

**ITEM 11**  
**INCORRECT REDUCTION CLAIM**  
**PROPOSED DECISION**

Education Code Section 48260.5

Statutes 1983, Chapter 498

*Notification of Truancy*

Fiscal Years 2007-2008, 2008-2009, and 2009-2010

13-904133-I-13

Riverside Unified School District, Claimant

---

**TABLE OF CONTENTS**

**Exhibit A**

Incorrect Reduction Claim, filed November 15, 2013..... 1

**Exhibit B**

State Controller's Office Late Comments on the Incorrect Reduction Claim, filed  
October 3, 2014..... 279

**Exhibit C**

Draft Proposed Decision, issued October 28, 2015 ..... 320

**Exhibit D**

State Controller's Comments on the Draft Proposed Decision, filed October 30, 2015 ..... 359

**Exhibit E**

Claimant's Comments on the Draft Proposed Decision, filed November 3, 2015 ..... 365

**Exhibit F**

Supporting Documents..... 381

United States General Accounting Office, *Government Auditing Standards*, 2003  
(selected pages).

Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, Third Edition,  
Prentice Hall, New Jersey, 1984, page 9.

Board of Control, Brief Written Statement for Adopted Mandate issued by the Board of  
Control on the *Notification of Truancy* test claim (SB 90-4133).

Office of the State Controller, Audit of Bakersfield City School District, *Notification of Truancy*, fiscal years 2007-2008 through 2009-2010, issued October 25, 2012.

Office of the State Controller, Audit of Colton Joint Unified School District, *Notification of Truancy*, fiscal years 1999-2000 through 2001-2002, issued November 26, 2003.

Office of the State Controller, Audit of Sweetwater Union High School District, *Notification of Truancy*, fiscal years 2006-2007 through 2009-2010.

Office of the State Controller, Letter to School Districts re AB 1698, July 17, 2007.

# SixTen and Associates

## Mandate Reimbursement Services

Exhibit A

KEITH B. PETERSEN, President  
P.O. Box 340430  
Sacramento, CA 95834-0430  
Telephone: (916) 419-7093  
Fax: (916) 263-9701

E-Mail: Kbpsixten@aol.com  
5252 Balboa Avenue, Suite 900  
San Diego, CA 92117  
Telephone: (858) 514-8605  
Fax: (858) 514-8645

November 14, 2013

Heather Halsey, Executive Director  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814



RE: 498/83 Notification of Truancy-Audit #3  
Riverside Unified School District  
Fiscal Years 2007-08 through 2009-10  
Incorrect Reduction Claim

Dear Ms. Halsey:

Enclosed is the original and two copies of the above referenced incorrect reduction claim for Riverside Unified School District.

SixTen and Associates has been appointed by the District as its representative for this matter and all interested parties should direct their inquiries to me, with a copy as follows:

Michael H. Fine, Deputy Superintendent  
Business Services & Governmental Relations  
Riverside Unified School District  
3380 Fourteenth Street  
Riverside, CA 92501  
Voice: 951-788-7135 x80423  
Fax: 951-778-5668  
email: mfine@rusd.k12.ca.us

Sincerely,

A handwritten signature in blue ink, appearing to read "Keith B. Petersen".

Keith B. Petersen

Enclosure: Revised Incorrect Reduction Claim

C: Michael H. Fine, Deputy Superintendent

# COMMISSION ON STATE MANDATES

## **INCORRECT REDUCTION CLAIM** **TITLE**

498/83 Notification of Truancy #3

This is the third incorrect reduction claim filed by the District on this mandate program

### **2. CLAIMANT INFORMATION**

Riverside Unified School District

Michael H. Fine, Deputy Superintendent  
Business Services & Governmental Relations  
Riverside Unified School District  
3380 Fourteenth Street  
Riverside, CA 92501  
Voice: 951-788-7135 x80423  
Fax: 951-778-5668  
email: mfine@rusd.k12.ca.us

### **3. CLAIMANT REPRESENTATIVE INFORMATION**

Claimant designates the following person to act as its sole representative in this incorrect reduction claim. All correspondence and communications regarding this claim shall be forwarded to this representative. Any change in representation must be authorized by the claimant in writing, and sent to the Commission on State Mandates.

Keith B. Petersen, President  
SixTen and Associates  
P. O. Box 340430  
Sacramento, California 95834-0430  
Voice: (916) 419-7093  
Fax: (916) 263-9701  
[kbsixten@aol.com](mailto:kbsixten@aol.com)

**RECEIVED**  
For CSM Use Only

Filing Date:

NOV 15 2013

## **COMMISSION ON STATE MANDATES**

IRC #: 13-904133-I-13

### **4. IDENTIFICATION OF STATUTES OR EXECUTIVE ORDERS**

**Statutes of 1983, Chapter 498  
Education Code Sections 48260 and 48260.5**

### **5. AMOUNT OF INCORRECT REDUCTION**

<u>Fiscal Year</u>	<u>Amount of Reduction</u>
2007-08	\$ 70,767
2008-09	\$ 33,476
2009-10	\$ 7,309
<b>TOTAL:</b>	<b>\$111,552</b>

### **6. NOTICE OF NO INTENT TO CONSOLIDATE**

This claim is **not** being filed with the intent to consolidate on behalf of other claimants.

Sections 7-13 are attached as follows:

<b>7. Written Detailed Narrative</b>	Pages 1 to 23
<b>8. Controller's Adjustment Notices</b>	Exhibit <u>A</u>
<b>9. Parameters and Guidelines</b>	Exhibit <u>B &amp; C</u>
<b>10. Controllers Claiming Instructions</b>	Exhibit <u>D</u>
<b>11. Controller's Final Audit Report</b>	Exhibit <u>E</u>
<b>12. "Statistical Sampling Revisited"</b>	Exhibit <u>F</u>
<b>13. Annual Reimbursement Claims:</b>	Exhibit <u>G</u>

### **14. CLAIM CERTIFICATION**

This claim alleges an incorrect reduction of a reimbursement claim filed with the State Controller's Office pursuant to Government Code section 17561. This incorrect reduction claim is filed pursuant to Government Code section 17551, subdivision (d). I hereby declare, under penalty of perjury under the laws of the State of California, that the information in this incorrect reduction claim submission is true and complete to the best of my own knowledge or information or belief.

Michael H. Fine, Deputy Superintendent  
Business Services & Governmental Relations

Michael H. Fine 10/29/13  
Signature Date



1 Keith B. Petersen, President  
2 SixTen and Associates  
3 P. O. Box 340430  
4 Sacramento, California 95834-0430  
5 Voice: (916) 419-7093  
6 Fax: (916) 263-9701  
7 kbpsixten@aol.com  
8

9 BEFORE THE  
10 COMMISSION ON STATE MANDATES  
11 STATE OF CALIFORNIA

12	INCORRECT REDUCTION CLAIM OF: )	No. CSM _____
13	)	
14	)	Chapter 498, Statutes of 1983
15	)	Education Code Section 48260
16	<b>RIVERSIDE UNIFIED</b> )	Education Code Section 48260.5
17	)	
18	)	<b><u>Notification of Truancy #3</u></b>
19	<b>School District</b> )	
20	)	Annual Reimbursement Claims:
21	Claimant. )	
22	)	Fiscal Year 2007-08
23	)	Fiscal Year 2008-09
24	)	Fiscal Year 2009-10
25	_____ )	

26 INCORRECT REDUCTION CLAIM FILING

27 PART I. AUTHORITY FOR THE CLAIM

28 The Commission on State Mandates has the authority pursuant to Government  
29 Code Section 17551(d) to "... hear and decide upon a claim by a local agency or  
30 school district filed on or after January 1, 1985, that the Controller has incorrectly  
31 reduced payments to the local agency or school district pursuant to paragraph (2) of  
32 subdivision (d) of Section 17561." Riverside Unified School District (hereafter "District")  
33 is a school district as defined in Government Code Section 17519. Title 2, CCR,

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

Section 1185 (a), requires the claimant to file an incorrect reduction claim with the Commission.

This incorrect reduction claim is timely filed. Title 2, CCR, Section 1185 (b), requires incorrect reduction claims to be filed no later than three years following the date of the Controller's remittance advice notifying the claimant of a reduction. A Controller's audit report dated February 22, 2013, has been issued and constitutes a demand for repayment and adjudication of the claim. On March 3, 2013, the Controller issued field audit findings notices reporting the audit results and amounts due the state and these letters constitute a payment action. See Exhibit "A."

There is no alternative dispute resolution process available from the Controller's office. The audit report states that an incorrect reduction claim should be filed with the Commission if the claimant disagrees with the audit findings.

PART II. SUMMARY OF THE CLAIM

The Controller conducted a field audit of the District's annual reimbursement claims for Fiscal Years 2007-08, 2008-09, and 2009-10 for the costs of complying with the legislatively mandated program 498/83 Notification of Truancy. As a result of the audit, the Controller determined that \$111,552 of the claimed costs were unallowable:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Audit Adjustment</u>	<u>SCO Payments</u>	<u>Amount Due &lt;State&gt; District</u>
2007-08	\$278,887	\$ 70,767	\$ 8	\$ 208,112
2008-09	\$286,146	\$ 33,476	\$ 64,836	\$ 187,834
2009-10	<u>\$231,077</u>	<u>\$ 7,309</u>	<u>\$ 45,387</u>	<u>\$ 178,381</u>
Totals	\$796,110	\$111,552	\$110,231	\$ 574,327

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

1 The audit report states that the District was paid \$110,231 for these annual claims and  
2 concludes that the amount of \$574,327 is due to the District.

3 PART III. PREVIOUS INCORRECT REDUCTION CLAIMS

4 FIRST AUDIT: The District filed an incorrect reduction claim for this mandate program  
5 for Fiscal Years 1999-00, 2000-01, and 2001-02 on June 14, 2006. The District filed a  
6 revised incorrect reduction claim for those fiscal years on August 26, 2008, in response  
7 to a revised audit report dated December 12, 2007. The District filed a second revised  
8 incorrect reduction claim for those fiscal years on September 9, 2010, in response to a  
9 second revised audit report dated February 5, 2010. On April 8, 2013, the Controller  
10 issued a third revised audit report. As a result of the third revised audit report, the  
11 District determined that there are no issues remaining in dispute and withdrew the three  
12 incorrect reduction claims for the first audit on October 1, 2013.

13 SECOND AUDIT: The District filed an incorrect reduction claim for this mandate  
14 program for Fiscal Years 2003-04, 2004-05, 2005-06 and 2006-07 on November 1,  
15 2010. The District filed a revised incorrect reduction claim for those fiscal years on  
16 November 13, 2013, in response to a revised audit report dated August 24, 2012.

17 The District is not aware of any incorrect reduction claims having been  
18 adjudicated on the specific issues or subject matter raised by this incorrect reduction  
19 claim.

20 /

21 /

PART IV. BASIS FOR REIMBURSEMENT

1. Mandate Legislation

Chapter 498, Statutes of 1983 added Section 48260.5 to the Education Code to require school districts to notify parents or guardians of the pupil's initial classification as truant:

(a) Upon a pupil's initial classification as a truant, the school district shall notify the pupil's parent or guardian, by first-class mail or other reasonable means, of the following:

- (1) That the pupil is truant.
- (2) That the parent or guardian is obligated to compel the attendance of the pupil at school.
- (3) That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48290) of Chapter 2 of Part 27.

(b) The district also shall inform the parents or guardians of the following:

- (1) Alternative educational programs are available in the district.
- (2) The right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

The time for distribution of the initial classification of truancy is controlled by Education Code Section 48260. Education Code Section 48260, as recodified by Chapter 1010, Statutes of 1976, requires:

"Any pupil subject to compulsory full-time education or to compulsory continuation education who is absent from school without valid excuse more than three days or tardy in excess of 30 minutes on each of more than three days in one school year is a truant and shall be reported to the attendance supervisor or to the superintendent of the school district."

The test claim was based on this definition of a truant, that is, more than three unexcused absences or tardy for more than three periods.

/

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

2. Test Claim

The State Board of Control, the predecessor body to the Commission on State Mandates, with jurisdiction regarding costs mandated by the state, determined on November 29, 1984, that Education Code Section 48260.5 imposed a new program or an increased level of service by requiring notifications be sent to the parents or guardians of pupils upon initial classification of truancy, which at the time the test claim was adopted, occurred upon the fourth truancy or tardy.

3. Parameters and Guidelines

The original parameters and guidelines were adopted on August 27, 1987, amended on July 28, 1988, and then amended a second time on July 22, 1993. Subsequent to the adoption of the test claim and the adoption of the second amended parameters and guidelines in 1993, Education Code Section 48260 was amended by Chapter 1023, Statutes of 1994 and Chapter 19, Statutes of 1995, to require:

(a) Any pupil subject to compulsory full-time education or to compulsory continuation education who is absent from school without valid excuse three full days in one school year or tardy or absent for more than any 30-minute period during the schoolday without a valid excuse \*\*\*on three occasions in one school year, or any combination thereof, is a truant and shall be reported to the attendance supervisor or to the superintendent of the school district.

(b) Notwithstanding subdivision (a), it is the intent of the Legislature that school districts shall not change the method of attendance accounting provided for in existing law and shall not be required to employ period-by-period attendance accounting.

Chapter 1023, Statutes of 1994 and Chapter 19, Statutes of 1995, also amended Education Code Section 48260.5 as follows:

\*\*\* Upon a pupil's initial classification as a truant, the school district shall



Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

1 notify the pupil's parent or guardian, by first-class mail or other reasonable  
2 means, of the following:

3 (a) That the pupil is truant.

4 (b) That the parent or guardian is obligated to compel the attendance  
5 of the pupil at school.

6 (c) That parents or guardians who fail to meet this obligation may be  
7 guilty of an infraction and subject to prosecution pursuant to Article 6  
8 (commencing with Section 48290) of Chapter 2 of Part 27. \*\*\*

9 \*\*\*(d) That alternative educational programs are available in the district.

10 \*\*\*(e) That the parent or guardian has the right to meet with appropriate  
11 school personnel to discuss solutions to the pupil's truancy.

12 (f) That the pupil may be subject to prosecution under Section 48264.

13 (g) That the pupil may be subject to suspension, restriction, or delay of  
14 the pupil's driving privilege pursuant to Section 13202.7 of the Vehicle  
15 Code.

16 (h) That it is recommended that the parent or guardian accompany the  
17 pupil to school and attend classes with the pupil for one day.

18 These amendments created a conflict between the Education Code and the  
19 parameters and guidelines. The second amended parameters and guidelines  
20 continued to require a notice of *five* elements to be issued upon the *fourth* occasion of  
21 absence even though Education Code Section 48260.5 had been amended to require a  
22 notice of *eight* elements to be issued upon the *third* occasion of absence. Resolution of  
23 this conflict was the subject of Chapter 69, Statutes of 2007 (AB 1698), which required  
24 the Commission on State Mandates to update the parameters and guidelines. On  
25 January 31, 2008, the Commission adopted the third-amended parameters and  
26 guidelines pursuant to Chapter 69, Statutes of 2007, retroactively effective July 1, 2006,  
27 for annual claims beginning FY 2006-07. A copy of the January 31, 2008, parameters  
28 and guidelines is attached as Exhibit "B."

29 The parameters and guidelines were further amended on May 27, 2010, to

1 update "boilerplate language" clarifying source documentation requirements and record  
2 retention language pursuant to a request by the Controller, retroactively effective to July  
3 1, 2006. A copy of the May 27, 2010, parameters and guidelines is attached as Exhibit  
4 "C."

5 4. Claiming Instructions

6 The Controller has periodically issued or revised claiming instructions for the  
7 mandate program. A copy of the of the claiming instructions for each fiscal year is  
8 attached as Exhibit "D." However, since the Controller's claim forms and instructions  
9 have not been adopted as regulations, they have no force of law and no effect on the  
10 outcome of this revised incorrect reduction claim.

11 PART V. STATE CONTROLLER CLAIM ADJUDICATION

12 The Controller conducted an audit of the District's annual reimbursement claims  
13 for Fiscal Years 2007-08, 2008-09, and 2009-10. A copy of the February 22, 2013,  
14 audit report is attached as Exhibit "E."

15 VI. CLAIMANT'S RESPONSE TO THE STATE CONTROLLER

16 By letter dated December 19, 2012, the Controller transmitted a copy of its draft  
17 audit report. The District objected to the proposed adjustments for Findings 1 and 2 by  
18 letter dated January 18, 2013. A copy of the District's response is included in Exhibit  
19 "E," the final audit report. The Controller then issued the final audit report without  
20 making any substantive changes.

21 /

PART VII. STATEMENT OF THE ISSUES

**Finding 1 Overstated, understated, and unallowable initial truancy notifications**

The District does not dispute this adjustment.

**Finding 2 Non-reimbursable initial truancy notifications**

The audit report concludes that the District claimed costs for non-reimbursable initial truancy notifications in the amount of \$68,410 for Fiscal Years 2007-08, 2008-09, and 2009-10. This represents about 8.5% of the total claimed amount of \$806,110 for the three fiscal years. The audit states that the disallowed initial truancy notifications pertain to students who accumulated fewer than three unexcused absences or tardiness occurrences while between ages 6 and 18, and students who accumulated fewer than three unexcused absences or tardiness occurrences during the school year.

THE ISSUE OF STATISTICAL SAMPLING AND EXTRAPOLATION

Reimbursement for this mandate is based on the actual number of notifications distributed multiplied by a uniform cost allowance for reimbursement in lieu of reporting staff time and materials cost. The dollar amounts of the adjustments are the result of reductions in the number of notices approved for reimbursement based upon the auditor's review of a random sample of truancy notifications. The audit report states that this finding is based on a statistical sample of 736 truancy notifications (440 for daily attendance and 296 for period attendance) actually examined from a universe of 38,194 notices (19,715 + 18,479) for the three fiscal years.

/

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

1     A.     Legal Basis for Reimbursement Based on Statistical Sampling

2             The essential legal issue for this finding is whether the Controller can adjust  
3     claims utilizing an extrapolation of findings from an audit sample. The propriety of a  
4     mandate audit adjustment based on the statistical sampling technique is a threshold  
5     issue in that if the methodology used is rejected, as it should be, the extrapolation is  
6     void and the audit findings can only pertain to documentation actually reviewed, that is,  
7     the 736 notifications examined for the criteria of whether there were a sufficient number  
8     of absences or tardies to justify the initial notification of truancy and the age of the  
9     student.

