CRS Inc. Cost Recovery Systems, Inc.

July 30, 2026

Ms. Juliana Gmur
Executive Director
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814

RE: City of Rancho Cucamonga – Identity Theft Incorrect Reduction Claim 25-0308-I-01

Dear Ms. Gmur:

The City of Rancho Cucamonga respectfully submits this response to the State Controller's July 20, 2026 comments on the Commission's Draft Proposed Decision.

The Controller's comments do not resolve the legal and methodological defects identified in the City's July 15, 2026 response or identify any published authority establishing the categorical rule on which the reductions depend. Instead, the Controller characterizes the disallowed amounts as "unallowable indirect costs" and states that selected administrative costs were allowed as part of the City's "Direct contracted services costs."

That characterization assumes the conclusion that must be established. A cost does not become substantively unallowable merely because it is classified as indirect. Under the Commission-authorized ICRP methodology and the incorporated OMB Circular A-87 cost principles, allowability depends upon whether a cost is necessary and reasonable, allocable, consistently treated, adequately supported, not recovered elsewhere, and not otherwise prohibited.

The Controller explains that the disputed costs were excluded from the indirect-cost pool because they supported Rancho Cucamonga's contract law-enforcement operation and were identifiable within the Sheriff's contract. But the Parameters and Guidelines expressly recognize that indirect costs may include "the overhead costs of the unit performing the mandate." The fact that a cost supports the City's contract law-enforcement operation therefore does not, by itself, make it ineligible as an indirect cost.

Neither the Controller nor the Draft Proposed Decision identifies a published standard allowing selected administrative components while excluding other documented departmental support costs, or an established methodology explaining how those departmental costs were required to be claimed as direct costs.

Neither the Controller nor the Draft Proposed Decision identifies language in section V.A.3, section V.B, the Claiming Instructions, the State Mandates Claiming Manual, former 2 CFR Part 225/OMB Circular A-87, or generally accepted accounting principles expressly prohibiting the separately identifiable direct-labor component of a law-enforcement contract from serving solely as an equitable distribution base for allocating a separate pool of common departmental support costs. Section V.A.3 governs reimbursement for contracted services attributable to the mandated activities; it does not state that every underlying component of an integrated law-enforcement contract is necessarily a direct cost or prescribe the denominator that must be used to allocate common costs benefiting multiple programs.

The City therefore disputes the Draft Proposed Decision's conclusion that all support costs contained in the SBCSD contract were necessarily required to be claimed as direct costs. That interpretation would effectively make section V.B's express recognition of "the overhead costs of the unit performing the mandate" unavailable to a contract city solely because the operating unit is obtained through contract rather than municipal employment. The City used the separately identifiable labor component of the SBCSD contract solely as the denominator for allocating a distinct pool of actual departmental support costs.

The controlling legal question is whether sections V.A.3 and V.B categorically prohibit a contract city from allocating common departmental support costs through an ICRP using separately identifiable contract labor as an equitable distribution base. The Commission must make its own legal determination regarding the meaning of the Parameters and Guidelines rather than defer to the Controller's legal interpretation.

The prior ICAN and Crime Statistics decisions do not establish that separately identifiable contracted labor is categorically unavailable as an allocation base. ICAN primarily rejected the claimant's application of the 10 percent default rate to contracted-service costs. In Crime Statistics, the Controller calculated and allowed contract-related indirect cost rates using separately identified contract overhead costs and separately identified contracted labor costs, and the Commission upheld that calculation. Thus, Crime Statistics demonstrates that, where the contract documentation separately states contracted labor and overhead components, the Controller may calculate and allow a contract-related overhead rate using those stated components, and the Commission has upheld that approach. Rancho Cucamonga seeks application of that same substantive principle to its documented SBCSD contract costs.

Additionally, the SCO did not find that the disputed costs were unnecessary, unreasonable, unsupported, duplicative, recovered elsewhere, expressly unallowable, or incapable of allocation in part to the mandated activities based on relative benefit. The City recognizes that costs must be classified and allocated under the proper claiming methodology. However, a disagreement over whether a cost is direct or indirect does not make the cost itself unallowable. If the Controller believes the cost was claimed under the wrong category, the Controller should identify the proper allocation method rather than deny reimbursement under both categories.

The placement of the Sheriff's contract payment in the direct contracted-services category does not determine whether every underlying support-cost component is direct or explain how necessary and allocable support costs are to be recovered. The Controller itself relied on separately identified components within the contract documentation to allocate $9,487 of selected support costs to the mandated activities. The City does not contend that this allowance is itself a mathematical reduction. Its relevance is that the Controller used separately stated contract components for allocation purposes, yet did not identify a published and consistently applied standard explaining why other common departmental support costs were excluded.

The Controller should not reject the costs as indirect while also declining to reimburse their allocable share as direct contracted-service costs without identifying how those costs were required to be allocated to the mandated activities.

The Controller has identified no published instruction or established methodology explaining how the City was expected to identify, allocate, and claim the disputed support costs as direct contracted-service costs. No other published methodology explained how the City was required to allocate and claim these disputed departmental support costs. The City therefore relied on the Commission-authorized ICRP methodology.

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 should direct reimbursement of the allocable disputed support costs as direct contracted-service costs.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed on July 30, 2026, at Folsom, California.

Sincerely,

Annette S. Chinn
President and Consultant for the City of Rancho Cucamonga
Cost Recovery Systems, Inc.

DECLARATION OF SERVICE BY EMAIL

I, the undersigned, declare as follows:

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

On July 31, 2026, I served the:

- **Current Mailing List dated July 2, 2026**
- **Claimant's Late Comments on the Draft Proposed Decision filed July 30, 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 July 31, 2026 at Sacramento, California.

David Chavez

David Chavez
Commission on State Mandates
980 Ninth Street, Suite 300
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(916) 323-3562

COMMISSION ON STATE MANDATES

Mailing List

Last Updated: 7/2/26

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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