STATE of CALIFORNIA
COMMISSION ON STATE
MANDATES

September 14, 2026

Ms. Annette Chinn
Cost Recovery Systems, Inc.
705-2 East Bidwell Street, #294
Folsom, CA 95630

Ms. Anne Kato
State Controller's Office
Local Government Programs and Services Division
3301 C Street, Suite 740
Sacramento, CA 95816

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

Re: Proposed Decision
Identity Theft, 25-0308-I-01
Statutes 2000, Chapter 956 (AB 1897); Penal Code Section 530.6(a)
Fiscal Years: 2002-2003, 2003-2004, 2004-2005, 2005-2006, 2006-2007, 2007-2008, 2008-2009, 2009-2010, 2010-2011, 2011-2012, 2012-2013
City of Rancho Cucamonga, Claimant

Dear Ms. Chinn and Ms. Kato:

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

Hearing: This matter is set for hearing on **Friday, October 9, 2026, in person at 10:00 a.m., at The Jesse M. Unruh State Office Building, 915 Capitol Mall, Room 121, The Boardroom, Sacramento, California, 95814 and via Zoom.**

The Commission is committed to ensuring that its public meetings are accessible to the public and that the public has the opportunity to observe the meeting and to participate by providing written and verbal comment on Commission matters whether they are physically appearing at the in-person meeting location or participating via Zoom. If you want to speak during the hearing and you are in-person, please come to the table for the swearing in and to speak when your item is up for hearing. If you are participating via Zoom, you must use the "Raise Hand" feature in order for our moderators to know you need to be unmuted.

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Testimony at the Commission Hearing: If you plan to address the Commission on an agenda item, please notify the Commission Office **not later than noon on October 6, 2026**. Please also include the names of the people who will be speaking for inclusion on the witness list and the names and email addresses of the people who will be speaking both in person and remotely to receive a hearing panelist link in Zoom. When calling or emailing, please identify the item you want to testify on and the entity you represent. The Commission Chairperson reserves the right to impose time limits on presentations as may be necessary to complete the agenda.

Time to File Written Comments: Any person may submit comments in writing on any agenda item by filing them in accordance with section 1181.3 of the Commission's regulations. If you plan to file any written document, please note that comments filed at least 15 days in advance of the meeting shall be included in the Commissioners' hearing binders, a copy of which is available for public viewing at the Commission meeting. Additionally, comments filed more than five days in advance of the meeting shall be included in the Commission's meeting binders, if feasible, or shall be provided to the Commission when the item is called, unless otherwise agreed by the Commission or the executive director. (Cal. Code Regs., tit. 2, § § 1181.3 and 1181.10(b)(1)(A-B)).

However, written comments filed less than five days in advance of the meeting, the commenter shall electronically file (or e-file) a PDF copy with the Commission via the Commission's e-filing system, available on the Commission's website https://www.csm.ca.gov/dropbox.shtml at least 24 hours prior to the meeting. Commission staff shall provide copies of the comments to the Commission and shall place a copy on a table for public review when the item is called or, in the case of participation via teleconference, shall provide an electronic copy to the Commission and post a copy on the Commission's website, and may share the document with the Commission and the public using the "share" function. (Cal. Code Regs., tit. 2, § § 1181.3 and 1181.10(b)(1)(C)).

Postponement: 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.

Very truly yours,

Juliana F. Gmur
Executive Director

Hearing Date: October 9, 2026

ITEM 4

INCORRECT REDUCTION CLAIM

PROPOSED DECISION

Penal Code Section 530.6(a)

Statutes of 2000, Chapter 956

Identity Theft

Fiscal Years 2002-2003 – 2012-2013

25-0308-I-01

City of Rancho Cucamonga, Claimant

EXECUTIVE SUMMARY

Overview

This Incorrect Reduction Claim (IRC) addresses a reduction of indirect costs made by the State Controller (Controller) to costs claimed by the City of Rancho Cucamonga (claimant) during fiscal years 2002-2003 to 2012-2013 to implement the *Identity Theft* program. The claimant contracts all of its police services with the County of San Bernardino Sheriff's Department.[1] The claimant challenges reductions of indirect costs and the Controller's calculation of additional administrative costs as direct costs under the police services contract.

Staff recommends that the Commission on State Mandates (Commission) deny this IRC.

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 if the Controller determines that the claim is excessive or unreasonable.

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

The Commission must review questions of law, including interpretation of Parameters and Guidelines, de novo, without consideration of legal conclusions made by the Controller in the context of an audit. The Commission is vested with exclusive authority

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[1] Exhibit A, Incorrect Reduction Claim, page 12 (Written Narrative).

to adjudicate disputes over the existence of state-mandated programs within the meaning of article XIII B, section 6 of the California Constitution.[2] The Commission must also interpret the Government Code and implementing regulations in accordance with the broader constitution 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."[3]

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.[4]

The Commission must also review the Controller's audit in light of the fact that the initial burden of providing evidence for a claim of reimbursement lies with the claimant.[5] In addition, section 1185.1(f)(3) and 1185.2(d) and (e) of the Commission's regulations requires 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.[6]

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 this IRC?	Government Code section 17558.7(a) states "If the Controller reduces a claim approved by the commission, the claimant may file with the commission an incorrect	*Yes, the IRC was timely filed.* The final audit report was issued to the City of

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

[3] *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.

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

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

[6] 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.

Issue	Description	Staff Recommendation
	reduction claim pursuant to regulations adopted by the commission." Section 1185.1(c) of the Commission's regulations requires an IRC to be filed no later than three years after the date the claimant receives a final state audit report, letter, or other written notice of adjustment to a reimbursement claim.	Rancho Cucamonga on November 20, 2023.[7] The IRC was filed on September 2, 2025.[8] As this was within three years of issuing the final audit report, the IRC was timely filed.
Is the Controller's reduction of indirect costs from $223,707 to $0, correct?	Indirect costs are those overhead expenses or central government expenses (like heat, electricity, administrative support, space, and infrastructure) that are separate from the direct costs of a state-mandated program, are incurred for common purposes of the local agency, and can be allocated directly to the state-mandated program. Section V.B. of the Parameters and Guidelines allows reimbursement for indirect costs based on the OMB Circular A-87 (previously codified in Code of Federal Regulations, title 2, part 225), by using 10% of labor (excluding fringe	*Yes, the reduction of indirect costs is correct as a matter of law.* The claimant does not employ peace officers and does not incur labor costs, yet it based its indirect cost rate proposal on the salaries and benefits of the County of San Bernardino Sheriff's Department, with rates ranging from 74 to 94 percent.[12] Preparing an ICRP based on salaries and wages of the peace officers employed by another local agency (the County of San Bernardino) does not comply with the requirements of the Parameters and Guidelines. Moreover, *all* costs incurred under a contract that are

[7] Exhibit A, Incorrect Reduction Claim, page 1110 (Final Audit Report).

[8] Exhibit A, Incorrect Reduction Claim, page 1.

[12] Exhibit A, Incorrect Reduction Claim, pages 1193-1194, 1200-1201, 1208-1209, 1222-1223, 1228-1229, 1236-1237, 1250-1251, 1257-1258, 1265-1266, 1271-1272, 1277-1278 (Indirect Cost Rate Proposals (ICRPs) with each reimbursement claim).

Issue	Description	Staff Recommendation
	benefits) or by preparing an Indirect Cost Rate Proposal (ICRP) which may use direct salaries and wages as the distribution base.[9] Section V.A.3. of the Parameters and Guidelines states that all contract costs related to the mandated program can be claimed as a *direct cost* of the program and that the claimant must report "all costs charged" and may only claim "the pro-rata portion of the services used to implement the reimbursable activities…"[10] Parameters and Guidelines are regulatory and binding on the parties.[11]	attributable to a state-mandated program are required to be claimed as a *direct cost* under section V.A.3., Contracted Services, of the Parameters and Guidelines.[13]
Is the Controller's allowance of $9,487, in Administrative Costs Related to the Indirect Costs Reduction?	Section V.A.3. of the Parameters and Guidelines states that all contract costs related to the mandated program can be claimed as a *direct cost* of the	*No, the Controller's allowance of $9,487 in administrative costs as part of the claimant's direct contracted services costs is unrelated to the indirect cost rate reduction and is not arbitrary, capricious, or*

[9] Exhibit A, Incorrect Reduction Claim, pages 1078-1079 (Final Audit Report). Currently, the OMB Circular A-87 is codified in the Code of Federal Regulations, title 2, part 200.

[10] Exhibit A, Incorrect Reduction Claim, pages 1077-1078 (Parameters and Guidelines), emphasis added.

[11] *California School Boards Association v. State of California* (2009) 171 Cal.App.4th 1183, 1201; *Clovis Unified School District v. Chiang* (2010) 188 Cal.App.4th 794, 798; Government Code sections 17561(d)(1), 17564(b), and 17571.

[13] Exhibit A, Incorrect Reduction Claim, pages 1131-1132 (Final Audit Report).

Issue	Description	Staff Recommendation
	program and that the claimant must report "all costs charged" and may only claim "the pro-rata portion of the services used to implement the reimbursable activities…"[14] The Controller's Office found some additional administrative expenses applicable to the *Identity Theft* program in the contract between the claimant and San Bernardino County and increased the rates of reimbursement for *direct* costs by $9,487 based on percentages ranging from 4.56% to 9.45% for each individual fiscal year.[15]	*entirely lacking in evidentiary support.* The $9,487 is an *additional* reimbursement of direct costs and is unrelated to the reduction of indirect costs. There is no evidence that the Controller's calculation is arbitrary, capricious, or entirely lacking in evidentiary support.

Staff Analysis

This IRC addresses reductions made by the Controller to costs claimed by the City of Rancho Cucamonga (claimant) for fiscal years 2002-2003 through 2012-2013 (audit period) to implement the *Identity Theft* program. The program requires county and city law enforcement agencies to take a police report and begin an investigation when a

[14] Exhibit A, Incorrect Reduction Claim, pages 1077-1078 (Parameters and Guidelines), emphasis added.

[15] Exhibit A, Incorrect Reduction Claim, pages 1131-1135 (Final Audit Report).

complainant residing within their jurisdiction reports suspected identity theft.[16] The claimant contracts all of its police services with the County of San Bernardino Sheriff's Department.[17]

During the audit period, the claimant claimed $223,707 in indirect costs, by preparing Indirect Cost Rate Proposals (ICRPs) for each year of the audit period, with rates ranging from 74 to 94 percent based on the "total direct salaries" of San Bernardino County's peace officers.[18] The Controller reduced these costs to $0 on the ground that the claimant contracted with San Bernardino County Sheriff's Department for its police services and did not incur any labor costs.[19] In addition, the Controller found some additional administrative expenses applicable to the *Identity Theft* program in the contract between the claimant and San Bernardino County and increased the rates of reimbursement for *direct* costs by $9,487 based on percentages ranging from 4.56% to 9.45% for each individual fiscal year.[20]

The claimant challenges both of these actions as reductions, urging the Commission to allow reimbursement for the indirect costs reduced. Staff finds that this IRC was timely filed within three years of the Controller issuing the final audit report.[21]

Staff also finds that the Controller's reduction of indirect costs to $0 is correct as a matter of law. Under the Parameters and Guidelines, which are regulatory and binding on the parties,[22] indirect costs for overhead expenses or central government expenses that benefit more than one program provided by the local agency (like heat, electricity, administrative support, space, and infrastructure) and which can be allocated directly to the state-mandated program, are eligible for reimbursement in accordance with the OMB Circular A-87 (previously codified in Code of Federal Regulations, title 2, part

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[16] Exhibit A, Incorrect Reduction Claim, page 1075 (Parameters and Guidelines, section I).

