

July 6, 2016

Dr. Robin Kay
County of Los Angeles
Department of Mental Health
550 S. Vermont Avenue, 12th Floor
Los Angeles, CA 90020

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

Handicapped and Disabled Students, 13-4282-I-06
Government Code Sections 7572 and 7572.5
Statutes 1984, Chapter 1747 (AB 3632); Statutes 1985, Chapter 1274 (AB 882);
California Code of Regulations, Title 2, Division 9, Chapter 1, Section 60040
(Emergency regulations filed December 31, 1985, designated effective
January 1, 1986 [Register 86, No. 1] and refiled June 30, 1986, designated effective
July 12, 1986 [Register 86, No. 28])
Fiscal Years: 2003-2004, 2004-2005, and 2005-2006
County of Los Angeles, Claimant

Dear Dr. Kay and Ms. Kanemasu:

The Proposed Decision for the above-named matter is enclosed for your review.

Hearing

This matter is set for hearing on **Friday, July 22, 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 5

INCORRECT REDUCTION CLAIM

PROPOSED DECISION

Government Code Sections 7572 and 7572.5;
Statutes 1984, Chapter 1747 (AB 3632); Statutes 1985, Chapter 1274 (AB 882);
California Code of Regulations, Title 2, Division 9, Chapter 1, Section 60040
(Emergency regulations filed December 31, 1985, designated effective January 1, 1986
[Register 86, No. 1] and refiled June 30, 1986, designated effective July 12, 1986
[Register 86, No. 28]¹

Handicapped and Disabled Students

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

13-4282-I-06

County of Los Angeles, Claimant

EXECUTIVE SUMMARY

Overview

This Incorrect Reduction Claim (IRC) was filed in response to an audit by the State Controller's Office (Controller) of the County of Los Angeles's (claimant's) annual reimbursement claims under the *Handicapped and Disabled Students* program for fiscal years 2003-2004, 2004-2005, and 2005-2006. The Controller reduced the claims because the claimant: (1) claimed ineligible, unsupported, and duplicate services related to assessment and treatment costs and administrative costs; (2) overstated indirect costs by applying indirect cost rates toward ineligible direct costs; and (3) overstated offsetting revenues. In this IRC, the claimant contends that the Controller's reductions were incorrect and requests, as a remedy, that the Commission direct the Controller to reinstate \$18,180,829.

After a review of the record and the applicable law, staff finds that:

1. The IRC was untimely filed; and

¹ Note that this caption differs from the Test Claim and the Parameters and Guidelines captions in that it includes only those sections that were approved for reimbursement in the Test Claim Decision. Generally, a parameters and guidelines caption should include only the specific sections of the statutes and executive orders that were approved in the underlying test claim decision. However, that was an oversight in the case of the Parameters and Guidelines at issue in this case.

2. By clear and convincing evidence, the claimant's intention in June 2010 was to agree with the results of the Controller's audit and to waive any right to object to the audit or to add additional claims.

Accordingly, staff recommends that the Commission deny this IRC.

Procedural History

The claimant submitted its reimbursement claim for fiscal year 2003-2004, dated January 5, 2005.² The claimant submitted its 2004-2005 reimbursement claim dated January 10, 2006.³ The claimant then submitted an amended reimbursement claim for fiscal year 2005-2006, dated April 5, 2007.⁴

The Controller sent a letter to the claimant, dated August 12, 2008, confirming the scheduling of the audit.⁵

The Controller issued the Draft Audit Report dated May 19, 2010.⁶ The claimant sent a letter to the Controller dated June 16, 2010, in response to the Draft Audit Report, agreeing with the findings and accepting the recommendations.⁷ The claimant sent a letter to the Controller, also dated June 16, 2010, with regard to the claims and audit procedure.⁸ The Controller issued the Final Audit Report dated June 30, 2010.⁹

On August 2, 2013, the claimant filed this IRC.¹⁰ On November 25, 2014, the Controller filed late comments on the IRC.¹¹ On December 23, 2014, the claimant filed a request for an

² Exhibit A, IRC, page 564 (cover letter), page 571 (Form FAM-27).

³ Exhibit A, IRC, page 859 (cover letter), page 862 (Form FAM-27). The cover letter is dated one day before the date of the Form FAM-27; the discrepancy is immaterial, and this Decision will utilize the date of the cover letter (January 10, 2006) as the relevant date.

⁴ Exhibit A, IRC, page 1047 (cover letter), page 1050 (Form FAM-27).

⁵ Exhibit B, Controller's Late Comments on the IRC, page 181 (Letter from Christopher Ryan to Wendy L. Watanabe, dated August 12, 2008). The Controller also asserts on page 25 of its comments that "The SCO contacted the county by phone on July 28, 2008, to initiate the audit..." However, this assertion of fact is not accompanied by a declaration of a person with personal knowledge or any other evidence in the record to support it.

⁶ Exhibit A, IRC, page 547.

⁷ Exhibit A, IRC, pages 558-561 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

⁸ Exhibit B, Controller's Late Comments on the IRC, pages 185-186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010).

⁹ Exhibit A, IRC, page 542 (cover letter), pages 541-562 (Final Audit Report).

¹⁰ Exhibit A, IRC, pages 1, 3.

¹¹ Exhibit B, Controller's Late Comments on the IRC, page 1.

extension of time to file rebuttal comments which was granted for good cause. On March 26, 2015, the claimant filed rebuttal comments.¹²

Commission staff issued the Draft Proposed Decision on May 20, 2016.¹³ The Controller filed comments on the Draft Proposed Decision on June 6, 2016.¹⁴ The claimant filed comments on the Draft Proposed Decision on June 10, 2016.¹⁵

Commission Responsibilities

Government Code section 17561(d) 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 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 over the existence of state-mandated programs within the meaning of article XIII B, section 6, of the California Constitution.¹⁶ 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."¹⁷

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.¹⁸

¹² Exhibit C, Claimant's Rebuttal Comments, page 1.

¹³ Exhibit D, Draft Proposed Decision, pages 1, 34.

¹⁴ Exhibit E, Controller's Comments on the Draft Proposed Decision, page 1.

¹⁵ Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 1.

¹⁶ *Kinlaw v. State of California* (1991) 54 Cal.3d 326, 331-334; Government Code sections 17551, 17552.

¹⁷ *County of Sonoma v. Commission on State Mandates* (2000) 84 Cal.App.4th 1264, 1281, citing *City of San Jose v. State of California* (1996) 45 Cal.App.4th 1802, 1817.

¹⁸ *Johnston v. Sonoma County Agricultural Preservation and Open Space Dist.* (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.

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.¹⁹ 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.²⁰

Claims

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

Issue	Description	Staff Recommendation
Did the claimant timely file its Incorrect Reduction Claim?	The Controller issued the Final Audit Report dated June 30, 2010. The Controller issued three documents, dated August 6, 2010, which summarized the Final Audit Report's findings and which set a payment deadline. On August 2, 2013, the claimant filed this IRC.	<i>Deny IRC as untimely</i> – The claimant must file an IRC within three years of “the date of the Office of State Controller’s final state audit report, letter, remittance advice, or other written notice of adjustment notifying the claimant of a reduction.” (Former Cal. Code Regs., title 2, § 1185(b), renumbered as § 1185(c) effective January 1, 2011.) Remittance advices and other communications which merely restate the findings of the Final Audit Report do not affect the running of the three-year limitations period.
Did the Controller's statements or actions suspend or reset the statute of limitations under the doctrine of equitable estoppel?	In a letter to the claimant dated May 7, 2013, the Controller incorrectly stated that the three-year period for filing an IRC started to run from the Controller's issuance of the three documents dated August 6, 2010. The claimant asserts that it relied upon this inaccurate statement.	<i>Deny IRC as untimely</i> – No estoppel occurs when both parties make a mistake of law; each party had the opportunity to research the law. Estoppel would negate the strong policy of enforcing statutes of limitation. The claimant also failed to establish that the

¹⁹ *Gilbert v. City of Sunnyvale* (2005) 130 Cal.App.4th 1264, 1274-1275.

²⁰ 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 also asserts that the Controller reconsidered its claim and did not reject the claim until May 2013.	Controller acted with a degree of turpitude. The Controller stated in a letter to the claimant dated May 7, 2013 that the claimant's reconsideration request was denied. ²¹ A reconsideration that never occurred cannot affect the statute of limitations.
Did the claimant waive the objections it is now raising?	In two letters both dated June 16, 2010, the claimant agreed with the Controller's audit findings and made representations which contradict arguments claimant now makes in its IRC.	<i>Deny IRC as waived</i> – The record contains clear and convincing evidence that the claimant's intention in June 2010 was to agree with the results of the Controller's audit and to waive any right to object to the audit or to add additional claims.

Staff Analysis

A. The IRC Was Untimely Filed.

At the time the reimbursement claims were audited and when this IRC was filed, the regulation containing the limitations period read:

All incorrect reduction claims shall be filed with the commission no later than three (3) years following the date of the Office of State Controller's final state audit report, letter, remittance advice, or other written notice of adjustment notifying the claimant of a reduction.²²

Applying the plain language of the limitations regulation — that the IRC must have been filed no later than three years after “the date” of the Final Audit Report — the IRC was untimely. The Controller’s Final Audit Report is dated June 30, 2010.²³ Three years later was June 30, 2013. Since June 30, 2013, was a Sunday, the claimant’s deadline to file this IRC moved to Monday, July 1, 2013.²⁴ Instead of filing this IRC by the deadline of Monday,

²¹ Exhibit A, IRC, page 485.

²² Former Code of California Regulations, title 2, section 1185(b), effective May 8, 2007, which was renumbered section 1185(c) as of January 1, 2011, and which was in effect until June 30, 2014.

²³ Exhibit A, IRC, page 547 (Final Audit Report).

²⁴ See California Code of Regulations, title 2, section 1183.18(a)(1); Code of Civil Procedure section 12a(a) (“If the last day for the performance of any act provided or required by law to be performed within a specified period of time is a holiday, then that period is hereby extended to and including the next day that is not a holiday.”); Government Code section 6700(a)(1) (“The holidays in this state are: Every Sunday....”); and Code of Civil Procedure section 12a(b) (“This section applies . . . to all other provisions of law providing or requiring an act to be performed on

July 1, 2013, the claimant filed this IRC with the Commission on Friday, August 2, 2013 — 32 days later.²⁵

The claimant attempts to save its IRC by calculating the commencement of the limitations period from the date of three documents issued by the Controller, dated August 6, 2010, which claimant refers to as “Notices of Claim Adjustment.”²⁶ In the Written Narrative portion of the IRC, the claimant writes, “The SCO issued its audit report on June 30, 2010. The report was followed by Notices of Claim Adjustment dated August 6, 2010 (see Exhibit A-1).”²⁷

The claimant’s argument fails because: (1) the three documents were not notices of claim adjustment; and (2) even if they were, the limitations period commenced upon the date of the Final Audit Report and did not re-commence upon the date of the three documents.

For purposes of state mandate law, the Legislature has enacted a statutory definition of what constitutes a “notice of adjustment.” Government Code section 17558.5(c) reads in relevant part:

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.

In other words, a notice of adjustment is a document which contains four elements: (1) a specification of the claim components adjusted, (2) the amounts adjusted, (3) interest charges, and (4) the reason for the adjustment.

Each of the three documents which the claimant dubs “Notices of Claim Adjustment” contains the amount adjusted, but the other three required elements are absent. None of the three documents specifies the claim components adjusted; each provides merely a lump-sum total of all *Handicapped and Disabled Students* program costs adjusted for the entirety of the relevant fiscal year. None of the three documents contains interest charges. Perhaps most importantly, none of the three documents enunciates a reason for the adjustment.

In addition to their failure to satisfy the statutory definition, the three documents cannot be notices of adjustment because none of the documents adjusts anything. The three documents restate, in the most cursory fashion, the bottom-line findings contained in the Controller’s Final Audit Report.²⁸

a particular day or within a specified period of time, whether expressed in this or any other code or statute, ordinance, rule, or regulation.”).