10            The audit report has cited no statutory or regulatory authority to allow the  
11     Controller to reduce claimed reimbursement based on extrapolation of a statistical  
12     sample. Instead, the audit report states that:

13            - "We do assert that the claimed costs were excessive." That conclusion is not  
14     responsive to the sampling issue presented. The conclusion is also unavailing since  
15     the Notification of Truancy mandate is reimbursed based on a unit-cost rate allowance  
16     which was determined by the Commission on State Mandates to be a reasonable  
17     representation of actual costs incurred by districts.

18            -"Government Code section 17561, subdivision (d)(2) (A)(I) states that the SCO  
19     may audit the records of any school district 'to verify the actual amount of mandated  
20     costs' and that Government Code Section 12410 requires the Controller to "audit all  
21     claims against the state." The District concurs that the Controller has authority to audit

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

1 mandate claims, but asserts that it must be done legally and logically. The District does  
2 not dispute the Controller's authority to audit claims for mandated costs and to reduce  
3 those costs that are excessive or unreasonable. This authority is expressly contained  
4 in Government Code Section 17561. However, Section 12410 is found in the part of  
5 the Government Code that provides a general description of the duties of the Controller.  
6 It is not specific to the audit of mandate reimbursement claims. The only applicable  
7 audit standard for mandate reimbursement claims is found in Government Code  
8 Section 17561(d)(2). The fact that Section 17561(d)(2) specifies its own audit standard  
9 (excessive or unreasonable) implies that the general Controller audit standard  
10 (correctness, legality, and sufficient provisions of law) does not control here. Therefore,  
11 the Controller may only reduce a mandate reimbursement claim if it specifically finds  
12 that the amounts claimed are unreasonable or excessive under Section 17561(d)(2).  
13 Further, the Controller has not asserted or demonstrated that, if Section 12410 was the  
14 applicable standard, the audit adjustments were made in accordance with this standard.  
15 The District's claim was correct, in that it reported the number of notices distributed.  
16 There is also no allegation in the audit report that the claim was in any way illegal.  
17 Finally, the phrase "sufficient provisions of law for payment" refers to the requirement  
18 that there be adequate appropriations prior to the disbursement of any funds. There is  
19 no indication that any funds were disbursed without sufficient appropriations. Thus,  
20 even if the standards of Section 12410 were applicable to mandate reimbursement  
21 audits, the Controller has failed to put forth any evidence that these standards are not



Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

1 met or even relevant. There is no indication that the Controller is *actually* relying on the  
2 audit standards set forth in Section 12410 for the adjustments to the District's  
3 reimbursement claims.

4 -"We conducted our audit according to generally accepted government auditing  
5 standards [GAGAS] (*Government Auditing Standards*, issued by the U.S. Government  
6 Accountability Office [GAO], July 2007)." The audit report asserts that the "standards  
7 recognize statistical sampling as an acceptable method to provide sufficient,  
8 appropriate evidence" but does not cite specific GAO or GAGAS language in support of  
9 that assertion. The audit report does not explain how a statistical sample that provides  
10 "appropriate evidence" of the scope and reliability of source documentation is therefore  
11 a source of findings of actual cost or pervasive compliance with the mandate program  
12 requirements. Notwithstanding, the GAO auditing guide referenced specifically pertains  
13 to audits of federal funds and state mandate reimbursement does not utilize federal  
14 funds. Further, the GAO audit guide has not been adopted pursuant to any state  
15 agency rulemaking nor is it included as a standard in the parameters and guidelines, so  
16 claimants could not be on legal notice if its requirements, assuming its requirements  
17 were relevant to mandate audits, nor could the District have actual notice of the GAO  
18 guide since the Controller does not publish its audit standards. Adjustment of the  
19 claimed costs based on an extrapolation from a statistical sample is utilizing a standard  
20 of general application without the benefit of compliance with the Administrative  
21 Procedure Act. Thus, the application of the method is prohibited by the Government

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

1 Code.

2 B. Utility of the Sampling Methodology

3 A statistically valid sample methodology is a recognized audit tool for some  
4 purposes. See Exhibit "F" ("Statistical Sampling Revisited"). The sampling process  
5 was misapplied here. The purpose of sampling is to determine the results of  
6 transactions or whether procedures were properly applied to the reported transactions,  
7 most typically an internal control compliance test. In the case of reimbursement for this  
8 mandate, the state reimburses a specific dollar amount for each transaction, that is, a  
9 notice sent to parents, so that a dollar amount outcome is not being tested. What the  
10 Controller purports to be testing is whether the notices are reimbursable based on the  
11 number of prerequisite absences or content of the notice, which is testing for procedural  
12 compliance.

13 Instead, the auditor was actually conducting a review for documentation rather  
14 than mandate compliance. Testing for procedural compliance usually involves  
15 establishing tolerance parameters, but in the case of this audit, the tolerance factor was  
16 zero, that is, based on the auditor's perception of adequate documentation, which is a  
17 separate issue. Testing to detect the rate of error within tolerances is the purpose of  
18 sampling, but it is not a tool to assign an exact dollar amount to the amount of the error,  
19 which the Controller has inappropriately done so here. This is a failure of auditor  
20 judgment, both in the purpose of the sampling and the use of the findings.

21 /

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

C. Sample Risk

The ultimate risk from extrapolating findings from a sample is that the conclusions obtained from the sample may not be representative of the universe. That is, the errors perceived from the sample do not occur at the same rate in the universe. That is what has occurred in this audit. For example, kindergarten students present in the sample are more likely to be excluded because of the under-age issue, which makes these samples nonrepresentative of the universe. Also, if any of the notices excluded for being under-age or over-age are for students who are special education students, these samples would also not be representative of the universe since the possibility of a special education student being under-age or over-age is greater than the entire student body. The District does not assert that the incidence of kindergarten students or special education students is either proportionate or disproportionate, rather that a kindergarten pupil is more likely to be under-age and a special education pupil is more likely to be over-age than other students sampled, and thus not representative.

D. Sample Error

<u>Elementary Schools</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Total</u>
Audited notifications claimed	6,724	6,996	5,995	19,715
Total notices in entire sample	147	147	146	440
Percentage of the sample to total	2.19%	2.10%	2.44%	2.23%

Audit Results:

Alleged "noncompliant" notices	28	25	9	62
Percentage "noncompliant"	19.05%	17.01%	6.16%	14.09%

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

Secondary Schools

Audited notifications claimed*	9,496	8,983	18,479
Total notices in entire sample	148	148	296
Percentage of the sample to total	1.56%	1.65%	1.60%

Audit Results:

Alleged "noncompliant" notices	8	9	17
Percentage "noncompliant"	5.41%	6.08%	5.74%

\*Net of unsupported notifications disallowed in Finding 1.

In addition to the qualitative concerns discussed, quantitative extrapolation of the sample to the universe depends on a statistically valid sample methodology. Extrapolation does not ascertain actual cost. It ascertains probable costs within an interval. The sampling technique used by the Controller is quantitatively non-representative. For the sampled three fiscal years, the Controller determined that there were 38,194 (19,715 and 18,479) notices in the distributed notices universe. The total sample size for all three years was 736 (440 and 296) which is 1.93% of the universe. The stated precision rate was plus or minus 8%, even though the sample size is essentially identical for all three fiscal years (either 146, 147, or 148), and even though the audited number of notices claimed for daily accounting (elementary schools) in FY 2008-09 (6,996) is 17% larger than the size of FY 2009-10 (5,995). The expected error rate is stated to be 50%, which means the total amount adjusted of \$68,410 is really just a number exactly between \$34,205 (50%) and \$102,615 (150%). An interval of possible outcomes cannot be used as a finding of absolute actual cost.

The Controller does not assert that the unit cost allowance is excessive or

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

unreasonable, which is the only mandated cost audit standard in statute (Government Code Section 17561(d)(2)). The cost to be reimbursed by the state for each notice is stipulated by the parameters and guidelines. It would therefore appear that the entire findings are based upon the wrong standard for review. If the Controller wishes to enforce other audit standards for mandated cost reimbursement, the Controller should comply with the Administrative Procedure Act.

THE ISSUES OF COMPLIANCE WITH THE MANDATE

Since the statistical sampling performed by the auditor fails for legal, qualitative, and quantitative reasons, the remaining audit findings are limited to the 736 notices actually investigated. The Controller cannot disallow costs for noncompliance for notices which were never audited.

The audit report disallows 79 (62+17) of the 736 notifications evaluated for two reasons:

<u>DISALLOWANCE REASON</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>TOTAL</u>
<u>Daily Attendance</u>				
Underage (less than 6 years)	22	20	8	50
Less than 3 Absences	<u>6</u>	<u>5</u>	<u>1</u>	<u>12</u>
Total Disallowed	28	25	9	62
Sample Size	147	147	146	440
Percentage Disallowance	19.05%	17.01%	6.16%	14.09%
/				



Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

Period Attendance

Overage (18 years plus)	8	9	17
Less than 3 Absences	—	—	—
Total Disallowed	8	9	17
Sample Size	148	148	296
Percentage Disallowance	5.41%	6.08%	5.74%

E. Age of Student

The audit report disallows 50 notices in the audit sample for the elementary school (daily attendance accounting) for students that were less than six years of age and disallows 17 notices in the audit sample for secondary schools (period attendance accounting) for students that were older than eighteen years of age, citing the compulsory attendance law, Education Code Section 48200.<sup>1</sup> Section 48200 and Section 48400<sup>2</sup>

---

<sup>1</sup> Education Code Section 48200, as last amended by Chapter 1452, Statutes of 1987 requires:

Each person between the ages of 6 and 18 years not exempted under the provisions of this chapter or Chapter 3 (commencing with Section 48400) is subject to compulsory full-time education. Each person subject to compulsory full-time education and each person subject to compulsory continuation education not exempted under the provisions of Chapter 3 (commencing with Section 48400) shall attend the public full-time day school or continuation school or classes and for the full time designated as the length of the schoolday by the governing board of the school district in which the residency of either the parent or legal guardian is located and each parent, guardian, or other person having control or charge of the pupil shall send the pupil to the public full-time day school or continuation school or classes and for the full time designated as the length of the schoolday by the governing board of the school district in which the residence of either the parent or legal guardian is located.

Unless otherwise provided for in this code, a pupil shall not be enrolled for less than the minimum schoolday established by law.

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

1 establish the legal *requirement* for attendance for persons of the ages 6 through 18 years  
2 of age, and is an offense enforceable against parents who fail to send their children to  
3 school. However, younger persons have the statutory entitlement to attend kindergarten  
4 pursuant to Section 48000<sup>3</sup>, and first-grade pursuant to Section 48010<sup>4</sup> and Section

---

<sup>2</sup> Education Code Section 48400, as last reenacted by Chapter 1010,  
Statutes of 1976 states:

All persons 16 years of age or older and under 18 years of age, not otherwise exempted by this chapter, shall attend upon special continuation education classes maintained by the governing board of the high school district in which they reside, or by the governing board of a neighboring high school district, for not less than four 60-minute hours per week for the regularly established annual school term. Such minimum attendance requirement of four 60-minute hours per week may be satisfied by any combination of attendance upon special continuation education classes and regional occupational centers or programs.

<sup>3</sup> Education Code Section 48000, as last amended by Chapter 381,  
Statutes of 1991 states:

(a) A child shall be admitted to a kindergarten at the beginning of a school year, or at any later time in the same year if the child will have his or her fifth birthday on or before December 2 of that school year. A child who will have his or her fifth birthday on or before December 2 may be admitted to the prekindergarten summer program maintained by the school district for pupils who will be enrolling in kindergarten in September.

(b) The governing board of any school district maintaining one or more kindergartens may, on a case-by-case basis, admit to a kindergarten a child having attained the age of five years at any time during the school year with the approval of the parent or guardian, subject to the following conditions:

(1) The governing board determines that the admittance is in the best interests of the child.

(2) The parent or guardian is given information regarding the advantages and disadvantages and any other explanatory information about the effect of this early admittance.

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

1 48011<sup>5</sup>, that cannot be denied by a school district. In addition, special education students  
2 are statutorily entitled to educational services from ages 3 to 22 years pursuant to Section  
3 56026.<sup>6</sup>

---

<sup>4</sup> Education Code Section 48010, as last amended by Chapter 1256,  
Statutes of 1989 states

A child shall be admitted to the first grade of an elementary school during the first month of a school year if the child will have his or her sixth birthday on or before December 2nd of that school year. For good cause, the governing board of a school district may permit a child of proper age to be admitted to a class after the first school month of the school term.

<sup>5</sup> Education Code Section 48011, as last amended by Chapter 221,  
Statutes of 1991 states:

A child who, consistent with Section 48000, has been admitted to the kindergarten maintained by a private or a public school in California or any other state, and who has completed one school year therein, shall be admitted to the first grade of an elementary school unless the parent or guardian of the child and the school district agree that the child may continue in kindergarten for not more than an additional school year.

A child who has been lawfully admitted to a public school kindergarten or a private school kindergarten in California and who is judged by the administration of the school district, in accordance with rules and regulations adopted by the State Board of Education, to be ready for first-grade work may be admitted to the first grade at the discretion of the school administration of the district and with the consent of the child's parent or guardian if the child is at least five years of age. When a child has been legally enrolled in a public school of another district within or out of the state, he or she may be admitted to school and placed in the grade of enrollment in the district of former attendance, at the discretion of the school administration of the district entered.

<sup>6</sup> Education Code Section 56026, added in 1980 and as last amended by Chapter 56, Statutes of 2007 states:

"Individuals with exceptional needs" means those persons who satisfy all the following:

- 
- (a) Identified by an individualized education program team as a child with a disability, as that phrase is defined in Section 1401(3) (A) of Title 20 of the United States Code.
  - (b) Their impairment, as described by subdivision (a), requires instruction and services which cannot be provided with modification of the regular school program in order to ensure that the individual is provided a free appropriate public education pursuant to Section 1401(9) of Title 20 of the United States Code.
  - (c) Come within one of the following age categories:
    - (1) Younger than three years of age and identified by the local educational agency as requiring intensive special education and services, as defined by the board.
    - (2) Between the ages of three to five years, inclusive, and identified by the local educational agency pursuant to Section 56441.11.
    - (3) Between the ages of five and 18 years, inclusive.
    - (4) Between the ages of 19 and 21 years, inclusive; enrolled in or eligible for a program under this part or other special education program prior to his or her 19th birthday; and has not yet completed his or her prescribed course of study or who has not met proficiency standards or has not graduated from high school with a regular high school diploma.
      - (A) Any person who becomes 22 years of age during the months of January to June, inclusive, while participating in a program under this part may continue his or her participation in the program for the remainder of the current fiscal year, including any extended school year program for individuals with exceptional needs established pursuant to Section 3043 of Title 5 of the California Code of Regulations and Section 300.106 of Title 34 of the Code of Federal Regulations.
      - (B) Any person otherwise eligible to participate in a program under this part shall not be allowed to begin a new fiscal year in a program if he or she becomes 22 years of age in July, August, or September of that new fiscal year. However, if a person is in a year-round school program and is completing his or her individualized education program in a term that extends into the new fiscal year, then the person may complete that term.
      - (C) Any person who becomes 22 years of age during the months of October, November, or December while participating in a program under this act shall be terminated from the program on December 31 of the current fiscal year, unless the person would otherwise complete his or her individualized education program at the end of

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

1           The District is required by Section 46000<sup>7</sup> to record and keep attendance and  
2 report absences of *all students* according to the regulations of the State Board of  
3 Education for purposes of apportionment and general compliance with the compulsory  
4 education law (Title 5, CCR, Section 400<sup>8</sup>, et seq.). The initial notification of truancy is a  
5 product of the attendance accounting process and promotes compliance of the

---

the current fiscal year. (D) No local educational agency may develop an individualized education program that extends these eligibility dates, and in no event may a pupil be required or allowed to attend school under the provisions of this part beyond these eligibility dates solely on the basis that the individual has not met his or her goals or objectives.

- (d) Meet eligibility criteria set forth in regulations adopted by the board, including, but not limited to, those adopted pursuant to Article 2.5 (commencing with Section 56333) of Chapter 4.
- (e) Unless disabled within the meaning of subdivisions (a) to (d), inclusive, pupils whose educational needs are due primarily to limited English proficiency; a lack of instruction in reading or mathematics; temporary physical disabilities; social maladjustment; or environmental, cultural, or economic factors are not individuals with exceptional needs.

<sup>7</sup> Education Code Section 46000, as reenacted by Chapter 1010, Statutes of 1976 states:

Attendance in all schools and classes shall be recorded and kept according to regulations prescribed by the State Board of Education, subject to the provisions of this chapter.

<sup>8</sup> Title 5, California Code of Regulations, Section 400, states:

Records of attendance of every pupil in the public schools shall be kept for the following purposes:

- (A) For apportionment of State funds.
- (B) To insure general compliance with the compulsory education law, and performance by a pupil of his duty to attend school regularly as provided in Section 300.



Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

compulsory education law and *every pupil's* duty to attend school regularly (Title 5, CCR, Section 300<sup>9</sup>).

**FINDING 3- Noncompliant initial truancy notifications**

The District does not dispute this adjustment.

**Amount Paid by The State**

This issue was not an audit finding. The amount of payments received from the state is an integral part of the reimbursement calculation. The Controller changed some of the claimed payment amounts received without a finding in the audit report.

	Fiscal Year of Claim		
<u>Amount Paid by the State</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
As Claimed	\$ 0	\$ 0	\$ 0
Audit Report	\$ 8	\$64,836	\$45,387

The propriety of these adjustments cannot be determined until the Controller supports the reason for each change.

**PART VIII. RELIEF REQUESTED**

The District filed its annual reimbursement claims within the time limits prescribed by the Government Code. The amounts claimed by the District for reimbursement of the

---

<sup>9</sup> Title 5, California Code of Regulations, Section 300, states:

Every pupil shall attend school punctually and regularly; conform to the regulations of the school; obey promptly all the directions of his teacher and others in authority; observe good order and propriety of deportment; be diligent in study; respectful to his teacher and others in authority; kind and courteous to schoolmates; and refrain entirely from the use of profane and vulgar language.

