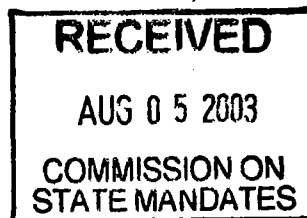


# David Wellhouse

...& Associates, Inc.

July 20, 2003

Ms. Shirley Opie  
Assistant Executive Director  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, California 95814



RE: Incorrect Reduction Claim for the City of Concord, 02-9635802-I-58  
Government Code Section 53646  
Chapter 783, Statutes of 1995 (SB 564)  
Chapters 156 (SB864) and 749 (SB 109, Statutes of 1996  
Fiscal Year 1995/96  
Fiscal Year 1996/97  
Fiscal Year 1998/99  
*Investment Reports*

Dear Ms. Opie:

David Wellhouse & Associates, Inc. (DWA), has prepared and filed the City of Concord's claims for many years. Therefore, as the City's claims preparer and representative in state mandated cost issues, as well as, the City's IRC contact person we hereby offer this letter as rebuttal to the written response received from the State Controller's Office. In their comments, the State Controller's Office states, "The subject claims were reduced because many of the activities were not reimbursable, and there was a lack of source documentation". The claims filed by the City of Concord contained proper documentation and all costs claimed were correct and should have been reimbursed in total. This is very reminiscent of the Open Meetings Act Incorrect Reduction claims which were filed previously, but were never heard by the Commission. The similarities are twofold. First, it appears all claimants were treated the exact same way regardless of what was claimed and the documentation provided. In addition, the State Controller's Office apparently, based on their letter, took it upon themselves to determine what amount was appropriate in their eyes to reimburse without a single phone call or letter asking for additional information and it appears did not audit the claims.

The Controller's Office states that "The Controller's Office is empowered to audit claims for mandated costs and to reduce those that are "excessive or unreasonable"". We agree, that under

Government Code Section 17561, subdivisions (d)(1)(C) and (d)(2), and Section 17564 the Controller's has that right. However, the Government Code sections above reference the performing of an audit. Government Code 17561 section (d)(1)(C) states the following:

“The Controller shall pay these claims from the funds appropriated therefor, provided that the Controller (i) may audit the records of any local agency or school district to verify the actual amount of the mandated costs, and (ii) may reduce any claim that the Controller determines is excessive or unreasonable”.

We, however, do not interpret this section as broadly as the State Controller's Office. We believe this section gives the Controller the right to audit records from any local agency to determine the appropriate amount to pay on a claim submitted to them for payment. That is just plain common sense. However, we do not believe this section gives the State Controller's Office the power to reduce claims based solely on the dollar amount of the claim. With all due respect to the State Controller and all of the persons involved in this process, it appears after reading the State Controller's written response, that these claims were indeed reduced solely due to their dollar amount.

In Attachment I of the State Controller's response, an “Analysis of Incorrect Reduction Claims” is found. Included in this attachment is a timeline accounting of the history of the City's Investment Reports Claims. The first portion states “These adjustments were made in accordance with Government Code Section 17564 (c)(2), which state “...the Controller (2) may reduce any claim that the Controller determines is excessive or unreasonable...”. This analysis states the amount of the FY 1995/96 claim at \$ 3,651.00 and the FY 1996/97 claim at \$ 3,133.00 and the date each claim was filed. The document goes on to state the following for the FY 1995/96 claim. “This claim contained \$ 3,651.00 in costs that were deemed excessive to prepare and submit the annual statement of investment policies, which consists of changes to those existing policies, and the quarterly report of investments.” The analysis goes on to state the exact wording for the FY 1996/97 claim with the exception of the amount which was \$ 3,133.00. Both of these amounts are exactly the entire amount of the claims filed. It appears that the State Controller's Office without an audit, phone calls or letters to us or the City asking for additional information or documentation determined that these dollar amounts were excessive. The analysis states that both claims were “reduced for system maintenance costs and daily data download activities that were deemed “...Not mandated or as non-reimbursable components of the Parameters & Guidelines (Ps & Gs)”. The City of Concord did not claim costs for “daily data download activities”, but did claim for maintenance costs for the SymPro software the City uses solely for the purpose of producing the required Investment Report. This software came into existence after the first Investment Report legislation -- Chapter 1226, Statutes of 1984 and Chapter 1526, Statutes of 1985 and were claimed by many agencies in the original Investment Report Claims - Chapter 459, Statutes of 1990 (SB 1333), filed with the State Controller on April 27, 1992. The costs of the SymPro software and maintenance costs were reimbursed by the Controller's Office at that time, since it was determined to be dedicated solely to the production of the required report and not usable for anything else as I remember. Coincidentally, the original Open Meetings claims were file along side the Investment Reports claims in April of 1992. It seems odd that both these claims have been the only two (2) claims in the Commission's history to have so many

Incorrect Reduction Claims filed for reductions made by the Controller's Office, but that may simply be a coincidence.

The Controller's response goes on to state they believe recent events in the Parameters & Guidelines (Ps & Gs) in the Los Angeles County IRC are relevant. We do not understand what could be relevant about anything that occurred after May 20, 1998, the date these claims were filed. The only events that could be determined relevant in looking at whether the reductions made by the State Controller's Office were correct would have to occur prior to the filing of these claims. The City and DWA had only those events, documents, and knowledge that occurred prior to the filing deadline of May 20, 1998, to base the City's claims on. The above also applies to the Controller's Office citation of "the Incorrect Reduction Claims (IRCs) for the Graduation Requirements mandate".

The Controller's Office states "the claimant does not provide any documentation to substantiate the time and tasks submitted on the claim forms, as neither time sheets nor detailed tasks were available for review by audit staff". The City attached a copy of the invoice(s) for the cost and maintenance of software, used solely for the purpose of preparing the required report documentation as required by the Claiming Instructions in force at the time of filing. As far as the term "timesheets" is concerned, we assumed that if the Controller's Office wanted to see each employee's time sheets detailing days and hours worked they would have requested this information as stated in Section VI (A) of the Parameters and Guidelines. Section VI (A) states the following:

"Claimed reimbursement for employee costs should be supported by name, position, productive hourly rate, hours worked, fringe benefits amount, and a brief description of assigned unit and function relative to the mandate.

The source documents required to be maintained by the claimant may include, but are not limited to, employee time cards and/or cost allocation reports."

As one can see, Section VI (A) requires that the source documents, such as "timesheets" be maintained by the claimant not included with the claim.