[17] Exhibit A, Incorrect Reduction Claim, page 12 (Written Narrative).

[18] Exhibit A, Incorrect Reduction Claim, pages 1193-1194, 1200-1201, 1208-1209, 1222-1223, 1228-1229, 1236-1237, 1250-1251, 1257-1258, 1265-1266, 1271-1272, 1277-1278 (ICRPs with each reimbursement claim).

[19] Exhibit A, Incorrect Reduction Claim, pages 1123, 1136 (Final Audit Report).

[20] Exhibit A, Incorrect Reduction Claim, pages 1131-1135 (Final Audit Report).

[21] California Code of Regulations, title 2, section 1185.1(c); Exhibit A, Incorrect Reduction Claim, pages 1 and 1110.

[22] *California School Boards Association v. State of California* (2009) 171 Cal.App.4th 1183, 1201; *Clovis Unified School District v. Chiang* (2010) 188 Cal.App.4th 794, 798; Government Code sections 17561(d)(1), 17564(b), and 17571.

225).[23] Claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an ICRP if the indirect cost rate claimed exceeds 10%.[24]

In this case, however, the claimant does not employ peace officers and does not incur labor costs, yet it based its ICRP using the salaries and benefits of the County of San Bernardino Sheriff's Department. Preparing an ICRP based on salaries and wages of the peace officers employed by another local agency (the County of San Bernardino) does not comply with the requirements of the Parameters and Guidelines. Moreover, *all* costs incurred under a contract that are attributable to a state-mandated program are required to be claimed as a *direct cost* under section V.A.3., Contracted Services, of the Parameters and Guidelines.[25]

The claimant argues that the $9,487 in additional reimbursement for administrative costs is an insufficient "alternate methodology" for its claim of $223,707 in indirect costs.[26] However, the $9,487 additional reimbursement is not a reduction and does not represent an "alternate" indirect cost rate calculation because it is additional reimbursement for the *direct costs* under the contract for this mandated program.[27] There is no evidence that the Controller's calculation is arbitrary, capricious, or entirely lacking in evidentiary support.

<u>Conclusion</u>

Based on the forgoing analysis, staff recommends that the Commission deny this IRC and find that:

- The IRC is timely filed.
- The Controller's reduction of indirect costs from $223,707 to $0 is correct as a matter of law.
- The Controller's allowance of $9,487 in administrative costs as part of the claimant's direct contracted services costs is unrelated to the indirect cost reduction and is not arbitrary, capricious, or lacking in evidentiary support.

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[23] Exhibit A, Incorrect Reduction Claim, pages 1078-1079 (Parameters and Guidelines). Currently, the OMB Circular A-87 is codified in the Code of Federal Regulations, title 2, part 200.

[24] Exhibit A, Incorrect Reduction Claim, pages 1078-1079 (Parameters and Guidelines).

[25] Exhibit A, Incorrect Reduction Claim, pages 1131-1132 (Final Audit Report) ("The city used the same methodology to calculate hourly billing rates in all of its claims for the audit period.").

[26] Exhibit A, Incorrect Reduction Claim, pages 16-17 (Written Narrative).

[27] Exhibit A, Incorrect Reduction Claim, pages 1077-1078 (Parameters and Guidelines), emphasis added.

Staff Recommendation

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

BEFORE THE
COMMISSION ON STATE MANDATES
STATE OF CALIFORNIA

IN RE INCORRECT REDUCTION CLAIM Penal Code Section 530.6(a) Statutes of 2000, Chapter 956 Fiscal Years 2002-2003 – 2012-2013 Filed on September 2, 2025 City of Rancho Cucamonga, Claimant	Case No.: 25-0308-I-01 *Identity Theft* DECISION PURSUANT TO GOVERNMENT CODE SECTION 17500 ET SEQ.; CALIFORNIA CODE OF REGULATIONS, TITLE 2, DIVISION 2, CHAPTER 2.5, ARTICLE 7. (*Adopted October 9, 2026*)

DECISION

The Commission on State Mandates (Commission) heard and decided this Incorrect Reduction Claim (IRC) during a regularly scheduled hearing on October 9, 2026. [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 sections 17500 et seq., and related case law.

The Commission [adopted/modified] the Proposed Decision to deny the IRC by a vote of [vote will be included in the adopted Decision], as follows:

Member	Vote
Lee Adams, County Supervisor	
Deborah Gallegos, Representative of the State Controller	
Karen Greene Ross, Public Member	
William Pahland, Representative of the State Treasurer, Vice Chairperson	
Michele Perrault, Representative of the Director of the Department of Finance, Chairperson	
Alexander Powell, Representative of the Director of the Governor's Office of Land Use and Climate Innovation	

Summary of the Findings

This IRC addresses reductions made by the State Controller (Controller) to costs claimed by the City of Rancho Cucamonga (claimant) for fiscal years 2002-2003 through 2012-2013 (audit period) to implement the *Identity Theft* program. The program requires county and city law enforcement agencies to take a police report and begin an investigation when a complainant residing within their jurisdiction reports suspected identity theft.[28] The claimant contracts all of its police services with the County of San Bernardino Sheriff's Department.[29]

During the audit period, the claimant claimed $223,707 in indirect costs, by preparing Indirect Cost Rate Proposals (ICRPs) for each year of the audit period, with rates ranging from 74 to 94 percent based on the "total direct salaries" of San Bernardino County's peace officers.[30] The Controller reduced these costs to $0 on the ground that the claimant contracted with San Bernardino County Sheriff's Department for its police services and did not incur any labor costs.[31] In addition, the Controller found some additional administrative expenses applicable to the *Identity Theft* program in the contract between the claimant and San Bernardino County and increased the rates of reimbursement for *direct* costs by $9,487 based on percentages ranging from 4.56% to 9.45% for each individual fiscal year.[32]

The claimant challenges both of these actions as reductions, urging the Commission to allow reimbursement for the indirect costs reduced. This IRC was timely filed within three years of the Controller issuing the final audit report.[33]

The Commission finds that the Controller's reduction of indirect costs to $0 is correct as a matter of law. Under the Parameters and Guidelines, which are regulatory and binding on the parties,[34] indirect costs for overhead expenses or central government expenses that benefit more than one program provided by the local agency (like heat, electricity, administrative support, space, and infrastructure) and which can be allocated directly to the state-mandated program, are eligible for reimbursement in accordance with the OMB Circular A-87 (previously codified in Code of Federal Regulations, title 2,

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[28] Exhibit A, Incorrect Reduction Claim, page 1075 (Parameters and Guidelines, section I).

[29] Exhibit A, Incorrect Reduction Claim, page 12 (Written Narrative).

[30] Exhibit A, Incorrect Reduction Claim, pages 1193-1194, 1200-1201, 1208-1209, 1222-1223, 1228-1229, 1236-1237, 1250-1251, 1257-1258, 1265-1266, 1271-1272, 1277-1278 (ICRPs with each reimbursement claim).

[31] Exhibit A, Incorrect Reduction Claim, pages 1123, 1136 (Final Audit Report).

[32] Exhibit A, Incorrect Reduction Claim, pages 1131-1135 (Final Audit Report).

[33] California Code of Regulations, title 2, section 1185.1(c); Exhibit A, Incorrect Reduction Claim, pages 1 and 1110.

[34] *California School Boards Association v. State of California* (2009) 171 Cal.App.4th 1183, 1201; *Clovis Unified School District v. Chiang* (2010) 188 Cal.App.4th 794, 798; Government Code sections 17561(d)(1), 17564(b), and 17571.

part 225).[35] Claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an ICRP if the indirect cost rate claimed exceeds 10%.[36]

In this case, however, the claimant does not employ peace officers and does not incur labor costs, yet it based its indirect cost rate proposal using the salaries and benefits of the County of San Bernardino Sheriff's Department. Preparing an indirect cost rate proposal based on salaries and wages of the peace officers employed by another local agency (the County of San Bernardino) does not comply with the requirements of the Parameters and Guidelines. Moreover, *all* costs incurred under a contract that are attributable to a state-mandated program are required to be claimed as a *direct cost* under section V.A.3., Contracted Services, of the Parameters and Guidelines.[37]

The claimant argues that the $9,487 in additional reimbursement for administrative costs is an insufficient "alternate methodology" for its claim of $223,707 in indirect costs.[38] However, the $9,487 additional reimbursement is not a reduction and does not represent an "alternate" indirect cost rate calculation because it is additional reimbursement for the *direct costs* under the contract for this mandated program.[39] There is no evidence that the Controller's calculation is arbitrary, capricious, or entirely lacking in evidentiary support.

Accordingly, the Commission denies this IRC.

COMMISSION FINDINGS

I. Chronology

07/28/2011	The Commission adopted the Parameters and Guidelines for the *Identity Theft* program.[40]
09/30/2011	The Controller issued claiming instructions, which stated that fiscal years 2002-2003 through 2009-2010 must be filed with the Controller by January 30, 2012 and claims for fiscal year 2010-2011 must be filed with the Controller by February 15, 2012.[41]

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[35] Exhibit A, Incorrect Reduction Claim, pages 1078-1079 (Parameters and Guidelines). Currently, the OMB Circular A-87 is codified in the Code of Federal Regulations, title 2, part 200.

[36] Exhibit A, Incorrect Reduction Claim, pages 1078-1079 (Parameters and Guidelines).

[37] Exhibit A, Incorrect Reduction Claim, pages 1131-1132 (Final Audit Report) ("The city used the same methodology to calculate hourly billing rates in all of its claims for the audit period.").

[38] Exhibit A, Incorrect Reduction Claim, pages 16-17 (Written Narrative).

[39] Exhibit A, Incorrect Reduction Claim, pages 1077-1078 (Parameters and Guidelines), emphasis added.

[40] Exhibit A, Incorrect Reduction Claim, page 1075 (Parameters and Guidelines).

[41] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 24.

01/24/2012	The claimant certified by signing under penalty of perjury its fiscal year 2002-2003, 2003-2004, 2004-2005, 2005-2006, 2006-2007, 2007-2008, 2008-2009, 2009-2010, and 2010-2011 reimbursement claims.[42] These claims were received by the Controller's Office on January 27, 2012.[43]
09/28/2012	The Commission adopted the Statewide Cost Estimate for the program.[44]
01/28/2013	The claimant certified by signing under penalty of perjury its fiscal year 2011-2012 reimbursement claim.[45] This claim was deemed filed by the Controller on or soon after this date.[46]
07/01/2013	The Legislature suspended the *Identity Theft* program and no appropriations were made for the fiscal year 2002-2003 through 2011-2012 reimbursement claims.[47]
02/13/2014	The claimant certified by signing under penalty of perjury its fiscal year 2012-2013 reimbursement claim.[48] This claim was deemed filed by the Controller on or soon after this date.[49]

[42] Exhibit A, Incorrect Reduction Claim, pages 1189, 1196, 1204, 1211, 1218, 1224, 1232, 1239, 1246, 1253, and 1261 (Reimbursement Claims).

[43] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 15.

[44] Commission on State Mandates, Statewide Cost Estimate on *Identity Theft*, 03-TC-08, adopted September 28, 2012, https://csm.ca.gov/documents/SCEadopt092812.pdf (accessed June 15, 2026), page 1.

[45] Exhibit A, Incorrect Reduction Claim, page 1268.

[46] Exhibit A, Incorrect Reduction Claim, page 1114 (Draft Audit Report) ("We analyzed the annual mandated cost claims filed by the city for the audit period…").