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

costs of implementing the program imposed by Chapter 498, Statutes of 1983, Notification of Truancy, and relevant Education Code Sections, represent the actual costs incurred by the District to carry out this program. These costs were properly claimed pursuant to the Commission's parameters and guidelines. Reimbursement of these costs is required under Article XIII B, Section 6 of the California Constitution. The Controller's adjustments deny reimbursement without any basis in law or fact. The District has met its burden of going forward on this claim by complying with the requirements of Section 1185, Title 2, California Code of Regulations. Because the Controller has enforced and is seeking to enforce these adjustments without benefit of statute or regulation, the burden of proof is now upon the Controller to establish a legal basis for its actions.

The District requests that the Commission make findings of fact and law on each and every adjustment made by the Controller and each and every procedural and jurisdictional issue raised in this claim, and order the Controller to correct its audit report findings therefrom.

/

/

/

/

/

/

/

Incorrect Reduction Claim of Riverside Unified School District  
498/83 Notification of Truancy #3

---

PART IX. CERTIFICATION

By my signature below, I hereby declare, under penalty of perjury under the laws of the State of California, that the information in this incorrect reduction claim submission is true and complete to the best of my own knowledge or information or belief, and that the attached documents are true and correct copies of documents received from or sent by the state agency which originated the document.

Executed on October 29, 2013, at Riverside, California, by

Michael H. Fine  
Michael H. Fine, Deputy Superintendent  
Business Services & Governmental Relations  
Riverside Unified School District  
3380 Fourteenth Street  
Riverside, CA 92501  
Voice: 951-788-7135 x80423  
Fax: 951-778-5668  
email: mfine@rusd.k12.ca.us

APPOINTMENT OF REPRESENTATIVE

Riverside Unified School District appoints Keith B. Petersen, SixTen and Associates, as its representative for this incorrect reduction claim.

Michael H. Fine  
Michael H. Fine, Deputy Superintendent  
Business Services & Governmental Relations  
Riverside Unified School District

10/29/13

Date

Attachments :

Exhibit "A"	Controller's Audit Adjustment Letters, March 3, 2013
Exhibit "B"	Parameters and Guidelines as amended January 31, 2008
Exhibit "C"	Parameters and Guidelines as amended May 27, 2010
Exhibit "D"	Controller's Claiming Instructions revised October 1996
Exhibit "E"	Controller's Audit Report dated February 22, 2013
Exhibit "F"	"Statistical Sampling Revisited" by Neal B. Hitzig
Exhibit "G"	Annual reimbursement claims



533120  
00048  
2013/03/03

MARCH 3, 2013  
BOARD OF TRUSTEES  
RIVERSIDE UNIFIED SCHOOL DIST  
RIVERSIDE COUNTY  
6050 INDUSTRIAL AVENUE  
RIVERSIDE CA 92504

DEAR CLAIMANT:

RE: NOTICE OF TRUANCY : 498/83-5

WE HAVE REVIEWED YOUR 2007/2008 FISCAL YEAR REIMBURSEMENT CLAIM FOR THE MANDATED COST PROGRAM REFERENCED ABOVE. THE RESULTS OF OUR REVIEW ARE AS FOLLOWS:

AMOUNT CLAIMED	288,887.00
TOTAL ADJUSTMENTS (DETAILS BELOW)	- 80,767.00
TOTAL PRIOR PAYMENTS (DETAILS BELOW)	-8.00
AMOUNT DUE CLAIMANT	\$ 208,112.00

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT TIN BUI AT (916) 323-8137 OR IN WRITING AT THE STATE CONTROLLER'S OFFICE, DIVISION OF ACCOUNTING AND REPORTING, P.O. BOX 942850, SACRAMENTO, CA 94250-5875. DUE TO INSUFFICIENT APPROPRIATION, THE BALANCE DUE WILL BE FORTHCOMING WHEN ADDITIONAL FUNDS ARE MADE AVAILABLE.

ADJUSTMENT TO CLAIM:

LATE CLAIM PENALTY	- 10,000.00
FIELD AUDIT FINDINGS	- 70,767.00
TOTAL ADJUSTMENTS	- 80,767.00
PRIOR PAYMENTS:	
SCHEDULE NO. MA94424A	
PAID 06-14-2010	-8.00
TOTAL PRIOR PAYMENTS	-8.00

FY 2007-08

S33120  
00048  
2013/03/03

MARCH 3, 2013  
BOARD OF TRUSTEES  
RIVERSIDE UNIFIED SCHOOL DIST  
RIVERSIDE COUNTY  
6050 INDUSTRIAL AVENUE  
RIVERSIDE CA 92504  
DEAR CLAIMANT:

RE: NOTICE OF TRUANCY : 498/83-S  
WE HAVE REVIEWED YOUR 2008/2009 FISCAL YEAR REIMBURSEMENT CLAIM FOR  
THE MANDATED COST PROGRAM REFERENCED ABOVE. THE RESULTS OF OUR  
REVIEW ARE AS FOLLOWS:

AMOUNT CLAIMED	286,146.00
TOTAL ADJUSTMENTS (DETAILS BELOW)	- 33,476.00
TOTAL PRIOR PAYMENTS (DETAILS BELOW)	-64,836.00
	-----
AMOUNT DUE CLAIMANT	\$ 187,834.00
	=====

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT TIN BUI  
AT (916) 323-8137 OR IN WRITING AT THE STATE CONTROLLER'S OFFICE,  
DIVISION OF ACCOUNTING AND REPORTING, P.O. BOX 942850, SACRAMENTO,  
CA 94250-5875. DUE TO INSUFFICIENT APPROPRIATION, THE BALANCE DUE  
WILL BE FORTHCOMING WHEN ADDITIONAL FUNDS ARE MADE AVAILABLE.

ADJUSTMENT TO CLAIM:

FIELD AUDIT FINDINGS	- 33,476.00	
TOTAL ADJUSTMENTS		- 33,476.00
PRIOR PAYMENTS:		
SCHEDULE NO. MA0331ZA		
PAID 01-25-2011	-6,090.00	
SCHEDULE NO. MA03307A		
PAID 12-06-2010	-58,746.00	
TOTAL PRIOR PAYMENTS		-64,836.00

533120  
00048  
2013/03/03

MARCH 3, 2013  
BOARD OF TRUSTEES  
RIVERSIDE UNIFIED SCHOOL DIST  
RIVERSIDE COUNTY  
6050 INDUSTRIAL AVENUE  
RIVERSIDE CA 92504

DEAR CLAIMANT:

RE: NOTICE OF TRUANCY : 498/83-S

WE HAVE REVIEWED YOUR 2009/2010 FISCAL YEAR REIMBURSEMENT CLAIM FOR  
THE MANDATED COST PROGRAM REFERENCED ABOVE. THE RESULTS OF OUR  
REVIEW ARE AS FOLLOWS:

AMOUNT CLAIMED	231,077.00
ADJUSTMENT TO CLAIM:	
FIELD AUDIT FINDINGS	- 7,309.00
TOTAL ADJUSTMENTS	- 7,309.00

LESS PRIOR PAYMENT: SCHEDULE NO. MA14004A  
PAID 09-27-2011

45,387.00

AMOUNT DUE CLAIMANT

\$ 178,381.00

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT TIN BUI  
AT (916) 323-8137 OR IN WRITING AT THE STATE CONTROLLER'S OFFICE,  
DIVISION OF ACCOUNTING AND REPORTING, P.O. BOX 942850, SACRAMENTO,  
CA 94250-5875. DUE TO INSUFFICIENT APPROPRIATION, THE BALANCE DUE  
WILL BE FORTHCOMING WHEN ADDITIONAL FUNDS ARE MADE AVAILABLE.





Adopted: 8/27/87  
Amended: 7/28/88  
Amended: 7/22/93  
Amended: 1/31/08

## **AMENDMENTS TO PARAMETERS AND GUIDELINES AS DIRECTED BY THE LEGISLATURE**

*Statutes 2007, Chapter 69 (AB 1698)*

Education Code Section 48260.5

Statutes 1983, Chapter 498

[Statutes 1994, Chapter 1023]

[Statutes 1995, Chapter 19]

*Notification of Truancy*

07-PGA-01 (4133)

### **I. BACKGROUND AND SUMMARY OF MANDATE**

Chapter 498, Statutes of 1983, added Education Code Section 48260.5 which requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with section 48290) of Chapter 2 of Part 27.

Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district, and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

A truancy occurs when a student is absent from school without valid excuse three (3) full days in one school year, or is tardy or absent without valid excuse for more than any thirty (30)-minute period during the school day on n three (3) occasions in one school year, or any combination thereof. (Definition from Ed. Code, § 48260, as amended by Stats. 1994, ch. 1023 and Stats. 1995, ch. 19.)

Upon a student's initial classification as a truant, the school must perform the requirements mandated by Education Code section 48260.5 as enacted by Statutes 1983, chapter 498 and amended by Statutes 1994, chapter 1023, and Statutes 1995, chapter 19.

#### **Board of Control Decision**

On November 29, 1984, the State Board of Control determined that Education Code Section 48260.5, as added by Chapter 498, Statutes of 1983, constitutes a state mandated program because it requires an increased level of service by requiring specified notifications be sent to the parents or guardians of pupils upon initial classification of truancy.

### Amendment to Parameters and Guidelines

The Legislature directed the Commission on State Mandates to revise the parameters and guidelines to modify the definition of truant and the required elements to be included in the initial truancy notifications to conform reimbursable activities to Statutes 1994, chapter 1023, and Statutes 1995, chapter 19, effective July 1, 2006. (Stats., 2007, ch. 69 (AB 1698).)

#### II. ELIGIBLE CLAIMANTS

The claimants are all school districts and county offices of education of the state of California, except a community college district, as defined by Government Code Section 17519 (formerly Revenue and Taxation Code 2208.5), that incur increased costs as a result of implementing the program activities of Education Code Section 48260.5, Chapter 498, Statutes of 1983.

#### III. PERIOD OF REIMBURSEMENT

The amendments to the parameters and guidelines adopted on January 31, 2008 are effective July 1, 2006.

#### IV. REIMBURSABLE COSTS

##### A. Scope of Mandate

The eligible claimant shall be reimbursed for only those costs incurred for planning the notification process, revising district procedures, the printing and distribution of notification forms, and associated record keeping.

##### B. Reimbursable Activities

For each eligible school district the direct and indirect costs of labor, supplies, and services incurred for the following mandated program activities are reimbursable:

##### 1. Planning and Preparation -- One-time

Planning the method of implementation, revising school district policies, and designing and printing the forms.

##### 2. Notification process -- On-going

Identifying the truant pupils to receive the notification, preparing and distributing by first-class mail or other reasonable means the forms to parents/guardians, and associated recordkeeping to provide parents/guardians with the following required information upon a pupil's initial classification as a truant:

- a. That the pupil is truant.
- b. That the parent or guardian is obligated to compel the attendance of the pupil at school.
- c. That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48260) of Chapter 2 of Part 27.

- d. That alternative educational programs are available in the district.
- e. That the parent or guardian has the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.
- f. That the pupil may be subject to prosecution under Section 48264.
- g. That the pupil may be subject to suspension, restriction, or delay of the pupil's driving privileges pursuant to Section 13202.7 of the Vehicle Code.
- h. That it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

C. Uniform Cost Allowance

Pursuant to Government Code section 17557, the Commission on State Mandates has adopted a uniform cost allowance for reimbursement in lieu of payment of total actual costs incurred. The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983.

For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator.

D. Unique Costs

School districts incurring unique costs within the scope of the reimbursable mandated activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement, Pursuant to Section 1185.3, Title 2, California Code of Regulations, such requests must be made by November 30 immediately following the fiscal year of the reimbursement claim in which reimbursement for the costs is requested.

V. CLAIM PREPARATION

Each claim for reimbursement pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983, must be timely filed and provide documentation in support of the reimbursement claimed for this mandated program.

A. Uniform Cost Allowance Reimbursement

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial notification to the parent or guardian.

B. Recognized Unique Costs

As of fiscal year 1992-93, the Commission has not identified any circumstances which would cause a school district to incur additional costs to implement this mandate which have not already been incorporated in the uniform cost allowance.

If and when the Commission recognizes any unique circumstances which can cause the school district to incur additional reasonable costs to implement this mandated program, these unique implementation costs will be reimbursed for specified fiscal years in addition to the uniform cost allowance.

School districts which incur these recognized unique costs will be required to support those actual costs in the following manner:

1. Narrative Statement of Unique Costs Incurred

Provide a detailed written explanation of the costs associated with the unique circumstances recognized by the Commission.

2. Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The staff time claimed must be supported by source documentation, such as time reports, however, the average number of hours devoted to each function may be claimed if supported by a documented time study.

3. Services and Supplies

Only expenditures which can be identified as a direct cost as a result of the mandated program can be claimed. List cost of materials which have been consumed or expended specifically for the purposes of this mandated program.

4. Allowable Overhead Costs

School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education. County offices of education must use the J-73A (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.

VI. SUPPORTING DATA

For auditing purposes, documents must be kept on file for a period of 3 years from the date of final payment by the State Controller, unless otherwise specified by statute and be made available at the request of the State Controller or his agent.

A. Uniform Allowance Reimbursement

Documentation which indicates the total number of initial notifications of truancy distributed.

B. Reimbursement of Unique Costs

In addition to maintaining the **same** documentation as required for uniform cost allowance reimbursement, all costs claimed must be traceable to source documents **and/or** worksheets that show evidence of the validity of such **costs**.

VIII. OFFSETTING SAVINGS AND OTHER REIMBURSEMENT

Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the uniform cost allowance and actual cost reimbursement for unique circumstances claimed. In addition, reimbursement for this mandated program received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

IX. REQUIRED CERTIFICATION

An authorized representative of the claimant will be required to provide a certification of claim, as specified in the State Controller% claiming instructions, for those costs mandated by the state contained herein.



Adopted: 8/27/87  
Amended: 7/28/88  
Amended: 7/22/93  
Amended: 1/31/08  
Amended: 5/27/10

**Amendment to Parameters and Guidelines  
as Directed by the Legislature**

*Statutes 2007, Chapter 69 (AB 1698)*

Education Code Section 48260.5

Statutes 1983, Chapter 498

Statutes 1994, Chapter 1023

Statutes 1995, Chapter 19

*Notification of Truancy*  
05-PGA-56 (07-PGA-01; 4133)

Effective Date: Beginning with Claims Filed for the  
July 1, 2006 – June 30, 2007 Period of Reimbursement

**I. BACKGROUND AND SUMMARY OF MANDATE**

Chapter 498, Statutes of 1983, added Education Code Section 48260.5 which requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with section 48290) of Chapter 2 of Part 27.

Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district, and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

A truancy occurs when a student is absent from school without valid excuse three (3) full days in one school year, or is tardy or absent without valid excuse for more than any thirty (30)-minute period during the school day on n three (3) occasions in one school year, or any combination thereof. (Definition from Ed. Code, § 48260, as amended by Stats. 1994, ch. 1023 and Stats. 1995, ch. 19.)

Upon a student's initial classification as a truant, the school must perform the requirements mandated by Education Code section 48260.5 as enacted by Statutes 1983, chapter 498 and amended by Statutes 1994, chapter 1023, and Statutes 1995, chapter 19.

**Board of Control Decision**

On November 29, 1984, the State Board of Control determined that Education Code Section 48260.5, as added by Chapter 498, Statutes of 1983, constitutes a

state mandated program because it requires an increased level of service by requiring specified notifications be sent to the parents or guardians of pupils upon initial classification of truancy.

#### Amendment to Parameters and Guidelines

The Legislature directed the Commission on State Mandates to revise the parameters and guidelines to modify the definition of truant and the required elements to be included in the initial truancy notifications to conform reimbursable activities to Statutes 1994, chapter 1023, and Statutes 1995, chapter 19, effective July 1, 2006. (Stats., 2007, ch. 69 (AB 1698).)

#### II. ELIGIBLE CLAIMANTS

The claimants are all school districts and county offices of education of the state of California, except a community college district, as defined by Government Code Section 17519 (formerly Revenue and Taxation Code 2208.5), that incur increased costs as a result of implementing the program activities of Education Code Section 48260.5, Chapter 498, Statutes of 1983.

#### III. PERIOD OF REIMBURSEMENT

The amendments to the parameters and guidelines adopted on January 31, 2008 are effective July 1, 2006.

#### IV. REIMBURSABLE COSTS

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.



A. Scope of Mandate

The eligible claimant shall be reimbursed for only those costs incurred for planning the notification process, revising district procedures, the printing and distribution of notification forms, and associated record keeping.

B. Reimbursable Activities

For each eligible school district the direct and indirect costs of labor, supplies, and services incurred for the following mandated program activities are reimbursable:

1. Planning and Preparation -- One-time

Planning the method of implementation, revising school district policies, and designing and printing the forms.

2. Notification process -- On-going

Identifying the truant pupils to receive the notification, preparing and distributing by first-class mail or other reasonable means the forms to parents/guardians, and associated recordkeeping to provide parents/guardians with the following required information upon a pupil's initial classification as a truant:

- a. That the pupil is truant.
- b. That the parent or guardian is obligated to compel the attendance of the pupil at school.
- c. That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48260) of Chapter 2 of Part 27.
- d. That alternative educational programs are available in the district.
- e. That the parent or guardian has the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.
- f. That the pupil may be subject to prosecution under Section 48264.
- g. That the pupil may be subject to suspension, restriction, or delay of the pupil's driving privileges pursuant to Section 13202.7 of the Vehicle Code.
- h. That it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

C. Uniform Cost Allowance

Pursuant to Government Code section 17557, the Commission on State Mandates has adopted a uniform cost allowance for reimbursement in lieu of payment of total actual costs incurred. The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983.

For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator.

D. Unique Costs

School districts incurring unique costs within the scope of the reimbursable mandated activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement, Pursuant to Section 1185.3, Title 2, California Code of Regulations, such requests must be made by November 30 immediately following the fiscal year of the reimbursement claim in which reimbursement for the costs is requested.

V. CLAIM PREPARATION

Each claim for reimbursement pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983, must be timely filed and provide documentation in support of the reimbursement claimed for this mandated program.

A. Uniform Cost Allowance Reimbursement

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial notification to the parent or guardian. The agency must maintain documentation that indicates the total number of initial notifications of truancy distributed.

B. Recognized Unique Costs

As of fiscal year 1992-93, the Commission has not identified any circumstances which would cause a school district to incur additional costs to implement this mandate which have not already been incorporated in the uniform cost allowance.

If and when the Commission recognizes any unique circumstances which can cause the school district to incur additional reasonable costs to implement this mandated program, these unique implementation costs will be reimbursed for specified fiscal years in addition to the uniform cost allowance.