The Controller's Office next citation is Section VII of the Parameters and Guidelines and states that this Section specifically provides "for auditing purposes, all costs claimed shall be traceable to source documents (e.g., Employee time records, invoices, receipts, purchase orders, contract, worksheets, calendars, declaration, etc.) that show evidence of the validity of such costs and their relationship to the mandate. All documentation in support of claimed costs shall be made available to the State Controller or his/her agent, as may be requested, and all reimbursement claims are subject to audit during the period specified in Government Code Section 17558.5, subdivision (a)."

The City of Concord does not dispute this section of the Ps & Gs, except to point out that Section VII of the Parameters and Guidelines states that all documentation be available to the State Controller "as may be requested". Neither the City of Concord nor DWA received a request in

any form from the State Controller's Office asking for additional documentation, nor any request to "...to audit the records" of the City, ...to verify the actual amount of the mandated costs.", for the claims in question. We have always tried to provide the Controller's Office with all of the information required if it is indeed available. Some of their requests have been impossible to provide, such as documented time records created at the time the activities were done even though those activities were done in the past. The State Controller's Office states in their response letter that "The subject claims were reduced because many of the activities were not reimbursable, and there was a lack of source documentation" rather than request the records stated above. These claims were reduced to what the Controller's Office states are "...reasonable reductions were made, taking into consideration that some time had been spent to comply with the mandate for investment reporting". Without asking for source documentation, without asking any questions of the claims preparer or the City, and without any knowledge of the City's existing policies, rules, ways of preparing required reports, etc., the State Controller's Office determined the "actual amount" of reimbursement the City of Concord was entitled to and reduced the claims to those amounts. In reducing these claims, the State Controller's Office set aside all time claimed, claimed amounts, etc., which were determined by going through each and every step necessary to fulfill the required activities, as well as, accounting for the amount of time each employee spent for each required activity, just to replace those time frames with their own, which apparently were determined without any information from the claimant whatsoever.

The Controller's Office through their writings, conversations, etc., seem to believe that documented time records, done at the time these activities were performed are an absolute requirement for reimbursement. The following may not be relevant to this IRC, but will certainly be relevant in the next potential round of IRC filings under the Investment Reports mandate. Section IV of the Parameters and Guidelines was amended to include the following language.

"To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs that actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual costs were incurred for the event or activity in question."

With all due respect, the claimants might as well as be required to fly around the Capitol once, on their own power, before reimbursement is granted. The words above taken from Section IV were adopted by the Commission on February 27, 2003, in the last Parameters and Guidelines amendment. This document refers to FY 1999/2000, FY 2000/2001, and FY 2001/2002, as the years to be claimed under the above requirements. These back years are at least two years prior to the adoption of the above language. Can the State Controller's Office or the Commission give any advice on how to create documented time records, "...created at or near the same time the actual cost was incurred...", for claims that are at best two (2) years in the past as most claims are by the time the Ps & Gs are adopted by the Commission.

Article XIII B, Section 6 of the California Constitution clearly states the following:

“Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the State shall provide a subvention of funds to reimburse such local government for the costs of such program or increased level of service, except that the Legislature may, but need not, provide such subvention of funds for the following mandates;

- (a) Legislative mandates requested by the local agency affected;
- (b) Legislation defining a new crime or changing an existing definition of a crime; or
- (c) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing legislation enacted prior to January 1, 1975.

As you know, various changes and interpretations have been made over the years since the voters placed these words in our Constitution with Proposition 4. The State Controller’s Office in their written response has cited Government Code Section 17561 several times detailing the areas that involve excessive claims, etc. However, Government Code Section 17561 has other topics as well. Sections (a)(1)(A), and (1)(B) of Government Code Section 17561 state the following:

“(a) The state shall reimburse each local agency and school district for all “costs mandated by the State” as defined in Section 17514.

(1) For the initial fiscal year during which these costs are incurred reimbursement funds shall be provided as follows: (A) Any statute mandating these costs shall provide an appropriation therefor.

(B) Any executive order mandating these costs shall be accompanied by a bill appropriating the funds therefor, or alternatively, an appropriation for these costs shall be included in the Budget Bill for the next succeeding fiscal year. The executive order shall cite that item of appropriation in the Budget bill or that appropriation in any other bill which is intended to serve as the source from which the Controller may pay the claims of local agencies and school districts.”

Given the constitutional language and the above Government Code sections, we believe it is the Controller’s Office who bears the burden to demonstrate that their reductions are proper, and that proper audit procedures were followed.

The City of Concord and DWA would not claim costs that were known not to be reimbursable and have continually attempted to provide all information necessary to support all of the claims submitted to the State Controller’s Office. We have throughout many years, tried to be as accommodating to the State Controller’s Office as possible. However, we have dealt with a similar problem such as the required filing of an Incorrect Reduction Claim for costs denied in the City’s Open Meetings claims.

When cities discover that the State has mandated another program or higher level of service, they

implement those requirements the best way they can, given their limited resources. Local agencies do not spend more money than necessary or buy the best equipment, etc. just because they believe the State is paying for it, such as I have heard over and over again throughout the years. Rather they implement these programs believing that they will never get paid for their costs or simply do not know about the state mandates process. With the State deferring a billion dollars or so in constitutionally required payments for mandated costs for the second year in a row, local governments still implement the State's mandates and go through the claiming process because no appropriation was made in the legislation. It is hard to imagine that local agencies spent in excess of what is required to implement various mandated activities based on this environment.

Even after signing the Certification of Claim on the State Controller's Office Claiming Instructions, the local agency costs were thrown out and replaced by what appears to be an in-house amount determined by the Controller's Office, with no experience in City procedures or costs.

When the Legislature does not follow the requirements of Article XIII B Section 6 of the California Constitution and the Government Codes citations above, by not providing the required appropriation for each bill containing mandated activities, local agencies then must file claims with the State Controller's Office. However, there have been times when the State Controller's Office has appeared not to audit the City's claims, but instead replace the City's claimed amount with what appears to be some in-house audit standard.

It certainly appears from the letter sent by the Controller's Office that this is the case. The Controller's Office seems to have stopped this policy for those Investment Reports claims filed in the fall of 1998 since there were no reductions in that fiscal year even though the costs were much higher. It seems the State Controller's Office used the same or similar methodology to deny the original Open Meetings Act claims, thus requiring the filing of hundreds of Incorrect Reduction Claims, after nine years of negotiations.

Finally, we would like to address the retention policy for supporting documentation that was in effect when these claims were filed and cited by the State Controller's Office in their response to the City's Incorrect Reduction Claims. Government Code Section 17558.5, subdivision (a) states the following:

“A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to audit by the Controller no later than two years after the end of the calendar year in which the reimbursement claim is filed or last amended....”