²⁵ Exhibit A, IRC, page 1.

²⁶ Exhibit A, IRC, pages 21-27.

²⁷ Exhibit A, IRC, page 6. The Exhibit A-1 referred to in the quote is found at Exhibit A, IRC, pages 22-27.

²⁸ Compare Exhibit A, IRC, pages 21-27 with Exhibit A, IRC, pages 548-550 (“Schedule 1 — Summary of Program Costs” in the Final Audit Report). The bottom-line totals are identical.

The IRC was also untimely filed under the “last essential element” rule of construing statutes of limitations. Under this confusingly named rule, a right accrues — and the limitations period begins to run — from the *earliest* point in time when the claim could have been filed and maintained.²⁹ In determining when a limitations period begins to run, the California Supreme Court looks to the earliest point in time when a litigant could have filed and maintained the claim.³⁰

Under these principles, the claimant’s three-year limitations period began to run on the date of the Final Audit Report.³¹ As of that day, the claimant could have filed an IRC, because, as of that day, the claimant had (from its perspective) been harmed by a reduction.

Claimant also argues that the statements and actions of the Controller led the claimant to file late since the Controller in a letter dated May 7, 2013, stated that the claimant could file an IRC three years from the date of the letters dated August 6, 2010. The claimant was merely following the Controller’s instruction, it argues.³² Therefore, under principles of equitable estoppel, Claimant argues the IRC was timely filed.

Equitable estoppel does not affect the statute of limitations in this case. The Controller made a mistake of law when (in the letter dated May 7, 2013³³) the Controller stated that the three-year IRC filing period started to run from the Controller’s notice contained in the three documents dated August 6, 2010. As analyzed in the Proposed Decision, the three-year limitations period commenced to run from the date of the Final Audit Report.

The Commission should interpret the evidence in the record as presenting a mutual mistake of law by both the Controller and the claimant. A situation in which a government agency and a third party both misinterpret the law does not create an estoppel against the government. “Acts or conduct performed under a mutual mistake of law do not constitute grounds for estoppel. (Citation.) It is presumed the party claiming estoppel had an equal opportunity to discover the law.”³⁴ “Where the facts and law are known to both parties, there can be no estoppel. (Citation.) Even an expression as to a matter of law, in the absence of a confidential relationship, is not a basis for an estoppel.”³⁵ “Persons dealing with the government are charged with knowing government statutes and regulations, and they assume the risk that government agents may exceed their authority and provide misinformation.”³⁶

²⁹ *Aryeh v. Canon Business Solutions, Inc.* (2013) 55 Cal.4th 1185, 1191.

³⁰ *Howard Jarvis Taxpayers Ass’n v. City of La Habra* (2001) 25 Cal.4th 809, 815.

³¹ California Code of Regulations, title 2, section 1185.1(c).

³² Exhibit F, Claimant’s Comments on Draft Proposed Decision, pages 2-3.

³³ Exhibit A, IRC, page 486.

³⁴ *Adams v. County of Sacramento* (1991) 235 Cal.App.3d 872, 883-884.

³⁵ *People v. Stuyvesant Ins. Co.* (1968) 261 Cal.App.2d 773, 784.

³⁶ *Lavin v. Marsh* (9th Cir. 1981) 644 F.2d 1378, 1383.

Furthermore, the Controller had, two years earlier, referred the claimant to the Commission’s website for IRC information.³⁷ In addition, the record does not indicate that the Controller engaged in some quantum of turpitude — a requisite to a finding of equitable estoppel.³⁸ Separately and independently, the finding of an estoppel under this situation would nullify a strong rule of policy adopted for the benefit of the public; specifically, the policy that limitations periods exist “to encourage the timely presentation of claims and prevent windfall benefits.”³⁹

The claimant also argues that the limitations period should be reset or suspended because the Controller engaged in a reconsideration of the audit results.⁴⁰ However, the Controller stated at the relevant time (May 2013) that it was not engaging in a reconsideration and that the claimant’s reconsideration request was denied.⁴¹ The claimant’s argument should therefore be rejected, because a statute of limitations cannot be affected by a reconsideration which never occurred.

Accordingly, the IRC should be denied as untimely filed.

B. In the Alternative, the County Waived Its Right to File an IRC.

In its comments on the IRC, the Controller stated that the claimant had agreed to the Controller’s audit and findings. “In response to the findings, the county agreed with the audit results. Further, the county provided a management representation letter asserting that it made available to the SCO all pertinent information in support of its claims (Tab 14).”⁴² By stating these facts in opposition to the IRC, the Controller raises the question of whether the claimant waived its right to contest the audit findings.⁴³

³⁷ Exhibit A, IRC, page 542 (“If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM’s Web site at www.csm.ca.gov/docs/IRCform.pdf.”).

³⁸ “We have in fact indicated that some element of turpitude on the part of the party to be estopped is requisite even in cases not involving title to land.” *City of Long Beach v. Mansell* (1970) 3 Cal.3d 462, 490 fn. 24.

³⁹ *Lentz v. McMahon* (1989) 49 Cal.3d 393, 401.

⁴⁰ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 3.

⁴¹ Exhibit A, IRC, page 485 (“This letter confirms that we denied the county’s reconsideration request . . .”).

⁴² Exhibit B, Controller’s Late Comments on the IRC, page 25. The referenced “Tab 14” is the two-page letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010 (Exhibit B, Controller’s Late Comments on the IRC, pages 185-186).

⁴³ While the Controller’s raising of the waiver issue could have been made with more precision and detail, the Controller’s statements regarding the claimant’s June 2010 agreement with the audit findings sufficiently raises the waiver issue under the lenient standards which apply to administrative hearings. See, e.g., *Santa Clarita Organization for Planning the Environment v. City of Santa Clarita* (2011) 197 Cal.App.4th 1042, 1051 (“less specificity is required to preserve an issue for appeal in an administrative proceeding than in a judicial proceeding”).

Courts have stated that a “waiver may be either express, based on the words of the waiving party, or implied, based on conduct indicating an intent to relinquish the right.”⁴⁴ In addition, “[i]t is settled law in California that a purported ‘waiver’ of a statutory right is not legally effective unless it appears that the party charged with the waiver has been fully informed of the existence of that right, its meaning, the effect of the ‘waiver’ presented to him, and his full understanding of the explanation.”⁴⁵ Waiver is a question of fact and is always based upon intent.⁴⁶ Waiver must be established by clear and convincing evidence.⁴⁷

On May 19, 2010, the Controller provided the claimant a draft copy of the audit report.⁴⁸ In response to the Draft Audit Report, the claimant’s Auditor-Controller issued a four-page letter dated June 16, 2010, a copy of which is reproduced in the Controller’s Final Audit Report.⁴⁹ The first page of this four-page letter contains the following statement:

*The County’s attached response indicates agreement with the audit findings and the actions that the County will take to implement policies and procedures to ensure that the costs claimed under HDS are eligible, mandate related, and supported.*⁵⁰

The claimant’s written response to the Draft Audit Report — the moment when a claimant would and should proffer objections to the Controller’s reductions — was to indicate “agreement with the audit findings.” The Commission should note that the claimant indicated active “agreement” as opposed to passive “acceptance.” In addition, the following three pages of the four-page letter contain further statements of agreement with each of the Controller’s findings and recommendations.⁵¹

The claimant also filed a separate two-page letter dated June 16, 2010, in which the claimant contradicted several positions which the claimant now attempts to take in this IRC. For example, in its IRC, the claimant argues that it provided cost report data — not actual cost data — to the Controller, which then erred by conducting an audit as if the claimant had provided actual cost

⁴⁴ *Waller v. Truck Insurance Exchange* (1995) 11 Cal.4th 1, 31.

⁴⁵ *B.W. v. Board of Medical Quality Assurance* (1985) 169 Cal.App.3d 219, 233.

⁴⁶ *Smith v. Selma Community Hospital* (2008) 164 Cal.App.4th 1478, 1506.

⁴⁷ *DRG/Beverly Hills, Ltd, supra*, 30 Cal.App.4th 54, 60. When a fact must be established by clear and convincing evidence, the substantial evidence standard of review for any appeal of the Commission’s decision to the courts still applies. See Government Code section 17559(b). See also *Sheila S. v. Superior Court (Santa Clara County Dept. of Family and Children’s Services)* (2000) 84 Cal.App.4th 872, 880.

⁴⁸ Exhibit A, IRC, page 547.

⁴⁹ Exhibit A, IRC, pages 558-561 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

⁵⁰ Exhibit A, IRC, page 558 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010) (emphasis added).

⁵¹ Exhibit A, IRC, pages 559-561.

data.⁵² “[T]he Cost Report Method is not, nor was it ever intended to be, an *actual* cost method of claiming,” the claimant argues in its IRC.⁵³ However, in the two-page letter, the claimant stated the opposite: that, in the claimant’s reimbursement requests, “We claimed mandated costs *based on actual expenditures* allowable per the Handicapped and Disabled Students Program’s parameters and guidelines.”⁵⁴

In its IRC, the claimant argues that the Controller based its audit on incorrect or incomplete documentation.⁵⁵ However, neither claimant’s four-page letter nor claimant’s two-page letter dated June 16, 2010, objected to the audit findings on these grounds — objections which would have been known to the claimant in June 2010, since the claimant and its personnel had spent the prior two years working with the Controller’s auditors. Rather, the claimant’s two-page letter stated the opposite by repeatedly emphasizing the accuracy and completeness of the records provided to the Controller: “We maintain accurate financial records and data to support the mandated cost claims submitted to the SCO.”⁵⁶ “We designed and implemented the County’s accounting system to ensure accurate and timely records.”⁵⁷ “We made available to the SCO’s audit staff all financial records, correspondence, and other data pertinent to the mandated cost claims.”⁵⁸ “We are not aware of Relevant, material transactions that were not properly recorded in the accounting records that could have a material effect on the mandated cost claims.”⁵⁹

In the IRC, the claimant now argues that, even if the Controller correctly reduced its claims, the claimant should be allowed to submit new claims based upon previously unproduced evidence under an alleged right of equitable setoff.⁶⁰ However, in its two-page letter, the claimant stated the opposite: “There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion that would have a material effect on the mandated cost claims.”⁶¹ “We are

⁵² Exhibit A, IRC, pages 6-10.

⁵³ Exhibit A, IRC, page 9. (Emphasis in original.)

⁵⁴ Exhibit B, Controller’s Late Comments on the IRC, page 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 4, emphasis added.)

⁵⁵ Exhibit A, IRC, pages 11-15, 17-18.

⁵⁶ Exhibit B, Controller’s Late Comments on the IRC, page 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 1).

⁵⁷ Exhibit B, Controller’s Late Comments on the IRC, page 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 2).

⁵⁸ Exhibit B, Controller’s Late Comments on the IRC, page 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 5).

⁵⁹ Exhibit B, Controller’s Late Comments on the IRC, page 186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 7(d)).

⁶⁰ Exhibit A, IRC, pages 15-17.

⁶¹ Exhibit B, Controller’s Late Comments on the IRC, page 186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 8).

not aware of any events that occurred after the audit period that would require us to adjust the mandated cost claims.”⁶²

The claimant’s two-page letter demonstrates that, as far as the claimant was concerned in June 2010, it had maintained records of actual costs, had maintained accurate and complete records, had provided the Controller with accurate and complete records, and had acknowledged that it had no further reimbursement claims. The claimant now attempts to make the opposite arguments in this IRC.

Given the totality of the circumstances and all of the evidence in the record, staff finds by clear and convincing evidence that the claimant’s intention in June 2010 was to agree with the results of the Controller’s audit and to waive any right to object to the audit or to add additional claims.

Conclusion

Staff finds that claimant’s IRC was untimely filed and that, even if it were timely filed, the claimant waived its arguments.

Staff Recommendation

Staff recommends that the Commission adopt the Proposed Decision denying the IRC, and authorize staff to make any technical, non-substantive changes following the hearing.

⁶² Exhibit B, Controller’s Late Comments on the IRC, page 186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 9).