School districts which incur these recognized unique costs will be required to support those actual costs in the following manner:

1. Narrative Statement of Unique Costs Incurred

Provide a detailed written explanation of the costs associated with the unique circumstances recognized by the Commission.

2. Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The staff time claimed must be supported by source documentation, such as time reports, however, the average number of hours devoted to each function may be claimed if supported by a documented time study.

### 3. Services and Supplies

Only expenditures which can be identified as a direct cost as a result of the mandated program can be claimed. List cost of materials which have been consumed or expended specifically for the purposes of this mandated program.

### 4. Allowable Overhead Costs

School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education. County offices of education must use the J-73A (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.

## 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>1</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. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. All documents used to support the reimbursable activities, as described in Section V, must be retained during the period subject to audit. If the Controller has initiated an audit during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings.

For auditing purposes, documents must be kept on file for a period of 3 years from the date of final payment by the State Controller, unless otherwise specified by statute and be made available at the request of the State Controller or his agent.

### A. Uniform Allowance Reimbursement

Documentation which indicates the total number of initial notifications of truancy distributed.

### B. Reimbursement of Unique Costs

In addition to maintaining the **same** documentation as required for uniform cost allowance reimbursement, all costs claimed must be traceable to source documents **and/or** worksheets that show evidence of the validity of such **costs**.

## VIII. OFFSETTING SAVINGS AND OTHER REIMBURSEMENT

Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the uniform cost allowance and actual cost reimbursement for unique circumstances claimed. In addition, reimbursement for this mandated

---

<sup>1</sup> This refers to Title 2, division 4, part 7, chapter 4 of the Government Code.

program received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

IX. REQUIRED CERTIFICATION

An authorized representative of the claimant will be required to provide a certification of claim, as specified in the State Controller% claiming instructions, for those costs mandated by the state contained herein.



OFFICE OF THE STATE CONTROLLER  
STATE MANDATED COST CLAIMING INSTRUCTIONS NO. 2008-03  
NOTIFICATION OF TRUANCY

APRIL 4, 2008

Revised January 30, 2009

In accordance with Government Code (GC) Section 17561, eligible claimants may submit claims to the State Controller's Office (SCO) for reimbursement of state mandated cost programs. The following are claiming instructions and forms that eligible claimants will use for filing claims for the Notification of Truancy (NOT) program. These claiming instructions are issued subsequent to adoption of the program's amended Parameters and Guidelines (P's & G's) by the Commission on State Mandates (CSM).

On January 31, 2008, CSM adopted the attached amended P's and G's for NOT, which is effective July 1, 2006. For your reference, the amended P's & G's are included as an integral part of the claiming instructions.

**Limitations and Exceptions**

There shall be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to Government Code section 17581.5.

If an actual claim was filed for fiscal year 2006-07, you may file an amended claim for all costs including the increased costs based on the new definition of truancy. If no claim was previously filed you may file for fiscal year 2006-07 by **August 4, 2008**, without being assessed a late claim penalty.

**Eligible Claimants**

Except for community colleges, any school district or county office of education as defined in GC section 17519, that incurs increased costs as a result of this mandate, is eligible to claim reimbursement.

**Filing Deadlines**

**A. Reimbursement Claims**

A reimbursement claim is defined in GC Section 17522 as any claim filed with SCO by a school district for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim.

An actual claim may be filed by February 15 following the fiscal year in which costs were incurred. If the filing date falls on a weekend or holiday, the filing deadline will be the next business day. Since the 15<sup>th</sup> falls on a weekend in 2009, claims for fiscal year 2007-08 will be accepted without penalty if postmarked or delivered on or before February 17, 2009. Claims filed after the deadline will be reduced by a late penalty of 10%, not to exceed \$10,000. However, initial reimbursement claims will be reduced by a late penalty of 10% with no limitation. Claims filed more than one year after the deadline will not be accepted.

Documentation to support actual costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 16 of the instructions.

#### **B. Estimated Claims**

Pursuant to AB 8, Chapter 6, Statutes of 2008, the option to file estimated claims has been eliminated. Therefore, estimated claims filed on or after February 16, 2008, will not be accepted by SCO.

#### **Minimum Claim Cost**

GC Section 17564(a) provides that no claim may be filed pursuant to Sections 17551 and 17561, unless such a claim exceeds one thousand dollars (\$1,000), provided that a county superintendent of schools may submit a combined claim on behalf of school districts within their county if the combined claim exceeds \$1,000, even if the individual school district's claim does not each exceed \$1,000. The county superintendent of schools will determine if the submission of the combined claim is economically feasible and be responsible for disbursing the funds to each school district. These combined claims may be filed only when the county superintendent of schools is the fiscal agent for the districts. A combined claim must show the individual claim costs for each eligible school district. All subsequent claims based upon the same mandate will only be filed in the combined form unless a school district provides a written notice of its intent to file a separate claim to the county superintendent of schools and to SCO at least 180 days prior to the deadline for filing the claim.

#### **Reimbursement of Claims**

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 (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure Section 2015.5.

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.

### **Audit of Costs**

All claims submitted to SCO are reviewed to determine if costs are related to the mandate, are reasonable and not excessive, and if the claim was prepared in accordance with SCO's claiming instructions and the P's & G's adopted by CSM. If any adjustments are made to a claim, a "Notice of Claim Adjustment" specifying the activity adjusted, the amount adjusted, and the reason for the adjustment, will be mailed within 30 days after payment of the claim.

Pursuant to GC Section 17558.5, subdivision (a), a reimbursement claim for actual costs filed by a claimant is subject to audit by SCO no later than three years after the date the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was 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 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.

On-site audits will be conducted by SCO as deemed necessary. Accordingly, all documentation to support actual costs claimed must be retained for a period of three years after the end of the calendar year in which the reimbursement claim was filed or last amended regardless of the year of costs incurred. When no funds were appropriated for initial claims at the time the claim was filed, supporting documents must be retained for three years from the date of initial payment of the claim. Therefore, all documentation to support actual costs claimed must be retained for the same period, and shall be made available to the SCO on request.

### **Retention of Claiming Instructions**

The claiming instructions and forms in this package should be retained permanently in your Mandated Cost Manual for future reference and use in filing claims. These forms should be duplicated to meet your filing requirements. You will be notified of updated forms or changes to claiming instructions as necessary.

Questions, or requests for hard copies of these instructions, should be faxed to Angie Lowi-Teng at (916) 323-6527 or e-mailed to [LRS DAR@sco.ca.gov](mailto:LRS DAR@sco.ca.gov). Or, if you wish, you may call the Local Reimbursements Section at (916) 324-5729. For your reference, these and future mandated costs claiming instructions and forms can be found on the Internet at [www.sco.ca.gov/ard/local/locreim/index.shtml](http://www.sco.ca.gov/ard/local/locreim/index.shtml).

### **Address for Filing Claims**

Claims should be rounded to the nearest dollar. Submit a signed original and a copy of form FAM-27, Claim for Payment, and all other forms and supporting documents.

To expedite the payment process, please sign the form in blue ink, and attach a copy of the form FAM-27 to the top of the claim package.



Use the following mailing addresses:

If delivered by  
U.S. Postal Service:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
P.O. Box 942850  
Sacramento, CA 94250

If delivered by  
other delivery services:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
3301 C Street, Suite 500  
Sacramento, CA 95816

2007/08

Adopted: 8/27/87  
Amended: 7/28/88  
Amended: 7/22/93  
Amended: 1/31/08

## **AMENDMENTS TO PARAMETERS AND GUIDELINES AS DIRECTED BY THE LEGISLATURE**

*Statutes 2007, Chapter 69 (AB 1698)*

Education Code Section 48260.5

Statutes 1983, Chapter 498

[Statutes 1994, Chapter 1023]

[Statutes 1995, Chapter 19]

*Notification of Truancy*

07-PGA-01 (4133)

### **I. BACKGROUND AND SUMMARY OF MANDATE**

Chapter 498, Statutes of 1983, added Education Code Section 48260.5 which requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with section 48290) of Chapter 2 of Part 27.

Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district, and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

A truancy occurs when a student is absent from school without valid excuse three (3) full days in one school year, or is tardy or absent without valid excuse for more than any thirty (30)-minute period during the school day on n three (3) occasions in one school year, or any combination thereof. (Definition from Ed. Code, § 48260, as amended by Stats. 1994, ch. 1023 and Stats. 1995, ch. 19.)

Upon a student's initial classification as a truant, the school must perform the requirements mandated by Education Code section 48260.5 as enacted by Statutes 1983, chapter 498 and amended by Statutes 1994, chapter 1023, and Statutes 1995, chapter 19.

#### **Board of Control Decision**

On November 29, 1984, the State Board of Control determined that Education Code Section 48260.5, as added by Chapter 498, Statutes of 1983, constitutes a state mandated program because it requires an increased level of service by requiring specified notifications be sent to the parents or guardians of pupils upon initial classification of truancy.

### Amendment to Parameters and Guidelines

The Legislature directed the Commission on State Mandates to revise the parameters and guidelines to modify the definition of truant and the required elements to be included in the initial truancy notifications to conform reimbursable activities to Statutes 1994, chapter 1023, and Statutes 1995, chapter 19, effective July 1, 2006. (Stats., 2007, ch. 69 (AB 1698).)

#### II. ELIGIBLE CLAIMANTS

The claimants are all school districts and county offices of education of the state of California, except a community college district, as defined by Government Code Section 17519 (formerly Revenue and Taxation Code 2208.5), that incur increased costs as a result of implementing the program activities of Education Code Section 48260.5, Chapter 498, Statutes of 1983.

#### III. PERIOD OF REIMBURSEMENT

The amendments to the parameters and guidelines adopted on January 31, 2008 are effective July 1, 2006.

#### IV. REIMBURSABLE COSTS

##### A. Scope of Mandate

The eligible claimant shall be reimbursed for only those costs incurred for planning the notification process, revising district procedures, the printing and distribution of notification forms, and associated record keeping.

##### B. Reimbursable Activities

For each eligible school district the direct and indirect costs of labor, supplies, and services incurred for the following mandated program activities are reimbursable:

##### 1. Planning and Preparation -- One-time

Planning the method of implementation, revising school district policies, and designing and printing the forms.

##### 2. Notification process -- On-going

Identifying the truant pupils to receive the notification, preparing and distributing by first-class mail or other reasonable means the forms to parents/guardians, and associated recordkeeping to provide parents/guardians with the following required information upon a pupil's initial classification as a truant:

- a. That the pupil is truant.
- b. That the parent or guardian is obligated to compel the attendance of the pupil at school.
- c. That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48260) of Chapter 2 of Part 27.

- d. That alternative educational programs are available in the district.
- e. That the parent or guardian has the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.
- f. That the pupil may be subject to prosecution under Section 48264.
- g. That the pupil may be subject to suspension, restriction, or delay of the pupil's driving privileges pursuant to Section 13202.7 of the Vehicle Code.
- h. That it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

C. Uniform Cost Allowance

Pursuant to Government Code section 17557, the Commission on State Mandates has adopted a uniform cost allowance for reimbursement in lieu of payment of total actual costs incurred. The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983.

For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator.

D. Unique Costs

School districts incurring unique costs within the scope of the reimbursable mandated activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement, Pursuant to Section 1185.3, Title 2, California Code of Regulations, such requests must be made by November 30 immediately following the fiscal year of the reimbursement claim in which reimbursement for the costs is requested.

V. CLAIM PREPARATION

Each claim for reimbursement pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983, must be timely filed and provide documentation in support of the reimbursement claimed for this mandated program.

A. Uniform Cost Allowance Reimbursement

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial notification to the parent or guardian.

B. Recognized Unique Costs

As of fiscal year 1992-93, the Commission has not identified any circumstances which would cause a school district to incur additional costs to implement this mandate which have not already been incorporated in the uniform cost allowance.

If and when the Commission recognizes any unique circumstances which can cause the school district to incur additional reasonable costs to implement this mandated program, these unique implementation costs will be reimbursed for specified fiscal years in addition to the uniform cost allowance.

School districts which incur these recognized unique costs will be required to support those actual costs in the following manner:

1. Narrative Statement of Unique Costs Incurred

Provide a detailed written explanation of the costs associated with the unique circumstances recognized by the Commission.

2. Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The staff time claimed must be supported by source documentation, such as time reports; however, the average number of hours devoted to each function may be claimed if supported by a documented time study.

3. Services and Supplies

Only expenditures which can be identified as a direct cost as a result of the mandated program can be claimed. List cost of materials which have been consumed or expended specifically for the purposes of this mandated program.

4. Allowable Overhead Costs

School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education. County offices of education must use the J-73A (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.

VI. SUPPORTING DATA

For auditing purposes, documents must be kept on file for a period of 3 years from the date of final payment by the State Controller, unless otherwise specified by statute and be made available at the request of the State Controller or his agent.

A. Uniform Allowance Reimbursement

Documentation which indicates the total number of initial notifications of truancy distributed.

B. Reimbursement of Unique Costs

In addition to maintaining the same documentation as required for uniform cost allowance reimbursement, all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

**VIII. OFFSETTING SAVINGS AND OTHER REIMBURSEMENT**

Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the uniform cost allowance and actual cost reimbursement for unique circumstances claimed. In addition, reimbursement for this mandated program received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

**IX. REQUIRED CERTIFICATION**

An authorized representative of the claimant will be required to provide a certification of claim, as specified in the State Controller% claiming instructions, for those costs mandated by the state contained herein.

<b>CLAIM FOR PAYMENT</b> Pursuant to Government Code Section 17561 <b>NOTIFICATION OF TRUANCY</b>		For State Controller Use Only (19) Program Number 00048 (20) Date Filed (21) LRS Input		<b>PROGRAM</b> <div style="font-size: 2em; font-weight: bold; margin-top: 10px;">048</div>
(01) Claimant Identification Number		<b>Reimbursement Claim Data</b>		
(02) Claimant Name		(22) FORM-1, (03)		
Address		(23)		
		(24)		
		(25)		
<b>Type of Claim</b>	<b>Reimbursement Claim</b>	(09) Reimbursement <input type="checkbox"/>	(26)	
		(10) Combined <input type="checkbox"/>	(27)	
		(11) Amended <input type="checkbox"/>	(28)	
			(29)	
<b>Fiscal Year of Cost</b>	(12)	(30)		
<b>Total Claimed Amount</b>	(13)	(31)		
<b>Less: 10% Late Penalty (Refer to claim instructions)</b>	(14)	(32)		
<b>Less: Prior Claim Payment Received</b>	(15)	(33)		
<b>Net Claimed Amount</b>	(16)	(34)		
<b>Due from State</b>	(17)	(35)		
<b>Due to State</b>	(18)	(36)		
<b>(37) CERTIFICATION OF CLAIM</b>  In accordance with the provisions of Government Code § 17561, I certify that I am the officer authorized by the school district to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Government Code Sections 1090 to 1098, inclusive.  I further certify that there was no application other than from the claimant, nor any grant or payment received, for reimbursement of costs claimed herein; and such costs are for a new program or increased level of services of an existing program. All offsetting savings and reimbursements set forth in the Parameters and Guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.  The amounts for Reimbursement Claim are hereby claimed from the State for payment of actual costs set forth on the attached statements. I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.				
Signature of Authorized Officer		Date		
<hr/>		<hr/>		
Type or Print Name		Title		
(38) Name of Contact Person for Claim		Telephone Number		
<hr/>		<hr/>		
		E-mail Address		
<hr/>		<hr/>		

<b>Program</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY</b> <b>Certification Claim Form</b> <b>Instructions</b>	<b>FORM</b> <b>FAM-27</b>
------------------------------	--	------------------------------

- (01) Enter the payee number assigned by the State Controller's Office.
- (02) Enter your Official Name, County of Location, Street or P. O. Box address, City, State, and Zip Code.
- (03) Leave blank.
- (04) Leave blank.
- (05) Leave blank.
- (06) Leave blank.
- (07) Leave blank.
- (08) Leave blank.
- (09) If filing a reimbursement claim, enter an "X" in the box on line (09) Reimbursement.
- (10) If filing a combined reimbursement claim on behalf of districts within the county, enter an "X" in the box on line (10) Combined.
- (11) If filing an amended reimbursement claim, enter an "X" in the box on line (11) Amended.
- (12) Enter the fiscal year for which actual costs are being claimed. If actual costs for more than one fiscal year are being claimed, complete a separate form FAM-27 for each fiscal year.
- (13) Enter the amount of the reimbursement claim from Form-1, line (08). The total claimed amount must exceed \$1,000.
- (14) Actual claims for fiscal year 06-07 must be filed by **August 4, 2008**, and for fy 07-08 must be filed by **February 17, 2009**, otherwise the claims will be reduced by a late penalty.
- (15) If filing a reimbursement claim or a claim was previously filed for the same fiscal year, enter the amount received for the claim. Otherwise, enter a zero.
- (16) Enter the result of subtracting line (14) and line (15) from line (13).
- (17) If line (16), Net Claimed Amount, is positive, enter that amount on line (17), Due from State.
- (18) If line (16), Net Claimed Amount, is negative, enter that amount on line (18), Due to State.
- (19) to (21) Leave blank.
- (22) to (36) Reimbursement Claim Data. Bring forward the cost information as specified on the left-hand column of lines (22) through (36) for the reimbursement claim, e.g., Form-1, (03), means the information is located on Form-1, block (03). 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., 7.548% should be shown as 8. **Completion of this data block will expedite the payment process.**
- (37) Read the statement "Certification of Claim." If it is true, the claim must be dated, signed by the district's authorized officer, and must include the person's name and title, typed or printed. **Claims cannot be paid unless accompanied by an original signed certification. (To expedite the payment process, please sign the form FAM-27 with blue ink, and attach a copy of the form FAM-27 to the top of the claim package.)**
- (38) Enter the name, telephone number, and e-mail address of the person to contact if additional information is required.