By our calculations, the time frame in which these claims are subject to audit by the State Controller's Office has long since passed. If the failure to ask for documentation, which the City could provide was by mistake, then the Controller's Office could have corrected the mistake and asked for documentation up through December 31, 2000. However, they did not. Therefore, to say the “absence of source documentation precludes the Controller from verifying the total claim” is no fault of the City. Unless the source documentation the Controller's Office speaks of

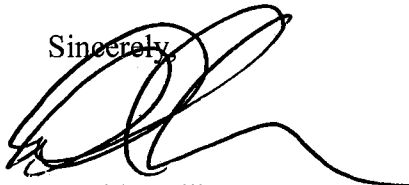
is the unattainable type, such as documented time records prepared years before anyone knows that those activities are reimbursable under Article XIII B, Section 6 of the California Constitution.

The following is a paraphrase of some of the documentation supplied when many cities filed Incorrect Reduction Claims filed years ago due to reductions made by the State Controller's Office to their Open Meetings Act claims.

How can the City prepare documents to satisfy the State Controller's Office years after the fact? In fact, the only way the City could conform to the Controller's audit requirements of documented time records "prepared at the time" is to keep time records on all legislation chaptered by the Secretary of State in the outside chance that it may in the future be recognized as a reimbursable state mandated program under Article XIII B. Is this in fact what the State Controller's Office is requiring in order to be reimbursed in the future for other programs as well? Should this be the requirement in the future or continued to be used by the Controller's Office in order to deny the City's claims, we believe this would most certainly be a state mandate upon local government, should be fully recognized as such and fully reimbursed under the requirements of Article XIII B. Please inform the City whether this requirement will continue so that a test claim may be filed with the Commission on State Mandates on this newly created mandate created by the State Controller's Office.

For all the reasons stated above, we believe the City of Concord's FY 1995/96 and FY 1996/97 Investment Reports claim were incorrectly reduced by the State Controller's Office and we ask the Commission to approve our Incorrect Reduction Claim.

Sincerely,



David Wellhouse  
President

DW/rw

Enclosures

Claiming Instructions No 91-8 - Investment Reports  
Current Parameters & Guidelines for Investment Reports  
Article XIII B Section 6 - California Constitution

## DECLARATION OF SERVICE BY MAIL

I am a resident of Placer County, State of California. At the time of service, I was at least 18 years of age, and not a party to the within action. My business address is 9175 Kiefer Blvd., Suite 121, Sacramento, California 95826.

On July 24, 2003, I served the foregoing document entitled:

CLAIMANT'S REBUTTAL TO THE INCORRECT REDUCTION CLAIM FOR  
THE CITY OF CONCORD, 02-9635802-I-58

By placing a true and correct copy thereof enclosed in an envelope addressed to:

Ms. Shirley Opie  
Assistant Executive Director  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, California 95814

Mr. Shawn D. Silva  
Staff Counsel  
State Controller's Office  
300 Capitol Mall, Suite 1850  
Sacramento, California 95814

And by sealing and depositing in the United States mail at Sacramento, California with postage thereon fully paid.

I declare under the 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 24, 2003, at Sacramento, California.

  
\_\_\_\_\_  
Renee Wellhouse



DECLARATION OF DAVID WELLHOUSE

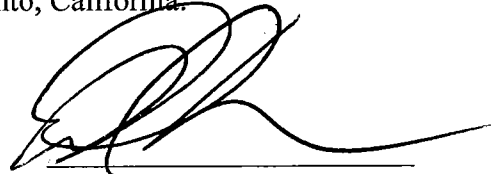
Incorrect Reduction Claim for the City of Concord - CSM # 02-9635802-I-58

I, David Wellhouse, make the following declaration under oath:

I am the President of David Wellhouse & Associates, Inc. As part of my duties, I am responsible for the preparation and filing of the City of Concord's State mandated costs claims..

The foregoing facts are known to me personally and if so required, I could and would testify to the statements made herein. I declare under penalty of perjury under the laws of the State of California that the statements made in this document are true and complete to the best of my personal knowledge and as to all matters, I believe them to be true.

Executed this 24th day of July, 2003 at Sacramento, California.

A handwritten signature in black ink, appearing to read 'David Wellhouse', written over a horizontal line.

David Wellhouse  
President  
David Wellhouse & Associates, Inc.



GRAY DAVIS

Controller of the State of California

P. O. BOX 942850

SACRAMENTO, CA 94250-0001

SB 1333

December 30, 1991

To: City Fiscal Officers

Re: State Mandated Costs  
Claiming Instructions No. 91-8 for Cities

In accordance with Government Code Section 17561, enclosed are claiming instructions for the reimbursement of costs incurred for State mandated programs.

Chapter 459, Statutes of 1990, the Local Government Claims Bill SB 1333, authorized the State Controller's Office to reimburse local agencies for State-mandated local programs of costs incurred in various prior fiscal years. Payments are to be made in three installments. The 1991 State Budget Act (Ch. 118, Statutes of 1991) appropriated \$8,192,000 representing the first installment. Cities may file claims for costs of the following programs:

Ch. 845/83 Subdivision Mergers	\$1,859,000
Ch. 1226/84 Investment Reports	3,861,000 *
Ch. 641/86 Open Meetings Acts	<u>2,472,000</u>
Total	\$8,192,000

The second and third installments will be included in the 1992 and 1993 state budget acts.

**FILING DEADLINE**

Reimbursement claims detailing the costs incurred for various prior fiscal years **must be filed with the State Controller's Office postmarked on or before April 27, 1992.** If the claim is filed after the deadline, but before April 27, 1993, the approved claim will be reduced by a late penalty of 10% but not to exceed \$1,000. Reimbursement claims filed more than one year after the deadline cannot be accepted.

**MINIMUM CLAIM**

Section 17564(a), Government Code, provides that no claim or payment shall be made pursuant to Section 17561 unless such a claim exceeds \$200 per program per fiscal year.

# INVESTMENT REPORTS

## 1. Summary of Chapters 1226/84 and 1526/85,

On September 24, 1987, the Commission on State Mandates determined that Chapter 1226, Statutes of 1984 and Chapter 1526, Statutes of 1985 imposed a reimbursable state mandate on the treasurer or chief fiscal officer of a local agency.

Chapter 1226, Statutes of 1984 amended Government Code Sections 53600, 53630 and 53646. Section 53646, requires the treasurer or chief fiscal officer to render an annual statement of investment policy to the legislative body of the local agency, and to render a monthly report showing the type of investments, institutions, dates of maturity, amounts of deposit, current market values of all securities with a maturity of more than 12 months, and rates of interest to the chief executive officer and the legislative body of the local agency.

Chapter 1526, Statutes of 1985 amended Government Code Section 53646. Section 53646 requires that the monthly report rendered by the treasurer or chief fiscal officer to the chief executive officer and the legislative body of the local agency include any information which the treasurer or chief fiscal officer determines would demonstrate that the local agency's expenditure requirements can be met in the following month.