[47] Exhibit A, Incorrect Reduction Claim, pages 1110 and 1138 (Final Audit Report); Statutes 2013, chapter 20, Item 8885-295-001, schedule 3(y).

[48] Exhibit A, Incorrect Reduction Claim, page 1274 (Reimbursement Claims). The Legislature then suspended the *Identity Theft* program in the fiscal years 2013-2014 to 2022-23 Budget Acts. Exhibit A, Incorrect Reduction Claim, page 1138 (Final Audit Report).

[49] Exhibit A, Incorrect Reduction Claim, page 1114 (Draft Audit Report) ("We analyzed the annual mandated cost claims filed by the city for the audit period…").

07/01/2014	The Legislature suspended the *Identity Theft* program and no appropriations were made for the 2012-2013 reimbursement claims.[50]
03/18/2022	The Controller initiated the audit.[51]
04/19/2023	The Controller issued the Draft Audit Report.[52]
06/28/2023	The claimant filed comments on the Draft Audit Report.[53]
11/20/2023	The Controller issued the Final Audit Report, with no payments for the program having been made as of this date.[54]
09/02/2025	The claimant filed the Incorrect Reduction Claim.[55]
11/07/2025	The Commission issued the Notice of Claimant's Intent to Consolidate and Opportunity for Eligible Claimants to Join the Consolidated Claim.[56]
01/28/2026	The Controller filed comments on the Incorrect Reduction Claim.[57]

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[50] Exhibit A, Incorrect Reduction Claim, page 1110 (Final Audit Report); Statutes 2014, chapter 25, Item 8885-95-001, schedule 3(x). This program is still suspended. See, Stats. 2025, ch. 4, Item 8885-295-001, schedule 5(u).

[51] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 78 (audit initiation letter).

[52] Exhibit A, Incorrect Reduction Claim, pages 78-79, 81 (Documentary Evidence).

[53] Exhibit A, Incorrect Reduction Claim, pages 1138-1186 (Final Audit Report).

[54] Exhibit A, Incorrect Reduction Claim, page 1110 (Final Audit Report, which states: "The State made no payments to the city. The State will pay $195,540, contingent upon available appropriations.").

[55] Exhibit A, Incorrect Reduction Claim, page 1.

[56] Exhibit D, Notice of Claimant's Intent to Consolidate and Opportunity for Eligible Claimants to Join the Consolidated Claim. No other claimant joined this claim. The claimant provided a statement regarding future consolidation and notice of intent to serve as lead incorrect reduction claim claimant per the Commission's regulations in section 1185.3(a) – (b). Exhibit A, Incorrect Reduction Claim, pages 8-11 (Consolidation Statement). However, no claimant requested to be consolidated to this claim within the timeline provided by section 1184.5(a) of the Commission's regulations. Notice of opportunity for eligible claimants to join was served by Commission staff to the mailing list on November 7, 2025. As the 30 days from November 7, 2025, provided by section 1184.5(a) passed without eligible claimants joining this Incorrect Reduction Claim, consolidation is moot.

[57] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 1.

03/23/2026	The claimant filed late rebuttal comments on the Incorrect Reduction Claim.[58]
06/29/2026	Commission staff issued the Draft Proposed Decision.[59]
07/15/2026	The claimant filed comments on the Draft Proposed Decision.[60]
07/20/2026	The Controller filed comments on the Draft Proposed Decision.[61]
07/30/2026	The claimant filed late comments on the Draft Proposed Decision.[62]

II. Background

This IRC addresses the Controller's reduction of indirect costs claimed under the *Identity Theft* program. A background of the program and the issues presented in this IRC are below.

A. The Test Claim Statute

The test claim statute requires county and city law enforcement agencies to take a police report and begin an investigation when a complainant residing within their jurisdiction reports suspected identity theft.[63]

The Parameters and Guidelines allow reimbursement for the following activities:

1. Either a) or b) below:
    a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or
    b) Reviewing the identity theft report completed on-line by the identity theft victim.
2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose.

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[58] Exhibit C, Claimant's Late Rebuttal Comments, page 1.

[59] Exhibit E, Draft Proposed Decision.

[60] Exhibit F, Claimant's Comments on the Draft Proposed Decision.

[61] Exhibit G, Controller's Comments on the Draft Proposed Decision.

[62] Exhibit H, Claimant's Late Comments on the Draft Proposed Decision.

[63] Exhibit A, Incorrect Reduction Claim, page 1075 (Parameters and Guidelines, Section I.).

> The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.
>
> Providing a copy of the report to the complainant is not reimbursable under this program.
>
> Referring the matter to the law enforcement agency where the suspected crime was committed for further investigation of the facts is also not reimbursable under this program[.][64]

The Parameters and Guidelines state that claimants are eligible for reimbursement for the direct costs of salaries and benefits and contracted services as follows:

> A. Direct Cost Reporting
>
> Direct costs are those costs incurred specifically for reimbursable activities. The following direct costs are eligible for reimbursement.
>
> 1. Salaries and Benefits
>
> Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.
>
> [¶]
>
> 3. Contracted Services
>
> Report the name of the contractor and services performed to implement the reimbursable activities and attach a copy of the contract to the claim. If the contractor bills for time and materials, report the number of hours spent on the activities and all costs charged. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services during the period covered by the reimbursement claim. If the contract services were also used for purposes other than the reimbursable activities, only the pro-rata portion of the services used to implement the reimbursable activities can be claimed. Submit contract consultant and invoices with the claim and a description of the contract scope of services.

The Parameters and Guidelines also allow claimants to claim indirect costs for overhead, as specified in the federal Office of Management and Budget (OMB) Circular A-87, by using either ten percent of labor, excluding fringe benefits, or

[64] Exhibit A, Incorrect Reduction Claim, pages 1077-1078 (Parameters and Guidelines, Section IV.).

preparing an indirect cost rate proposal if the indirect cost rate exceeds ten percent, as follows:

> B. Indirect Cost Rates
>
> Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.
>
> Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in 2 CFR Part 225 (Office of Management and Budget (OMB) Circular A-87). Claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate claimed exceeds 10%.
>
> If the claimant chooses to prepare an ICRP, both the direct costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) and the indirect costs shall exclude capital expenditures and unallowable costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)). However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.
>
> The distributions base may be: (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution.
>
> In calculating an ICRP, the claimant shall have the choice of one of the following methodologies:
>
> > 1. The allocation of allowable indirect costs (as defined and described in 2 CRF [sic] Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) classifying a department's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected; or
> >
> > 2. The allocation of allowable indirect costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) separating a department into groups, such as divisions or sections, and then

> classifying the division's or section's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate that is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected.[65]

B. The Controller's Audit

For the period of July 1, 2002, through July 1, 2013, the claimant claimed $500,098 in costs for the *Identity Theft* program.[66] The Controller found $195,540 allowable and $304,558 unallowable.[67] Of the $304,558 unallowable, $223,707 was unallowable as indirect costs, reducing indirect costs to $0 on the ground that the claimant did not have any labor costs, but rather contracted with San Bernardino County Sheriff's Department for its police services.[68] Of the $223,707 in indirect costs claimed, the Controller "found that the entire amount is unallowable, because no city staff member performed any of the reimbursable activities under this program during the audit period."[69]

Specifically, the claimant claimed indirect costs by preparing ICRPs for each year of the audit period, with rates ranging from 74 to 94 percent of "total direct salaries" of San Bernardino County's peace officers.[70]

The audit report states, in part:

> The City of Rancho Cucamonga claimed $500,098 ($276,391 in salary costs and $223,707 in related indirect costs) for the Identity Theft Program. We found that $195,540 is allowable and $304,558 is unallowable. The costs are unallowable primarily because the city claimed misclassified costs, overstated the number of identity theft reports taken, misstated the time increments needed to perform the reimbursable activities, and claimed unallowable indirect costs.
>
> The city used the correct methodology to calculate its salary costs. It multiplied the number of identity theft police reports by the time required to perform the reimbursable activities, and it multiplied the product by the hourly rates obtained from the city's contracts with the [San Bernardino

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[65] Exhibit A, Incorrect Reduction Claim, pages 1078-1079 (Parameters and Guidelines, Section V.).

[66] Exhibit A, Incorrect Reduction Claim, page 1113 (Final Audit Report).

[67] Exhibit A, Incorrect Reduction Claim, page 1113 (Final Audit Report).

[68] Exhibit A, Incorrect Reduction Claim, page 1123 (Final Audit Report).

[69] Exhibit A, Incorrect Reduction Claim, page 1136 (Final Audit Report).

[70] Exhibit A, Incorrect Reduction Claim, pages 1193-1194, 1200-1201, 1208-1209, 1222-1223, 1228-1229, 1236-1237, 1250-1251, 1257-1258, 1265-1266, 1271-1272, 1277-1278 (ICRPs with each reimbursement claim).

> County Sheriff's Department]. The SBCSD's contracts included costs for salaries and benefits, as well as additional administrative costs.
>
> ***However, the city should have classified its salary costs as contract services costs, because no city staff members performed the reimbursable activities***. The city contracted with San Bernardino County to have the SBCSD perform all of its law enforcement services during the audit period. Therefore, the city did not incur any salary costs—or indirect costs related to salary costs—but rather incurred contract services costs. ***We reallocated the costs to the appropriate cost category of Contract Services.***
>
> **Contract Services Costs**
>
> The city contracted with San Bernardino County to have the SBCSD provide all of its law enforcement services during the audit period. These services included reimbursable activities claimed for the mandated program. The city contracted for various SBCSD staff positions each fiscal year and paid the SBCSD annual contract billing rates for the positions. These positions included, but were not limited to, Deputy Sheriffs, Office Specialists, Service Specialists, and Sergeants. No city staff members performed any of the reimbursable activities under this program; therefore, the city did not incur salary and related indirect costs as claimed, but rather incurred contract services costs. We reallocated the costs to the appropriate cost category of Contract Services.[71]

The Controller further explained why the claimant's contracted services costs are not indirect costs under the Parameters and Guidelines and that costs to negotiate and administer the contract could have been claimed as indirect costs on the contract, but were not:

> According to the parameters and guidelines, allowable indirect costs include "the overhead costs of the unit performing the mandate." The City of Rancho Cucamonga contracts out its law enforcement services with the SBCSD. The unit performing the work related to the mandate is the SBCSD, not the city. The overhead costs for SBCSD are included in its billing rate, and our audit determined that those costs were allowable. The only indirect costs incurred by the City of Rancho Cucamonga for law enforcement services are its internal costs incurred by various city departments for negotiating and administering its contracts with San Bernardino County, however, the city did not claim these costs.[72]

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[71] Exhibit A, Incorrect Reduction Claim, pages 1124-1125 (Final Audit Report) emphasis added.

[72] Exhibit A, Incorrect Reduction Claim, page 1161 (Final Audit Report, Controller's Response to City's Response).