**SUBMIT A SIGNED ORIGINAL, AND A COPY OF FORM FAM-27, WITH ALL OTHER FORMS AND SUPPORTING DOCUMENTS TO:**

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

**OFFICE OF THE STATE CONTROLLER**  
**ATTN: Local Reimbursements Section**  
**Division of Accounting and Reporting**  
**P.O. Box 942850**  
**Sacramento, CA 94250**

**Address, if delivered by other delivery service:**

**OFFICE OF THE STATE CONTROLLER**  
**ATTN: Local Reimbursements Section**  
**Division of Accounting and Reporting**  
**3301 C Street, Suite 500**  
**Sacramento, CA 95816**



Program <b>048</b>	MANDATED COSTS NOTIFICATION OF TRUANCY CLAIM SUMMARY		FORM <b>1</b>
(01) Claimant		(02)	Fiscal Year ____ / ____
<b>Claim Statistics</b>			
(03) Number of truant notifications			
(04) Unit Cost		[\$17.28 for fiscal year 2007-08]	
(05) Total Costs		[Line (03) x line (04)]	
<b>Cost Reduction</b>			
(06) Less: Offsetting Savings			
(07) Less: Other Reimbursements			
(08) Total Claimed Amount		[Line (05) - {(line (06) + line (07))}]	

Revised 09/08

<b>Program</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY</b> <b>CLAIM SUMMARY</b> <b>Instructions</b>	<b>FORM</b> <b>1</b>
------------------------------	---	-------------------------

- (01) Enter the name of the claimant. If more than one department has incurred costs for this mandate, give the name of each department. A Form-1 should be completed for each department.
- (02) Enter the fiscal year of costs.
- (03) Enter the number of truant notifications that were sent during the fiscal year of claim, upon the students' initial classification of truancy.
- (04) The unit cost rate for fiscal year 07-08 is \$17.28 per initial notification. This unit cost rate will be updated annually in the Annual Revisions for Schools issued in September.
- (05) Multiply line (03), the number of truant notifications by line (04), the unit cost rate.
- (06) Less: Offsetting Savings. If applicable, enter the total savings experienced by the claimant as a direct result of this mandate. Submit a detailed schedule of savings with the claim.
- (07) Less: Other Reimbursements. If applicable, enter the amount of other reimbursements received from any source including, but not limited to, service fees collected, federal funds, and other state funds, that reimbursed any portion of the mandated cost program. Submit a schedule detailing the reimbursement sources and amounts.
- (08) Total Claimed Amount. From Total Costs, line (05), subtract the sum of Offsetting Savings, line (06), and Other Reimbursements, line (07). Enter the remainder on this line and carry the amount forward to form FAM-27, line (13) for the Reimbursement Claim.

OFFICE OF THE STATE CONTROLLER  
STATE MANDATED COST CLAIMING INSTRUCTIONS NO. 2008-03  
NOTIFICATION OF TRUANCY

APRIL 4, 2008

Revised September 5, 2009

In accordance with Government Code (GC) Section 17561, eligible claimants may submit claims to the State Controller's Office (SCO) for reimbursement of state mandated cost programs. The following are claiming instructions and forms that eligible claimants will use for filing claims for the Notification of Truancy (NOT) program. These claiming instructions are issued subsequent to adoption of the program's amended Parameters and Guidelines (P's & G's) by the Commission on State Mandates (Commission).

On January 31, 2008, the Commission adopted the attached amended P's and G's for NOT, which is effective July 1, 2006, and are included as an integral part of the claiming instructions.

**Limitations and Exceptions**

There will be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to Government Code Section 17581.5.

**Eligible Claimants**

Except for community colleges, any school district or county office of education as defined in GC Section 17519 that incurs increased costs as a result of this mandate is eligible to claim reimbursement.

**Filing Deadlines**

**A. Reimbursement Claims**

A reimbursement claim is defined in GC Section 17522 as any claim filed with the SCO by a school district for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim.

An actual claim may be filed by February 15 following the fiscal year in which costs were incurred. Claims for fiscal year 2008-09 will be accepted without penalty if postmarked or delivered on or before February 16, 2010. Claims filed more than one year after the deadline will not be accepted.

**B. Late Penalty**

**1. Initial Claims**

Late initial claims are assessed a late penalty of 10% of the total amount of the initial claims without limitation.

## **2. Annual Reimbursement Claims**

Late annual reimbursement claims are assessed a late penalty of 10% of the claim amount; \$10,000 maximum penalty.

### **Minimum Claim Cost**

GC Section 17564(a) provides that no claim may be filed pursuant to Sections 17551 and 17561, unless such a claim exceeds one thousand dollars (\$1,000), provided that a county superintendent of schools may submit a combined claim on behalf of school districts within their county if the combined claim exceeds \$1,000, even if the individual school district's claim does not each exceed \$1,000. The county superintendent of schools will determine if the submission of the combined claim is economically feasible and be responsible for disbursing the funds to each school district. These combined claims may be filed only when the county superintendent of schools is the fiscal agent for the districts. A combined claim must show the individual claim costs for each eligible school district. All subsequent claims based upon the same mandate must only be filed in the combined form unless a school district provides a written notice of its intent to file a separate claim to the county superintendent of schools and to the SCO at least one hundred and eighty days prior to the deadline for filing the claim.

### **Reimbursement of Claims**

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 (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure Section 2015.5.

Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, these documents cannot be substituted for source documents.

### **Audit of Costs**

All claims submitted to the SCO are reviewed to determine if costs are related to the mandate, are reasonable and not excessive, and if the claim was prepared in accordance with SCO's claiming instructions and the P's & G's adopted by the Commission. If any adjustments are made to a claim, a Notice of Claim Adjustment specifying the activity adjusted, the amount adjusted, and the reason for the adjustment, will be mailed within thirty days after payment of the claim.

On-site audits will be conducted by the SCO as deemed necessary. Pursuant to GC Section 17558.5, Subdivision (a), a reimbursement claim for actual costs filed by a claimant is subject to audit by the SCO no later than three years after the date the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was 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 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.

#### **Retention of Claiming Instructions**

All documentation to support actual costs claimed must be retained for a period of three years after the end of the calendar year in which the reimbursement claim was filed or last amended regardless of the year of costs incurred. When no funds were appropriated for initial claims at the time the claim was filed, supporting documents must be retained for three years from the date of initial payment of the claim. Therefore, all documentation to support actual costs claimed must be retained for the same period, and must be made available to the SCO on request.

Questions, or requests for hard copies of these instructions, should be faxed to LRSDAR at (916) 323-6527 or e-mailed to [LRSDAR@sco.ca.gov](mailto:LRSDAR@sco.ca.gov) or you may call the Local Reimbursements Section at (916) 324-5729. Future mandated costs claiming instructions and forms can be found on the Internet at [www.sco.ca.gov/ard\\_mancost.html](http://www.sco.ca.gov/ard_mancost.html).

#### **Address for Filing Claims**

Claims should be rounded to the nearest dollar. Submit a signed original and a copy of form FAM-27, Claim for Payment, and all other forms. **To expedite the payment process, please sign the form in blue ink, and attach a copy of the form FAM-27 to the top of the claim package.**

Use the following mailing addresses:

If delivered by  
U.S. Postal Service:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting

If delivered by  
other delivery services:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
3301 C Street, Suite 700  
Sacramento, CA 95816

2008/09

Adopted: 8/27/87  
Amended: 7/28/88  
Amended: 7/22/93  
Amended: 1/31/08

## **AMENDMENTS TO PARAMETERS AND GUIDELINES AS DIRECTED BY THE LEGISLATURE**

*Statutes 2007, Chapter 69 (AB 1698)*

Education Code Section 48260.5

Statutes 1983, Chapter 498

[Statutes 1994, Chapter 1023]

[Statutes 1995, Chapter 19]

*Notification of Truancy*

07-PGA-01 (4133)

### **I. BACKGROUND AND SUMMARY OF MANDATE**

Chapter 498, Statutes of 1983, added Education Code Section 48260.5 which requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with section 48290) of Chapter 2 of Part 27.

Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district, and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

A truancy occurs when a student is absent from school without valid excuse three (3) full days in one school year, or is tardy or absent without valid excuse for more than any thirty (30)-minute period during the school day on n three (3) occasions in one school year, or any combination thereof. (Definition from Ed. Code, § 48260, as amended by Stats. 1994, ch. 1023 and Stats. 1995, ch. 19.)

Upon a student's initial classification as a truant, the school must perform the requirements mandated by Education Code section 48260.5 as enacted by Statutes 1983, chapter 498 and amended by Statutes 1994, chapter 1023, and Statutes 1995, chapter 19.

#### **Board of Control Decision**

On November 29, 1984, the State Board of Control determined that Education Code Section 48260.5, as added by Chapter 498, Statutes of 1983, constitutes a state mandated program because it requires an increased level of service by requiring specified notifications be sent to the parents or guardians of pupils upon initial classification of truancy.

### Amendment to Parameters and Guidelines

The Legislature directed the Commission on State Mandates to revise the parameters and guidelines to modify the definition of truant and the required elements to be included in the initial truancy notifications to conform reimbursable activities to Statutes 1994, chapter 1023, and Statutes 1995, chapter 19, effective July 1, 2006. (Stats., 2007, ch. 69 (AB 1698).)

#### II. ELIGIBLE CLAIMANTS

The claimants are all school districts and county offices of education of the state of California, except a community college district, as defined by Government Code Section 17519 (formerly Revenue and Taxation Code 2208.5), that incur increased costs as a result of implementing the program activities of Education Code Section 48260.5, Chapter 498, Statutes of 1983.

#### III. PERIOD OF REIMBURSEMENT

The amendments to the parameters and guidelines adopted on January 31, 2008 are effective July 1, 2006.

#### IV. REIMBURSABLE COSTS

##### A. Scope of Mandate

The eligible claimant shall be reimbursed for only those costs incurred for planning the notification process, revising district procedures, the printing and distribution of notification forms, and associated record keeping.

##### B. Reimbursable Activities

For each eligible school district the direct and indirect costs of labor, supplies, and services incurred for the following mandated program activities are reimbursable:

##### 1. Planning and Preparation -- One-time

Planning the method of implementation, revising school district policies, and designing and printing the forms.

##### 2. Notification process -- On-going

Identifying the truant pupils to receive the notification, preparing and distributing by first-class mail or other reasonable means the forms to parents/guardians, and associated recordkeeping to provide parents/guardians with the following required information upon a pupil's initial classification as a truant:

- a. That the pupil is truant.
- b. That the parent or guardian is obligated to compel the attendance of the pupil at school.
- c. That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48260) of Chapter 2 of Part 27.

- d. That alternative educational programs are available in the district.
- e. That the parent or guardian has the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.
- f. That the pupil may be subject to prosecution under Section 48264.
- g. That the pupil may be subject to suspension, restriction, or delay of the pupil's driving privileges pursuant to Section 13202.7 of the Vehicle Code.
- h. That it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

**C. Uniform Cost Allowance**

Pursuant to Government Code section 17557, the Commission on State Mandates has adopted a uniform cost allowance for reimbursement in lieu of payment of total actual costs incurred. The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983.

For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator.

**D. Unique Costs**

School districts incurring unique costs within the scope of the reimbursable mandated activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement. Pursuant to Section 1185.3, Title 2, California Code of Regulations, such requests must be made by November 30 immediately following the fiscal year of the reimbursement claim in which reimbursement for the costs is requested.

**V. CLAIM PREPARATION**

Each claim for reimbursement pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983, must be timely filed and provide documentation in support of the reimbursement claimed for this mandated program.

**A. Uniform Cost Allowance Reimbursement**

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial notification to the parent or guardian.

**B. Recognized Unique Costs**

As of fiscal year 1992-93, the Commission has not identified any circumstances which would cause a school district to incur additional costs to implement this mandate which have not already been incorporated in the uniform cost allowance.



If and when the Commission recognizes any unique circumstances which can cause the school district to incur additional reasonable costs to implement this mandated program, these unique implementation costs will be reimbursed for specified fiscal years in addition to the uniform cost allowance.

School districts which incur these recognized unique costs will be required to support those actual costs in the following manner:

1. Narrative Statement of Unique Costs Incurred

Provide a detailed written explanation of the costs associated with the unique circumstances recognized by the Commission.

2. Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The staff time claimed must be supported by source documentation, such as time reports, however, the average number of hours devoted to each function may be claimed if supported by a documented time study.

3. Services and Supplies

Only expenditures which can be identified as a direct cost as a result of the mandated program can be claimed. List cost of materials which have been consumed or expended specifically for the purposes of this mandated program.

4. Allowable Overhead Costs

School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education. County offices of education must use the J-73A (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.

VI. SUPPORTING DATA

For auditing purposes, documents must be kept on file for a period of 3 years from the date of final payment by the State Controller, unless otherwise specified by statute and be made available at the request of the State Controller or his agent.

A. Uniform Allowance Reimbursement

Documentation which indicates the total number of initial notifications of truancy distributed.

B. Reimbursement of Unique Costs

In addition to maintaining the same documentation as required for uniform cost allowance reimbursement, all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

**VIII. OFFSETTING SAVINGS AND OTHER REIMBURSEMENT**

Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the uniform cost allowance and actual cost reimbursement for unique circumstances claimed. In addition, reimbursement for this mandated program received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

**IX. REQUIRED CERTIFICATION**

An authorized representative of the claimant will be required to provide a certification of claim, as specified in the State Controller's claiming instructions, for those costs mandated by the state contained herein.

<b>CLAIM FOR PAYMENT</b> <b>Pursuant to Government Code Section 17561</b> <b>NOTIFICATION OF TRUANCY</b>		<b>For State Controller Use Only</b> (19) Program Number 00048 (20) Date Filed (21) LRS Input		<b>PROGRAM</b> <div style="font-size: 2em; font-weight: bold; margin-top: 10px;">048</div>
(01) Claimant Identification Number		<b>Reimbursement Claim Data</b>		
(02) Claimant Name		(22) FORM-1, (03)		
County of Location		(23) FORM-1, (04)		
Street Address or P.O. Box		(24) FORM-1, (06)		
City		(25) FORM-1, (07)		
		<b>Type of Claim</b>		(26)
		(09) Reimbursement <input type="checkbox"/>		(27)
		(10) Combined <input type="checkbox"/>		(28)
		(11) Amended <input type="checkbox"/>		(29)
Fiscal Year of Cost		(12)	(30)	
Total Claimed Amount		(13)	(31)	
Less: 10% Late Penalty (refer to attached Instructions)		(14)	(32)	
Less: Prior Claim Payment Received		(15)	(33)	
Net Claimed Amount		(16)	(34)	
Due from State		(17)	(35)	
Due to State		(18)	(36)	
<b>(37) CERTIFICATION OF CLAIM</b>				
<p>In accordance with the provisions of Government Code Section 17561, I certify that I am the officer authorized by the school district or county office of education to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Article 4, Chapter 1 of Division 4 of Title 1 of the Government Code.</p> <p>I further certify that there was no application other than from the claimant, nor any grant(s) or payment(s) received, for reimbursement of costs claimed herein; claimed costs are for a new program or increased level of services of an existing program; and claimed amounts do not include charter school costs, either directly or through a third party. All offsetting savings and reimbursements set forth in the parameters and guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.</p> <p>The amount for this reimbursement is hereby claimed from the State for payment of actual costs set forth on the attached statements.</p> <p>I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.</p>				
Signature of Authorized Officer _____				
Date Signed _____				
Telephone Number _____				
E-mail Address _____				
Type or Print Name and Title of Authorized Signatory _____				
(38) Name of Agency Contact Person for Claim _____				
Telephone Number _____				
E-mail Address _____				
Name of Consulting Firm / Claim Preparer _____				
Telephone Number _____				
E-mail Address _____				

<b>PROGRAM</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY</b> <b>Certification Claim Form</b> <b>Instructions for Form FAM-27</b>	<b>FORM</b> <b>FAM-27</b>
------------------------------	--	------------------------------

- (01) Enter the claimant identification number assigned by the State Controller's Office.
- (02) Enter claimant official name, county of location, street or postal office box address, city, state, and zip code.
- (03) to (08) Leave blank.
- (09) If filing a reimbursement claim, enter an "X" in the box on line (09) Reimbursement.
- (10) If filing a combined reimbursement claim on behalf of districts within the county, enter an "X" in the box on line (10) Combined.
- (11) If filing an amended reimbursement claim, enter an "X" in the box on line (11) Amended.
- (12) Enter the fiscal year for which actual costs are being claimed. If actual costs for more than one fiscal year are being claimed, complete a separate form FAM-27 for each fiscal year.
- (13) Enter the amount of the reimbursement claim as shown in the attached Form-1 line (08). The total claimed amount must exceed \$1,000.
- (14) Reimbursement claims must be filed by **February 15** of the following fiscal year in which costs were incurred or the claims must be reduced by a late penalty. Enter zero if the claim is timely filed. Otherwise, enter the penalty amount as a result of the calculation formula as follows:
- Late Initial Claims: FAM-27 line(13) multiplied by 10%, without limitation; or
  - Late Annual Reimbursement Claims: FAM-27, line (13) multiplied by 10%, late penalty not to exceed \$10,000.
- (15) Enter the amount of payment, if any, received for the claim. If no payment was received, enter zero.
- (16) Enter the net claimed amount by subtracting the sum of lines (14) and (15) from line (13).
- (17) If line (16), Net Claimed Amount, is positive, enter that amount on line (17), Due from State.
- (18) If line (16), Net Claimed Amount, is negative, enter that amount on line (18), Due to State.
- (19) to (21) Leave blank.
- (22) to (36) Reimbursement Claim Data. Bring forward the cost information as specified on the left-hand column of lines (22) through (36) for the reimbursement claim, e.g., Form-1, (03), means the information is located on form Form-1, line (03). 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., 7.548% should be shown as 8. **Completion of this data block will expedite the payment process.**
- (37) Read the statement of Certification of Claim. The claim must be dated, signed by the agency's authorized officer, and must type or print name, title, telephone number and E-mail address. **Claims cannot be paid unless accompanied by an original signed certification. (To expedite the payment process, please sign the form FAM-27 with blue ink, and attach a copy of the form FAM-27 to the top of the claim package.)**
- (38) Enter the name, telephone number, and E-mail address of the agency contact person for the claim. If claim is prepared by external consultant, type or print the name of the consulting firm, telephone number, and e-mail address.