Section 53646 is repealed on January 1, 1991.

## 2. Eligible Claimants

Any county, city, city and county, including a chartered city or county or other public agency or corporation that incurred increased costs as a result of the mandate to claim reimbursement of those costs.

## 3. Appropriations

Claims may only be filed with the State Controller's Office for programs that have been funded in the State Budget Act or in special legislation. For this program, initial funding in the amount of \$3,861,000 was appropriated by the 1991 State Budget Act [Ch. 118/91]. This funded amount represents the first of three installments to be provided to reimburse costs that counties have incurred in the 1985/86, 1986/87, 1987/88, 1988/89 and 1989/90 fiscal years. Funding for the second and third installments will be provided in the 1992 and 1993 budget acts.

No funds are appropriated to reimburse the costs for the period 7/1/90 - 12/31/90. This mandated program was suspended during this time period pursuant to Government Code 17581. Therefore, no claim shall be filed for costs incurred during the time period.

## 4. Types of Claims

A claimant may file a reimbursement claim as specified below. A reimbursement claim details the costs actually incurred for the previous fiscal year.

- A claim for reimbursement or an estimate must exceed \$200 per fiscal year. However, a county, as the fiscal agent for the special district, may submit a combined claim in excess of \$200 on behalf of districts within the county even if the individual district's claim do not exceed \$200. A combined claim must show the individual claim costs for each district. Once a combined claim is filed, all subsequent claims for the same mandate must be filed in the combined form.

#### 4.1. Filing Deadline

Reimbursement claims for initially funded mandated cost programs, that are contained in an enacted local government claims bill, are due 120 days from the date the State Controller's Office issues the claiming instructions. Accordingly, the filing deadlines for the initial funding of this mandate are as follows:

- Reimbursement claims for costs incurred for the fiscal years 1985/86, 1986/87, 1987/88, 1988/89 and 1989/90 must be filed with the State Controller's Office postmarked by **April 27, 1992**. If a claim is filed after the deadline but by **April 27, 1993**, the approved claim will be reduced by 10% but not to exceed \$1,000. Claims filed more than one year after the filing deadline will not be accepted.

According to Chapter 459/90, which recognized the program as a reimbursable mandated costs, funding for these prior year costs will be provided to the State Controller's Office in equal installments in the State Budget Acts of 1991, 1992 and 1993. Therefore, payment of claims will be made in three installments.

### 5. Reimbursable Components

Eligible claimants will be reimbursed for the increased costs of rendering an annual statement of investment policy, and a monthly report of investments in relation to that policy.

#### 5.1. An Annual Statement of Investment Policy.

Costs of rendering an annual statement of investment policy.

#### 5.2. Monthly report of investments

Costs to prepare data elements necessary to render a monthly report of investments which includes:

- Type of investments; Institution(s);
- Date(s) of maturity; Amount(s) of deposit;
- Current market value(s); Rate(s) of interest;
- Details of investment(s) made pursuant to GC Sections 53601, 35601.1 and subdivision of 53635;
- A statement of relationship to the statement of investment policy and analysis of policy compliance - cost to analyze investments for compliance to terms specified in the investment policy.
- Cash flow projections - costs to include any information which the treasurer or chief fiscal officer determines would demonstrate that the local agency's expenditure requirements can be met in the following month.

#### 5.3. Subsidiary ledger of investments

Subsidiary ledger of investments may be substituted for monthly reports of investments when in compliance with the details required under 5.2 above and generally accepted accounting practices. *Claimant has the option of claiming costs incurred for either paragraph 5.2 or 5.3, but not both for the same reporting period.*

If the subsidiary ledger of investments is utilized, the following costs are reimbursable:

- Costs to input transactions for compilation of various reports to be included in the investment report;
- Costs to reconcile the subsidiary ledger to the control accounts;
- Costs to update any subsidiary ledger and make necessary adjustments discovered during reconciliation process; and
- Costs to adjust the subsidiary ledger to market value.

**5.4. Automated systems**

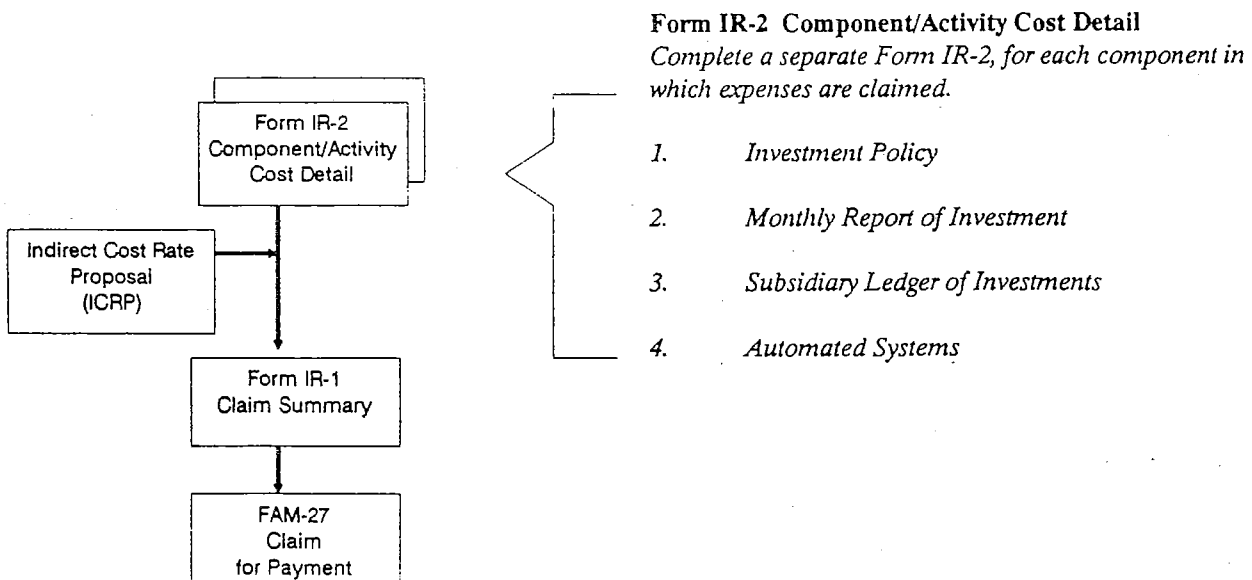
Costs to acquire specialized software for compilation of the investment report and cash flow projections are reimbursable. If hardware investment is required, percentage use of this hardware is reimbursed.