The Controller, however, provided additional reimbursement of $9,487 for administrative costs in the contract,[73] and specifically clarified that administrative costs are *not* indirect costs:

> However, the city explained during the audit that its contracts also include items that are clearly administrative in nature. During the audit, we discussed with city representatives the issue of recovering these administrative costs. The city believes that it should be able to prepare Indirect Cost Rate Proposals to recover these costs. However, OMB A-87 Office of Management and Budget guidance does not allow for the recovery of administrative costs using contract services as a base and classifying the administrative costs as indirect costs. The administrative costs included within the city's contracts for law enforcement services do not fit the definition of indirect costs.[74]

The Controller agreed to reimburse the claimant these costs based on a review of law enforcement service contracts for cities contracting with Los Angeles County for comparison in the handling of administrative costs.[75] It found that a "liability percentage" representing administrative costs is added in Los Angeles County's law enforcement contracts, and that in order to be fair with respect to those contracts, it would appropriately include administrative costs in the claimant's reimbursement. Although the claimant's contract with San Bernardino County is not structured this way, the contract includes administrative costs and indirect costs as separately billed line items for the County's law enforcement services it provides to the claimant. The Controller explains:

> Having previously audited a number of these cities, we noted that the county's billing rates included the costs for various employee classifications. However, the total costs for those classifications included salaries and benefits plus an additional "liability percentage," which was added to the contract hourly rate at a specific percentage amount. It is our understanding that this liability percentage covers costs for administrative items, such as various forms of insurance and amounts for countywide cost allocation plans. We did not audit these billing rates.
>
> However, San Bernardino County does not structure its contracts this way and, instead, includes administrative costs and indirect costs as separately billed line items in its contracts for law enforcement services. In order to be equitable with other California cities contracting for law enforcement services, we concluded that it was appropriate to allow the

[73] Exhibit A, Incorrect Reduction Claim, page 1163 (Final Audit Report).

[74] Exhibit A, Incorrect Reduction Claim, page 1132 (Final Audit Report).

[75] Exhibit A, Incorrect Reduction Claim, page 1132 (Final Audit Report).

city to claim costs for line items included in San Bernardino County's contracts that are clearly administrative in nature.[76]

Thus, the Controller calculated administrative cost percentages ranging from 4.56% to 9.45% for each fiscal year by dividing the cost of the following administrative items by the total contract cost:

- Administrative support
- Office automation
- Vehicle insurance
- Personnel liability and bonding
- TRU – Telephone Reporting Unit (FY 2002-03 through FY 2004-05)
- County-wide Cost Allocation Plan (COWCAP) – Administrative and Indirect Costs
- Board approved COWCAP subsidy (one-time for FY 2012-13 only)
- Startup costs (FY 2002-03 through FY 2009-10)[77]

Accordingly, the Controller increased the productive hourly rates for each fiscal year to account for the administrative cost percentages. For example, the Deputy Sheriff hourly rate of $82.41 for 2012-2013 increased to $87.47 with an administrative cost percentage of 6.14% for that year.[78] The Controller explained its decision to reimburse an additional $9,487 in administrative costs as follows:

> Although we were under no obligation to do so, we determined that it is appropriate to calculate an allowable administrative percentage and add it to the productive hourly rate calculations for county staff in this instance. This is similar to the methodology noted by the city's mandated cost consultant. We based our determination that certain contract costs are "clearly" administrative costs on our judgment that such costs are not directly related to providing law enforcement services for the city. Our report spells out exactly which costs we included. We believe that the line item descriptions describe various types of indirect costs that San Bernardino County incurred to provide law enforcement services pursuant to its contracts with the city. As stated previously, just because the city is reimbursing the county for its indirect costs, Generally Accepted Accounting Principles dictates that this does not also make those indirect costs incurred by the City of Rancho Cucamonga.[79]

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[76] Exhibit A, Incorrect Reduction Claim, page 1132 (Final Audit Report).

[77] Exhibit A, Incorrect Reduction Claim, pages 1132-1133 (Final Audit Report).

[78] Exhibit A, Incorrect Reduction Claim, page 1133 (Final Audit Report).

[79] Exhibit A, Incorrect Reduction Claim, page 1162 (Final Audit Report, Controller's Response to City's Response).

In response to the draft audit report, the claimant agreed that it has no in-house police service and that its contract with the county "includes all direct sworn staff, indirect support and administrative personnel, and overhead costs – such as vehicle expenses, and other costs associated with operating a police department."[80]

The claimant also acknowledged the administrative costs "that averaged about 6%," but asserted that the rates it should have been allowed under the Parameters and Guidelines (as indirect costs) would have "averaged about 70%."[81]

Finally, regarding the claimant's argument that its claimed indirect costs are valid under federal regulations, the Controller stated that the claimant cited an inapplicable federal regulation:

> In its response, the city refers to Title 2, Code of Federal Regulations, part 200 (2 CFR 200), section 200.306(f) as justification for claiming indirect costs using the same indirect cost rates that San Bernardino County included in its mandated cost claims for this program. However, Section 200.306(f) is included within Subpart D of 2 CFR 200, which provides guidance for recipients of federal awards to account for cost sharing amounts. This guidance is not applicable to the calculation of indirect costs, nor is it applicable to mandated cost claims. The parameters and guidelines for the Identity Theft Program identify 2 CFR 225, Appendix A and B (OMB Circular A-87) as the controlling requirements for claiming indirect costs. The Commission adopted the parameters and guidelines for the Identity Theft Program in 2011. Several years later, the federal government re-codified 2 CFR 225 within 2 CFR 200 as Subpart E, along with the applicable appendices.[82]

III. Positions of the Parties

A. <u>City of Rancho Cucamonga</u>

The claimant disputes the $223,707 reduction of indirect costs to $0 and the methodology used to compute allowable administrative costs.[83]

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[80] Exhibit A, Incorrect Reduction Claim, page 1139 (Final Audit Report, City's Response).

[81] Exhibit A, Incorrect Reduction Claim, page 1139 (Final Audit Report, City's Response).

[82] Exhibit A, Incorrect Reduction Claim, pages 1162-1163 (Final Audit Report, Controller's Response to City's Response).

[83] Exhibit A, Incorrect Reduction Claim, page 2 ("Amount of Reduction" claimed adds up to $223,777. The $70 difference from $223,707 is a transcription error evident by comparing page 2 of the IRC to page 1124. Under the indirect costs deleted per the Controller's table on page 1124, the claimants transposed $24,838 to $24,818 and $10,786 to $10,876.); see also pages 12-32 (Written Narrative); page 1124 (Final Audit Report); and page 1161 (Final Audit Report, Controller's comments); Exhibit B,

The claimant first explains in its narrative that, like 30% of California cities, it has no in-house police service and therefore contracts with the San Bernardino County Sheriff's Department (SBCSD):

> The City of Rancho Cucamonga (City) has contracted with the San Bernardino County Sheriff's Department (SBCSD) since its incorporation in 1977. The City pays for those County contracts (using general funds) to provide a complete Police Department equivalent to what is provided by a full-service city; legally and functionally.
>
> The City of Rancho Cucamonga has no in-house Police Department other than the one provided through its contract with SBCSD. This contract includes all costs (both direct and indirect) associated with operating a police department. Those costs are itemized by the County in a detailed format, similar to city departmental expenditure report.[84]

The claimant states that the indirect costs it claimed "were supported with Indirect Cost Rate Proposals (ICRPs) prepared in accordance with State Parameters and Guidelines, Claiming Manuals, and Instructions," and that they were "allowable under Federal OMB/CFR guidelines and matched those being claimed (and allowed by SCO) by other local agencies, including San Bernardino County (our contracting agency)."[85]

The claimant agrees that the direct costs of mandated activities performed by San Bernardino contract Deputies and Sergeants were allowable but disagrees with the Controller that the indirect costs were incurred by the County, not the City.[86] On this disagreement, the claimant states that it showed the Controller "the many overhead items the county charged us for within the contract [captain/our police chief, lieutenants, clerical positions, vehicle usage & dispatch support charges…] ; pointing out that these items would have been eligible for inclusion in the ICRP had we been a full-service city."[87]

Because the claimant is not a full-service city, it stated:

> The SCO explained that, "the only indirect costs incurred by the City of Rancho Cucamonga for law enforcement services are its internal costs incurred by various city departments for negotiation and administering its contract with San Bernardino County." They said that because we were a contract city, all costs relating to the law enforcement function within our contract police department were "direct" costs and requesting

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Controller's Comments on the IRC, page 15, and pages 16-17 and 25 (Written Narrative) and 1166 and 1171 (Final Audit Report).

[84] Exhibit A, Incorrect Reduction Claim, page 12 (Written Narrative).

[85] Exhibit A, Incorrect Reduction Claim, page 12 (Written Narrative).

[86] Exhibit A, Incorrect Reduction Claim, page 13 (Written Narrative).

[87] Exhibit A, Incorrect Reduction Claim, page 13 (Written Narrative).

> reimbursement for this overhead or preparing an ICRP was not an option.[88]

The claimant states that it "questioned why contract cities are not entitled to claim their 'law enforcement function'/departmental overhead costs."[89] It asserts that this is "unfair to contracting cities by denying them reimbursement of like/equivalent costs."[90] The claimant further argues that the Controller has made inconsistent findings in other claims, such as the City of San Marcos' claim for reimbursement for a different program, and the County of San Bernardino's claim for reimbursement for the *Identity Theft* program.[91]

The claimant states that since the Controller responded that an ICRP methodology could not be utilized, it "suggested methods by which these costs could be reimbursed to us 'directly'," but that the Controller declined this approach as well, so the claimant remained "unreimbursed for these 'reasonably necessary' departmental indirect costs."[92]

The claimant states that "the SCO conceded that there 'could be' some overhead costs that were 'clearly administrative' billed within the contract that they would consider."[93] The claimant summarizes this conversation as follows:

> They explained that in other audits of Los Angeles County Sheriff's (LA) contract cities, they allowed a "liability" surcharge that was an add-on to the staff billing rates, thus they would consider doing something similar for us.
>
> We explained that each county structured their contracts differently and that LA County already had most overhead costs already included in their Deputy Hourly rates. (see Section 7 under Los Angeles Contracts and Billing Rates)
>
> For example, in FY 2011-12 LA County charged their contract cities $119.41/hour for their Deputies (including the extra 4% liability percentage surcharge). If one reviews Los Angeles County's own Identity Theft claims, one can see LA County claimed $80.30/hour for their own Deputy's salary and benefit costs, plus 46.5% for their overhead/ICRP rate, bringing their total billable and claimed hourly rate for a Deputy to $117.64. A rate comparable to the what other claimants were allowed. Again – over 40% lower because we were denied inclusion of departmental overhead costs. (see Section 7 for copies of LA County

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[88] Exhibit A, Incorrect Reduction Claim, page 13 (Written Narrative).

[89] Exhibit A, Incorrect Reduction Claim, page 13 (Written Narrative).

[90] Exhibit A, Incorrect Reduction Claim, page 14 (Written Narrative).

[91] Exhibit A, Incorrect Reduction Claim, pages 14-15 (Written Narrative).

[92] Exhibit A, Incorrect Reduction Claim, page 15 (Written Narrative).

[93] Exhibit A, Incorrect Reduction Claim, page 15 (Written Narrative).