**SUBMIT A SIGNED ORIGINAL, AND A COPY OF FORM FAM-27, WITH ALL OTHER FORMS TO:**

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

OFFICE OF THE STATE CONTROLLER  
 ATTN: Local Reimbursements Section  
 Division of Accounting and Reporting  
 P.O. Box 942850  
 Sacramento, CA 94250

**Address, if delivered by other delivery service:**

OFFICE OF THE STATE CONTROLLER  
 ATTN: Local Reimbursements Section  
 Division of Accounting and Reporting  
 3301 C Street, Suite 700  
 Sacramento, CA 95816

Program <b>048</b>	MANDATED COSTS NOTIFICATION OF TRUANCY CLAIM SUMMARY		FORM <b>1</b>
(01) Claimant		(02)	Fiscal Year ____ / ____
Claim Statistics			
(03) Number of truant notifications			
(04) Unit Cost		[\$17.74 for fiscal year 2008-09]	
(05) Total Costs		[Line (03) x line (04)]	
Cost Reduction			
(06) Less: Offsetting Savings			
(07) Less: Other Reimbursements			
(08) Total Claimed Amount		[Line (05) - (line (06) + line (07))]	

Revised 07/09

<b>Program</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY CLAIM SUMMARY Instructions</b>	<b>FORM</b> <b>1</b>
------------------------------	---	-------------------------

- (01) Enter the name of the claimant. If more than one department has incurred costs for this mandate, give the name of each department. A Form-1 should be completed for each department.
- (02) Enter the fiscal year of costs.
- (03) Enter the number of truant notifications that were sent during the fiscal year of claim, upon the students' initial classification of truancy.
- (04) The unit cost rate for fiscal year 08-09 is \$17.74 per initial notification. This unit cost rate will be updated annually in the Annual Revisions for Schools.
- (05) Multiply line (03), the number of truant notifications by line (04), the unit cost rate.
- (06) Less: Offsetting Savings. If applicable, enter the total savings experienced by the claimant as a direct result of this mandate. Submit a detailed schedule of savings with the claim.
- (07) Less: Other Reimbursements. If applicable, enter the amount of other reimbursements received from any source including, but not limited to, service fees collected, federal funds, and other state funds, that reimbursed any portion of the mandated cost program. Submit a schedule detailing the reimbursement sources and amounts.
- (08) Total Claimed Amount. From Total Costs, line (05), subtract the sum of Offsetting Savings, line (06), and Other Reimbursements, line (07). Enter the remainder on this line and carry the amount forward to form FAM-27, line (13) for the Reimbursement Claim.

OFFICE OF THE STATE CONTROLLER  
STATE MANDATED COST CLAIMING INSTRUCTIONS NO. 2008-03  
NOTIFICATION OF TRUANCY

APRIL 4, 2008

Revised October 15, 2010

In accordance with Government Code (GC) Section 17561, eligible claimants may submit claims to the State Controller's Office (SCO) for reimbursement of state mandated cost programs. The following are claiming instructions and forms that eligible claimants will use for filing claims for the Notification of Truancy (NOT) program. These claiming instructions are issued subsequent to adoption of the program's amended Parameters and Guidelines (P's & G's) by the Commission on State Mandates (Commission).

On January 31, 2008, the Commission adopted the attached amended P's and G's for NOT, which is effective July 1, 2006, and are included as an integral part of the claiming instructions.

**Limitations and Exceptions**

There will be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to Government Code Section 17581.5.

**Eligible Claimants**

Except for community colleges, any school district or county office of education as defined in GC Section 17519 that incurs increased costs as a result of this mandate is eligible to claim reimbursement.

**Filing Deadlines**

**A. Reimbursement Claims**

A reimbursement claim is defined in GC Section 17522 as any claim filed with the SCO by a school district for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim.

An actual claim may be filed by February 15 following the fiscal year in which costs were incurred. Claims for fiscal year 2009-10 will be accepted without penalty if postmarked or delivered on or before February 15, 2011. Claims filed more than one year after the deadline will not be accepted.

**B. Late Penalty**

**1. Initial Claims**

Late initial claims are assessed a late penalty of 10% of the total amount of the initial claims without limitation.

## **2. Annual Reimbursement Claims**

Annual reimbursement claims must be filed by February 15 of the following fiscal year in which costs were incurred or the claims will be reduced by a late penalty.

Late annual reimbursement claims are assessed a late penalty of 10% of the claim amount; \$10,000 maximum penalty.

### **Minimum Claim Cost**

GC Section 17564(a) provides that no claim may be filed pursuant to Sections 17551 and 17561, unless such a claim exceeds one thousand dollars (\$1,000), provided that a county superintendent of schools may submit a combined claim on behalf of school districts within their county if the combined claim exceeds \$1,000, even if the individual school district's claim does not each exceed \$1,000. The county superintendent of schools will determine if the submission of the combined claim is economically feasible and be responsible for disbursing the funds to each school district. These combined claims may be filed only when the county superintendent of schools is the fiscal agent for the districts. A combined claim must show the individual claim costs for each eligible school district. All subsequent claims based upon the same mandate must only be filed in the combined form unless a school district provides a written notice of its intent to file a separate claim to the county superintendent of schools and to the SCO at least one hundred and eighty days prior to the deadline for filing the claim.

### **Reimbursement of Claims**

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 (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure Section 2015.5.

Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, these documents cannot be substituted for source documents.

### **Audit of Costs**

All claims submitted to the SCO are reviewed to determine if costs are related to the mandate, are reasonable and not excessive, and if the claim was prepared in accordance with SCO's claiming instructions and the P's & G's adopted by the Commission. If any adjustments are made to a claim, a Notice of Claim Adjustment specifying the activity adjusted, the amount



adjusted, and the reason for the adjustment, will be mailed within thirty days after payment of the claim.

On-site audits will be conducted by the SCO as deemed necessary. Pursuant to GC Section 17558.5, Subdivision (a), a reimbursement claim for actual costs filed by a claimant is subject to audit by the SCO no later than three years after the date the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was 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 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.

#### **Retention of Claim Documentation**

All documentation to support actual costs claimed must be retained for a period of three years after the end of the calendar year in which the reimbursement claim was filed or last amended regardless of the year of costs incurred. If no funds were appropriated for initial claims at the time the claim was filed, supporting documents must be retained for three years from the date of initial payment of the claim. Therefore, all documentation to support actual costs claimed must be retained for the same period, and must be made available to the SCO on request.

#### **Address for Filing Claims**

Submit a signed original and a copy of form FAM-27, Claim for Payment, and all other forms and supporting documents. **To expedite the payment process, please sign the form in blue ink, and attach a copy of the form FAM-27 to the top of the claim package.**

Use the following mailing addresses:

If delivered by  
U.S. Postal Service:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
P.O. Box 942850  
Sacramento, CA 94250

If delivered by  
other delivery services:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
3301 C Street, Suite 700  
Sacramento, CA 95816

Mandated costs claiming instructions and forms are available at [www.sco.ca.gov/ard\\_mancost.html](http://www.sco.ca.gov/ard_mancost.html). If you have any questions, call the Reimbursements Section at (916) 324-5729 or e-mail [LRSDAR@sco.ca.gov](mailto:LRSDAR@sco.ca.gov)

2009 / 10

Adopted: 8/27/87  
Amended: 7/28/88  
Amended: 7/22/93  
Amended: 1/31/08  
Amended: 5/27/10

**Amendment to Parameters and Guidelines  
as Directed by the Legislature**

*Statutes 2007, Chapter 69 (AB 1698)*

Education Code Section 48260.5

Statutes 1983, Chapter 498

Statutes 1994, Chapter 1023

Statutes 1995, Chapter 19

*Notification of Truancy*  
05-PGA-56 (07-PGA-01; 4133)

Effective Date: Beginning with Claims Filed for the  
July 1, 2006 – June 30, 2007 Period of Reimbursement

I. **BACKGROUND AND SUMMARY OF MANDATE**

Chapter 498, Statutes of 1983, added Education Code Section 48260.5 which requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with section 48290) of Chapter 2 of Part 27.

Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district, and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

A truancy occurs when a student is absent from school without valid excuse three (3) full days in one school year, or is tardy or absent without valid excuse for more than any thirty (30)-minute period during the school day on n three (3) occasions in one school year, or any combination thereof. (Definition from Ed. Code, § 48260, as amended by Stats. 1994, ch. 1023 and Stats. 1995, ch. 19.)

Upon a student's initial classification as a truant, the school must perform the requirements mandated by Education Code section 48260.5 as enacted by Statutes 1983, chapter 498 and amended by Statutes 1994, chapter 1023, and Statutes 1995, chapter 19.

**Board of Control Decision**

On November 29, 1984, the State Board of Control determined that Education Code Section 48260.5, as added by Chapter 498, Statutes of 1983, constitutes a

state mandated program because it requires an increased level of service by requiring specified notifications be sent to the parents or guardians of pupils upon initial classification of truancy.

#### Amendment to Parameters and Guidelines

The Legislature directed the Commission on State Mandates to revise the parameters and guidelines to modify the definition of truant and the required elements to be included in the initial truancy notifications to conform reimbursable activities to Statutes 1994, chapter 1023, and Statutes 1995, chapter 19, effective July 1, 2006. (Stats., 2007, ch. 69 (AB 1698).)

#### II. ELIGIBLE CLAIMANTS

The claimants are all school districts and county offices of education of the state of California, except a community college district, as defined by Government Code Section 17519 (formerly Revenue and Taxation Code 2208.5), that incur increased costs as a result of implementing the program activities of Education Code Section 48260.5, Chapter 498, Statutes of 1983.

#### III. PERIOD OF REIMBURSEMENT

The amendments to the parameters and guidelines adopted on January 31, 2008 are effective July 1, 2006.

#### IV. REIMBURSABLE COSTS

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.

**A. Scope of Mandate**

The eligible claimant shall be reimbursed for only those costs incurred for planning the notification process, revising district procedures, the printing and distribution of notification forms, and associated record keeping.

**B. Reimbursable Activities**

For each eligible school district the direct and indirect costs of labor, supplies, and services incurred for the following mandated program activities are reimbursable:

**1. Planning and Preparation -- One-time**

Planning the method of implementation, revising school district policies, and designing and printing the forms.

**2. Notification process -- On-going**

Identifying the truant pupils to receive the notification, preparing and distributing by first-class mail or other reasonable means the forms to parents/guardians, and associated recordkeeping to provide parents/guardians with the following required information upon a pupil's initial classification as a truant:

- a. That the pupil is truant.
- b. That the parent or guardian is obligated to compel the attendance of the pupil at school.
- c. That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48260) of Chapter 2 of Part 27.
- d. That alternative educational programs are available in the district.
- e. That the parent or guardian has the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.
- f. That the pupil may be subject to prosecution under Section 48264.
- g. That the pupil may be subject to suspension, restriction, or delay of the pupil's driving privileges pursuant to Section 13202.7 of the Vehicle Code.
- h. That it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

**C. Uniform Cost Allowance**

Pursuant to Government Code section 17557, the Commission on State Mandates has adopted a uniform cost allowance for reimbursement in lieu of payment of total actual costs incurred. The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983.

For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator.

#### D. Unique Costs

School districts incurring unique costs within the scope of the reimbursable mandated activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement. Pursuant to Section 1185.3, Title 2, California Code of Regulations, such requests must be made by November 30 immediately following the fiscal year of the reimbursement claim in which reimbursement for the costs is requested.

#### V. CLAIM PREPARATION

Each claim for reimbursement pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983, must be timely filed and provide documentation in support of the reimbursement claimed for this mandated program.

##### A. Uniform Cost Allowance Reimbursement

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial notification to the parent or guardian. The agency must maintain documentation that indicates the total number of initial notifications of truancy distributed.

##### B. Recognized Unique Costs

As of fiscal year 1992-93, the Commission has not identified any circumstances which would cause a school district to incur additional costs to implement this mandate which have not already been incorporated in the uniform cost allowance.

If and when the Commission recognizes any unique circumstances which can cause the school district to incur additional reasonable costs to implement this mandated program, these unique implementation costs will be reimbursed for specified fiscal years in addition to the uniform cost allowance.

School districts which incur these recognized unique costs will be required to support those actual costs in the following manner:

##### 1. Narrative Statement of Unique Costs Incurred

Provide a detailed written explanation of the costs associated with the unique circumstances recognized by the Commission.

##### 2. Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The staff time claimed must be supported by source documentation, such as time reports, however, the average number of hours devoted to each function may be claimed if supported by a documented time study.

### 3. Services and Supplies

Only expenditures which can be identified as a direct cost as a result of the mandated program can be claimed. List cost of materials which have been consumed or expended specifically for the purposes of this mandated program.

### 4. Allowable Overhead Costs

School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education. County offices of education must use the J-73A (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.

## 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>1</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. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. All documents used to support the reimbursable activities, as described in Section V, must be retained during the period subject to audit. If the Controller has initiated an audit during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings.

For auditing purposes, documents must be kept on file for a period of 3 years from the date of final payment by the State Controller, unless otherwise specified by statute and be made available at the request of the State Controller or his agent.

### A. Uniform Allowance Reimbursement

Documentation which indicates the total number of initial notifications of truancy distributed.

### B. Reimbursement of Unique Costs

In addition to maintaining the same documentation as required for uniform cost allowance reimbursement, all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

## VIII. OFFSETTING SAVINGS AND OTHER REIMBURSEMENT

Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the uniform cost allowance and actual cost reimbursement for unique circumstances claimed. In addition, reimbursement for this mandated

---

<sup>1</sup> This refers to Title 2, division 4, part 7, chapter 4 of the Government Code.

program received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

IX. REQUIRED CERTIFICATION

An authorized representative of the claimant will be required to provide a certification of claim, as specified in the State Controller% claiming instructions, for those costs mandated by the state contained herein.

<b>NOTIFICATION OF TRUANCY</b>  <b>CLAIM FOR PAYMENT</b>		<b>For State Controller Use Only</b>		<b>PROGRAM</b>  <div style="font-size: 2em; font-weight: bold;">048</div>
(19) Program Number 00048 (20) Date Filed (21) LRS Input				
(01) Claimant Identification Number		<b>Reimbursement Claim Data</b>		
(02) Claimant Name		(22) FORM-1, (03)		
County of Location		(23) FORM-1, (04)		
Street Address or P.O. Box		(24) FORM-1, (06)		
City		(25) FORM-1, (07)		
State		(26)		
Zip Code		(27)		
Type of Claim		(28)		
(09) Reimbursement <input type="checkbox"/>		(29)		
(10) Combined <input type="checkbox"/>		(30)		
(11) Amended <input type="checkbox"/>		(31)		
Fiscal Year of Cost		(12)		
Total Claimed Amount		(13)		
Less: 10% Late Penalty (refer to attached Instructions)		(14)		
Less: Prior Claim Payment Received		(15)		
Net Claimed Amount		(16)		
Due from State		(17)		
Due to State		(18)		
<b>(37) CERTIFICATION OF CLAIM</b>				
<p>In accordance with the provisions of Government Code Sections 17560 and 17561, I certify that I am the officer authorized by the school district or county office of education to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Article 4, Chapter 1 of Division 4 of Title 1 of the Government Code.</p> <p>I further certify that there was no application other than from the claimant, nor any grant(s) or payment(s) received, for reimbursement of costs claimed herein; claimed costs are for a new program or increased level of services of an existing program; and claimed amounts do not include charter school costs, either directly or through a third party. All offsetting savings and reimbursements set forth in the parameters and guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.</p> <p>The amount for this reimbursement is hereby claimed from the State for payment of actual costs set forth on the attached statements.</p> <p>I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.</p>				
Signature of Authorized Officer _____				
Date Signed _____				
Telephone Number _____				
E-mail Address _____				
Type or Print Name and Title of Authorized Signatory _____				
(38) Name of Agency Contact Person for Claim _____				
Telephone Number _____				
E-mail Address _____				
Name of Consulting Firm / Claim Preparer _____				
Telephone Number _____				
E-mail Address _____				



**PROGRAM**  
**048**

**NOTIFICATION OF TRUANCY**  
**CLAIM FOR PAYMENT**  
**INSTRUCTIONS**

**FORM**  
**FAM-27**

- (01) Enter the claimant identification number assigned by the State Controller's Office.
- (02) Enter claimant official name, county of location, street or postal office box address, city, state, and zip code.
- (03) to (08) Leave blank.
- (09) If filing a reimbursement claim, enter an "X" in the box on line (09) Reimbursement.
- (10) If filing a combined reimbursement claim on behalf of districts within the county, enter an "X" in the box on line (10) Combined.
- (11) If filing an amended reimbursement claim, enter an "X" in the box on line (11) Amended.
- (12) Enter the fiscal year for which actual costs are being claimed. If actual costs for more than one fiscal year are being claimed, complete a separate form FAM-27 for each fiscal year.
- (13) Enter the amount of the reimbursement claim as shown in the attached Form-1 line (08). The total claimed amount must exceed \$1,000.
- (14) Initial claims must be filed as specified in the claiming instructions. Annual reimbursement claims must be filed by **February 15** of the following fiscal year in which costs were incurred or the claims must be reduced by a late penalty. Enter zero if the claim is timely filed. Otherwise, enter the penalty amount as a result of the calculation formula as follows:
- Late Initial Claims: FAM-27 line(13) multiplied by 10%, without limitation; or
  - Late Annual Reimbursement Claims: FAM-27, line (13) multiplied by 10%, late penalty not to exceed \$10,000.
- (15) Enter the amount of payment, if any, received for the claim. If no payment was received, enter zero.
- (16) Enter the net claimed amount by subtracting the sum of lines (14) and (15) from line (13).
- (17) If line (16), Net Claimed Amount, is positive, enter that amount on line (17), Due from State.
- (18) If line (16), Net Claimed Amount, is negative, enter that amount on line (18), Due to State.
- (19) to (21) Leave blank.
- (22) to (36) Reimbursement Claim Data. Bring forward the cost information as specified on the left-hand column of lines (22) through (36) for the reimbursement claim, e.g., Form-1, (03), means the information is located on form Form-1, line (03). 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., 7.548% should be shown as 8. **Completion of this data block will expedite the payment process.**
- (37) Read the statement of Certification of Claim. The claim must be dated, signed by the agency's authorized officer, and must type or print name, title, telephone number and E-mail address. **Claims cannot be paid unless accompanied by an original signed certification. (To expedite the payment process, please sign the form FAM-27 with blue ink, and attach a copy of the form FAM-27 to the top of the claim package.)**
- (38) Enter the name, telephone number, and E-mail address of the agency contact person for the claim. If claim is prepared by external consultant, type or print the name of the consulting firm, telephone number, and e-mail address.