**6. Claiming Forms and Instructions**

The diagram entitled, "Illustration of Claim Forms", provides a graphical presentation of forms required to be filed with a claim. A claimant may submit a computer generated report in substitution for Form IR-1 and Form IR-2, provided the format of the report and data fields contained within the report are identical to the claim forms included in this chapter. The claim forms provided in this chapter can be duplicated and used by the claimant to file an estimated or reimbursement claim. The State Controller's Office will revise the manual and claim forms as necessary.

Form IR-2, Component/Activity Cost Detail, is used to segregate the detail costs by claim component. In some mandates, specific reimbursable activities have been identified for each component. The expenses reported on this form must be supported by cost and time records. Copies of supporting documentation as specified in these instructions must be submitted with the claim. All supporting documents must be retained for a period of not less than three years from the date of the final payment on the claim.

**Illustration of Claim Forms**



Indirect costs may be computed as 10% of direct labor costs, excluding fringe benefits, as long as the direct labor costs are directly related to the cost of performing the mandate. If an indirect cost rate of greater than 10% is used include the Indirect Cost Rate Proposal (ICRP) with the claim. If more than one department is involved in the mandated program, each department must have their own ICRP for the program.

Form IR-1, Claim Summary, is used to summarize direct costs by component and compute allowable indirect costs for the mandate. The direct costs summarized on this form are derived from Forms IR-2 and are carried forward to FAM-27.

Form FAM-27, Claim for Payment, contains a certification that must be signed by an authorized representative of the school district. All applicable information from Form IR-1 must be carried forward onto this form in order for the State Controller's Office to process the claim for payment.

<b>CLAIM FOR PAYMENT</b> Pursuant to Government Code Section 17561 <b>INVESTMENT REPORTS</b>	For State Controller Use only (19) Program Number _____ (20) Date File _____/_____/_____ (21) Signature Present <input type="checkbox"/>
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LABEL  
  
  
  
  
  
  
  
  
  
  
 HERE

(01) Claimant Identification Number: _____
(02) Mailing Address
Claimant Name
County of Location
Street Address or P. O. Box
City State Zip Code

Reimbursement Claim Data	
(22) IR-1, (03)(1)(d)	
(23) IR-1, (03)(2)(d)	
(24) IR-1, (03)(3)(d)	
(25) IR-1, (03)(4)(d)	
(26) IR-1, (05)	
(27)	
(28)	
(29)	
(30)	
(31)	
(32)	
(33)	
(34)	
(35)	
(36)	
(37) Batch Total	

Type of Claim	Estimated Claim	Reimbursement Claim	
	(03) Estimated <input type="checkbox"/>	(09) Reimbursement <input type="checkbox"/>	(27)
	(04) Combined <input type="checkbox"/>	(10) Combined <input type="checkbox"/>	(28)
	(05) Amended <input type="checkbox"/>	(11) Amended <input type="checkbox"/>	(29)
			(30)
Fiscal Year of Cost	(06) 19____/____	(12) 19____/____	(31)
Total Claimed Amount	(07)	(13)	(32)
Less: 10% Late Penalty, but not to exceed \$1000 (if applicable)		(14)	(33)
Less: Estimate Payment Received		(15)	(34)
Net Claimed Amount		(16)	(35)
Due from State	(08)	(17)	(36)
Due to State		(18)	(37) Batch Total

**(38) CERTIFICATION OF CLAIM**

In accordance with the provisions of Government Code 17561, I certify that I am the person authorized by the local agency to file claims with the State of California for costs mandated by; and certify under penalty of perjury that I have not violated any of the provisions of Government Code Sections 1090 to 1096, inclusive.

I further certify that there were no applications for nor any grant or payments received, other than from the claimant, for reimbursement of costs claimed herein; and such costs are for new program or increased level of services of an existing program mandated by Chapter 1226, Statutes of 1984 and Chapter 1526, Statutes of 1985.

The amounts for Estimated Claim and/or Reimbursement Claim are hereby claimed from the State for payment of estimated and/or actual costs for the mandated program of Chapter 1226, Statutes of 1984 and Chapter 1526, Statutes of 1985, set forth on the attached statements.

Signature of Authorized Representative	Date
_____	_____
_____ Type or Print Name	_____ Title
(39) Name of Contact Person or Claim	Telephone Number
_____	( ) _____ Ext. _____

<b>INVESTMENT REPORTS</b> <b>Certification Claim Form</b> <b>Pursuant to Government Code Section 17561</b>	<b>FORM</b> <b>FAM-27</b>
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- (01) Leave blank
- (02) A set of mailing labels with the claimant's I.D. number and address have been enclosed with the claiming instructions. The mailing labels are designed to speed processing and prevent common errors that delay payment. Affix a label at the place as shown on the Form FAM-27. Cross out any errors and print the correct information on the label. Add any missing address items, except county of location and a person's name. If you didn't receive labels, print or type your agency's mailing address.
- (03) - (08) Leave blank.
- (09) If you are filing an original reimbursement claim, enter " X " in box of line (09) Reimbursement.
- (10) If the county is filing an original reimbursement claim on behalf of districts within the county, enter " X " in box of line (10) Combined.
- (11) If you are filing an amended claim to an original reimbursement claim on behalf of districts within the county, enter " X " in box of line (11) amended.
- (12) Enter the fiscal year in which actual costs are being claimed. If actual costs for more than one fiscal year is being claimed, complete a separate Form FAM-27 for each fiscal year.
- (13) Enter the amount of reimbursement claim from Form IR-1, line 10.
- (14) Reimbursement claims for the costs of the fiscal year 1985/86, 1986/87, 1987/88, 1988/89 and 1989/90 must be filed with the State Controller's Office postmarked by April 27, 1992. If the claim filed after the deadline, the claim must be reduced by a late penalty amount. Enter the result of the multiplication of the 10% late penalty times line (13) or \$1000, whichever is less.
- (15) If you are filing a reimbursement claim and have previously filed an estimated claim for the same fiscal year, enter the amount received for the estimated claim, otherwise enter a "zero".
- (16) Enter the result of subtracting the sum of line (14) and line (15) from line (13).
- (17) If line (16) Net Claimed Amount is positive, enter that amount in line (17) Due from State.
- (18) If line (16) Net Claimed Amount is negative, enter that amount in line (18) Due to State.
- (22) through (36) for the Reimbursement claim
- Bring forward cost information as specified on the left-hand column of lines (22) through (36) for the reimbursement claim [e.g., IR-1, (03)(1)(d) means the information is located on Form IR-1, line (03)(1)(d)]. Enter the information on the same line but in the right-hand column. Cost information should be rounded to the nearest dollar, (i.e., no cents). Indirect costs percentage should be shown as a whole number and without the percent symbol (i.e., 35% should be shown as 35). The claim cannot be processed for payment unless this data block is correct and complete.
- (37) Add all items in line (22) through (26) and enter the batch total in line (37).
- (38) Read the statement "Certification of claim." If the statement is true, the claim must be dated, signed by the agency's authorized representative and must include the person's name and title, typed or printed. Claims cannot be paid unless accompanied by a signed certification.
- (39) Enter the name of the person and telephone number that this office should contact if additional information is required.