> claims as well as actual contracts with contract cities with their rate sheets).
>
> To “help us” obtain reimbursement for at least “some” of the cost the SCO deemed “clearly administrative” they computed a rate using a new and unwritten computational methodology they named the “Administrative Cost Rate”. When we asked why they weren’t using the existing ICRP methodology presented in the claiming instructions they stated that they were compelled to create this new, alternate methodology because the existing methods and guidelines didn’t apply to cities that contract for law enforcement services.[94]

The claimant states that the Controller’s administrative cost rate “methodology was unfair for a number of reasons.”[95] The claimant states the Controller’s selection is arbitrary, is contradictory to prior audit decisions, incorrectly comingles indirect costs with direct costs by using the total contract cost as the base for distributing their selected costs, and conflicts with Section V.B. of Parameters and Guidelines (addressing indirect costs).[96]

The claimant then presents four questions it states are at issue:

1. Which local agency should submit claims for state reimbursement – the agency that provides the services (county) – or the agency that pays for (incurs the cost) for that service (city)?
2. Are agencies that contract for law enforcement services entitled to computation of indirect/overhead costs using the existing Claiming Manuals/instructions and Parameters and Guidelines or is it appropriate for the SCO to create alternate overhead claiming methodologies?
3. Are there indirect costs within the City’s Contract for law enforcement services?
4. Was it correct for the SCO to replace the existing Indirect Cost Rates Proposal (ICRP) methodology and create new alternate methodology for contract cities?[97]

To its issue one, regarding who should submit claims, the claimant states:

> All parties agree (the city/claimant, the SCO, and the Commission on State Mandate) that contracting cities are the entities which have incurred the mandated costs, not the Counties providing the services; thus, it is the contract cities which must submit claims for state reimbursement.[98]

To its issue two, regarding computation of indirect costs, the claimant states:

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[94] Exhibit A, Incorrect Reduction Claim, pages 15-16 (Written Narrative).

[95] Exhibit A, Incorrect Reduction Claim, page 16 (Written Narrative).

[96] Exhibit A, Incorrect Reduction Claim, pages 16-17 (Written Narrative).

[97] Exhibit A, Incorrect Reduction Claim, pages 19-25 (Written Narrative).

[98] Exhibit A, Incorrect Reduction Claim, page 19 (Written Narrative).

> SCO's own prior audits as well as other Commission Decisions found that the agency that "incurs" the cost is the appropriate entity to submit for reimbursement. It is inconsistent and unfair to apply different standards: saying a contract city cannot include or be reimbursed for all their eligible costs.[99]

To its issue three, regarding indirect costs within the law enforcement services contract, the claimant states:

> The SCO does not dispute the existence of overhead costs within the city's contract. The SCO's May 12, 2023 email response to the City under "Issue 3", stated, "Yes, San Bernardino County includes its indirect costs as separate line items in its contracts. However… that does not also make those costs incurred by Rancho Cucamonga." (If Rancho Cucamonga paid for those costs – how could we not have incurred them?)
>
> The SCO argues that, "the only indirect costs incurred by the City of Rancho Cucamonga for law enforcement services are its internal costs incurred by various city departments for negotiation and administering its contract with San Bernardino County," are eligible.
>
> Not only is this contradictory, it would disregard all costs in item (1) of the Parameters and Guidelines <u>Section V.B. Indirect Cost Rate:</u> "Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic ad rational basis through a cost allocation plan." [¶]…[¶] Contract departments should not be held to a different standard and denied equal reimbursement of similar costs.[100]

The claimant further argues that

> Legally and functionally, the city does have a police department: one that provides the same services that an in-house department provides. Regardless of the method by which the services are provide[d], [the] Parameters and Guidelines do not make a distinction and intended that all local agencies be entitled to obtain reimbursement for the actual direct and indirect costs necessary to comply with the mandate.
>
> The plain language of State and Federal guidelines affirms that there can be eligible and reimbursable indirect costs within a contract. The City properly accounted for the indirect costs necessary to perform the reimbursable activities by computing an ICRP in accordance with the instructions and Parameters and Guidelines. [101]

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[99] Exhibit A, Incorrect Reduction Claim, page 20 (Written Narrative).

[100] Exhibit A, Incorrect Reduction Claim, pages 22-23 (Written Narrative).

[101] Exhibit A, Incorrect Reduction Claim, page 24 (Written Narrative).

To its issue four, regarding ICRP methodology and the administrative costs methodology, the claimant states:

> SCO's new "Administrative Percentage" methodology used in the computation of eligible overhead costs differs from that shown in State claiming instructions, manuals, and Parameters and Guidelines.[102]

The claimant argues that "[a]ltering rules and eligibility of costs after the fact constitutes 'underground rule making' and violate[s] Due Process principles."[103] The claimant states that it disagrees with the Controller that the "Federal CFR, 'A-87 … is not applicable" to contract city indirect costs.[104]

The claimant then refers to the Claiming Manual, citing Section 9 as follows:

> "GC Section 17564(b) provides that claims for indirect costs must be filed in the manner prescribed by the SCO."
>
> "If a local agency elects not to utilize the 10% fixed rate method but wants to claim indirect costs, it must prepare an ICRP for the program. The proposal must follow the provisions of the Office of Management and Budget (0MB) Circular A-87 (Title 2 CFR Part 225), *Cost Principles for State, Local, and Indian Tribal Governments*"
>
> "A method for preparing a departmental indirect cost rate proposal for programs is presented as Exhibit 1. Only this format is acceptable under the SCO reimbursement requirements. <u>If more than one department is involved in the reimbursement program, **each department must have their own indirect cost rate proposal** for the program</u>."[105]

The claimant states: "The City complied and used this methodology."[106]

The claimant concludes:

> The City respectfully requests that the Commission on State Mandate[s] allow the City of Rancho Cucamonga and all contract cities the same reimbursement rights as cities with in-house police departments. Existing guidelines should be applied consistently to ensure fair reimbursement for actual incurred costs. If the SCO believes that alternate rules and guidelines exist- it should be required to notify and provide these in advance.

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[102] Exhibit A, Incorrect Reduction Claim, page 25 (Written Narrative).

[103] Exhibit A, Incorrect Reduction Claim, page 29 (Written Narrative).

[104] Exhibit A, Incorrect Reduction Claim, page 29 (Written Narrative).

[105] Exhibit A, Incorrect Reduction Claim, page 30 (Written Narrative, emphasis in original).

[106] Exhibit A, Incorrect Reduction Claim, page 31 (Written Narrative).

> Denying contract cities reimbursement for indirect costs they have legitimately paid for would be inconsistent, unfair, and in violation of Article XIII B, section 6 or the California Constitution which mandates full reimbursement of state-imposed costs.[107]

The claimant filed late rebuttal comments on March 23, 2026. It summarized its comments as follows:

1. The SCO applied inconsistent audit standards. Audits of other similarly situated agencies demonstrate that the SCO has allowed other agencies, including other contract cities, to use existing ICRP methodologies and federal cost principles when allocating indirect costs. The SCO offers no explanation for applying a different standard to Rancho Cucamonga.
2. The SCO's interpretation conflicts with decades of claiming instructions and accepted practice. For more than twenty years, contract cities have been submitting mandate reimbursement claims using personnel costs incurred through contracts to support and compute direct cost as well as in the allocation base for indirect costs. Claiming instructions issued for long time mandates such as "Administrative License Suspension Per Se" and, "Domestic Violence Arrest Policies and Standards" make no distinction between contract personnel costs and in-house personnel costs.
3. The SCO's reasoning is internally contradictory. The SCO asserts that the City did not incur indirect costs through its law enforcement contract. However, the SCO's own audit identified indirect costs embedded within the contract and used those costs to calculate its new "Administrative Percentage." These conclusions cannot both be correct.
4. The SCO created an unsupported and unwritten indirect cost methodology. Instead of evaluating the City's existing ICRPs, which were prepared in accordance with Parameters and Guidelines (Ps and Gs) and Claiming Instructions, the SCO substituted a newly created "Administrative Percentage" rate. This methodology does not appear in the Parameters and Guidelines or the State Controller's Claiming Manual and relies on undefined criteria such as "clearly administrative" costs.
5. The SCO's interpretation conflicts with prior Commission guidance. Proceedings before the Commission on State Mandates (City of Palmdale IRC) have previously recognized that overhead costs may exist within contractual service arrangements and that agencies may recover such costs through an indirect cost rate proposal. The SCO's

[107] Exhibit A, Incorrect Reduction Claim, page 32 (Written Narrative).

> rejection of the City's properly prepared ICRPs therefore conflicts with prior Commission decision.[108]

On July 15, 2026, the claimant submitted comments on the Draft Proposed Decision. The claimant argues the following:

1. The recommended decision imposes a limitation that does not appear in the Commission's published reimbursement standards.
2. The recommended decision acknowledges that contract cities incur allowable indirect support costs but provides no principled basis for disallowing the remaining costs.
3. The recommended decision provides no administrable methodology for contract cities to calculate their allowable indirect support costs.
4. The recommended decision should be rejected because it is inconsistent with the Commission's published reimbursement framework and creates uncertainty for future claims.[109]

The claimant also attached two audit reports by the Controller for the City of Laguna Niguel, one for the *Racial and Identity Profiling Program* for July 1, 2018, through June 30, 2024,[110] and another for the *Identity Theft Program* for July 1, 2005, through June 30, 2013.[111] The claimant cites these audit reports to express concern over "different audit outcomes," stating that one audit report "permitted recovery of approximately fourteen percent" of certain categories of "indirect support costs," while another did not.[112]

On July 30, 2026, the claimant submitted additional late comments on the Draft Proposed Decision, restating its arguments for acceptance of its ICRPs and asking alternatively for the same amounts to be reimbursed as direct costs.[113] The claimant concluded:

> The City therefore respectfully requests that the Commission reject the Draft Proposed Decision, reverse the disallowance of the City's claimed indirect support costs, and reaffirm that local agencies may rely upon the Commission's published reimbursement methodology unless and until that methodology is prospectively amended. Alternatively, the Commission

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[108] Exhibit C, Claimant's Late Rebuttal Comments, pages 1-2.

[109] Exhibit F, Claimant's Comments on the Draft Proposed Decision, pages 2-8.

[110] Exhibit F, Claimant's Comments on the Draft Proposed Decision, pages 13-27.

[111] Exhibit F, Claimant's Comments on the Draft Proposed Decision, pages 28-39.

[112] Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 7. The Commission does not have jurisdiction to address these other audit reports.

[113] Exhibit H, Claimant's Late Comments on the Draft Proposed Decision, pages 1-3.

> should direct reimbursement of the allocable disputed support costs as direct contracted-service costs.[114]

B. State Controller's Office

The Controller urges the Commission to deny this Incorrect Reduction Claim. The Controller states that

> However, the city claimed its contract services costs incorrectly as salaries and benefits, which we re-classified during our audit. The city also prepared Indirect Cost Rate Proposals (ICRPs) based on salary and benefit costs which, per its own admission in this IRC, it did not incur. As we noted in the audit report, substituting contract services costs as salaries and benefit costs for the purposes of preparing ICRPs is in direct violation of the Parameters and Guidelines as well as cost principles contained in 2 CFR Part 200, Part 225. Given these indisputable facts, we determined that all indirect costs claimed are unallowable.[115]

Following its reiteration that the indirect costs claimed are unallowable, the Controller explains its additional administrative costs finding:

> We could have stopped there and issued our audit report. However, as we explain in our comments addressing the city's Issue 3, the city's mandated cost consultant communicated with us, correctly noting that cities in Los Angeles County contracting for law enforcement services pay contract rates that include an administrative cost component. Los Angeles County refers to these additional amounts as "Liability". During prior audits and reviews of claims filed by cities that contract with Los Angeles County for law enforcement services, we have not had any findings related to the county's contract hourly rates nor objected to the inclusion of a liability amount. The consultant correctly noted that the SBCSD does not structure its contracts for law enforcement services in this manner. Instead, the SBCSD contracts include amounts for various items that, from our perspective, are not directly related to providing law enforcement services. We classified these items as "administrative costs" that the county incurs.[116]

The Controller then addresses the claimant's four issues.

As to the claimant's issue one regarding who should submit claims, the Controller states that the city should submit claims:

> We read Section II of the Ps and Gs to mean that, in addition to government entities that have their own law enforcement agency, cities that contract with a county for law enforcement services are also eligible to

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[114] Exhibit H, Claimant's Late Comments on the Draft Proposed Decision, page 3.