BEFORE THE
COMMISSION ON STATE MANDATES
STATE OF CALIFORNIA

IN RE INCORRECT REDUCTION CLAIM
ON:
Government Code Sections 7572 and 7572.5;
Statutes 1984, Chapter 1747 (AB 3632);
Statutes 1985, Chapter 1274 (AB 882);
California Code of Regulations, Title 2,
Division 9, Chapter 1, Section 60040
(Emergency Regulations filed
December 31, 1985, designated effective
January 1, 1986 [Register 86, No. 1] and
refiled June 30, 1986, designated effective
July 12, 1986 [Register 86, No. 28])⁶³
Fiscal Years 2003-2004, 2004-2005,
and 2005-2006
County of Los Angeles, Claimant

Case No.: 13-4282-I-06

Handicapped and Disabled Students

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

(Adopted July 22, 2016)

DECISION

The Commission on State Mandates (Commission) heard and decided this Incorrect Reduction Claim (IRC) during a regularly scheduled hearing on July 22, 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] this IRC by a vote of [vote count will be included in the adopted decision] as follows:

⁶³ Note that this caption differs from the Test Claim and the Parameters and Guidelines captions in that it includes only those sections that were approved for reimbursement in the Test Claim Decision. Generally, a parameters and guidelines caption should include only the specific sections of the statutes and executive orders that were approved in the underlying test claim decision. However, that was an oversight in the case of the Parameters and Guidelines at issue in this case.

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	

Summary of the Findings

This IRC was filed in response to an audit by the State Controller's Office (Controller) of the County of Los Angeles's (claimant's) initial reimbursement claims under the *Handicapped and Disabled Students* program for fiscal years 2003-2004, 2004-2005, and 2005-2006. The Controller reduced the claims because it found that the claimant: (1) claimed ineligible, unsupported, and duplicate services related to assessment and treatment costs and administrative costs; (2) overstated indirect costs by applying indirect cost rates toward ineligible direct costs; and (3) overstated offsetting revenues by using inaccurate Medi-Cal units, by applying incorrect funding percentages for Early and Periodic, Screening, Diagnosis, and Treatment (EPSDT) for fiscal year (FY) 2005-06, including unsupported revenues, and by applying revenue to ineligible direct and indirect costs.⁶⁴ In this IRC, the claimant contends that the Controller's reductions were incorrect and requests, as a remedy, that the Commission reinstate the following cost amounts (which would then become subject to the program's reimbursement formula):

FY2003-2004:	\$5,247,918
FY2004-2005:	\$6,396,075
FY2005-2006:	\$6,536,836 ⁶⁵

After a review of the record and the applicable law:

1. The Commission finds that the IRC was untimely filed; and
2. The Commission finds, by clear and convincing evidence, that the claimant's intention in June 2010 was to agree with the results of the Controller's audit and to waive any right to object to the audit or to add additional claims, and that the IRC should be denied on that separate and independent basis.

Accordingly, the Commission denies this IRC.

⁶⁴ See, e.g., Exhibit A, IRC, page 542 (Letter from Jeffrey V. Brownfield to Gloria Molina, dated June 30, 2010).

⁶⁵ Exhibit A, IRC, page 1. In footnotes 1 to 4, inclusive, of the Written Narrative portion of the IRC, the claimant explains why it is requesting reinstatement of cost amounts which are greater than the amounts that the Controller reduced. Exhibit A, IRC, page 4.

I. Chronology

01/05/2005	Claimant dated the reimbursement claim for fiscal year 2003-2004. ⁶⁶
01/10/2006	Claimant dated the reimbursement claim for fiscal year 2004-2005. ⁶⁷
04/05/2007	Claimant dated the amended reimbursement claim for fiscal year 2005-2006. ⁶⁸
08/12/2008	Controller sent a letter to claimant dated August 12, 2008 confirming the start of the audit. ⁶⁹
05/19/2010	Controller issued the Draft Audit Report dated May 19, 2010. ⁷⁰
06/16/2010	Claimant sent a letter to Controller dated June 16, 2010 in response to the Draft Audit Report. ⁷¹
06/16/2010	Claimant sent a letter to Controller dated June 16, 2010 with regard to the claims and audit procedure. ⁷²
06/30/2010	Controller issued the Final Audit Report dated June 30, 2010. ⁷³
08/02/2013	Claimant filed this IRC. ⁷⁴
11/25/2014	Controller filed late comments on the IRC. ⁷⁵
12/23/2014	Claimant filed a request for extension of time to file rebuttal comments which was granted for good cause.

⁶⁶ Exhibit A, IRC, page 564 (cover letter), page 571 (Form FAM-27).

⁶⁷ Exhibit A, IRC, page 859 (cover letter), page 862 (Form FAM-27). The cover letter is dated one day before the date of the Form FAM-27; the discrepancy is immaterial, and this Decision will utilize the date of the cover letter (January 10, 2006) as the relevant date.

⁶⁸ Exhibit A, IRC, page 1047 (cover letter), page 1050 (Form FAM-27).

⁶⁹ Exhibit B, Controller's Late Comments on the IRC, page 181 (Letter from Christopher Ryan to Wendy L. Watanabe, dated August 12, 2008). The Controller also asserts on page 25 of its comments that "The SCO contacted the county by phone on July 28, 2008, to initiate the audit...." However, this assertion of fact is not supported by a declaration of a person with personal knowledge or any other evidence in the record.

⁷⁰ Exhibit A, IRC, page 547.

⁷¹ Exhibit A, IRC, pages 558-561 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

⁷² Exhibit B, Controller's Late Comments on the IRC, pages 185-186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010).

⁷³ Exhibit A, IRC, page 542 (cover letter), pages 541-562 (Final Audit Report).

⁷⁴ Exhibit A, IRC, pages 1, 3.

⁷⁵ Exhibit B, Controller's Late Comments on the IRC, page 1.

- 03/26/2015 Claimant filed rebuttal comments.⁷⁶
- 05/20/2016 Commission staff issued the Draft Proposed Decision.⁷⁷
- 06/06/2016 Controller filed comments on the Draft Proposed Decision.⁷⁸
- 06/10/2016 Claimant filed comments on the Draft Proposed Decision.⁷⁹

II. Background

In 1975, Congress enacted the Education for All Handicapped Children Act (EHA) with the stated purpose of assuring that “all handicapped children have available to them . . . a free appropriate public education which emphasizes special education and related services designed to meet their unique needs . . .”⁸⁰ Among other things, the EHA authorized the payment of federal funds to states which complied with specified criteria regarding the provision of special education and related services to handicapped and disabled students.⁸¹ The EHA was ultimately renamed the Individuals with Disability Education Act (IDEA) and guarantees to disabled pupils, including those with mental health needs, the right to receive a free and appropriate public education, including psychological and other mental health services, designed to meet the pupil’s unique educational needs.⁸²

In California, the responsibility of providing both “special education” and “related services” was initially shared by local education agencies (broadly defined) and by the state government.⁸³ However, in 1984, the Legislature enacted AB 3632, which amended Government Code chapter 26.5 relating to “interagency responsibilities for providing services to handicapped children” which created separate spheres of responsibility.⁸⁴ And, in 1985, the Legislature further amended chapter 26.5.⁸⁵

⁷⁶ Exhibit C, Claimant’s Rebuttal Comments, page 1.

⁷⁷ Exhibit D, Draft Proposed Decision, pages 1, 34.

⁷⁸ Exhibit E, Controller’s Comments on the Draft Proposed Decision, page 1.

⁷⁹ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 1.

⁸⁰ Public Law 94-142, section 1, section 3(a) (Nov. 29, 1975) 89 U.S. Statutes at Large 773, 775. See also 20 U.S.C. § 1400(d) [current version].

⁸¹ Public Law 94-142, section 5(a) (Nov. 29, 1975) 89 U.S. Statutes at Large 773, 793. See also 20 U.S.C. 1411(a)(1) [current version].

⁸² Public Law 101-476, section 901(a)(1) (October 30, 1999) 104 U.S. Statutes at Large 1103, 1141-1142.

⁸³ *California School Boards Ass’n v. Brown* (2011) 192 Cal.App.4th 1507, 1514.

⁸⁴ Statutes 1984, chapter 1747.

⁸⁵ Statutes 1985, chapter 1274.

The impact of the 1984 and 1985 amendments — sometimes referred to collectively as “Chapter 26.5 services” — was to transfer the responsibility to provide mental health services for disabled pupils from school districts to county mental health departments.⁸⁶

In 1990 and 1991, the Commission adopted the Test Claim Statement of Decision and the Parameters and Guidelines, approving *Handicapped and Disabled Students*, CSM 4282, as a reimbursable state-mandated program within the meaning of article XIII B, section 6 of the California Constitution.⁸⁷ The Commission found that the activities of providing mental health assessments; participation in the IEP process; and providing psychotherapy and other mental health treatment services were reimbursable and that providing mental health treatment services was funded as part of the Short-Doyle Act, based on a cost-sharing formula with the state.⁸⁸ Beginning July 1, 2001, however, the cost-sharing ratio for providing psychotherapy and other mental health treatment services no longer applied, and counties were entitled to receive reimbursement for 100 percent of the costs to perform these services.⁸⁹

In 2004, the Legislature directed the Commission to reconsider *Handicapped and Disabled Students*, CSM 4282.⁹⁰ In May 2005, the Commission adopted the Statement of Decision on Reconsideration, 04-RL-4282-10, and determined that the original Statement of Decision correctly concluded that the test claim statutes and regulations impose a reimbursable state-mandated program on counties pursuant to article XIII B, section 6. The Commission concluded, however, that the 1990 Statement of Decision did not fully identify all of the activities mandated by the state or the offsetting revenue applicable to the program. Thus, for costs incurred beginning July 1, 2004, the Commission identified the activities expressly required by the test claim statutes and regulations that were reimbursable, identified the

⁸⁶ “With the passage of AB 3632 (fn.), California’s approach to mental health services was restructured with the intent to address the increasing number of emotionally disabled students who were in need of mental health services. Instead of relying on LEAs [local education agencies] to acquire qualified staff to handle the needs of these students, the state sought to have CMH [county mental health] agencies — who were already in the business of providing mental health services to emotionally disturbed youth and adults — assume the responsibility for providing needed mental health services to children who qualified for special education.” Stanford Law School Youth and Education Law Clinic, *Challenge and Opportunity: An Analysis of Chapter 26.5 and the System for Delivering Mental Health Services to Special Education Students in California*, May 2004, page 12.

⁸⁷ “As local mental health agencies had not previously been required to provide Chapter 26.5 services to special education students, local mental health agencies argued that these requirements constituted a reimbursable state mandate.” (*California School Boards Ass’n v. Brown* (2011) 192 Cal.App.4th 1507, 1515.)

⁸⁸ Former Welfare and Institutions Code sections 5600 et seq.

⁸⁹ Statutes 2002, chapter 1167 (AB 2781, §§ 38, 41).

⁹⁰ Statutes 2004, chapter 493 (SB 1895).

offsetting revenue applicable to the program, and updated the new funding provisions enacted in 2002 that required 100 percent reimbursement for mental health treatment services.⁹¹

Statutes 2011, chapter 43 (AB 114) eliminated the mandated programs for *Handicapped and Disabled Students*, 04-RL-4282-10 and 02-TC-40/02-TC-49, by transferring responsibility for providing mental health services under IDEA back to school districts, effective July 1, 2011.⁹² On September 28, 2012, the Commission adopted an amendment to the Parameters and Guidelines ending reimbursement effective July 1, 2011.

The Controller's Audit and Reduction of Costs

The Controller issued the Draft Audit Report dated May 19, 2010, and provided a copy to the claimant for comment.⁹³

In a four-page letter dated June 16, 2010, the claimant responded directly to the Draft Audit Report, agreed with its findings, and accepted its recommendations.⁹⁴ The first page of this four-page letter contains the following statement:

The County's attached response indicates agreement with the audit findings and the actions that the County will take to implement policies and procedures to ensure that the costs claimed under HDS are eligible, mandate related, and supported.⁹⁵

The following three pages of the four-page letter contain further statements of agreement with the Controller's findings and recommendations.