SUBMIT THREE COPIES OF THE CLAIM FORMS AND TWO COPIES OF THE SUPPORTING DOCUMENTS TO:

*Address, if delivered by:  
U.S. Postal Service*

**Gray Davis  
State Controller  
Division of Accounting  
P.O. Box 942850  
Sacramento, Ca. 94250-5875**

*Address, if delivered by:  
Other delivery service*

**Gray Davis  
State Controller  
Division of Accounting  
3301 C Street, Suite 500  
Sacramento, Ca 95816**



<b>MANDATED COSTS INVESTMENT REPORTS CLAIM SUMMARY</b>	<b>FORM IR-1</b>
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(01) Claimant:	(02) Type of Claim: Reimbursement <input type="checkbox"/>	Fiscal Year: 19 __/__/__
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**Direct Costs**

(03) Reimbursable Components:	Object Accounts				
	(a)	(b)	(c) Services and Supplies	(d) Fixed Assets	(e) Total
	Salaries	Benefits			
1. An Annual Statement of Investment Policy					
2. Monthly Report of Investments					
3. Subsidiary Ledger of Investments					
4. Automated Systems					
(04) Total Direct Costs					

This area is intentionally left blank for additional information or comments.

**Indirect Costs**

(05) Indirect Cost Rate	[ From ICRP ]	%
(06) Total Indirect Costs	[ Line (05) x line (04)(a) ] or [ line (05) x { line (04)(a) + line (04)(b) } ]	
(07) Total Direct and Indirect Costs:	[ Line (04)(e) + line (06) ]	

**Cost Reduction**

(08) Less: Offsetting Savings, if applicable	
(09) Less: Other Reimbursements, if applicable	
(10) Total Claimed Amount :	{ Line (07) - [ Line (08) + line (09) ] }

**INVESTMENT REPORTS**  
**CLAIM SUMMARY**  
**Instructions**

**FORM**  
**IR-1**

- (01) Enter the name of the claimant.
- (02) Check the box, "Reimbursement" to identify the type of claim being filed. Enter the fiscal year for which the expenses were incurred.
- (03) For each of the reimbursable components, enter the total allowable cost from Form IR-2, line (05) columns (d) (e) and (f) to Form IR-1, block (03) columns (a), (b), (c), and (d) in the appropriate row. Total each row.
- (04) Total columns (a), (b), (c), (d) and (e).
- (05) Enter the Indirect Cost Rate.

Indirect costs may be computed as 10% of direct labor costs, excluding fringe benefits, as long as the direct labor costs are directly related to the cost of performing the mandate.

If an indirect cost rate of greater than 10% is used, include the Indirect Cost Rate Proposal (ICRP) with the claim. If more than one department is involved in the mandated program, complete a Form IR-1 for each department. Each department must have their own ICRP for the program.

- (06) Multiply Total Salaries, in line (04)(a), by the Indirect Cost Rate, line (05). If both Salaries and Benefits were used in the distribution base for the computation of the indirect cost rate, then multiply Total Salaries and Benefits, line (04)(a) and line (04)(b) by the Indirect Cost Rate, line (05).
- (07) Enter the sum of Total Direct Costs, line (04)(e), and Total Indirect Costs, line(06).
- (08) Enter the total cost savings experienced by the claimant as a direct result of this mandate. Submit a schedule of detailed savings with the claim.
- (09) Enter total other reimbursements received from any source, (i.e., federal, other State programs, foundations, etc.) which reimbursed any portion of the mandated cost program. Submit a schedule detailing the reimbursement sources and amounts.
- (10) Subtract the sum of Offsetting Savings, line (08) and Other Reimbursement, line (09) from Total Direct and Indirect Costs, line (07). Enter the remainder on this line and carry forward to Form FAM-27, line (13).

If more than one Form IR-1 are completed due to multiple department involvement in this mandate, add line (10) of each Form IR-1 and forward the total to Form FAM-27, line (13) for the Reimbursement Claim.

<b>MANDATED COSTS INVESTMENT REPORTS COMPONENT/ACTIVITY COST DETAIL</b>	<b>FORM IR-2</b>
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(01) Claimant:	(02) Fiscal Year costs were incurred:
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(03) Reimbursable Component: *Check a box to identify the cost being claimed. Check **ONLY one** box per form.*

<input type="checkbox"/> Annual Statement of Investment Policy	<input type="checkbox"/> Monthly Report of Investments
<input type="checkbox"/> Subsidiary Ledger of Investments	<input type="checkbox"/> Automated Systems

(04) Description of Expense: Complete columns (a) through (f).			Object Accounts			
(a) Employee Name, Job Classification and Activities Performed or Description of Expense	(b) Hourly Rate or Unit Cost	(c) Hours Worked or Quantity	(d)		(e) Services and Supplies	(f) Fixed Assets
			Salaries	Benefits		

(05) Total	<input type="text"/>	Subtotal	<input type="text"/>	Page : ____ of ____			
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**INVESTMENT REPORTS**  
**COMPONENT/ACTIVITY COST DETAIL**  
**Instructions**

**FORM**  
**IR-2**

**Note:** A separate Form IR-2 should be completed for each component claimed.

- (01) Enter the name of the claimant.
- (02) Enter the fiscal year for which costs were incurred.
- (03) Check the box which indicates the cost component being claimed. Check only one box per form. Complete a separate Form IR-2 for each cost component which applies.
- (04) Enter the component activity heading. A description of these activities can be found under the heading entitled "Reimbursable Components" and a summary can be found in "Illustration of Claim Forms". Under each component activity heading, enter the employee names, position titles, a brief description of the activity, productive hourly rates, fringe benefits, materials and supplies used, contracted services, training, equipment, overhead costs, etc. The following table, identifies the type of information required to support reimbursable costs. All supporting documents must be retained for a period of not less than three years from the date of the final payment on the claim.