**SUBMIT A SIGNED ORIGINAL, AND A COPY OF FORM FAM-27, WITH ALL OTHER FORMS TO:**

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

**OFFICE OF THE STATE CONTROLLER**  
**ATTN: Local Reimbursements Section**  
**Division of Accounting and Reporting**  
**P.O. Box 942850**  
**Sacramento, CA 94250**

**Address, if delivered by other delivery service:**

**OFFICE OF THE STATE CONTROLLER**  
**ATTN: Local Reimbursements Section**  
**Division of Accounting and Reporting**  
**3301 C Street, Suite 700**  
**Sacramento, CA 95816**

<b>PROGRAM</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY</b> <b>CLAIM SUMMARY</b>	<b>FORM</b> <b>1</b>
(01) Claimant	(02) Fiscal Year	___ / ___
<b>Claim Statistics</b>		
(03) Number of initial truant notifications		
(04) Unit Cost	[\$17.87 for fiscal year 2009-10]	
(05) Total Costs	[Line (03) x line (04)]	
<b>Cost Reduction</b>		
(06) Less: Offsetting Savings		
(07) Less: Other Reimbursements		
(08) Total Claimed Amount	[Line (05) - {line (06) + line (07)}]	

Revised 02/11

<b>PROGRAM</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY</b> <b>CLAIM SUMMARY</b> <b>INSTRUCTIONS</b>	<b>FORM</b> <b>1</b>
------------------------------	---	-------------------------

- (01) Enter the name of the claimant. If more than one department has incurred costs for this mandate, give the name of each department. A Form-1 should be completed for each department.
- (02) Enter the fiscal year of costs.
- (03) Enter the number of initial truant notifications that were sent during the fiscal year of claim, upon the students' initial classification of truancy.
- (04) The unit cost rate for fiscal year 2009-10 is \$17.87 per initial notification. This unit cost rate will be updated annually in the Annual Revisions for Schools.
- (05) Multiply line (03), the number of truant notifications by line (04), the unit cost rate.
- (06) Less: Offsetting Savings. If applicable, enter the total savings experienced by the claimant as a direct result of this mandate. Submit a detailed schedule of savings with the claim.
- (07) Less: Other Reimbursements. If applicable, enter the amount of other reimbursements received from any source including, but not limited to, service fees collected, federal funds, and other state funds, that reimbursed any portion of the mandated cost program. Submit a schedule detailing the reimbursement sources and amounts.
- (08) Total Claimed Amount. From Total Costs, line (05), subtract the sum of Offsetting Savings, line (06), and Other Reimbursements, line (07). Enter the remainder on this line and carry the amount forward to form FAM-27, line (13) for the Reimbursement Claim.

# FILING A CLAIM

**RECEIVED**

December 16, 2013

*Commission on  
State Mandates*

## 1. Introduction

The law in the State of California, (GC Sections 17500 through 17617), provides for the reimbursement of costs incurred by school districts (SD) and county superintendents of schools (CSOS) for costs mandated by the State. Costs mandated by the State means any increased costs which a SD and CSOS is required to incur after July 1, 1980, as a result of any statute enacted after January 1, 1975, or any executive order implementing such statute which mandates a new program or higher level of service of an existing program.

These claiming instructions are issued to help claimants prepare paper and electronic mandated cost claims for submission to SCO. These instructions are based upon the SCO's interpretation of the State of California statutes, regulations, and parameters and guidelines (P's & G's) adopted by CSM. Since each mandate is administered separately, it is important to refer to the specific program for information relating to established policies on eligible reimbursable costs.

Mandated cost claims can be filed on paper or filed electronically using the Local Government e-Claims (LGeC) system. The LGeC system provides an easy and straightforward approach to the claiming process. Email distributions lists are also new this year and are available to provide timely, comprehensive information regarding Mandated Cost claim receipts, payments, test claims, guidelines, electronic claims, and other news and updates. Additional information regarding electronic filling and email distribution lists is located in the following section of this manual.

A reimbursement claim is defined in GC Section 17522 as any claim filed with the State Controller's Office (SCO) by a SD and CSOS for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim.

Pursuant to AB 8, Chapter 6, Statutes of 2008, the option to file estimated claims has been eliminated. Therefore, estimated claims filed on or after February 16, 2008, will not be accepted by SCO.

Pursuant to GC 17560, the deadline for filing ongoing mandated cost claims has been extended to February 15th of the year following the fiscal year the costs were incurred. The deadline for filing initial reimbursement claims has not changed and remains at 120 days from the date the SCO issues claiming instructions for each program.

Initial reimbursement claims filed after the deadline, but within one year of the deadline, will be reduced by a late penalty of 10% with no limitation. Initial claims filed more than one year after the deadline cannot be accepted for reimbursement.

Annual reimbursement claims for the 2007-08 fiscal year, must be filed by February 15th of the year following the fiscal year the costs were incurred, to avoid a late penalty. If the filing deadline falls on a weekend or holiday, the deadline is extended to the next business day. Since February 15, 2009, falls on a weekend, and the following Monday is a holiday, annual reimbursement claims will be accepted without a penalty if postmarked or delivered on or before Tuesday, February 17, 2009. Annual reimbursement claims filed after the deadline will be reduced by a late penalty of 10%, not to exceed \$10,000.

Amended annual claims filed after the filing deadline will be reduced by 10% of the increased amount not to exceed \$10,000 for the entire claim, while amended initial reimbursement claims filed after the deadline will be reduced by 10% without limitation.

**Claims filed more than one year after the deadline cannot be accepted for reimbursement.**

Additional information regarding filing deadlines and late penalties is located in Section 5, Filing Deadline for Claims in this manual.

Charter Schools are not eligible to file mandated cost claims under these programs because they are not a school district under GC Section 17519. Accordingly, charter schools cannot be reimbursed by filing a claims or through a third party's claim such as a school district or a superintendent of schools for their costs. The CSM adopted the Charter School III statement of decision on May 25, 2006. The CSM stated that "a ...charter school is voluntarily participating in the charter program at issue" and that a charter school is not a school district under GC 17519 and therefore is not eligible to claim reimbursement under GC Section 17560.

School districts and county superintendents of schools may use the indirect cost rates approved by the California Department of Education based on J-380/580/780/SACS Expenditure Data whichever is applicable to the fiscal year of the claim. Since this information is readily available online, there is no need for SDs or CSOSs to file supporting documentation for indirect costs with mandated cost claims. Additional information regarding indirect cost rates is located in Section 9: Indirect Costs, of this manual.

Supporting documentation for actual costs is no longer required to be submitted with the claim. Instead, those records must be kept on hand and made available to the SCO upon request. Additional information is located in Section 17: Retention of Claim Records and Supporting Documentation of this manual.

SCO is authorized to make payments for costs of mandated programs from amounts appropriated by the State Budget Act, by the State Mandates Claims Fund, or by specific legislation. In the event the appropriation is insufficient to pay claims in full, claimants will receive prorated payments in proportion to the dollar amount of approved claims for the program. Balances of prorated payments will be made when supplementary funds become available.

Pursuant to GC Section 17561 (d), the Controller will pay any eligible claim by August 15 or 45 days after the date the appropriation for the claim is effective, whichever is later.

## **2. Local Government Electronic Claims (LGeC)**

LGeC enables claimants and their consultants to securely prepare and submit mandated cost claims via the Internet. LGeC uses a series of data input screens to collect the information needed to prepare a claim and also provides a web service so claims can be uploaded in batch files. LGeC also incorporates an attachment feature so claimants can electronically attach supporting documentation to file with their claims. The LGeC system provides an easy and straightforward approach to the claiming process.

Filing claims using LGeC eliminates the manual preparation and submission of paper claims by the locals and the receiving, processing, key entry, verification, and storage of paper claims by SCO. LGeC also provides mathematical checks and automated error detection to reduce erroneous and incomplete claims, provides the state with an electronic workflow process, and stores the claims in an electronic format. Making the change from paper claims to electronic claims reduces the manual handling of paper claims and decreases the costs incurred by local entities for handling, postage, and storage of claims filed using the LGeC system

In order to use the LGeC system you must obtain a user ID and password for each person who will need access to the LGeC system. To obtain a User ID and password you must file an application with SCO. The application and instructions are available on the LGeC website located at <http://www.sco/ard/local/lgec/index.shtml>. Once you complete the application and mail it to SCO, it will be processed and a User ID and password will be issued to each person to establish their role on the LGeC system.

In addition, you may want to subscribe to an email distribution list to automatically receive timely, comprehensive information regarding mandated cost claim receipts, payments, test

claims, guidelines, electronic claims, and other news and updates. You also will receive related audit reports and mandate information disseminated by other state agencies.

You can find more information about LGeC and the email distribution lists at <http://www.sco/ard/local/lgec/index.shtml>. This website provides access to the LGeC system, an application for user id's and passwords, an instructional guide, FAQ's and additional help files. Questions about the information on this website should be directed by email to LRSDAR@sco.ca.gov, or to Angie Lowi Teng at the Division of Accounting and Reporting, Local Reimbursements Section, Local Government e-Claims, (916) 323-0706.

### **3. Types of Claims**

A reimbursement claim is defined in GC Section 17522 as any claim filed with the SCO by a school district for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim. These claims are made up of initial reimbursement claims and actual (ongoing) reimbursement claims. Each has separate filing deadlines and late filing penalties as discussed later in this manual.

#### **A. Initial reimbursement claims**

Initial reimbursement claims are first-time claims for reimbursement of costs for one or more prior fiscal year(s) of a program that was previously unfunded. The first statute that appropriates funds for the new program will specify the fiscal years for which costs are eligible for reimbursement.

#### **B. reimbursement claims**

A claimant may file a reimbursement claim for actual mandated costs incurred in the prior fiscal year in each successive year the program is active.

#### **C. Estimated Claims**

Assembly Bill 8, Chapter 6, Statutes of 2008, eliminated the option to file estimated claims. Therefore, estimated claims filed on or after February 16, 2008, will no longer be accepted by SCO.

#### **D. Entitlement Claims**

An entitlement claim is defined in GC Section 17522 as any claim filed by a SD and/or a CSOS with the SCO for the sole purpose of establishing or adjusting a base year entitlement for a mandated cost program that has been included in SMAS. These claims should not contain nonrecurring or initial start-up costs. For programs included in SMAS, The SMAS program is discussed in detail in Section 7: State Mandates Apportionment System (SMAS).

### **4. Minimum Claim Amount**

GC Section 17564(a) provides that no claim may be filed pursuant to Sections 17551 and 17561, unless such a claim exceeds one thousand dollars (\$1,000), provided that a CSOS may submit a combined claim on behalf of school districts within their county if the combined claim exceeds \$1,000, even if the individual school district's claim does not each exceed \$1,000.

The county superintendent of schools will determine if the submission of the combined claim is economically feasible and be responsible for disbursing the funds to each school district. These combined claims may be filed only when the county superintendent of schools is the fiscal agent for the districts.

A combined claim must show the individual claim costs for each eligible school district. All subsequent claims based upon the same mandate must be filed in the combined form unless a school district provides a written notice of its intent to file a separate claim to the county superintendent of schools and to SCO at least 180 days prior to the deadline for filing the claim.

## **5. Filing Deadline for Claims**

GC Section 17561(d) specifies the filing deadlines and late fee penalties for each type of mandated cost claim.

Initial reimbursement claims (first time claims) for reimbursement of costs of a previously unfunded mandated cost program must be filed within 120 days from the date SCO issues the program's claiming instructions.

Any claim for initial reimbursement filed after the filing deadline shall be reduced by 10 percent of the amount that would have been allowed had the claim been timely filed. All initial reimbursement claims for all fiscal years required to be filed on their initial filing date shall be considered as one claim for the purpose of computing any late claim penalty. The Controller may withhold payment of any late claim for initial reimbursement until the next deadline for funded claims unless sufficient funds are available to pay the claim after all timely filed claims have been paid.

Ongoing annual reimbursement claims must be filed by February 15th following the fiscal year in which costs were incurred for the program. If the filing deadline falls on a weekend or holiday, the filing deadline will be the next business day. Since February 15th falls on a weekend in 2009, and the following Monday is a holiday, claims will be accepted without penalty if postmarked or delivered on or before February 17, 2009. Reimbursement claims filed after the deadline, but within one year of the deadline, will be reduced by a late penalty of 10%, not to exceed \$10,000.

Amended reimbursement claims filed after the deadline, but within one year of the deadline, will be reduced by 10% of the increased amount, not to exceed \$10,000 for the total claim.

Entitlement claims do not have a filing deadline. However, entitlement claims should be filed by February 15 to permit orderly processing of the claims.

Pursuant to GC 17561, In no case may a reimbursement claim be paid if submitted more than one year after the filing deadline specified in the Controller's claiming instructions on funded mandates. Therefore, these claims will not be accepted for reimbursement.

## **6. Payment of Claims**

GC Section 17561 states that reimbursement claims are to be paid as follows:

The Controller shall pay any eligible claim by August 15 or 45 days after the date of the appropriation for the claim is effective, whichever is later.

However, the SCO shall withhold 20 percent of the amount of timely filed initial reimbursement claims until the claim is audited to verify the actual amount of the mandated costs.

The Controller may withhold payment of any late claim for initial reimbursement until the next deadline for funded claims unless sufficient funds are available to pay the claim after all timely filed claims have been paid.

In order for SCO to authorize payment of a claim, the Certification of Claim, form FAM-27, must be properly filled out, signed, and dated by the entity's authorized officer. When using the LGeC system the logon id and password of the authorized officer is used for the signature and is applied by the LGeC system when the claim is submitted.

A claimant is entitled to receive accrued interest at the pooled money investment account rate if the payment was made more than 60 days after the claim filing deadline or the actual date of claim receipt, whichever is later. For an initial claim, interest begins to accrue when the payment is made more than 365 days after the adoption of the program's statewide cost estimate. SCO may withhold up to 20 percent of the amount of an initial claim until the claim is audited to verify the actual amount of the mandated costs.



SCO reports the amounts of insufficient appropriations to the State Department of Finance, the Chairperson of the Joint Legislative Budget Committee, and the Chairperson of the respective committee in each house of the Legislature, who consider appropriations in order to assure appropriation of these funds in the Budget Act. If these funds cannot be appropriated on a timely basis in the Budget Act, this information is transmitted to CSM which will include these amounts in its report to assure that an appropriation sufficient to pay the claims is included in the next local government claims bill or other appropriation bills. When the supplementary funds are made available, the balance of the claims will be paid.

Allowable costs are those direct and indirect costs, less applicable credits, considered eligible for reimbursement. Unless specified in the statutes, regulations, or P's & G's, the determination of allowable and unallowable costs are based on the P's & G's adopted by the CSM for funded and unfunded mandates, except for mandates funded by special legislation. The SCO determines allowable reimbursable costs, subject to amendment by CSM, for mandates funded by special legislation.

In order for costs to be allowable and thus eligible for reimbursement, the costs must meet the following general criteria:

1. The cost is necessary and reasonable for proper and efficient administration of the mandate and not a general expense required to carry out the overall responsibilities of government;
2. The cost is allocable to a particular cost objective identified in the P's & G's;
3. The cost is net of any applicable credits that offset or reduce expenses of items allocable to the mandate.

The SCO has identified certain costs that should not be claimed as direct program costs unless specified as reimbursable under the program's P's & G's. These costs include, but are not limited to, subscriptions, depreciation, memberships, conferences, workshops, general education, and travel costs.

## **7. State Mandates Apportionment System (SMAS)**

Chapter 1534, Statutes of 1985, established SMAS, a method of paying certain mandated programs as apportionments. This method is utilized whenever a program has been approved for inclusion in SMAS by the CSM. An "entitlement claim" means any claim filed by a SD and CSOS with SCO for the sole purpose of establishing a base year entitlement. A base year entitlement shall not include any nonrecurring or initial start-up costs.

In the event a SD and/or CSOS has incurred costs for three consecutive fiscal years but did not file a reimbursement claim in one or more of those fiscal years, the SD and/or CSOS may file an entitlement claim for each of those missed years to establish a base year entitlement

When a mandated program has been included in SMAS, SCO will determine a base year entitlement amount for each SD and CSOS that has submitted reimbursement claims (or entitlement claims) for three consecutive fiscal years. A base year entitlement amount is determined by averaging the approved reimbursement claims (or entitlement claims) for 1982-83, 1983-84, and 1984-85 years or any three consecutive fiscal years thereafter. The amounts are first adjusted by any change in the IPD, which is applied separately to each year's costs for the three years that comprise the base period. The base period means the three fiscal years immediately succeeding the CSM's approval.

Each SD and/or CSOS with an established base year entitlement for the program will receive automatic annual payments from SCO reflective of the program's current year costs. The amount of apportionment is adjusted annually for any change in the IPD. If the mandated program was included in SMAS after January 1, 1988, the annual apportionment is adjusted for any change in both the IPD and ADA. The amount to be apportioned is the base year entitlement adjusted by annual changes in the IPD for the cost of goods and services to governmental agencies as determined by the State Department of Finance.



In the event the SD and CSOS determines that the amount of apportionment does not accurately reflect costs incurred to comply with a mandate, the process of adjusting an established base year entitlement upon which the apportionment is based is set forth in GC Section 17615.8 and requires the approval of the CSM.

Initial apportionments are made on an individual program basis. After the initial year, all apportionments are paid by November 30th of each successive year.

## 8. Direct Costs

A direct cost is a cost that can be identified specifically with a particular program or activity. Documentation to support direct costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 17 of these instructions. Costs typically classified as direct costs are:

### (1) Employee Wages, Salaries, and Fringe Benefits

For each of the mandated activities performed, the claimant must list the names of the employees who worked on the mandate, their job classification, hours worked on the mandate, and rate of pay. The claimant may, in-lieu of reporting actual compensation and fringe benefits use a productive hourly rate:

#### (a) Productive Hourly Rate Options

A SD and CSOS may use one of the following methods to compute productive hourly rates:

- Actual annual productive hours for each employee;
- The weighted-average annual productive hours for each job title; or
- 1,800\* annual productive hours for all employees.

If actual annual productive hours or weighted-average annual productive hours for each job title is chosen, the claimant must maintain documentation of how these hours were computed. Documentation to support these costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 17 of these instructions.\*

1,800 annual productive hours excludes the following employee time:

- Paid holidays;
- Vacation earned;
- Sick leave taken;
- Informal time off;
- Jury duty;
- Military leave taken.

#### (b) Compute a Productive Hourly Rate

1. Compute a productive hourly rate for salaried employees to include actual fringe benefit costs. The methodology for converting a salary to a productive hourly rate is to compute the employee's annual salary and fringe benefits and divide by the annual productive hours.