[115] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, pages 15-16.

[116] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 16.

> file claims under this state-mandated program. Therefore, the city's IRC asserts that the city should be eligible to claim the costs that it incurred to comply with the reimbursable activities. We agree. The city contracted with the SBCSD for its law enforcement services during all years of the audit period. Therefore, the SBCSD served as the city's law enforcement agency pursuant to its contracts with the city and the city incurred reimbursable contract services costs under this mandated program.[117]

As to the claimant's issue two regarding computation of indirect costs, the Controller cites the Commission's Decision in *Interagency Child Abuse and Neglect Investigation Reports Program*, 17-0022-I-01, City of Palmdale.[118] The Controller asserts that this incorrect reduction claim likewise considered indirect costs of a city contracting for law enforcement based on salaries and wages the city did not incur. The Controller states:

> In its decision, the Commission stated the following:
>
> The claimant here filed its initial reimbursement claims as direct salary costs for the deputies and sergeants conducting the mandate and sought 10 percent of the direct costs as its indirect costs. At all times relevant to this IRC, the claimant, through its reimbursement claims, amended claims, assertions and objections throughout the audit period, and allegations in filing the IRC, has consistently sought indirect costs of only the 10 percent default rate applied to the claimant's contract costs. The Final Audit Report states (and the claimant concedes) that "[n]one of the city staff members performed any of the reimbursable activities under this program." Nevertheless, the claimant continued throughout the audit and in this IRC to assert its belief that the 10 percent default rate was a reasonable and conservative estimate of its indirect costs. Accordingly, as noted above, the Controller disallowed all claimed indirect costs.
>
> The Government Code requires a claimant to file its reimbursement claims in accordance with the parameters and guidelines. And the courts have determined that parameters and guidelines are regulatory in nature and binding on the parties. In this case, the claimant has not complied with the Parameters and Guidelines in claiming its indirect costs; the 10 percent rate is allowed when the claimant uses its own employees to perform the mandated activities. This claimant contracts for all law enforcement services, including the mandated activities, and therefore the claimant has no direct salaries and benefits upon which to base its claim of indirect costs. The 10 percent default rate is not available to this claimant based on the plain language of the Parameters and Guidelines, irrespective of whatever documentation might be presented to justify it. Therefore, it is

[117] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 16.

[118] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 17.

> correct as a matter of law for the Controller to deny indirect costs, as claimed.
>
> The same issue has been presented to the Commission once again in this IRC. The only difference is that the city of Rancho Cucamonga claimed indirect costs using ICRPs that it prepared based on salaries and wages costs that it did not incur instead of claiming the default 10% indirect cost rate that is also available as an option in the [Identity Theft Program]. From the SCO's perspective, the issue is clear and the indirect costs claimed are unallowable.[119]

The Controller then cites to Section V.B. of the Parameters and Guidelines and concludes "that even if the contract between the city and the county includes indirect costs *that the county incurred, reimbursing the county for such costs does not also make them indirect costs that are reimbursable to the city*."[120]

The Controller states that the claimant misunderstands indirect costs. Indirect costs are legitimate costs associated with *operating* the claimant's own law enforcement operation. The Controller explains indirect costs as follows:

> The city's extensive arguments concerning its ability to prepare ICRPs and claim indirect costs based on contract services costs it incurred demonstrate a fundamental misunderstanding of indirect costs and what they represent. If the city had been operating its own Police Department during the years of the audit period, it would have incurred direct costs for providing such law enforcement services as traffic patrols, criminal investigations, incarceration, and public security, just to name a few. The direct cost of providing such direct law enforcement services is typically the cost of the salaries and wages of the personnel assigned to these duties. In addition to the direct costs incurred to provide law enforcement services to the citizens of Rancho Cucamonga, the city would also have incurred related indirect costs. The Ps and Gs note that "indirect costs are costs that are incurred for a common or joint purpose, benefitting more than one program and are not directly assignable to[] a particular department or program without efforts disproportionate to the result achieved." What this means is that the city would have incurred costs for such items as (but not limited to):
>
> - Owning, operating, and maintaining a police station(s),
> - Police Officer uniforms,
> - Law enforcement tactical gear,

[119] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, pages 17-18.

[120] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 18, emphasis added.

- Owning, operating, and maintaining a fleet of law enforcement vehicles,
- Officer training,
- Utility services (e.g., electricity, water, trash, & sewer),
- Operating and staffing a Human Resources Department,
- Operating a payroll function,
- Calculating, collecting, and submitting withholdings to the appropriate state and federal offices,
- Negotiating and administering employee benefit plans,
- Maintaining and preparing appropriate accounting records and reports,
- Negotiating and administering contracts with unions for police officers and clerical staff,
- Insurance (liability, fire, & automotive), and
- General legal costs as appropriate

While this is not an exhaustive list, it represents legitimate costs associated with operating a law enforcement operation. However, any effort to allocate and assign such costs to a particular program or division within the Police Department would be very difficult, or as the Ps and Gs explain, "without efforts disproportionate to the results achieved." [¶] However, the city of Rancho Cucamonga did not operate its own Police Department at any time during the audit period and did not incur the indirect costs contained in the previous bullet point list. Instead, San Bernardino County incurred such costs. Accordingly, costs appearing in the city's contract with the county are contract services costs, not salaries, benefits, and related indirect costs. Since the city did not incur related indirect costs, section V.B. (Indirect Cost Rates) of the Ps and Gs does not apply to the city's claims. [¶]…[¶] Our audit report (Section 9 City IRC, pdf pages 1109 through 1187), explains on pdf pages 1131 through 1136 that the city's ICRPs did not comply with the Ps and Gs. In the language cited previously from Section V.B. of the Ps and Gs, there are three options for using a distribution base. The city chose option #2 – direct salaries and wages. However, the city did not incur any direct salaries and wages costs. It incurred contract services costs and erroneously reclassified such costs as salaries and benefits for the purpose of preparing its ICRPs. In addition, each of the city's ICRPs were prepared for the City of Rancho Cucamonga Sheriff, which does not exist as an entity or as a person.

Regardless of any arguments raised by the city in its IRC filing concerning its belief about the allowability of indirect costs for contract services, it did not comply with the Ps and Gs to claim indirect costs in any of its claims

> during the audit period. The city cannot now use the IRC process to cure its incorrectly prepared claims.[121]

As to the claimant's issue three regarding indirect costs within the law enforcement service contract, the Controller states:

> From the SCO's perspective, the answer is no. San Bernardino County may have included costs within its law enforcement contracts that represent indirect costs that it incurred, but there are no indirect costs within a contract for services for the city to claim, despite the city's pleas to the contrary. However, we do agree that the city's contracts include various line-item amounts that appear to be administrative in nature and not directly related to providing law enforcement services.[122]

The Controller then explained its addition of administrative costs again, and added:

> We were very careful to explain that while we acknowledged that San Bernardino County contracts for law enforcement services include various line-item cost amounts that do not appear directly related to law enforcement services, we defined these costs as "administrative costs," not indirect costs or overhead costs. In our audit report (Section 9 City IRC – pdf pages 1132 and 1133), we detailed the specific line-item amounts that appear to be wholly administrative in nature. We have seen similar methodologies in other city reimbursement claims to calculate administrative costs pursuant to contracts for law enforcement services and deemed them to be allowable, even though the methodology to calculate such administrative costs is absent direct guidance within any SCO Mandated Cost Manual for Local Agencies.[123]

As to the claimant's issue four regarding ICRP methodology and the administrative costs methodology, the Controller stated:

> Despite the city's statement, the SCO has not developed "a new alternate methodology" for claiming indirect mandated costs. The city did not incur any indirect costs, so Section V.B. of the Ps and Gs does not apply to the city's claims. As we noted in our comments to Issue 2, the city did not incur any costs for a common or joint purpose benefiting other departments by virtue of its contracts with San Bernardino County for law enforcement services.
>
> In addition, we would like to point out that SCO's calculations of administrative costs in this audit did not represent a reduction in costs but were additional costs that we deemed to be allowable.[124]

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[121] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, pages 18-20.

[122] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 20.

[123] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 21.

[124] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, page 21.

On July 20, 2026, the Controller submitted comments on the Draft Proposed Decision, stating that it agrees "with the Commission's conclusion that supports our reductions to the city's claims for unallowable indirect costs and allowance of administrative costs as part of the city's *Direct* contracted services costs for fiscal year (FY) 2002-2003 through FY 2012-2013."[125]

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 if the Controller determines that the claim 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.[126] 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."[127]

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.[128] 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 judgement for that of the agency. [Citation.]'" … "In general … the inquiry is limited to whether

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[125] Exhibit G, Controller's Comments on the Draft Proposed Decision, page 1.

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

[127] *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.

[128] *Johnson 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 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.]' "[129]

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.[130] In addition, sections 1185.1(f)(3) and 1185.2(d) and (e) of the Commission's regulations require that any assertions of fact by the parties to an Incorrect Reduction Claim must be supported by documentary evidence. The Commission's ultimate findings of fact must be supported by substantial evidence in the record.[131]

A. The Claimant Timely Filed this IRC Within Three Years from the Date the Claimant First Received from the Controller a Final State Audit Report, Letter, or Other Written Notice of Adjustment to a Reimbursement Claim, which Complies with Government Code Section 17558.5(c).

Government Code section 17558.7(a) states: "If the Controller reduces a claim approved by the commission, the claimant may file with the commission an incorrect reduction claim pursuant to regulations adopted by the commission."

Section 1185.1(c) of the Commission's regulations requires an Incorrect Reduction Claim to be filed no later than three years after the date the claimant receives a final state audit report, letter, or other written notice of adjustment to a reimbursement claim, which complies with Government Code section 17558.5(c). Under Government Code section 17558.5(c), the Controller is required to notify the claimant in writing within 30 days after issuance of a remittance advice of any adjustment to a reimbursement claim resulting from an audit or review. The notice must specify which claim components were adjusted and in what amount, as well as interest charges, and the reason for the adjustment.[132]

Here, the final audit report was issued to the claimant on November 20, 2023.[133] The audit report specifies the claim components and amounts adjusted, as well as the

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

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

[131] 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.

[132] Government Code section 17558.5(c).

[133] Exhibit A, Incorrect Reduction Claim, page 1110 (Final Audit Report).

reasons for the adjustments, and therefore complies with the section 17558.5(c) notice requirements.[134]

The IRC was filed on September 2, 2025.[135] As this was within three years of issuing the final audit report, the IRC was timely filed.

B. <u>The Controller's Reduction of Indirect Costs from $223,707 to $0 Is Correct as a Matter of Law.</u>

The single reduction at issue is the disallowance of indirect costs. The claimant claimed $223,707 in indirect costs, which the Controller reduced to $0 on the ground that, as a contract city, the claimant has no direct salaries or benefits on which to base indirect costs.[136] As explained in the Background, the claimant claimed indirect costs by preparing ICRPs for each year of the audit period, with rates ranging from 74 to 94 percent, based on San Bernardino County Sheriff's Department's "total allowable indirect costs" to the County Sheriff Department's "total direct salaries" and applied that percentage to the *Identity Theft* program.[137] In other words, the claimant is suggesting that it incurred indirect costs of up to 94 percent related to the performance of the *Identity Theft* mandated program. The claimant admits, however, it has not incurred salary and benefit expenses since it has no in-house police services, but contracts with the San Bernardino County Sheriff's Department for police services, including services under this mandated program.[138]

The claimant nevertheless contends that the reduction is incorrect since the Parameters and Guidelines allow claimants to claim indirect costs based on an ICRP: "The Recommended Decision does not identify any provision of the Parameters and Guidelines, Claiming Instructions, or State Mandates Claiming Manual that prohibits Rancho Cucamonga from using contract law enforcement costs as the equitable distribution base for its approved Indirect Cost Rate Proposal ("ICRP").[139]

As explained below, the Commission finds that the Controller's reduction is correct as a matter of law.