Object/ Subobject Accounts	Columns						Submit these supporting documents with the claim
	(a)	(b)	(c)	(d)	(e)	(f)	
Salaries and Benefits							
Salaries	Employee Name or Classification	Productive Hourly Rate	Hours Worked	(b) x (c) Hourly Rate x Hours Worked			
Benefits	Function Performed	Benefit Rate	Hours Worked	(b) x (c) Benefit Rate x Hours Worked or Benefit Rate x Salary Claimed			
Services and Supplies							
Office Expense	Description of supplies used	Unit Cost	Quantity used		(b) x (c) Unit Cost x Quantity Consumed		
Professional and Specialized Services	Name of Contractor,  Specific Tasks performed,	Itemize cost for services performed	Time period for which services was provided		Total Cost Claimed		Invoice
Fixed Assets							
Equipment	Description of equipment pur- chased, Asset ID number(s)	Unit Cost	Quantity used			Total Fixed Assets purchased	Invoice

- (05) Total Line (04), Columns (d) through (f) and enter the sum on this line. Check the appropriate box to indicate if the amount is a total or subtotal. If more than one form is needed to list the costs, add another page and number the page. Enter totals from Line (05), columns (d) through (f) to Form IR-1; block (03) columns (a), (b) (c), and (d) in the appropriate row.

## PARAMETERS AND GUIDELINES AMENDMENT

Government Code Section 53646, Subdivisions (a), (b), and (e)

Statutes 1995, Chapter 783

Statutes 1996, Chapter 156

Statutes 1996, Chapter 749

### *Investment Reports*

#### I. SUMMARY OF THE MANDATE

Statutes 1995, chapter 783 repealed the 1993 version of Government Code section 53646, and replaced it with a new section. Statutes 1996, chapter 156, an urgency bill, and Statutes 1996, chapter 749, amended subdivisions (a) and (e) of section 53646. Government Code section 53646 requires the treasurer or chief fiscal officer to render an annual statement of investment policy and a quarterly report of investments, containing specified information to the legislative body and oversight committee, as specified.

On March 27, 1997, the Commission on State Mandates determined that the provisions of Government Code section 53646, subdivisions (a), (b) and (e), as added by Statutes 1995, chapter 783, and amended by Statutes 1996, chapters 156 and 749, impose a new program or a higher level of service in an existing program upon specified local agencies and school districts within the meaning of section 6, article XIII B of the California Constitution and section 17514 of the Government Code by requiring those agencies to perform the following activities:

- To render an annual statement of investment policy pursuant to Government Code section 53646, subdivision (a).
- To render quarterly reports of investments, as specified, pursuant to Government Code section 53646, subdivisions (b) and (e).

#### II. ELIGIBLE CLAIMANTS

The eligible claimants are any county, city, city and county or other public agency or political subdivision of the state, including school districts as defined in Government Code section 17519.

#### III. PERIOD OF REIMBURSEMENT

Government Code section 17557, prior to its amendment by Statutes 1998, chapter 681 (effective September 22, 1998), states that a test claim shall be submitted on or before December 31st following a given fiscal year to establish eligibility for that fiscal year. The test claim for *Investment Reports* was filed on December 23, 1996, establishing eligibility for fiscal year 1995-1996. However, the test claim statutes were not in effect on July 1, 1995. Therefore, initial reimbursement claims were filed for costs incurred, as follows:

- Costs incurred pursuant to Statutes 1995, chapter 783 are reimbursable on or after January 1, 1996.

- Costs incurred pursuant to Statutes 1996, chapter 156 an urgency statute, are reimbursable on or after July 12, 1996.
- Costs incurred pursuant to Statutes 1996, chapter 749 are reimbursable on or after January 1, 1997.

California Code of Regulations, title 2, section 1183.2, states that a parameters and guidelines amendment filed after the initial claiming deadline must be submitted on or before January 15 following a fiscal year in order to establish eligibility for reimbursement for that fiscal year. An amendment was filed on October 13, 2000. Therefore, in accordance with Section 1183.2, all costs incurred by eligible claimants in compliance with Statutes 1995, chapter 783, and Statutes 1996, chapters 156 and 749 are eligible for reimbursement on or after July 1, 1999.

Actual costs for one fiscal year shall be included in each claim. Estimated costs for the subsequent year may be included on the same claim, if applicable.

Pursuant to Government Code section 17561, subdivision (d)(1), all claims for reimbursement of costs shall be submitted within 120 days of issuance of the claiming instructions by the State Controller.

For initial claims and annual claims filed prior to September 30, 2002, including amendments thereof, if the total costs for a given fiscal year do not exceed \$200, no reimbursement shall be allowed except as otherwise allowed by Government Code section 17564. For initial claims and annual claims filed on or after September 30, 2002, if the total costs for a given fiscal year do not exceed \$1000, no reimbursement shall be allowed except as otherwise allowed by Government Code section 17564.

#### **IV. REIMBURSABLE ACTIVITIES**

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations. Declarations must include a certification or declaration stating, "I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct based upon personal knowledge." Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities identified below. Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate.

For each eligible claimant, the following activities are reimbursable:

A. Statement of Investment Policy

Prepare and submit the annual statement of investment policy, and changes to:

1. The legislative body and any oversight committee for consideration at a public meeting, effective January 1, 1996.<sup>1</sup>
2. The county board of supervisors and any oversight committee for review and approval at a public meeting, effective January 1, 1997.

B. Quarterly Report of Investments

1. Implementation Costs

Develop or modify existing policies and procedures for compiling data necessary to render the quarterly report of investments, as required in Government Code section 53646, subdivisions (b)(1), (2), (3) and/or (e), and update same as needed pursuant to the annual statement of investment policy.

2. Ongoing Costs

Compile data necessary to render a quarterly report of investments to the chief executive officer, the internal auditor, and the legislative body of the local agency within 30 days following the end of the quarter covered by the report. (Gov. Code, § 53646, subd. (b) (1), (2), and (3) and/or (e).)

a. For each investment that is held on the last day of each quarter and included in a quarterly report of investments, the following activities are eligible for reimbursement:

1. One-time data entry into investment reporting application or software:

- the type of investment and issuer,
- date of maturity, and
- par and dollar amount invested

2. Providing a description of any of the local agency's funds, investments or programs, including lending programs that are under the management of contracted parties.

3. Obtaining and reporting current market value as of the date of the quarterly report, and reporting the source of this valuation for all investments held by the local agency<sup>2</sup> and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund.

<sup>1</sup> For the period from January 1, 1996, through December 31, 1996, counties are eligible for reimbursement for the costs incurred to carry out this activity.

<sup>2</sup> Government Code section 53630, subdivision (a), defines "local agency" as "county, city, city and county, including a chartered city or county, a community college district, or other public agency or corporation in this state."