In response to the Controller's Finding No. 1, that the claimant overstated assessment and treatment costs by more than \$27 million, the claimant responded in relevant part:

We agree with the recommendation. The County will strengthen the policies and procedures to ensure that only actual units of service for eligible clients are claimed in accordance with the mandated program. The County will ensure all staff members are trained on the applicable policies and procedures. . . .

⁹¹ In May 2005, the Commission also adopted a Statement of Decision on *Handicapped and Disabled Students II* (02-TC-40/02-TC-49), a test claim addressing statutory amendments enacted between the years 1986 and 2002 to Government Code sections 7570 et seq., and 1998 amendments to the joint regulations adopted by the Departments of Education and Mental Health. The period of reimbursement for *Handicapped and Disabled Students II* (02-TC-40/02-TC-49) began July 1, 2001.

⁹² Assembly Bill No. 114 (2011-2012 Reg. Sess.), approved by Governor, June 30, 2011.

⁹³ Exhibit A, IRC, page 547.

⁹⁴ Exhibit A, IRC, pages 558-561 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

⁹⁵ Exhibit A, IRC, page 558 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010) (emphasis added).

The County has agreed to the audit disallowances for Case Management Support Costs.⁹⁶

In response to the Controller's Finding No. 2, that the claimant overstated administrative costs by more than \$5 million, the claimant responded in relevant part:

We agree with the recommendation. As stated in the County's Response for Finding 1, the County will strengthen the policies and procedures to ensure that only actual units of service for eligible clients are claimed in accordance with the mandated program and will ensure the administrative cost rates are applied appropriately. At the time of claim preparation, it was the County's understanding that the administrative cost rates were applied to eligible and supported direct costs. The State auditor's discovery of ineligible units of service resulted in the ineligibility of the administrative costs.⁹⁷

In response to the Controller's Finding No. 3, that the claimant overstated offsetting revenues by more than \$13 million, the claimant responded in relevant part:

We agree with the recommendation. It is always the County's intent to apply the applicable offsetting revenues (including federal, state, and local reimbursements) to eligible costs, which are supported by source documentation.⁹⁸

In a separate two-page letter also dated June 16, 2010, the claimant addressed its compliance with the audit and the status of any remaining reimbursement claims.⁹⁹ Material statements in the two-page letter include:

- “We maintain accurate financial records and data to support the mandated cost claims submitted to the SCO.”¹⁰⁰
- “We designed and implemented the County's accounting system to ensure accurate and timely records.”¹⁰¹

⁹⁶ Exhibit A, IRC, pages 559-560 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

⁹⁷ Exhibit A, IRC, page 560 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

⁹⁸ Exhibit A, IRC, page 561 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

⁹⁹ Exhibit B, Controller's Late Comments on the IRC, pages 185-186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010).

¹⁰⁰ Exhibit B, Controller's Late Comments on the IRC, pages 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 1).

¹⁰¹ Exhibit B, Controller's Late Comments on the IRC, pages 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 2).

- “We claimed mandated costs based on actual expenditures allowable per the Handicapped and Disabled Students Program’s parameters and guidelines.”¹⁰²
- “We made available to the SCO’s audit staff all financial records, correspondence, and other data pertinent to the mandated cost claims.”¹⁰³
- “We are not aware of any . . . Relevant, material transactions that were not properly recorded in the accounting records that could have a material effect on the mandated cost claims.”¹⁰⁴
- “There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion that would have a material effect on the mandated cost claims.”¹⁰⁵
- “We are not aware of any events that occurred after the audit period that would require us to adjust the mandated cost claims.”¹⁰⁶

On June 30, 2010, the Controller issued the Final Audit Report.¹⁰⁷ The Controller reduced the claims because the claimant: (1) claimed ineligible, unsupported, and duplicate services related to assessment and treatment costs and administrative costs; (2) overstated indirect costs by applying indirect cost rates toward ineligible direct costs; and (3) overstated offsetting revenues by using inaccurate Medi-Cal units, by applying incorrect funding percentages for Early and Periodic, Screening, Diagnosis and Treatment (EPSDT) for FY 2005-2006, including unsupported revenues, and by applying revenue to ineligible direct and indirect costs.¹⁰⁸

On August 2, 2013, the claimant filed this IRC with the Commission.¹⁰⁹

III. Positions of the Parties

A. County of Los Angeles

¹⁰² Exhibit B, Controller’s Late Comments on the IRC, pages 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 4).

¹⁰³ Exhibit B, Controller’s Late Comments on the IRC, pages 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 5).

¹⁰⁴ Exhibit B, Controller’s Late Comments on the IRC, pages 186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 7).

¹⁰⁵ Exhibit B, Controller’s Late Comments on the IRC, pages 186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 8).

¹⁰⁶ Exhibit B, Controller’s Late Comments on the IRC, pages 186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 9).

¹⁰⁷ Exhibit B, Controller’s Late Comments on the IRC, page 6 (Declaration of Jim L. Spano, dated Nov. 17, 2014, paragraph 7); Exhibit A, IRC, page 542 (cover letter), pages 541-562 (Final Audit Report).

¹⁰⁸ See, e.g., Exhibit A, IRC, page 542 (Letter from Jeffrey V. Brownfield to Gloria Molina, dated June 30, 2010).

¹⁰⁹ Exhibit A, IRC, pages 1, 3.

The claimant objects to \$18,180,829 in reductions. The claimant asserts that the Controller audited the claim as if the claimant used the actual increased cost method to prepare the reimbursement claim, instead of the cost report method the claimant states it used. Thus, the claimant takes the following principal positions:

1. The Controller lacked the legal authority to audit the claimant's reimbursement claims because the claimant used the cost report method for claiming costs. The cost report method is a reasonable reimbursement methodology (RRM) based on approximations of local costs and, thus, the Controller has no authority to audit RRMs. The Controller's authority to audit is limited to actual cost claims.¹¹⁰
2. Even if the Controller has the authority to audit the reimbursement claims, the Controller was limited to reviewing only the documents required by the California Department of Mental Health's cost report instructions, and not request supporting data from the county's Mental Health Management Information System.¹¹¹
3. The Controller also has the obligation to permit the actual costs incurred on review of the claimant's supporting documentation. However, the data set used by the Controller to determine allowable costs was incomplete and did not accurately capture the costs of services rendered.¹¹²
4. Under the principle of equitable offset, the claimant may submit new claims for reimbursement supported by previously un-submitted documentation.¹¹³

The claimant also asserts that the Controller improperly shifted IDEA funds and double-counted certain assessment costs.¹¹⁴

On June 10, 2016, the claimant filed comments on the Draft Proposed Decision, arguing that the IRC should be considered timely filed because the claimant relied upon statements made by the Controller that it had three years to file an IRC from the notices dated August 6, 2010, as follows:

The County relied upon the statements and the actions of the SCO in making its determinations. In its cover letter to the County accompanying the audit report, the SCO states that the County must file an IRC within three years of the SCO notifying the County of a claim reduction. The SCO then refers to the notices as notices of claim reduction. The SCO then specifically referred to the dates of the

¹¹⁰ Exhibit A, IRC, pages 10-11.

¹¹¹ Exhibit A, IRC, pages 11-12.

¹¹² Exhibit A, IRC, pages 12-15, 17-18.

¹¹³ Exhibit A, IRC, pages 15-17.

¹¹⁴ Exhibit A, IRC, page 4 fn. 1 through 4 ("The amounts are further offset because the SCO, in calculating the County's claimed amount, added the amounts associated with refiling of claims based on the CSM's Reconsideration Decision to the original claims submitted for Fiscal Years 2004-05 and 2005-06, thus double-counting certain assessment costs for those fiscal years.").

notices upon which the County relied as the dates they notified the County of a claim reduction.¹¹⁵

The claimant also argued that the limitations period should be reset or suspended because the Controller engaged in a reconsideration of the audit results.¹¹⁶

B. State Controller's Office

The Controller contends that it acted according to the law when it made \$18,180,829 in reductions to the claimant's reimbursement claims for fiscal years 2003-2004, 2004-2005, and 2005-2006.

The Controller takes the following principal positions:

1. The Controller possesses the legal authority to audit the claimant's reimbursement claims, even if the claims were made using a cost report method as opposed to an actual cost method.¹¹⁷
2. The documentation provided by the claimant did not verify the claimed costs.¹¹⁸
3. The claimant provided a management representation letter stating that the claimant had provided to the Controller all pertinent information in support of its claims.¹¹⁹
4. The claimant may not, under the principle of equitable offset, submit new claims for reimbursement supported by previously un-submitted documentation.¹²⁰

On June 6, 2016, the Controller filed comments agreeing with the Draft Proposed Decision.¹²¹

IV. Discussion

Government Code section 17561(d) 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

¹¹⁵ Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 3. The letter the claimant is referring to is the letter at Exhibit A, IRC, pages 485-486, from Jim Spano to Robin C. Kay, dated May 7, 2013.

¹¹⁶ Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 3.

¹¹⁷ Exhibit B, Controller's Late Comments on the IRC, page 27. But see Exhibit C, Claimant's Rebuttal Comments, page 2 ("The SCO states it disagrees with the County's contention that the SCO did not have the legal authority to audit the program during these three fiscal years. However, it offers no argument or support for its position."). The Commission is not aided by the Controller's failure to substantively address a legal issue raised by the IRC.

¹¹⁸ Exhibit B, Controller's Late Comments on the IRC, pages 27-29.

¹¹⁹ Exhibit B, Controller's Late Comments on the IRC, page 29.

¹²⁰ Exhibit B, Controller's Late Comments on the IRC, page 28.

¹²¹ Exhibit E, Controller's Comments on the Draft Proposed Decision.

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 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 over the existence of state-mandated programs within the meaning of article XIII B, section 6, of the California Constitution.¹²² 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."¹²³

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.¹²⁴ Under this standard, the courts have found:

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.]' "¹²⁵

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.¹²⁶ In addition, sections 1185.1(f)(3) and 1185.2(c) of the Commission's regulations require that any assertions of fact by

¹²² *Kinlaw v. State of California* (1991) 54 Cal.3d 326, 331-334; Government Code sections 17551, 17552.

¹²³ *County of Sonoma v. Commission on State Mandates* (2000) 84 Cal.App.4th 1264, 1281, citing *City of San Jose v. State of California* (1996) 45 Cal.App.4th 1802, 1817.

¹²⁴ *Johnston v. Sonoma County Agricultural Preservation and Open Space Dist.* (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.

¹²⁵ *American Bd. of Cosmetic Surgery, Inc. v. Medical Bd. of California* (2008) 162 Cal.App.4th 534, 547-548.

¹²⁶ *Gilbert v. City of Sunnyvale* (2005) 130 Cal.App.4th 1264, 1274-1275.

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.¹²⁷

A. The IRC Was Untimely Filed.

The threshold issue is whether this IRC was timely filed.¹²⁸

At the time the reimbursement claims were audited and when this IRC was filed, the Commission's regulation containing the limitations period read:

All incorrect reduction claims shall be filed with the commission no later than three (3) years following the date of the Office of State Controller's final state audit report, letter, remittance advice, or other written notice of adjustment notifying the claimant of a reduction.¹²⁹

Thus, the applicable limitations period is "three (3) years following the date of the Office of State Controller's final state audit report, letter, remittance advice, or other written notice of adjustment notifying the claimant of a reduction."¹³⁰

Applying the plain language of the limitations regulation — that the IRC must have been filed no later than three years after "the date" of the Final Audit Report — the IRC was untimely. The Controller's Final Audit Report is dated June 30, 2010.¹³¹ Three years later was June 30, 2013. Since June 30, 2013, was a Sunday, the claimant's deadline to file this IRC

¹²⁷ 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.

¹²⁸ In its comments on the IRC (Exhibit B), the Controller did not raise the issue of whether the IRC was timely filed. However, the Commission's limitations period is jurisdictional, and, as such, the Commission is obligated to review the limitations issue *sua sponte*. (See *John R. Sand & Gravel Co. v. United States* (2008) 552 U.S. 130, 132 [128 S. Ct. 750, 752].)