Indirect costs are those overhead expenses or central government expenses (like heat, electricity, administrative support, space, and infrastructure) that are separate from the direct costs of a state-mandated program, are incurred for common purposes of the local agency, and can be allocated directly to the state-mandated program. Section

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[134] Exhibit A, Incorrect Reduction Claim, pages 1109-1187 (Final Audit Report).

[135] Exhibit A, Incorrect Reduction Claim, page 1.

[136] Exhibit A, Incorrect Reduction Claim, page 1124 (Final Audit Report).

[137] Exhibit A, Incorrect Reduction Claim, pages 1193-1194, 1200-1201, 1208-1209, 1222-1223, 1228-1229, 1236-1237, 1250-1251, 1257-1258, 1265-1266, 1271-1272, 1277-1278 (ICRPs with each reimbursement claim).

[138] Exhibit A, Incorrect Reduction Claim, page 12 (Written Narrative).

[139] Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 3; Exhibit H, Claimant's Late Comments on the Draft Proposed Decision, pages 1-3.

V.B. of the Parameters and Guidelines allows reimbursement for indirect costs based on the OMB Circular A-87 (previously codified in Code of Federal Regulations, title 2, part 225).[140] Key provisions of the indirect cost provisions of the Parameters and Guidelines explain the following:

- Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.[141]
- In accordance with OMB Circular A-87, claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate claimed exceeds 10%. "[A]n indirect cost rate . . . is used to distribute indirect costs to mandates."[142]
- The allocation of allowable indirect costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) classifying a department's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected.

  The distributions base used may be:

  (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.);

  (2) direct salaries and wages; or

  (3) another base which results in an equitable distribution.[143]

These provisions are consistent with the OMB Circular A-87.[144]

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[140] Exhibit A, Incorrect Reduction Claim, pages 1078-1079 (Parameters and Guidelines). Currently, the OMB Circular A-87 is codified in the Code of Federal Regulations, title 2, part 200.

[141] Exhibit A, Incorrect Reduction Claim, page 1078 (Parameters and Guidelines).

[142] Exhibit A, Incorrect Reduction Claim, pages 1078-1079 (Parameters and Guidelines).

[143] Exhibit A, Incorrect Reduction Claim, pages 1078-1079 (Parameters and Guidelines).

[144] Exhibit B, Controller's Comments on the Incorrect Reduction Claim, pages 91-92 (70 Fed. Reg. 51911-51912), with the explanation of indirect cost rate proposals under the

Government Code section 17564(b) states that reimbursement claims filed with the Controller shall be filed in the manner prescribed in the Parameters and Guidelines. The Parameters and Guidelines for a state-mandated program are regulatory in nature and are binding on the parties.[145] Thus, the claimant is required to comply with the rules stated in the Parameters and Guidelines in order to obtain reimbursement.

In this case, the claimant incorrectly identified salaries and benefits as its direct costs. The claimant does not employ peace officers and, thus, does not have direct labor expenses, or salary and wage costs, to calculate an indirect cost rate.[146] No other direct costs were claimed.[147] Therefore, preparing an indirect cost rate proposal based on salaries and wages of the peace officers employed by another local agency (the County of San Bernardino) does not comply with the requirements of the Parameters and Guidelines.

Moreover, since the claimant does not employ peace officers and maintain a police department, there is no evidence that the claimant incurred its own overhead or central government expenses (like heat, electricity, administrative support, space, infrastructure, peace officer training, maintaining law enforcement vehicles, or costs incurred by a human resources department for peace officer employees) to comply with this mandated program. As found by the Controller, "[t]he only indirect costs incurred by the City of Rancho Cucamonga for law enforcement services are its internal costs incurred by various city departments for negotiating and administering its contracts with San Bernardino County, however, the city did not claim these costs."[148]

The claimant declares that because it paid for other costs in the law enforcement contract, those other costs may be claimed as the claimant's own indirect costs as follows:

> Initially, the [Controller] completely denied all overhead costs claimed saying it was the County Sheriff Department's staff, not "city staff members performing the reimbursable activities", and therefore it was the County incurring the indirect costs and not the city.
>
> When we disagreed and showed them that the many overhead items the county charged us for within the contract [captain/our police chief,

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OMB Circular A-87 in Appendix E, pages 102-103 (70 Fed. Reg. 51924-51925). Currently, the OMB Circular A-87 is codified in the Code of Federal Regulations, title 2, part 200, with the indirect cost rate proposal in Code of Federal Regulations, title 2, section 200.414(e).

[145] *California School Boards Association v. State of California* (2009) 171 Cal.App.4th 1183, 1201; *Clovis Unified School District v. Chiang* (2010) 188 Cal.App.4th 794, 798; Government Code sections 17561(d)(1), 17564(b), and 17571.

[146] Exhibit A, Incorrect Reduction Claim, page 12 (Written Narrative).

[147] Exhibit A, Incorrect Reduction Claim, pages 1188-1279 (Reimbursement Claims).

[148] Exhibit A, Incorrect Reduction Claim, page 1161 (Final Audit Report, Controller's Response to the City's Response).

> lieutenants, clerical positions, vehicle usage & dispatch support charges…]; pointing out that these items would have been eligible for inclusion in an ICRP had we been a full-service city –the [Controller] agreed the costs were include[d] and paid for, but still denied the costs (see the May 12, 2023 [Controller] email) saying "Yes – San Bernardino County includes its indirect costs as separate line items in its contracts. However, … that does not also make those costs incurred by Rancho Cucamonga."
>
> We did not follow that logic: if the City paid for indirect costs billed in the contract – how can they not have been "incurred" by the City of Rancho Cucamonga?[149]

The claimant is not correct. To the extent applicable to the claimant's compliance with the *Identity Theft* program, indirect costs of the County of San Bernardino billed as part of the contract to the claimant were eligible to be claimed by the claimant as a *direct cost* under Section V.A.3., Contracted Services, along with the hourly billing rate costs the Controller and claimant agreed were direct costs.[150] Further, direct costs cannot, *also,* be claimable as indirect costs. That would risk double-dipping which is prohibited by the Parameters and Guidelines and applicable federal regulations, which declare that "each cost incurred for the same purpose in like circumstances must be treated consistently either as a direct or an indirect cost *to avoid possible double-charging*" and that "[g]uidelines for determining direct and indirect costs … are provided *in this subpart*," which is Subpart E, entitled "Cost Principles."[151]

The claimant briefly indicates having pled with the Controller to apply another method to find the additional desired reimbursement as direct (instead of indirect) costs.[152] As explained in the next section, the Controller, in its discretion, found *some* additional direct costs in the contracts for administrative expenses applicable to the *Identity Theft* program and increased the rates of reimbursement for direct costs accordingly.[153] Although the Controller "was under no obligation to do so, [it] determined that it [was]

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[149] Exhibit A, Incorrect Reduction Claim, page 13 (Written Narrative).

[150] Exhibit A, Incorrect Reduction Claim, pages 1131-1132 (Final Audit Report) ("The city used the same methodology to calculate hourly billing rates in all of its claims for the audit period.").

[151] Code of Federal Regulations, title 2, section 200.412, emphasis added.

[152] Exhibit A, Incorrect Reduction Claim, page 15 (Written Narrative) ("Since the SCO was insistent that we could not utilize the ICRP methodology and that our 'administrative costs' … 'did not fit the definition of indirect costs' … we suggested methods by which these costs could be reimbursed to us 'directly.' The SCO declined either approach – so we remain unreimbursed for these 'reasonably necessary' departmental indirect costs.").

[153] Exhibit A, Incorrect Reduction Claim, pages 1131-1135 (Final Audit Report).

appropriate to calculate an allowable administrative percentage and add it to the productive hourly rate calculations for county staff in this instance."[154]

However, regardless of how the claimant attempted to *label* the costs – indirect or direct – the fact remains that the claimant provided no source documentation, other than the contract with San Bernardino County, for the Controller's review to consider additional costs of either kind. Under Section V.A.3., Contracted Services, "only the pro-rata portion of the services used to implement the reimbursable activities can be claimed."[155] And under the Parameters and Guidelines, the burden of providing source documentation to support the costs claimed is on the claimant.[156]

The claimant further argues that current section 200.306(f) of title 2 of the Federal Regulations makes an indirect cost rate available for contract costs.[157] However, unlike section 200.414(f), which is the successor to the provisions cited in the Parameters and Guidelines,[158] section 200.306(f) is not in Subpart E on the subject of Cost Principles. Section 200.306(f) is in Subpart D on the subject of Post Federal Award Requirements.[159] Subpart D is not incorporated in the Parameters and Guidelines, does not apply to state-mandated programs, and is not relevant. The federal regulations likewise define Subpart D as "administrative requirements" of federal funding following awards, whereas Subpart E defines allowable costs.[160]

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[154] Exhibit A, Incorrect Reduction Claim, pages 1162 (Final Audit Report, Controller's Response to City's Response).

[155] Exhibit A, Incorrect Reduction Claim, pages 1077-1078 (Parameters and Guidelines).

[156] Exhibit A, Incorrect Reduction Claim, page 1077 (Parameters and Guidelines, Section V. Claim Preparation) ("Each reimbursable cost must be supported by source documentation as described in section IV.").

[157] Exhibit A, Incorrect Reduction Claim, page 1158 (Final Audit Report).

[158] Exhibit A, Incorrect Reduction Claim, pages 1078-1079 (Parameters & Guidelines, Section V.B. Indirect Cost Rates) citing 2 CFR Part 225 defining Indirect Costs. Code of Federal Regulations, title 2, section 200.414 formerly codified in 2 CFR Part 225 at the time of these parameters and guidelines. See 70 Fed. Reg. 51910-01 (Aug. 31, 2005) and 78 Fed. Reg. 78590-01 (Dec. 26, 2013); Exhibit A, Incorrect Reduction Claim, pages 1162-1163 (Final Audit Report) ("The parameters and guidelines for the Identity Theft Program identify 2 CFR 225, Appendix A and B (OMB Circular A-87) as the controlling requirements for claiming indirect costs. The Commission adopted the parameters and guidelines for the Identity Theft Program in 2011. Several years later, the federal government re-codified 2 CFR 225 within 2 CFR 200 as Subpart E, along with the applicable appendices.").

[159] Code of Federal Regulations, title 2, section 200.306(f).

[160] Code of Federal Regulations, title 2, section 200.100.

Thus, the Controller's reduction of indirect costs is consistent with the plain language of the Parameters and Guidelines.