4. Providing required copies of the most recent statement(s) received by a local agency<sup>3</sup> from the Local Agency Investment Fund, the Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, a county investment pool, or any combination of these. [Unit Cost Per Page]
  5. Determining if, on the last day of each quarter, the portfolio complies with the statement of investment policy, and providing an explanation if the portfolio does not comply. (Gov. Code, § 53646, subd. (b) (2).)
- b. Compiling the cash flow information necessary to provide a statement, and any required explanation, denoting the local agency's ability to meet its pool's expenditure requirements for the next six months. Cash flow information needed to provide this statement includes forecasted expenditure requirements and non-investment revenue, plus investment revenue anticipated from securities held at the end of the quarter (Gov. Code, § 53636, subd. (b)(3)).
  - c. Automated Systems. The use of specialized software for compiling information required in the quarterly reports of investments is reimbursable. However, if the specialized software is used for other purposes, only the pro rata cost of the software, including licensing agreement, that is *directly related* to the reimbursable activities specified above, may be claimed under Materials and Supplies and/or Contracted Services.

### 3. Non-Reimbursable Activities

The following activities are not reimbursable:

- a. Duplicate entry of investment transactions<sup>4</sup> into custodian bank records or other databases.
- b. Producing and presenting reports of transactions related to securities not held at the end of a quarter.
- c. Determining if investment transactions related to securities not held at the end of the quarter comply with the investment policy.
- d. Accumulating and compiling data necessary to prepare the monthly reports of investment transactions pursuant to Government Code section 53607, or any other monthly investment reports.

## V. CLAIM PREPARATION AND SUBMISSION

Each of the following cost elements must be identified for each reimbursable activity identified in Section IV, Reimbursable Activities, of this document. Each claimed reimbursable cost must be supported by source documentation as described in Section IV. Additionally, each reimbursement claim must be filed in a timely manner.

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<sup>3</sup> Ibid.

<sup>4</sup> Type of investment and issuer, date of maturity, and par and dollar amount invested. (Gov. Code, § 53646, subd. (b).)



## A. Direct Cost Reporting

Direct costs are those costs incurred specifically for the 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.

### 2. Materials and Supplies

Report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities. Purchases shall be claimed at the actual price after deducting discounts, rebates, and allowances received by the claimant. Supplies that are withdrawn from inventory shall be charged on an appropriate and recognized method of costing, consistently applied.

### 3. Contracted Services

Report the name of the contractor and services performed to implement the reimbursable activities. 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.

### 4. Fixed Assets and Equipment

Report the purchase price paid for fixed assets and equipment (including computers) necessary to implement the reimbursable activities. The purchase price includes taxes, delivery costs, and installation costs. If the fixed asset or equipment is also used for purposes other than the reimbursable activities, only the pro-rata portion of the purchase price used to implement the reimbursable activities can be claimed.

### 5. Travel

Report the name of the employee traveling for the purpose of the reimbursable activities. Include the date of travel, destination point, the specific reimbursable activity requiring travel, and related travel expenses reimbursed to the employee in compliance with the rules of the local jurisdiction. Report employee travel time according to the rules of cost element A.1, Salaries and Benefits, for each applicable reimbursable activity.

### 6. Training

Report the cost of training an employee to perform the reimbursable activities, as specified in Section IV of this document. Report the name and job classification of each employee preparing for, attending, and/or conducting training necessary to implement the reimbursable activities. Provide the title, subject, and purpose (related to the mandate of the training session), dates attended, and location. If the training encompasses subjects broader than the reimbursable activities, only the pro-rata portion can be claimed. Report employee training time for each applicable reimbursable activity according to the rules of

cost element A.1, Salaries and Benefits, and A.2, Materials and Supplies. Report the cost of consultants who conduct the training according to the rules of cost element A.3, Contracted Services.

#### B. Indirect Cost Rates

Indirect costs are costs that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned to other activities, as appropriate, indirect costs are those remaining to be allocated to benefited cost objectives. A cost may not be allocated as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been claimed as a direct cost.

Indirect costs include: (a) the indirect costs originating in each department or agency of the governmental unit carrying out state mandated programs, and (b) the costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs.

1. School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education.
2. County offices of education must use the J-580 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education.
3. Community colleges have the option of using (1) a federally approved rate, using the cost accounting principles from the OMB Circular A-21 "Cost Principles of Educational Institutions", (2) the rate calculated on State Controller's Form FAM-29C; or (3) a 7% indirect cost rate.
4. Counties, Cities and Special Districts

Claimants have the option of using 10% of direct 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 OMB Circular A-87 Attachment A and B) and the indirect costs shall exclude capital expenditures and unallowable costs (as defined and described in 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 distribution 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 two following methodologies:

- a. The allocation of allowable indirect costs (as defined and described in 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 allowable indirect costs bears to the base selected.

- b. The allocation of allowable indirect costs (as defined and described in OMB Circular A-87 Attachment 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 which is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount allowable indirect costs bears to the base selected.

## **VI. RECORD RETENTION**

Pursuant to Government Code section 17558.5, subdivision (a), a reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter<sup>5</sup> is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. All documents used to support the reimbursable activities, as described in Section IV, must be retained during the period subject to audit. If an audit has been initiated by the Controller during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings.

## **VII. OFFSETTING SAVINGS AND REIMBURSEMENTS**

Any offsetting savings the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate from any source, including but not limited to, services fees collected, federal funds, and other state funds, shall be identified and deducted from this claim. Service fees collected include cost reimbursements received by counties pursuant to Government Code sections 27135, 27013 and 53684, subdivision (b).

## **VIII. STATE CONTROLLER'S CLAIMING INSTRUCTIONS**

Pursuant to Government Code section 17558, subdivision (b), the Controller shall issue claiming instructions for each mandate that requires state reimbursement not later than 60 days after receiving the adopted parameters and guidelines from the Commission, to assist local agencies and school districts in claiming costs to be reimbursed. The claiming instructions shall be derived from the statute or executive order creating the mandate and the parameters and guidelines adopted by the Commission.

Pursuant to Government Code section 17561, subdivision (d)(1), issuance of the claiming instructions shall constitute a notice of the right of the local agencies and school districts to file reimbursement claims, based upon parameters and guidelines adopted by the Commission.

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<sup>5</sup> This refers to Title 2, division 4, part 7, chapter 4 of the Government Code.

## **IX. REMEDIES BEFORE THE COMMISSION**

Upon request of a local agency or school district, the Commission shall review the claiming instructions issued by the State Controller or any other authorized state agency for reimbursement of mandated costs pursuant to Government Code section 17571. If the Commission determines that the claiming instructions do not conform to the parameters and guidelines, the Commission shall direct the Controller to modify the claiming instructions and the Controller shall modify the claiming instructions to conform to the parameters and guidelines as directed by the Commission.

In addition, requests may be made to amend parameters and guidelines pursuant to Government Code section 17557, subdivision (a), and California Code of Regulations, title 2, section 1183.2.