"The statute of limitations is an affirmative defense" (*Ladd v. Warner Bros. Entertainment, Inc.* (2010) 184 Cal.App.4th 1298, 1309), and, in civil cases, an affirmative defense must be established by a preponderance of the evidence (31 Cal.Jur.3d, Evidence, section 97 [collecting cases]; *People ex. rel. Dept. of Public Works v. Lagiss* (1963) 223 Cal.App.2d 23, 37). See also Evidence Code section 115 ("Except as otherwise provided by law, the burden of proof requires proof by a preponderance of the evidence.").

¹²⁹ Former Code of California Regulations, title 2, section 1185(b), which was renumbered section 1185(c) effective January 1, 2011. Effective July 1, 2014, the regulation was amended to state the following: "All incorrect reduction claims shall be filed with the Commission no later than three years following the date of the Office of State Controller's final state audit report, letter, remittance advice, or other written notice of adjustment to a reimbursement claim." Code of California Regulations, title 2, section 1185.1(c).

¹³⁰ Former Code of California Regulations, title 2, section 1185(b).

¹³¹ Exhibit A, IRC, page 547 (Final Audit Report).

moved to Monday, July 1, 2013.¹³² Instead of filing this IRC by the deadline of Monday, July 1, 2013, the claimant filed this IRC with the Commission on Friday, August 2, 2013 — 32 days later.¹³³

The claimant attempts to save its IRC by calculating the commencement of the limitations period from the date of three documents which bear the date August 6, 2010, and which were issued by the Controller; the claimant refers to these three documents as “Notices of Claim Adjustment.”¹³⁴ In the Written Narrative portion of the IRC, the claimant writes, “The SCO issued its audit report on June 30, 2010. The report was followed by Notices of Claim Adjustment dated August 6, 2010 (see Exhibit A).”¹³⁵ The claimant further argues that the Commission should find that the IRC was timely filed based on statements made by the Controller’s Office that an IRC could be filed three years from the August 6, 2010 notices.¹³⁶

The claimant’s argument fails because: (1) the three documents dated August 6, 2010, were not notices of claim adjustment; (2) the limitations period commences to run upon the earliest event in time which would have allowed the claimant to file a claim; and (3) the Controller’s misstatement of law (specifically, the Controller’s erroneous statement that the limitations period for filing an IRC began to run as of the three documents dated August 6, 2010) does not result in an equitable estoppel that makes the IRC timely.

1. The Three Documents Dated August 6, 2010, Are Not Notices of Adjustment.

For purposes of state mandate law, the Legislature has enacted a statutory definition of what constitutes a “notice of adjustment.”

Government Code section 17558.5(c) reads in relevant part, “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.”

¹³² See California Code of Regulations, title 2, section 1183.18(a)(1); Code of Civil Procedure section 12a(a) (“If the last day for the performance of any act provided or required by law to be performed within a specified period of time is a holiday, then that period is hereby extended to and including the next day that is not a holiday.”); Government Code section 6700(a)(1) (“The holidays in this state are: Every Sunday....”); and Code of Civil Procedure section 12a(b) (“This section applies . . . to all other provisions of law providing or requiring an act to be performed on a particular day or within a specified period of time, whether expressed in this or any other code or statute, ordinance, rule, or regulation.”).

¹³³ Exhibit A, IRC, page 1.

¹³⁴ Exhibit A, IRC, pages 21-27.

¹³⁵ Exhibit A, IRC, page 6.

¹³⁶ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, pages 2-3.

In other words, a notice of adjustment is a document which contains four elements: (1) a specification of the claim components adjusted, (2) the amounts adjusted, (3) interest charges, and (4) the reason for the adjustment.

Each of the three documents which the claimant dubs “Notices of Claim Adjustment” contains the amount adjusted, but the other three required elements are absent. None of the three documents specifies the claim components adjusted; each provides merely a lump-sum total of all *Handicapped and Disabled Students* program costs adjusted for the entirety of the relevant fiscal year. None of the three documents contains interest charges. Perhaps most importantly, none of the three documents enunciates a reason for the adjustment.¹³⁷

In addition to their failure to satisfy the statutory definition, the three documents cannot be notices of adjustment because none of the documents adjusts anything. The three documents restate, in the most cursory fashion, the bottom-line findings contained in the Controller’s Final Audit Report.¹³⁸ The claimant asserts that, if the documents dated August 6, 2010, do not constitute notices of claim adjustment, then the Controller never provided notice.¹³⁹ The Final Audit Report provides abundant notice.

None of the three documents provides the claimant with notice of any new finding. The Final Audit Report informed the claimant of the dollar amounts which would not be reimbursed and the dollar amounts which the Controller contended that the claimant owed the State.¹⁴⁰ The Final Audit Report informed the claimant that the Controller would offset unpaid amounts from future mandate reimbursements if payment was not remitted.¹⁴¹ The three documents merely repeat this information. The three documents do not provide notice of any new and material information, and the three documents do not contain any previously unannounced adjustments.¹⁴²

¹³⁷ Exhibit A, IRC, pages 21-27 (the “Notices of Claim Adjustment”). See also Decision, *Domestic Violence Treatment Services — Authorization and Case Management*, Commission on State Mandates Case No. 07-9628101-I-01, adopted March 25, 2016, page 16 (“For IRCS, the ‘last element essential to the cause of action’ which begins the running of the period of limitations . . . is a notice to the claimant of the adjustment that includes the reason for the adjustment.”).

¹³⁸ Compare Exhibit A, IRC, pages 21-27 (the “Notices of Claim Adjustment”) with Exhibit A, IRC, pages 548-550 (“Schedule 1 — Summary of Program Costs” in the Final Audit Report). The bottom-line totals are identical.

¹³⁹ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 3.

¹⁴⁰ The Final Audit Report and the Controller’s cover letter to the Final Audit Report are each dated June 30, 2010. Exhibit A, IRC, pages 542, 547. In addition, the claimant has admitted that the Controller issued the Final Audit Report on June 30, 2010, and that the three documents dated August 6, 2010 “followed” the Final Audit Report. Exhibit A, IRC, page 6.

¹⁴¹ Exhibit A, IRC, page 547.

¹⁴² Moreover, the governing statute provides that a remittance advice or a document which merely provides notice of a payment action is not a notice of adjustment. Government Code section 17558.5(c) (“Remittance advices and other notices of payment action shall not constitute

For these reasons, the three documents are not notices of adjustment within the meaning of Government Code section 17558.5(c).

2. The Limitations Period Begins to Run Upon the Occurrence of the Earliest Event Which Would Have Allowed the Claimant to File a Claim.

The Commission's regulation setting out the limitation period lists several events which could potentially trigger the running of the limitations period. Specifically, the limitations regulation lists, as potentially triggering events, the date of a final audit report, the date of a letter, the date of a remittance advice, and the date of a written notice of adjustment. The claimant argues that, if more than one of these events occurred, then the limitations period should begin to run upon the occurrence of the event which occurred last in time.¹⁴³ The Commission reaches (and has, many times in the past, reached) the opposite conclusion; the limitations period begins to run from the occurrence of the earliest event which would have allowed the claimant to file a claim. Subsequent events do not reset the limitations clock.

At the time the reimbursement claims were audited and when this IRC was filed, the Commission's regulation containing the limitations period read:

All incorrect reduction claims shall be filed with the commission no later than three (3) years following the date of the Office of State Controller's final state audit report, letter, remittance advice, or other written notice of adjustment notifying the claimant of a reduction.¹⁴⁴

Under a legal doctrine with the somewhat confusing name of the "last essential element" rule, a limitations period begins to run upon the occurrence of the *earliest* event in time which creates a claim. Under this rule, a right accrues — and the limitations period begins to run — from the earliest point in time when the claim could have been filed and maintained.

As recently summarized by the California Supreme Court:

The limitations period, the period in which a plaintiff must bring suit or be barred, runs from the moment a claim accrues. (See Code Civ. Proc., § 312 [an action must "be commenced within the periods prescribed in this title, after the cause of action shall have accrued"]; (Citations.). Traditionally at common law, a "cause of action accrues 'when [it] is complete with all of its elements' — those elements being wrongdoing, harm, and causation." (Citations.) This is the "last element"

notice of adjustment from an audit or review."). Whatever term may accurately be used to characterize the three documents identified by the claimant, the three documents are not "notices of adjustment" under state mandate law.

¹⁴³ Exhibit F, Claimant's Comments on the Draft Proposed Decision, pages 2-3.

¹⁴⁴ Former Code of California Regulations, title 2, section 1185(b) (Regulation 1185), which was renumbered section 1185(c) effective January 1, 2011. Effective July 1, 2014, the regulation was amended to state the following: "All incorrect reduction claims shall be filed with the Commission no later than three years following the date of the Office of State Controller's final state audit report, letter, remittance advice, or other written notice of adjustment to a reimbursement claim." Code of California Regulations, title 2, section 1185.1(c).

accrual rule: ordinarily, the statute of limitations runs from “the occurrence of the last element essential to the cause of action.” (Citations.)¹⁴⁵

In determining when a limitations period begins to run, the California Supreme Court looks to the earliest point in time when a litigant could have filed and maintained the claim:

Generally, a cause of action accrues and the statute of limitation begins to run when a suit may be maintained. [Citations.] “Ordinarily this is when the wrongful act is done and the obligation or the liability arises, but it does not ‘accrue until the party owning it is entitled to begin and prosecute an action thereon.’ ” [Citation.] In other words, “[a] cause of action accrues ‘upon the occurrence of the last element essential to the cause of action.’ ” [Citations.]¹⁴⁶

Under these principles, the claimant’s three-year limitations period began to run from the date of the Final Audit Report. As of that date, the claimant could have filed an IRC pursuant to Government Code sections 17551 and 17558.7, because, as of that date, the claimant had been (from its perspective) harmed by a claim reduction. The Controller’s subsequent issuance of a letter or other notice that does not change the reason for the reduction does not start a new limitations clock. The limitations period starts to run from the earliest point in time when the claimant could have filed an IRC — and the limitations period expires three years after that earliest point in time.

This finding is consistent with two recent Commission decisions regarding the three-year period in which a claimant can file an IRC.

In the *Collective Bargaining* program IRC Decision adopted on December 5, 2014, the claimant argued that the limitations period should begin to run from the date of the *last* notice of adjustment in the record.¹⁴⁷ This argument parallels that of the claimant in this instant IRC, who argues that between the Final Audit Report dated June 30, 2010, and the three documents dated August 6, 2010, the *later* event should commence the running of the limitations period.

In the *Collective Bargaining* Decision, the Commission rejected the argument. The Commission held that the limitations period began to run on the *earliest* applicable event because that was when the claim was complete as to all of its elements.¹⁴⁸ “Accordingly, the claimant cannot allege that the earliest notice did not provide sufficient information to initiate the IRC, and the later adjustment notices that the claimant proffers do not toll or suspend the operation of the period of limitation,” the Commission held.¹⁴⁹

In the *Domestic Violence Treatment Services — Authorization and Case Management* program IRC Decision adopted on March 25, 2016, the Commission held, “For IRCs, the ‘last element essential to the cause of action’ which begins the running of the period of limitations . . . is a

¹⁴⁵ *Aryeh v. Canon Business Solutions, Inc.* (2013) 55 Cal.4th 1185, 1191.

¹⁴⁶ *Howard Jarvis Taxpayers Ass’n v. City of La Habra* (2001) 25 Cal.4th 809, 815.

¹⁴⁷ Decision, *Collective Bargaining*, 05-4425-I-11 (adopted December 5, 2014), pages 20-22.

¹⁴⁸ Decision, *Collective Bargaining*, 05-4425-I-11 (adopted December 5, 2014), pages 20-22.

¹⁴⁹ Decision, *Collective Bargaining*, 05-4425-I-11 (adopted December 5, 2014), page 21.

notice to the claimant of the adjustment that includes the reason for the adjustment.”¹⁵⁰ In the instant IRC, the limitations period therefore began to run from the Final Audit Report, which is the notice that informed the claimant of the adjustment and of the reasons for the adjustment.

