibid.*

¹⁴⁴ *Ibid.* (Original italics.)

¹⁴⁵ *Clovis Unified School Dist.*, *supra*, 188 Cal.App.4th 794, 812.

program is valid. Since the *Clovis* case is a final decision of the court addressing the merits of the issue presented here, the Commission, under principles of stare decisis, is required to apply the rule set forth by the court.¹⁴⁶ In addition, the *Clovis* decision is binding on the claimant under principles of collateral estoppel.¹⁴⁷ Collateral estoppel applies when (1) the issue necessarily decided in the previous proceeding is identical to the one that is currently being decided; (2) the previous proceeding terminated with a final judgment on the merits; (3) the party against whom collateral estoppel is asserted is a party to or in privity with a party in the previous proceeding; and (4) the party against whom the earlier decision is asserted had a full and fair opportunity to litigate the issue.¹⁴⁸ Although the claimant in this IRC was not a party to the *Clovis* action, the claimant is in privity with the petitioners in *Clovis*. “A party is adequately represented for purposes of the privity rule if his or her interests are so similar to a party’s interest that the latter was the former’s virtual representative in the earlier action.”¹⁴⁹

With respect to the Chancellor’s opinion of the scope of districts’ fee authority, the Commission finds that as the agency responsible for overseeing the community college system, the interpretation of the Chancellor of the California Community Colleges office is entitled to great weight; the courts have long held that “[a]n agency interpretation of the meaning and legal effect of a statute is entitled to consideration and respect by the courts.”¹⁵⁰ While the Commission has exclusive jurisdiction to determine the existence of a state mandate, and by extension to consider whether fee authority is sufficient under Government Code section 17556 to reduce or eliminate reimbursement of a mandate, the Commission is, like a court, expected to give deference to an agency with expertise in a particular matter.

Based on the foregoing the Commission finds that the Controller’s reduction of reimbursement to the extent of the fee authority found in Education Code section 76355, and as applied to all students, not just those from whom the claimant collects, is correct as a matter of law. The claimant states in comments on the Draft Proposed Decision that it “agrees that claimants and state agencies are bound to apply the Health Fee Rule as decided law” and therefore claimants no longer dispute this audit finding.¹⁵¹

V. Conclusion

The Commission finds that both the original and the revised audit report were timely initiated and timely completed. The Commission further finds that it does not have jurisdiction to consider the adjustments to indirect costs for fiscal year 2004-2005 that resulted in an increase to

¹⁴⁶ *Fenske v. Board of Administration* (1980) 103 Cal.App.3d 590, 596.

¹⁴⁷ The petitioners in the *Clovis* case included Clovis Unified School District, El Camino Community College District, Fremont Unified School District, Newport-Mesa Unified School District, Norwalk-La Mirada Unified School District, Riverside Unified School District, San Mateo Community College District, Santa Monica Community College District, State Center Community College District, and Sweetwater Union High School District.

¹⁴⁸ *Roos v. Red* (2006) 130 Cal.App.4th 870, 879-880.

¹⁴⁹ *Rodgers v. Sargent Controls & Aerospace* (2006) 136 Cal.App.4th 82, 91.

¹⁵⁰ *Yamaha Corp. of America v. State Bd. of Equalization*, (1998) 19 Cal.4th 1.

¹⁵¹ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 10.

the reimbursement claim; and it does not have jurisdiction to consider the 2005-2006 reimbursement claim in its entirety, because there is no reduction for that fiscal year. The Commission concludes that reductions of indirect costs for fiscal years 2002-2003 and 2003-2004, based on the claimant's failure to obtain federal approval for the development of its indirect cost rate, and the Controller's recalculation of indirect costs using the method described in the claiming instructions, were correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support. And finally, the Commission finds that the reduction of costs over the audit period based on understated offsetting health fee authority was correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support.

Based on the foregoing, the Commission denies these IRCs.

DECLARATION OF SERVICE BY EMAIL

I, the undersigned, declare as follows:

I am a resident of the County of Sacramento and I am over the age of 18 years, and not a party to the within action. My place of employment is 980 Ninth Street, Suite 300, Sacramento, California 95814.

On May 10, 2016, I served the:

Proposed Decision

Health Fee Elimination, 09-4206-I-24 and 10-4206-I-34

Former Education Code Section 72246 (Renumbered as 76355)

Statutes 1984, Chapter 1 (1983-1984 2nd Ex. Sess.) (AB2X 1);


Statutes 1987, Chapter 1118 (AB 2336)

Fiscal Years: 2002-2003, 2003-2004, 2004-2005, and 2005-2006

Foothill-DeAnza Community College District, Claimant

by making it available on the Commission's website and providing notice of how to locate it to the email addresses provided on the attached mailing list.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on May 10, 2016 at Sacramento, California.



Jill L. Magee

Commission on State Mandates

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COMMISSION ON STATE MANDATES

Mailing List

Last Updated: 3/24/16

Claim Number: 09-4206-I-24 and 10-4206-I-34

Matter: Health Fee Elimination

Claimant: Foothill-De Anza Community College District

TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

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