Finally, the conclusion here, that the Controller correctly reduced the costs claimed for indirect costs when the claimant contracts out for services, is consistent with past Commission decisions.[161] In the IRC for *Interagency Child Abuse and Neglect Investigation Reports*, 17-0022-I-01, the claimant contracted for services and also claimed indirect costs based on the default rate of ten percent of labor. The Commission agreed with the Controller that indirect costs were incorrectly claimed:

> This claimant contracts for all law enforcement services, including the mandated activities, and therefore the claimant has no direct salaries and benefits upon which to base its claim of indirect costs. The 10 percent default rate is not available to this claimant based on the plain language of the Parameters and Guidelines, irrespective of whatever documentation might be presented to justify it. Therefore, it is correct as a matter of law for the Controller to deny indirect costs, as claimed.[162]

Also, in its Decision on *Crime Statistics Reports for the Department of Justice (DOJ)*, 17-0240-I-01, the Commission upheld the Controller's reduction of indirect costs developed using an ICRP on the same basis as here, which is that labor costs within a global law enforcement contract may not be used to claim indirect costs:

> Finally, the Commission finds that the Controller's reduction of indirect costs in Finding 2 for fiscal years 2007-2008 through 2011-2012 is not arbitrary, capricious, or entirely lacking in evidentiary support. Section V.B. of the Parameters and Guidelines addresses indirect costs, and provides claimants the option of either claiming 10 percent of direct labor costs, or if indirect costs exceed the 10 percent rate, developing an indirect cost rate proposal by dividing the total allowable indirect costs by an equitable distribution rate. For fiscal years 2007-2008 through 2011-2012, the claimant developed indirect cost rate proposals and applied those rates to costs for contracted law enforcement services that the Controller asserts were incorrectly claimed as direct labor costs, resulting in claimed indirect cost rates ranging from 80.8 to 91.8 percent annually. The Controller

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161 See Commission on State Mandates, Incorrect Reduction Claim Decision on *Interagency Child Abuse and Neglect Investigation Reports (ICAN)*, 17-0022-I-01, adopted November 30, 2018, https://csm.ca.gov/matters/17-0022-I-01/doc12.pdf (accessed May 21, 2026), page 41; Commission on State Mandates, Incorrect Reduction Claim Decision on *Crime Statistics Reports for the Department of Justice (DOJ)*, 17-0240-I-01, adopted January 22,2021, https://csm.ca.gov/matters/17-0240-I-01/doc15.pdf (accessed May 21, 2026), pages 7-9 and 42-48.

162 Commission on State Mandates, Incorrect Reduction Claim Decision on *Interagency Child Abuse and Neglect Investigation Reports (ICAN)*, 17-0022-I-01, adopted November 31, 2018, https://csm.ca.gov/matters/17-0022-I-01/doc12.pdf (accessed May 21, 2026), page 41.

found that the claimed methodology was incorrect because the claimant contracted for law enforcement with the SDSO, so it was inappropriate to claim the costs as indirect "labor costs."[163]

The claimant nonetheless relies on the Decision in *Crime Statistics Reports for the Department of Justice (DOJ)*, 17-0240-I-01, asserting that, in a separate finding, the Commission *allowed* the use of an ICRP on contracted labor costs.[164] The claimant misreads the Commission's Decision. The "indirect cost rates" referenced by the claimant in *Crime Statistics Reports for the Department of Justice (DOJ)*, 17-0240-I-01 were used to find additional *direct* costs reimbursable to the claimant as "Contracted Services" under Section V.A.3. of the Parameters and Guidelines. In its IRC on *Crime Statistics Reports for the Department of Justice (DOJ)*, 17-0240-I-01, the claimant submitted supplemental schedules to the contract. The Controller was able to use that source documentation to find further *direct* contract costs reimbursable to the claimant.[165] The Decision explained the following: ""The Controller notes that the rates it calculated are 'contract-related indirect cost rates,' ***rather than ICRPs***, because the costs are derived from the amounts in the contracts, and applied to the contract, rather than direct labor costs, which the claimant did not incur."[166]

Accordingly, the Controller's reduction of indirect costs to $0 is consistent with the Parameters and Guidelines and is, therefore, correct as a matter of law.

C. The Controller's Allowance of $9,487 in Administrative Costs as Part of the Claimant's *Direct* Contracted Services Costs Is Unrelated to the Indirect Cost Rate Reduction and Is Not Arbitrary, Capricious, or Entirely Lacking in Evidentiary Support.

The claimant argues that the $9,487 in additional reimbursement for administrative costs is an insufficient "alternate methodology" for its claim of $223,707 in indirect

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[163] Commission on State Mandates, Incorrect Reduction Claim Decision on *Crime Statistics Reports for the Department of Justice (DOJ)*, 17-0240-I-01, adopted January 22,2021, https://csm.ca.gov/matters/17-0240-I-01/doc15.pdf (accessed May 21, 2026), page 8.

[164] Exhibit A, Incorrect Reduction Claim, pages 14, 17, 25-26, 28 (Written Narrative).

[165] Commission on State Mandates, Incorrect Reduction Claim Decision on *Crime Statistics Reports for the Department of Justice (DOJ)*, 17-0240-I-01, adopted January 22, 2021, https://csm.ca.gov/matters/17-0240-I-01/doc15.pdf (accessed May 21, 2026), page 14 (Reviewing contracts *and schedules*, the Controller found "overhead costs in the contract [that] were appropriate as they related to the performance of the mandated activities.").

[166] Commission on State Mandates, Incorrect Reduction Claim Decision on *Crime Statistics Reports for the Department of Justice (DOJ)*, 17-0240-I-01, adopted January 22, 2021, https://csm.ca.gov/matters/17-0240-I-01/doc15.pdf (accessed May 21, 2026), page 23, emphasis added

costs.[167] However, as explained below, the $9,487 additional reimbursement is not a reduction and does not represent an "alternate" indirect cost rate calculation because it is additional reimbursement for the *direct costs* under the contract for this mandated program. The Commission has jurisdiction only to determine whether the Controller has incorrectly *reduced* payments to a local agency.[168] Nevertheless, the Commission is addressing this issue since the claimant contends costs are an insufficient substitute for its desired ICRP and it alleges that a reduction occurred.[169]

Section V.A.3. of the Parameters and Guidelines states that all contract costs related to the mandated program can be claimed as a *direct cost* of the program:

> Report the name of the contractor and services performed to implement the reimbursable activities and attach a copy of the contract to the claim. If the contractor bills for time and materials, report the number of hours spent on the activities and *all costs charged*. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services during the period covered by the reimbursement claim. *If the contract services were also used for purposes other than the reimbursable activities, only the pro-rata portion of the services used to implement the reimbursable activities can be claimed*. Submit contract consultant and invoices with the claim and a description of the contract scope of services.[170]

As explained in the Audit Report, the Controller acknowledged that contracts in Los Angeles County include an "additional 'liability percentage'" added to the contract hourly rates, and in its discretionary audit capacity here, decided to ascertain the same additional reimbursement for administrative expenses as part of the contract hourly rates for the claimant.[171] It summarized this decision as a means of adding to the claimant's contract hourly rates costs for the County of San Bernardino Sheriff Department's "clearly administrative" charges to the city under the contract, expressly noting that they were *direct* contract costs, and not indirect costs:

> The city's contracts with SBCSD also include additional employee classifications and items—such as vehicles, dispatch services, and equipment—that are part of the direct costs incurred to provide law enforcement for the city. However, the city explained during the audit that its contracts also include items that are clearly administrative in nature. During the audit, we discussed with city representatives the issue of recovering these administrative costs. The city believes that it should be

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[167] Exhibit A, Incorrect Reduction Claim, pages 16-17 (Written Narrative).

[168] Government Code section 17551.

[169] Exhibit A, Incorrect Reduction Claim, pages 16-17 (Written Narrative).

[170] Exhibit A, Incorrect Reduction Claim, pages 1077-1078 (Parameters and Guidelines), emphasis added.

[171] Exhibit A, Incorrect Reduction Claim, page 1132 (Final Audit Report).

able to prepare Indirect Cost Rate Proposals to recover these costs. However, OMB A-87 Office of Management and Budget guidance does not allow for the recovery of administrative costs using contract services as a base and classifying the administrative costs as indirect costs. The administrative costs included within the city's contracts for law enforcement services do not fit the definition of indirect costs. [¶]…[¶] We calculated an administrative cost percentage for each fiscal year of the audit period based on the city's Law Enforcement Services Contract. To calculate the percentage, we divided the cost of the following line items by the total contract cost:

> • Administrative support
>
> • Office automation
>
> • Vehicle insurance
>
> • Personnel liability and bonding
>
> • TRU – Telephone Reporting Unit (FY 2002-03 through FY 2004-05)
>
> • County-wide Cost Allocation Plan (COWCAP) – Administrative and Indirect Costs
>
> • Board approved COWCAP subsidy (one-time for FY 2012-13 only)
>
> • Startup costs (FY 2002-03 through FY 2009-10)[172]

These calculations increased the contract hourly rates claimed as direct costs by percentages ranging from 4.56% to 9.45% for each individual fiscal year.[173] For example, the *revised* contract hourly rate for a deputy sheriff increased by 6.14% to $87.47 for fiscal year 2012-2013.[174]

The additional reimbursement is not a reduction of indirect costs. The Controller's Audit Report clearly explains that:

> Our determination of calculating additional allowable costs based on administrative costs within the city's contracts is *unrelated to OMB Circular A-87 cost principles*. Instead, we used a basic mathematical construct to allocate the mandated portion of administrative costs based on each year's total contract amount.[175]

Further, the Audit Report states:

> We used a methodology here to include the costs we identified as administrative costs within the city's contracts and re-calculated allowable productive hourly rates for county staff. This resulted in additional

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172 Exhibit A, Incorrect Reduction Claim, pages 1132-1133 (Final Audit Report).

173 Exhibit A, Incorrect Reduction Claim, page 1133 (Final Audit Report).

174 Exhibit A, Incorrect Reduction Claim, page 1133 (Final Audit Report).

175 Exhibit A, Incorrect Reduction Claim, page 1162 (Final Audit Report).

> allowable contract services costs of $9,487 for the city, which is not a reduction of costs.[176]

Therefore, the $9,487 is an additional reimbursement of direct costs and is unrelated to the reduction of indirect costs.

Furthermore, the Commission's review of the Controller's discretionary audit authority is limited out of deference to the Controller's audit expertise. On these decisions, the Commission may not reweigh the evidence or substitute its judgment for that of the Controller.[177] As explained above, the record shows the Controller adequately considered the claimant's arguments and request for additional funding, all relevant factors including the plain language of the Parameters and Guidelines, and has demonstrated a rational connection between those factors, the choice made, and the purposes of article XIII B, section 6 of the California Constitution.[178] There is no evidence that the Controller acted in an arbitrary and capricious manner with respect to the addition of these costs.

Accordingly, Controller's allowance of $9,487 in administrative costs as part of the claimant's *direct* contracted services costs is unrelated to the indirect cost rate reduction and is not arbitrary, capricious, or entirely lacking in evidentiary support.

V. Conclusion

Based on the forgoing analysis, the Commission denies this IRC.

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[176] Exhibit A, Incorrect Reduction Claim, page 1163 (Final Audit Report).

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

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

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 September 14, 2026, I served the:

- **Current Mailing List dated September 8, 2026**
- **Proposed Decision issued September 14, 2026**

  Identity Theft, 25-0308-I-01
  Statutes 2000, Chapter 956 (AB 1897); Penal Code Section 530.6(a)
  Fiscal Years: 2002-2003, 2003-2004, 2004-2005, 2005-2006, 2006-2007, 2007-2008, 2008-2009, 2009-2010, 2010-2011, 2011-2012, 2012-2013
  City of Rancho Cucamonga, 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 September 14, 2026 at Sacramento, California.

Jill Magee

Jill Magee
Commission on State Mandates
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COMMISSION ON STATE MANDATES

Mailing List

Last Updated: 9/8/26

Claim Number: 25-0308-I-01

Matter: Identity Theft

Claimant: City of Rancho Cucamonga

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.)

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