Furthermore, the Commission’s finding in the instant IRC is not inconsistent with a recent Commission ruling regarding the timeliness of filing an IRC.

In the *Handicapped and Disabled Students* IRC Decision adopted September 25, 2015, the Commission found that an IRC filed by a claimant was timely because the limitations period began to run from the date of a remittance advice letter which was sent after the Controller’s Final Audit Report.¹⁵¹ This Decision is distinguishable because, in that claim, the Controller’s cover letter (accompanying the audit report) to the claimant requested additional information and implied that the attached audit report was not final.¹⁵² In the instant IRC, by contrast, the Controller’s cover letter contained no such statement or implication; rather, the Controller’s cover letter stated that, if the claimant disagreed with the attached Final Audit Report, the claimant would need to file an IRC within three years.¹⁵³

The finding in this instant IRC is therefore consistent with recent Commission rulings regarding the three-year IRC limitations period.¹⁵⁴

In comments on the Draft Proposed Decision, the claimant argues that the Commission should not apply the “last essential element” rule because Regulation 1185 used the disjunctive “or” when listing the events which triggered the running of the limitations period.¹⁵⁵ The claimant provides no legal authority for its argument or evidence that Regulation 1185 was intended to be read in such a manner. The Commission therefore rejects the argument.

¹⁵⁰ Decision, *Domestic Violence Treatment Services — Authorization and Case Management*, 07-9628101-I-01 (adopted March 25, 2016), page 16.

¹⁵¹ Decision, *Handicapped and Disabled Students*, 05-4282-I-03 (adopted September 25, 2015), pages 11-14.

¹⁵² Decision, *Handicapped and Disabled Students*, 05-4282-I-03 (adopted September 25, 2015), pages 11-14. In the proceeding which resulted in this 2015 Decision, the cover letter from the Controller to the claimant is reproduced at Page 71 of the administrative record. In that letter, the Controller stated, “The SCO has established an informal audit review process to resolve a dispute of facts. The auditee should submit, in writing, a request for a review and all information pertinent to the disputed issues within 60 days after receiving the final report.” The Controller’s cover letter in the instant IRC contains no such language. Exhibit A, IRC, page 542 (Letter from Jeffrey V. Brownfield to Gloria Molina, dated June 30, 2010).

¹⁵³ Exhibit A, IRC, page 542.

¹⁵⁴ All that being said, an administrative agency’s adjudications need not be consistent. See, e.g., *Weiss v. State Board of Equalization* (1953) 40 Cal.2d 772, 777 (“The administrator is expected to treat experience not as a jailer but as a teacher.”); *California Employment Commission v. Black-Foxe Military Institute* (1941) 43 Cal.App.2d Supp. 868, 876 (“even were the plaintiff guilty of occupying inconsistent positions, we know of no rule of statute or constitution which prevents such an administrative board from doing so.”).

¹⁵⁵ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 3.

The Commission also notes that the claimant's interpretation would yield the absurd result of repeatedly resetting the limitations period. Under the claimant's theory, a statute of limitations containing a disjunctive "or" restarts whenever one of the other events in the list occurs. In other words, if a regulation states that a three-year limitations period begins to run upon the occurrence of X, Y, or Z, then (under the claimant's theory), X can occur, a decade can elapse, and then the belated occurrence of Y or Z restarts the limitations clock. This interpretation cannot be correct, particularly in the context of monetary claims against the State's treasury. The "last essential element" rule provides the claimant with the opportunity to timely file a claim while protecting the State from reanimated liability.

Consequently, the Commission concludes that the limitations period begins to run from the occurrence of the earliest event which would have allowed the claimant to file a claim. That event, in this case, was the date of the Final Audit Report. Since more than three years elapsed between that date and filing of the IRC, the IRC was untimely.

3. The Controller's Misstatement of Law (Specifically, the Controller's Erroneous Statement That the Limitations Period Began to Run as of the Three Documents Dated August 6, 2010) Does Not Result in an Equitable Estoppel That Makes the IRC Timely.

In its comments on the Draft Proposed Decision, the claimant argues that the IRC should be considered timely because the claimant relied upon statements made by the Controller. "The County relied upon the statements and the actions of the SCO in making its determinations. In its cover letter to the County accompanying the audit report, the SCO states that the County must file an IRC within three years of the SCO notifying the County of a claim reduction. The SCO then refers to the notices as notices of claim reduction. The SCO then specifically referred to the dates of the notices upon which the County relied as the dates they notified the County of a claim reduction."¹⁵⁶

Although the claimant does not use the precise term (and does not conduct the requisite legal analysis), the claimant is arguing that the Controller should be equitably estopped from benefiting from the statute of limitations, and that the Commission should find the IRC timely. The claimant is arguing that, if the filing deadline provided by the Controller was erroneous, then the claimant should be forgiven for filing late because the claimant was relying upon the Controller's statements.

A state administrative agency may possess¹⁵⁷ — but does not necessarily possess¹⁵⁸ — the authority to adjudicate claims of equitable estoppel. The Commission possesses the authority to adjudicate claims of equitable estoppel because, without limitation, the Commission is vested with exclusive and original jurisdiction and the Commission is obligated to create a full record

¹⁵⁶ Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 3. The letter the claimant is referring to is the letter at Exhibit A, IRC, pages 485-486 from Jim Spano to Robin C. Kay, dated May 7, 2013.

¹⁵⁷ *Lentz v. McMahon* (1989) 49 Cal.3d 393, 406.

¹⁵⁸ *Foster v. Snyder* (1999) 76 Cal.App.4th 264, 268 ("The holding in *Lentz* does not stand for the all-encompassing conclusion that equitable principles apply to all administrative proceedings.").

for the Superior Court to review in the event that a party seeks a writ of administrative mandamus.¹⁵⁹

The general elements of estoppel are well-established. “Whenever a party has, by his own statement or conduct, intentionally and deliberately led another to believe a particular thing true and to act upon such belief, he is not, in any litigation arising out of such statement or conduct, permitted to contradict it.”¹⁶⁰ “Generally speaking, four elements must be present in order to apply the doctrine of equitable estoppel: (1) the party to be estopped must be apprised of the facts; (2) he must intend that his conduct shall be acted upon, or must so act that the party asserting the estoppel had a right to believe it was so intended; (3) the other party must be ignorant of the true state of facts; and (4) he must rely upon the conduct to his injury.”¹⁶¹

“The doctrine of estoppel is available against the government ““where justice and right require it.”” (Citation.)”¹⁶² However, “estoppel will not be applied against the government if to do so would nullify a strong rule of policy adopted for the benefit of the public.”¹⁶³ Estoppel against the government is to be limited to “exceptional conditions,” “special cases,” an “exceptional case,” or applied in a manner which creates an “extremely narrow precedent.”¹⁶⁴

Furthermore, the party to be estopped must have engaged in some quantum of turpitude. “We have in fact indicated that some element of turpitude on the part of the party to be estopped is requisite even in cases not involving title to land,” the California Supreme Court noted.¹⁶⁵ In the federal courts, equitable estoppel against the government “must rest upon affirmative misconduct going beyond mere negligence.”¹⁶⁶

Upon a consideration of all of the facts and argument in the record, the Commission concludes for the following reasons that the Controller is not equitably estopped from benefiting from the statute of limitations.

¹⁵⁹ *Lentz v. McMahon* (1989) 49 Cal.3d 393, 404 (regarding exclusive jurisdiction) & fn. 8 (regarding duty to create full record for review). See also Government Code section 17552 (exclusive jurisdiction); Government Code section 17559(b) (aggrieved party may seek writ of administrative mandamus).

¹⁶⁰ Evidence Code section 623.

¹⁶¹ *Driscoll v. City of Los Angeles* (1967) 67 Cal.2d 297, 305.

¹⁶² *Robinson v. Fair Employment and Housing Commission* (1992) 2 Cal.4th 226, 244, quoting *Lentz v. McMahon* (1989) 49 Cal.3d 393, 399, quoting *City of Los Angeles v. Cohn* (1894) 101 Cal. 373, 377.

¹⁶³ *Lusardi Construction Co. v. Aubry* (1992) 1 Cal.4th 976, 994–995.

¹⁶⁴ *City of Long Beach v. Mansell* (1970) 3 Cal.3d 462, 496 & fn. 30, 500.

¹⁶⁵ *City of Long Beach v. Mansell* (1970) 3 Cal.3d 462, 490 fn. 24.

¹⁶⁶ *Morgan v. Heckler* (1985) 779 F.2d 544, 545 (Kennedy, J.). See also *Mukherjee v. I.N.S.* (9th Cir. 1986) 793 F.2d 1006, 1009 (defining affirmative misconduct as “a deliberate lie . . . or a pattern of false promises”).

The Commission interprets the evidence in the record as presenting a mutual mistake of law by both the Controller and the claimant. On the date of the Controller's erroneous letter (May 7, 2013), Regulation 1185's three-year limitations period had been in effect and had been published since at least May 2007.¹⁶⁷ Despite the fact that the limitations period had been in effect for several years, both the claimant and the Controller incorrectly calculated the IRC filing deadline as starting from the date of the three documents dated August 6, 2010, when, for the reasons explained in this Decision, the filing deadline started to run as of the date of the Final Audit Report.

A situation in which a government agency and a third party both misinterpret the law does not allow for an estoppel against the government — because the third party should have taken the time to learn what the law actually said. "Acts or conduct performed under a mutual mistake of law do not constitute grounds for estoppel. (Citation.) It is presumed the party claiming estoppel had an equal opportunity to discover the law."¹⁶⁸ "Where the facts and law are known to both parties, there can be no estoppel. (Citation.) Even an expression as to a matter of law, in the absence of a confidential relationship, is not a basis for an estoppel."¹⁶⁹ "Persons dealing with the government are charged with knowing government statutes and regulations, and they assume the risk that government agents may exceed their authority and provide misinformation."¹⁷⁰

In point of fact, the Controller had earlier provided the claimant with general IRC filing information and had admonished the claimant to visit the Commission's website. In the cover letter dated June 30, 2010, the Controller summarized the audit findings and then stated, "If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at www.csm.ca.gov/docs/IRCform.pdf."¹⁷¹ In other words, as of June or July 2010, the claimant had been informed in general terms of the filing deadline and had been directed to the Commission. The fact that the claimant failed to do so and the fact that the Controller made an erroneous statement more than two years later does not somehow make the claimant's IRC timely.

Separately and independently, the record does not indicate that the Controller engaged in some quantum of turpitude. There is no evidence, for example, that the Controller acted with an intent to mislead.

Finally, the finding of an estoppel under this situation would nullify a strong rule of policy adopted for the benefit of the public, specifically, the policy that limitations periods exist "to encourage the timely presentation of claims and prevent windfall benefits."¹⁷²

¹⁶⁷ California Regulatory Code Supplement, Register 2007, No. 19 (May 11, 2007), page 212.1 [version operative May 8, 2007].

¹⁶⁸ *Adams v. County of Sacramento* (1991) 235 Cal.App.3d 872, 883-884.

¹⁶⁹ *People v. Stuyvesant Ins. Co.* (1968) 261 Cal.App.2d 773, 784.

¹⁷⁰ *Lavin v. Marsh* (9th Cir. 1981) 644 F.2d 1378, 1383.

¹⁷¹ Exhibit A, IRC, page 542.

¹⁷² *Lentz v. McMahon* (1989) 49 Cal.3d 393, 401.

For each of these reasons, the claimant's argument of equitable estoppel is denied.

The Commission is also unpersuaded that the events which the claimant characterizes as the Controller's reconsideration of the audit act to extend, reset, suspend or otherwise affect the limitations period.¹⁷³ While the claimant contends that the Controller reconsidered the audit findings and then withdrew from the reconsideration,¹⁷⁴ the Controller contends that it did not engage in a reconsideration, but instead denied the claimant's request for a reconsideration.¹⁷⁵ On this point, the factual evidence in the record, within the letter from the Controller dated May 7, 2013, provides, "This letter confirms that we denied the county's reconsideration request . . .".¹⁷⁶ The limitations period cannot be affected by a reconsideration which did not occur. Separately, the process which the claimant characterizes as a reconsideration did not commence until a June 2012 delivery of documents,¹⁷⁷ by which time the limitations period had been running for about two years. The claimant does not cite to legal authority or otherwise persuasively explain how the Controller's alleged reconsideration stopped or reset the already-ticking limitations clock.

Accordingly, the IRC is denied as untimely filed.

B. In the Alternative, the County Waived Its Right to File an IRC.

Even if the claimant filed its IRC on time (which is not the case), the claimant's intention in June 2010 was to agree with the results of the Controller's audit and to waive any right to object to the audit or to add additional claims; on this separate and independent basis, the Commission hereby denies this IRC.

In its comments on the IRC, the Controller stated that the claimant had agreed to the Controller's audit and findings. "In response to the findings, the county agreed with the audit results. Further, the county provided a management representation letter asserting that it made available to the SCO all pertinent information in support of its claims (Tab 14)."¹⁷⁸ By stating these facts in opposition to the IRC, the Controller raises the question of whether the claimant waived its right to contest the Controller's audit findings.¹⁷⁹

¹⁷³ Exhibit F, Claimant's Comments on the Draft Proposed Decision, pages 2-3.

¹⁷⁴ Exhibit F, Claimant's Comments on the Draft Proposed Decision, pages 2-3.

¹⁷⁵ Exhibit A, IRC, page 485.

¹⁷⁶ Exhibit A, IRC, page 485.

¹⁷⁷ Exhibit A, IRC, page 485.

¹⁷⁸ Exhibit B, Controller's Late Comments on the IRC, page 25. The referenced "Tab 14" is the two-page letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010 (Exhibit B, Controller's Late Comments on the IRC, pages 185-186).

¹⁷⁹ While the Controller's raising of the waiver issue could have been made with more precision and detail, the Controller's statements regarding the claimant's June 2010 agreement with the audit findings sufficiently raises the waiver issue under the lenient standards which apply to administrative hearings. See, e.g., *Santa Clarita Organization for Planning the Environment v. City of Santa Clarita* (2011) 197 Cal.App.4th 1042, 1051 ("less specificity is required to preserve an issue for appeal in an administrative proceeding than in a judicial proceeding"). (In

The Second District of the Court of Appeal has detailed the law of waiver and how it differs from the related concept of estoppel:

The terms “waiver” and “estoppel” are sometimes used indiscriminately. They are two distinct and different doctrines that rest upon different legal principles.

Waiver refers to the act, or the consequences of the act, of one side. Waiver is the intentional relinquishment of a known right after full knowledge of the facts and depends upon the intention of one party only. Waiver does not require any act or conduct by the other party. . . .

All case law on the subject of waiver is unequivocal: “ ‘Waiver always rests upon intent. Waiver is the intentional relinquishment of a known right after knowledge of the facts.’ [Citations]. The burden, moreover, is on the party claiming a waiver of a right to prove it by clear and convincing evidence that does not leave the matter to speculation, and ‘doubtful cases will be decided against a waiver.’ ” (Citations.)

The pivotal issue in a claim of waiver is the intention of the party who allegedly relinquished the known legal right.¹⁸⁰

Courts have stated that a “waiver may be either express, based on the words of the waiving party, or implied, based on conduct indicating an intent to relinquish the right.”¹⁸¹ In addition, “[i]t is settled law in California that a purported ‘waiver’ of a statutory right is not legally effective unless it appears that the party charged with the waiver has been fully informed of the existence of that right, its meaning, the effect of the ‘waiver’ presented to him, and his full understanding of the explanation.”¹⁸² Waiver is a question of fact and is always based upon intent.¹⁸³ Waiver must be established by clear and convincing evidence.¹⁸⁴

its Comments on the Draft Proposed Decision (Exhibit F, page 4), the claimant questions why this lenient standard is not also used to determine whether waiver occurred. The claimant is confusing the standard for determining whether an issue is raised and preserved at an administrative hearing (a lenient standard in which a few words in isolation may suffice) with the standard for determining whether waiver occurred (a strict standard which requires a weighing of all evidence in the record).)

¹⁸⁰ *DRG/Beverly Hills, Ltd v. Chopstix Dim Sum Cafe & Takeout III, Ltd.* (1994) 30 Cal.App.4th 54, 59-61.

¹⁸¹ *Waller v. Truck Insurance Exchange* (1995) 11 Cal.4th 1, 31.

¹⁸² *B.W. v. Board of Medical Quality Assurance* (1985) 169 Cal.App.3d 219, 233.

¹⁸³ *Smith v. Selma Community Hospital* (2008) 164 Cal.App.4th 1478, 1506.

¹⁸⁴ *DRG/Beverly Hills, Ltd, supra*, 30 Cal.App.4th 54, 60. When a fact must be established by clear and convincing evidence, the substantial evidence standard of review for any appeal of the Commission’s decision to the courts still applies. See Government Code section 17559(b).

“The ‘clear and convincing’ standard . . . is for the edification and guidance of the [trier of fact] and not a standard for appellate review. (Citations.) ‘ ‘The sufficiency of evidence to establish a given fact, where the law requires proof of the fact to be clear and convincing, is primarily a

The Commission finds that the record of this IRC contains clear and convincing evidence that the claimant's intention in June 2010 was to agree with the results of the Controller's audit and to waive any right to object to the audit or to add additional claims. On May 19, 2010, the Controller provided the claimant a draft copy of the audit report.¹⁸⁵ The record contains no evidence of the claimant objecting to the draft audit report or attempting to alter the outcome of the audit before the draft report became final. Instead, the record contains substantial evidence of the claimant affirmatively agreeing with the Controller's reductions, findings, and recommendations.

In response to the Draft Audit Report, the claimant's Auditor-Controller sent a four-page letter dated June 16, 2010 (a copy of which is reproduced in the Controller's Final Audit Report).¹⁸⁶ The first page of this four-page letter¹⁸⁷ contains the following statement:

*The County's attached response indicates agreement with the audit findings and the actions that the County will take to implement policies and procedures to ensure that the costs claimed under HDS are eligible, mandate related, and supported.*¹⁸⁸

The claimant's written response to the Draft Audit Report — the moment when a claimant would and should proffer objections to the Controller's reductions — was to indicate “agreement with the audit findings.” The Commission notes that the claimant indicated active “agreement” as opposed to passive “acceptance.” In the quoted passage, the claimant states unambiguously that it agreed with the Controller’s “findings.” The record therefore contradicts the claimant’s argument, in comments on the Draft Proposed Decision, that it only agreed with the Controller’s “recommendations.”¹⁸⁹

The following three pages of the four-page letter contain further statements of agreement with the Controller's findings and recommendations.

question for the [trier of fact] to determine, and if there is substantial evidence to support its conclusion, the determination is not open to review on appeal.” [Citations.]’ (Citations.) Thus, on appeal from a judgment required to be based upon clear and convincing evidence, ‘the clear and convincing test disappears ... [and] the usual rule of conflicting evidence is applied, giving full effect to the respondent’s evidence, however slight, and disregarding the appellant’s evidence, however strong.’ (Citation.)” *Sheila S. v. Superior Court (Santa Clara County Dept. of Family and Children’s Services)* (2000) 84 Cal.App.4th 872, 880 (substituting “trier of fact” for “trial court” to enhance clarity).

¹⁸⁵ Exhibit A, IRC, page 547.

¹⁸⁶ Exhibit A, IRC, pages 558-561 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

¹⁸⁷ Exhibit A, IRC, pages 558-561 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield) (the “four-page letter”).

¹⁸⁸ Exhibit A, IRC, page 558 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010) (emphasis added).

¹⁸⁹ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 4.

In response to the Controller's Finding No. 1, that the claimant overstated assessment and treatment costs by more than \$27 million, the claimant responded in relevant part:

We agree with the recommendation. The County will strengthen the policies and procedures to ensure that only actual units of service for eligible clients are claimed in accordance with the mandated program. The County will ensure all staff members are trained on the applicable policies and procedures. . . .

The County has agreed to the audit disallowances for Case Management Support Costs.¹⁹⁰

In response to the Controller's Finding No. 2, that the claimant overstated administrative costs by more than \$5 million, the claimant responded in relevant part:

We agree with the recommendation. As stated in the County's Response for Finding 1, the County will strengthen the policies and procedures to ensure that only actual units of service for eligible clients are claimed in accordance with the mandated program and will ensure the administrative cost rates are applied appropriately. At the time of claim preparation, it was the County's understanding that the administrative cost rates were applied to eligible and supported direct costs. The State auditor's discovery of ineligible units of service resulted in the ineligibility of the administrative costs.¹⁹¹

In response to the Controller's Finding No. 3, that the claimant overstated offsetting revenues by more than \$13 million, the claimant responded in relevant part:

We agree with the recommendation. It is always the County's intent to apply the applicable offsetting revenues (including federal, state, and local reimbursements) to eligible costs, which are supported by source documentation.¹⁹²

Each of the claimant's responses to the Controller's three findings supports the Commission's conclusion that the claimant waived its right to pursue an IRC by affirmatively agreeing in writing to the Controller's audit findings. While the claimant also purported at various times in the four-page letter to reserve rights or to clarify issues,¹⁹³ the overall intention communicated in

¹⁹⁰ Exhibit A, IRC, pages 559-560 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

¹⁹¹ Exhibit A, IRC, page 560 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

¹⁹² Exhibit A, IRC, page 561 (Letter from Wendy L. Watanabe to Jeffrey V. Brownfield, dated June 16, 2010).

¹⁹³ For example, the claimant purports, without citation to legal authority, to "reserve[] the right to claim these unallowed [assessment and treatment] costs in future fiscal year claims." (Exhibit A, IRC, page 560.) The claimant also purports to recognize, without citing legal authority or factual foundation, that the Controller would revise the Final Audit Report if the claimant subsequently provided additional information to support its claims. (Exhibit A, IRC, page 558. See also Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 4.) The Commission finds that clear and convincing evidence of waiver in the record as a whole outweighs these statements lacking legal or factual foundation.

the letter is that the claimant intended to agree with and be bound by the results of the Controller's audit. The fact that the claimant then waited more than three years to file the IRC is further corroboration that, at the time that the four-page letter was sent, the claimant agreed with the Controller and intended to waive its right to file an IRC.

In addition, the Commission's finding of waiver is supported by a separate two-page letter — also dated June 16, 2010 — in which the claimant contradicted several positions which the claimant now attempts to take in this IRC.

The separate two-page letter is hereby recited in its entirety due to its materiality:

June 16, 2010

Mr. Jim L. Spano, Chief
Mandated Costs Audits Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano:

HANDICAPPED AND DISABLED STUDENTS PROGRAM
JULY 1, 2003 THROUGH JUNE 30, 2006

In connection with the State Controller's Office (SCO) audit of the County's claims for the mandated program and audit period identified above, we affirm, to the best of our knowledge and belief, the following representations made to the SCO's audit staff during the audit:

1. We maintain accurate financial records and data to support the mandated cost claims submitted to the SCO.
2. We designed and implemented the County's accounting system to ensure accurate and timely records.
3. We prepared and submitted our reimbursement claims according to the Handicapped and Disabled Students Program's parameters and guidelines.
4. We claimed mandated costs based on actual expenditures allowable per the Handicapped and Disabled Students Program's parameters and guidelines.
5. We made available to the SCO's audit staff all financial records, correspondence, and other data pertinent to the mandated cost claims.
6. Excluding mandated program costs, the County did not recover indirect cost from any state or federal agency during the audit period.
7. We are not aware of any:
 - a. Violations or possible violations of laws and regulations involving management or employees who had significant roles in the accounting system or in preparing the mandated cost claims.

- b. Violations or possible violations of laws and regulations involving other employees that could have had a material effect on the mandated cost claims.
 - c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, accounting and reporting practices that could have a material effect on the mandated cost claims.
 - d. Relevant, material transactions that were not properly recorded in the accounting records that could have a material effect on the mandated cost claims.
8. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion that would have a material effect on the mandated cost claims.
9. We are not aware of any events that occurred after the audit period that would require us to adjust the mandated cost claims.

If you have any questions, please contact Hasmik Yaghobyan at (213) 893-0792 or via e-mail at hyaghobyan@auditor.lacounty.gov

Very truly yours,

Wendy L. Watanabe
Auditor-Controller¹⁹⁴

The admissions made by the claimant in the two-page letter contradict arguments now made by the claimant in the instant IRC.

In its IRC, the claimant argues that it provided cost report data — not actual cost data — to the Controller, which then erred by conducting an audit as if the claimant had provided actual cost data.¹⁹⁵ “[T]he Cost Report Method is not, nor was it ever intended to be, an *actual* cost method of claiming,” the claimant argues in its IRC.¹⁹⁶ “The inclusion of the Cost Report Method in the original parameters and guidelines and in all subsequent parameters and guidelines indicates that the intent of such a methodology was to provide a basis to reimburse counties for the costs of the State-mandated program based on an allocation formula *and not actual costs*,” the IRC continues.¹⁹⁷

¹⁹⁴ Exhibit B, Controller’s Late Comments on the IRC, pages 185-186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010) (the “two-page letter”).

¹⁹⁵ Exhibit A, IRC, pages 6-10.

¹⁹⁶ Exhibit A, IRC, page 9. (Emphasis in original.)

¹⁹⁷ Exhibit A, IRC, page 10. (Emphasis added.)

However, in the two-page letter, the claimant stated the opposite: that, in the claimant's reimbursement requests, "We claimed mandated costs *based on actual expenditures* allowable per the Handicapped and Disabled Students Program's parameters and guidelines."¹⁹⁸

In its IRC, the claimant argues that the Controller based its audit on incorrect or incomplete documentation.¹⁹⁹ For example, the claimant now contends that "repeated attempts to develop a 'query' that would extract data from the County's Mental Health Management Information System (MHMIS) and Integrated System (IS) generated results that were unreliable"²⁰⁰ and "[t]he source documentation, therefore, would be in each agency's internal records and these are the documents that the SCO should have used in conducting the audit."²⁰¹

However, neither claimant's four-page letter nor claimant's two-page letter dated June 16, 2010, objected to the audit findings on these grounds — objections which would have been known to the claimant in June 2010, since the claimant and its personnel had spent the prior two years working with the Controller's auditors.

Rather, the claimant's two-page letter stated the opposite by repeatedly emphasizing the accuracy and completeness of the records provided to the Controller: "We maintain accurate financial records and data to support the mandated cost claims submitted to the SCO."²⁰² "We designed and implemented the County's accounting system to ensure accurate and timely records."²⁰³ "We made available to the SCO's audit staff all financial records, correspondence, and other data pertinent to the mandated cost claims."²⁰⁴ "We are not aware of . . . Relevant, material transactions that were not properly recorded in the accounting records that could have a material effect on the mandated cost claims."²⁰⁵

In the IRC, the claimant argues that, even if the Controller correctly reduced its claims, the claimant should be allowed to submit new claims based upon previously unproduced evidence under an alleged right of equitable setoff.²⁰⁶

¹⁹⁸ Exhibit B, Controller's Late Comments on the IRC, page 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 4) (emphasis added).

¹⁹⁹ Exhibit A, IRC, pages 11-15, 17-18.

²⁰⁰ Exhibit C, Claimant's Rebuttal Comments, pages 3-4.

²⁰¹ Exhibit C, Claimant's Rebuttal Comments, page 4.

²⁰² Exhibit B, Controller's Late Comments on the IRC, page 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 1).

²⁰³ Exhibit B, Controller's Late Comments on the IRC, page 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 2).

²⁰⁴ Exhibit B, Controller's Late Comments on the IRC, page 185 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 5).

²⁰⁵ Exhibit B, Controller's Late Comments on the IRC, page 186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 7(d)).

²⁰⁶ Exhibit A, IRC, pages 15-17.

However, in its two-page letter, the claimant stated the opposite: “There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion that would have a material effect on the mandated cost claims.”²⁰⁷ “We are not aware of any events that occurred after the audit period that would require us to adjust the mandated cost claims.”²⁰⁸

The claimant’s two-page letter demonstrates that, as far as the claimant was concerned in June 2010, it had maintained records of actual costs, had maintained accurate and complete records, had provided the Controller with accurate and complete records, and had acknowledged that it had no further reimbursement claims. The claimant now attempts to make the opposite arguments in this IRC.

Given the totality of the circumstances and all of the evidence in the record, the Commission finds by clear and convincing evidence that the claimant’s intention in June 2010 was to agree with the results of the Controller’s audit and to waive any right to object to the audit or to add additional claims.

V. Conclusion

The Commission finds that claimant’s IRC was untimely filed and that, even if it were timely filed, the claimant waived its arguments.

Therefore, the Commission denies this IRC.

²⁰⁷ Exhibit B, Controller’s Late Comments on the IRC, page 186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 8).

²⁰⁸ Exhibit B, Controller’s Late Comments on the IRC, page 186 (Letter from Wendy L. Watanabe to Jim L. Spano, dated June 16, 2010, paragraph 9).

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 July 6, 2016, I served the:

Proposed Decision

Handicapped and Disabled Students, 13-4282-I-06

Government Code Sections 7572 and 7572.5

Statutes 1984, Chapter 1747 (AB 3632); Statutes 1985, Chapter 1274 (AB 882);

California Code of Regulations, Title 2, Division 9, Chapter 1, Section 60040

(Emergency regulations filed December 31, 1985, designated effective

January 1, 1986 [Register 86, No. 1] and refiled June 30, 1986, designated effective

July 12, 1986 [Register 86, No. 28])

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

County of Los Angeles, 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 July 6, 2016 at Sacramento, California.



Jill L. Magee
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814
(916) 323-3562

COMMISSION ON STATE MANDATES

Mailing List

Last Updated: 7/5/16

Claim Number: 13-4282-I-06

Matter: Handicapped and Disabled Students

Claimant: County of Los Angeles

TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

Each commission mailing list is continuously updated as requests are received to include or remove any party or person on the mailing list. A current mailing list is provided with commission correspondence, and a copy of the current mailing list is available upon request at any time. Except as provided otherwise by commission rule, when a party or interested party files any written material with the commission concerning a claim, it shall simultaneously serve a copy of the written material on the parties and interested parties to the claim identified on the mailing list provided by the commission. (Cal. Code Regs., tit. 2, § 1181.3.)

Socorro Aquino, State Controller's Office

Division of Audits, 3301 C Street, Suite 700, Sacramento, CA 95816

Phone: (916) 322-7522

SAquino@sco.ca.gov

Lacey Baysinger, State Controller's Office

Division of Accounting and Reporting, 3301 C Street, Suite 700, Sacramento, CA 95816

Phone: (916) 324-0254

lbaysinger@sco.ca.gov

Danielle Brandon, Budget Analyst, Department of Finance

915 L Street, Sacramento, CA 95814

Phone: (916) 445-3274

danielle.brandon@dof.ca.gov

Allan Burdick,

7525 Myrtle Vista Avenue, Sacramento, CA 95831

Phone: (916) 203-3608

allanburdick@gmail.com

Gwendolyn Carlos, State Controller's Office

Division of Accounting and Reporting, 3301 C Street, Suite 700, Sacramento, CA 95816

Phone: (916) 323-0706

gcarlos@sco.ca.gov

Annette Chinn, Cost Recovery Systems, Inc.

705-2 East Bidwell Street, #294, Folsom, CA 95630

Phone: (916) 939-7901

achinncrs@aol.com

Marieta Delfin, State Controller's Office

Division of Accounting and Reporting, 3301 C Street, Suite 700, Sacramento, CA 95816
Phone: (916) 322-4320
mdelfin@sco.ca.gov

Donna Ferebee, *Department of Finance*
915 L Street, Suite 1280, Sacramento, CA 95814
Phone: (916) 445-3274
donna.ferebee@dof.ca.gov

Susan Geanacou, *Department of Finance*
915 L Street, Suite 1280, Sacramento, CA 95814
Phone: (916) 445-3274
susan.geanacou@dof.ca.gov

Dillon Gibbons, Legislative Representative, *California Special Districts Association*
1112 I Street Bridge, Suite 200, Sacramento, CA 95814
Phone: (916) 442-7887
dillong@csda.net

Mary Halterman, Principal Program Budget Analyst, *Department of Finance*
Local Government Unit, 915 L Street, Sacramento, CA 95814
Phone: (916) 445-3274
Mary.Halterman@dof.ca.gov

Justyn Howard, Program Budget Manager, *Department of Finance*
915 L Street, Sacramento, CA 95814
Phone: (916) 445-1546
justyn.howard@dof.ca.gov

Edward Jewik, *County of Los Angeles*
Auditor-Controller's Office, 500 W. Temple Street, Room 603, Los Angeles, CA 90012
Phone: (213) 974-8564
ejewik@auditor.lacounty.gov

Jill Kanemasu, *State Controller's Office*
Division of Accounting and Reporting, 3301 C Street, Suite 700, Sacramento, CA 95816
Phone: (916) 322-9891
jkanemasu@sco.ca.gov

Anne Kato, *State Controller's Office*
Division of Accounting and Reporting, 3301 C Street, Suite 700, Sacramento, CA 95816
Phone: (916) 324-5919
akato@sco.ca.gov

Robin Kay, *County of Los Angeles*
Claimant Representative
Department of Mental Health, 550 S. Vermont Avenue, 12th Floor, Los Angeles, CA 90020
Phone: (213) 738-4108
rkay@dmh.lacounty.gov

Jay Lal, *State Controller's Office (B-08)*
Division of Accounting & Reporting, 3301 C Street, Suite 700, Sacramento, CA 95816
Phone: (916) 324-0256
JLal@sco.ca.gov

Paul Lukacs, Senior Commission Counsel, *Commission on State Mandates*
980 9th Street, Suite 300, Sacramento, CA 95814
Phone: (916) 323-3562

paul.lukacs@csm.ca.gov

John Naimo, Acting Auditor-Controller, *County of Los Angeles*
Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012
Phone: (213) 974-8302
jnaimo@auditor.lacounty.gov

Geoffrey Neill, Senior Legislative Analyst, Revenue & Taxation, *California State Association of Counties (CSAC)*
1100 K Street, Suite 101, Sacramento, CA 95814
Phone: (916) 327-7500
gneill@counties.org

Andy Nichols, *Nichols Consulting*
1857 44th Street, Sacramento, CA 95819
Phone: (916) 455-3939
andy@nichols-consulting.com

Christian Osmena, *Department of Finance*
915 L Street, Sacramento, CA 95814
Phone: (916) 445-0328
christian.osmena@dof.ca.gov

Arthur Palkowitz, *Artiano Shinoff & Holtz, APC*
2488 Historic Decatur Road, Suite 200, San Diego, CA 92106
Phone: (619) 232-3122
apalkowitz@sashlaw.com

Keith Petersen, *SixTen & Associates*
P.O. Box 340430, Sacramento, CA 95834-0430
Phone: (916) 419-7093
kbpstxten@aol.com

Jai Prasad, *County of San Bernardino*
Office of Auditor-Controller, 222 West Hospitality Lane, 4th Floor, San Bernardino, CA 92415-0018
Phone: (909) 386-8854
jai.prasad@atc.sbcounty.gov

Carla Shelton, *Commission on State Mandates*
980 9th Street, Suite 300, Sacramento, CA 95814
Phone: (916) 327-6490
carla.shelton@csm.ca.gov

Jim Spano, Chief, Mandated Cost Audits Bureau, *State Controller's Office*
Division of Audits, 3301 C Street, Suite 700, Sacramento, CA 95816
Phone: (916) 323-5849
jspano@sco.ca.gov

Dennis Speciale, *State Controller's Office*
Division of Accounting and Reporting, 3301 C Street, Suite 700, Sacramento, CA 95816
Phone: (916) 324-0254
DSpeciale@sco.ca.gov