**Table 1: Productive Hourly Rate, Annual Salary + Benefits Method**

Formula:	Description:
$[(EAS + \text{Benefits}) \div APH] = PHR$	EAS = Employee's Annual Salary APH = Annual Productive Hours
$[(\$26,000 + \$8,099) \div 1,800 \text{ hrs}] = 18.94$	PHR = Productive Hourly Rate

As illustrated in Table 1, if you assume an employee's compensation was \$26,000 and \$8,099 for annual salary and fringe benefits, respectively, using the "Salary + Benefits Method," the productive hourly rate would be \$18.94. To convert a biweekly salary to EAS, multiply the biweekly salary by 26. To convert a monthly salary to EAS, multiply the monthly salary by 12. Use the same methodology to convert other salary periods.

2. A claimant may also compute the productive hourly rate by using the "Percent of Salary Method."

**Table 2: Productive Hourly Rate, Percent of Salary Method**

Example:		
Step 1: Fringe Benefits as a Percent of Salary		Step 2: Productive Hourly Rate
Retirement	15.00 %	<b>Formula:</b> $[(EAS \times (1 + FBR)) \div APH] = PHR$ $[(\$26,000 \times (1.3115)) \div 1,800] = \$18.94$
Social Security & Medicare	7.65	
Health & Dental Insurance	5.25	
Workers Compensation	3.25	
<b>Total</b>	<b>31.15 %</b>	
<b>Description:</b>		
EAS = Employee's Annual Salary		APH = Annual Productive Hours
FBR = Fringe Benefit Rate		PHR = Productive Hourly Rate

As illustrated in Table 3, both methods produce the same productive hourly rate.

Reimbursement for personnel services includes, but is not limited to, compensation paid for salaries, wages and employee fringe benefits. Employee fringe benefits include employer's contributions for social security, pension plans, insurance, worker's compensation insurance and similar payments. These benefits are eligible for reimbursement as long as they are distributed equitably to all activities. Whether these costs are allowable is based on the following presumptions:

- The amount of compensation is reasonable for the service rendered.
- The compensation paid and benefits received are appropriately authorized by the governing board.
- Amounts charged for personnel services are based on payroll documents that are supported by time and attendance or equivalent records for individual employees.
- The methods used to distribute personnel services should produce an equitable distribution of direct and indirect allowable costs.

For each of the employees included in the claim, the claimant must use reasonable rates and hours in computing the wage cost. If a person of a higher-level position, performs an activity which normally would be performed by a lower-level position, reimbursement for time spent is allowable at the average salary range for the lower-level position. The salary rate of the person at a higher-level position may be claimed if it can be shown that it was more cost effective in comparison to the performance by a person at the lower-level position under normal circumstances and conditions. The number of hours charged to an activity should reflect the time expected to complete the activity under normal circumstances and conditions. The numbers of hours in excess of normal expected hours are not reimbursable. Documentation to support these costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 17 of these instructions.

**(c) Calculating an Average Productive Hourly Rate**

In those instances where the P's & G's allow a unit as a basis of claiming costs, the direct labor component of the unit cost should be expressed as an average productive hourly rate and can be determined as follows:

**Table 3: Calculating an Average Productive Hourly Rate**

	<u>Time Spent</u>	<u>Productive Hourly Rate</u>	<u>Total Cost by Employee</u>
Employee A	1.25 hrs	\$6.00	\$7.50
Employee B	0.75 hrs	4.50	3.38
Employee C	3.50 hrs	10.00	35.00
Total	5.50 hrs		\$45.88
Average Productive Hourly Rate is \$45.88/5.50 hrs. = \$8.34			

**(d) Employer's Fringe Benefits Contribution**

An SD and CSOS has the option of claiming actual employer's fringe benefit contributions or may compute an average fringe benefit cost for the employee's job classification and claim it as a percentage of direct labor. The same time base should be used for both salary and fringe benefits when computing a percentage. For example, if health and dental insurance payments are made annually, use an annual salary. After the percentage of salary for each fringe benefit is computed, total them. Documentation to support these costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 17 of these instructions.

For example:

<u>Employer's Contribution</u>	<u>% of Salary</u>
Retirement	15.00%
Social Security	7.65%
Health and Dental Insurance	5.25%
Worker's Compensation	0.75%
Total	<u>28.65%</u>

**(e) Materials and Supplies**

Only actual expenses can be claimed for materials and supplies, which were acquired and consumed specifically for the purpose of a mandated program. The claimant must list the materials and supplies that used to perform the mandated activity, the number of units consumed, the cost per unit, and the total dollar amount claimed. Materials and supplies in excess of reasonable quality, quantity, and cost are not reimbursable. Materials and supplies withdrawn from inventory and charged to the mandated activity must be based on a recognized method of pricing, consistently applied. Purchases shall be claimed at the actual price after deducting discounts, rebates and allowances received by the SD and CSOS. Documentation to support these costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 17 of these instructions.

**(f) Calculating a Unit Cost for Materials and Supplies**

In those instances where the P's & G's suggest that a unit cost be developed for use as a basis of claiming costs mandated by the State, the materials and supplies component of the unit cost should be expressed as a unit cost of materials and supplies as shown in Table 1 or Table 2:

**Table 1: Calculating A Unit Cost for Materials and Supplies**

<b>Supplies</b>	<b><u>Cost Per Unit</u></b>	<b><u>Amount of Supplies Used Per Activity</u></b>	<b><u>Unit Cost of Supplies Per Activity</u></b>
Paper	0.02	4	\$0.08
Files	0.10	1	0.10
Envelopes	0.03	2	0.06
Photocopies	0.10	4	<u>0.40</u>
			<u>\$0.64</u>

**Table 2: Calculating a Unit Cost for Materials and Supplies**

<b>Supplies</b>	<b><u>Supplies Used</u></b>	<b><u>Unit Cost of Supplies Per Activity</u></b>
Paper (\$10.00 for 500 sheet ream)	250 Sheets	\$5.00
Files (\$2.50 for box of 25)	10 Folders	1.00
Envelopes (\$3.00 for box of 100)	50 Envelopes	1.50
Photocopies (\$0.05 per copy)	40 Copies	<u>2.00</u>
		<u>\$9.50</u>
If the number of reimbursable instances is 25, then the unit cost of supplies is \$0.38 per reimbursable instance (\$9.50/25).		

**(g) Contract Services**

The cost of contract services is allowable if the SD and CSOS lacks the staff resources or necessary expertise, or it is economically feasible to hire a contractor to perform the

mandated activity. The claimant must keep documentation on hand to support the name of the contractor, explain the reason for having to hire a contractor, describe the mandated activities performed, give the dates when the activities were performed, the number of hours spent performing the mandate, the hourly billing rate, and the total cost. The hourly billing rate shall not exceed the rate specified in the P's & G's for the mandated program. The contractor's invoice, or statement, which includes an itemized list of costs for activities performed. Documentation to support these costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 17 of these instructions.

**(h) Equipment Rental Costs**

Equipment purchases and leases (with an option to purchase) are not reimbursable as a direct cost unless specifically allowed by the P's & G's for the particular mandate. Equipment rentals used solely for the mandate are reimbursable to the extent such costs do not exceed the retail purchase price of the equipment plus a finance charge. The claimant must maintain documentation to support the purpose and use for the equipment, the time period for which the equipment was rented and the total cost of the rental. If the equipment is used for purposes other than reimbursable activities, only the pro rata portion of the rental costs can be claimed. Documentation to support these costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 17 of these instructions.

**(i) Capital Outlay**

Capital outlays for land, buildings, equipment, furniture and fixtures may be claimed if the P's & G's specify them as allowable. If they are allowable, the P's & G's for the program will specify a basis for the reimbursement. If the fixed asset or equipment is also used for purposes other than reimbursable activities for a specific mandate, only the pro rata portion of the purchase price used to implement the reimbursable activities can be claimed. Documentation to support these costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 17 of these instructions.

**(j) Travel Expenses**

Travel expenses are normally reimbursable in accordance with travel rules and regulations of the local jurisdiction. For some programs, however, the P's & G's may specify certain limitations on expenses, or that expenses can only be reimbursed in accordance with the State Board of Control travel standards. When claiming travel expenses, the claimant must maintain documentation to support the purpose of the trip, the name and address of the persons incurring the expense, the date and time of departure and return, a description of each expense claimed, and the cost of transportation, number of private auto miles traveled, and the cost of tolls and parking. Receipts are required for charges over \$10.00. This Documentation to support these costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 17 of these instructions.

**(k) Documentation**

It is the responsibility of the claimant to maintain, documentation in the form of general and subsidiary ledgers, purchase orders, invoices, contracts, canceled warrants, equipment usage records, land deeds, receipts, employee time sheets, agency travel guidelines, inventory records, and other relevant documents to support claimed costs. The type of documentation necessary for each claim may differ with the type of mandate. The documentation supporting these costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 17 of this manual.

## 9. Indirect Costs

Indirect costs are: (a) Incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Indirect costs can originate in the department performing the mandate or in departments that supply the department performing the mandate with goods, services and facilities. As noted previously, in order for a cost to be allowable, it must be allocable to a particular cost objective. With respect to indirect costs, this requires that the cost be distributed to benefiting cost objectives on bases, which produce an equitable result in relation to the benefits derived by the mandate.

School districts and county superintendents of schools may use the indirect cost rates approved by the California Department of Education based on J-380/580/780/SACS Expenditure Data whichever is applicable to the fiscal year of the claim.

The amount of indirect costs the claimant is eligible to claim is computed by multiplying the rate by salaries and benefits. When applying the rate, multiply the rate by mandated direct costs not included in either (1) total support services, EDP No. 422 of the J-380 or J-580, or (2) indirect costs on Form ICR of the California Department of Education's SACS Financial Reporting Software. If there are any exceptions to this general rule for applying the indirect cost rate, they will be found in the individual mandate instructions.

## 10. Time Study Guidelines

### Background

A reasonable reimbursement methodology, which meets certain conditions specified in Government Code section 17518.5, subdivision (a), can be used as a "formula for reimbursing local agency and school district costs mandated by the state."

Two methods are acceptable for documenting employee time charged to mandated cost programs: Actual Time Reporting and Time Study. These methods are described below. Application of time study results is restricted. As explained in the Time Study Results section below, the results may be projected forward a maximum of two years or applied retroactively to initial claims, current-year claims, and late-filed claims, provided certain criteria are met.

### Actual Time Reporting

Each program's parameters and guidelines define reimbursable activities for the mandated cost program. (Some parameters and guidelines refer to reimbursable activities as reimbursable components.) When employees work on multiple activities and/or programs, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the following standards (which clarify documentation requirements discussed in the Reimbursable Activities section of recent parameters and guidelines):

- They must reflect an after-the-fact (contemporaneous) distribution of the actual activity of each employee;
- They must account for the total activity for which each employee is compensated;
- They must be prepared at least monthly and must coincide with one or more pay periods; and
- They must be signed by the employee.

Budget estimates or other distribution percentages determined before services are performed do not qualify as support for actual time reporting.

### Time Study

In certain cases, a time study may be used as a substitute for continuous records of actual time spent on multiple activities and/or programs. A time study can be used for an activity when the task

is repetitive in nature. Activities that require varying levels of effort are not appropriate for time studies.

### **Time Study Plan**

Claimants must develop a time study plan before a time study is conducted. The claimant must retain the time study plan for audit purposes. The plan must identify the following:

- Time period(s) to be studied - the plan must show that all time periods selected are representative of the fiscal year and that the results can be reasonably projected to approximate actual costs.
- Activities and/or programs to be studied - for each mandated program included, the time study must separately identify each reimbursable activity defined in the mandated program's parameters and guidelines, which are derived from the program's statement of decision. If a reimbursable activity in the parameters and guidelines identifies separate and distinct sub-activities, these sub-activities also must be treated as individual activities.

For example, sub-activities (a), (b), and (c) under reimbursable activity (B)(1) of the local agency's Domestic Violence Treatment Services: Authorization and Case Management Program, relate to information to be discussed during victim notification by the probation department and therefore are not separate and distinct activities. It is not necessary to separately study these sub-activities.

- Process used to accomplish each reimbursable activity - use flowcharts or similar analytical tools and/or written desk procedures to describe the process followed to complete each activity.
- Employee universe - the employee universe used in the time study must include all positions whose salaries and wages are to be allocated by means of the time study.
- Employee sample selection methodology - the plan must show that employees selected are representative of the employee universe and that the results can be reasonably projected to approximate actual costs. In addition, the employee sample size should be proportional to the variation in time spent to perform a task. The sample size should be larger for tasks with significant time variations.
- Time increments to be recorded - the time increments used should be sufficient to recognize the number of different activities performed and the dynamics of these responsibilities. Very large increments (such as one hour or more) can be used for employees performing only a few functions that change very slowly over time. Small increments (a number of minutes) can be used for employees performing more short-term tasks.

Random-moment sampling is not an acceptable alternative to continuous time records for mandated cost claims. Random-moment sampling techniques are most applicable in situations where employees perform many different types of activities on a variety of programs with small time increments throughout the fiscal year.

### **Time Study Documentation**

Time studies must:

- Be supported by time records that are completed contemporaneously;
- Report activity on a daily basis;
- Be sufficiently detailed to reflect all mandated activities and/or programs performed during a specific time period; and
- Coincide with one or more pay periods.

Time records must be signed by the employee and be supported by documentation that validates that the work was actually performed. As with actual time reporting, budget estimates or other distribution percentages determined before services are performed do not qualify as valid time studies.

### Time Study Results

Claimants must summarize time study results to show how the time study supports the costs claimed for each activity. Any variations from the procedures identified in the original time study plan must be documented and explained. Current-year costs must be used to prepare a time study. Claimants may project time study results to no more than two subsequent fiscal years. A claimant also may apply time study results retroactively to initial claims, current-year claims, and late-filed claims.

When projecting time study results, the claimant must certify that no significant changes have occurred between years in either (1) the requirements of each mandated program activity; or (2) the processes and procedures used to accomplish the activity. For all years, the claimant must maintain documentation that shows that the mandated activity was actually performed. Time study results used to support claims are subject to the record-keeping requirements for those claims.

## 11. Offset Against State Mandated Claims

As noted previously, allowable costs are defined as those direct and indirect costs, less applicable credits, considered to be eligible for reimbursement. When all or part of the costs of a mandated program are specifically reimbursable from local assistance revenue sources (e.g., state, federal, foundation, etc.), only that portion of any increased costs payable from SD and CSOS funds is eligible for reimbursement under the provisions of GC Section 17561.

### Example 1:

As illustrated in Table 5, this example shows how the "Offset Against State Mandated Claims" is determined for a SD and CSOS receiving block grant revenues not based on a formula allocation. Program costs for each situation equal \$100,000.

**Table 5: Offset Against State Mandates, Example 1**

	<b>Program Costs</b>	<b>Actual Local Assistance Revenues</b>	<b>State Mandated Costs</b>	<b>Offset Against State Mandated Claims</b>	<b>Claimable Mandated Costs</b>
1.	\$100,000	\$95,000	\$2,500	\$-0-	\$2,500
2.	100,000	97,000	2,500	-0-	2,500
3.	100,000	98,000	2,500	500	2,000
4.	100,000	100,000	2,500	2,500	-0-
5.	100,000 *	50,000	2,500	1,250	1,250
6.	100,000 *	49,000	2,500	250	2,250

\* CCD share is \$50,000 of the program cost.

Numbers (1) through (4), in Table 5, show intended funding at 100% from local assistance revenue sources. Numbers (5) and (6) show cost sharing on a 50/50 basis with the district. In numbers (1) through (6), included in the program costs of \$100,000 are state mandated costs of \$2,500. The offset against state mandated claims are the amount of actual local assistance revenues, which exceeds the difference between program costs and state mandated costs. This offset cannot exceed the amount of state mandated costs.



In (1), local assistance revenues were less than expected. Local assistance funding was not in excess of the difference between program costs and state mandated costs. As a result, the offset against state mandated claims is zero and \$2,500 is claimable as mandated costs.

In (4), local assistance revenues were fully realized to cover the entire cost of the program, including the state mandated activity; therefore, the offset against state mandated claims is \$2,500, and claimable cost is \$0.

In (5), the district is sharing 50% of the project cost. Since local assistance revenues of \$50,000 were fully realized, the offset against state mandated claims is \$1,250.

In (6), local assistance revenues were less than the amount expended and the offset against state mandated claims is \$250. Therefore, the claimable mandated costs are \$2,250.

### Example 2:

As illustrated in Table 6, this example shows how the offset against state mandated claims is determined for a SD and CSOS receiving special project funds based on approved actual costs. Local assistance revenues for special projects must be applied proportionately to approved costs.

**Table 6: Offset Against State Mandates, Example 2**

	<b>Program Costs</b>	<b>Actual Local Assistance Revenues</b>	<b>State Mandated Costs</b>	<b>Offset Against State Mandated Claims</b>	<b>Claimable Mandated Costs</b>
1.	\$100,000	\$100,000	\$2,500	\$2,500	\$-0-
2.	100,000 **	75,000	2,500	1,875	625
3.	100,000 **	45,000	1,500	1,125	375

\*\* CCD share is \$25,000 of the program cost.

In (2), the entire program cost was approved. Since the local assistance revenue source covers 75% of the program cost, it also proportionately covered 75% of the \$2,500 state mandated costs, or \$1,875.

If in (3) local assistance revenues are less than the amount expected because only \$60,000 of the \$100,000 program costs were determined to be valid by the contracting agency, then a proportionate share of state mandated costs is likewise reduced to \$1,500. The offset against state mandated claims is \$1,125. Therefore, the claimable mandated costs are \$375.

### Federal and State Funding Sources

State school fund apportionments and federal aid for education, which are based on ADA and are part of the general system of financing public schools as well as block grants which do not provide for specific reimbursement of costs (i.e., allocation formulas not tied to expenditures), should not be included as reimbursements from local assistance revenue sources.

### Governing Authority

The costs of salaries and expenses of the governing authority, such as the school superintendent and governing board, are not reimbursable. These are costs of general government as described in the Office of Management and Budget Circular (OMB) 2 CFR Part 225.

## 12. Notice of Claim Adjustment

Pursuant to GC Section 17558.5, subdivision (b), the SCO may review any claim to determine if the costs are related to the mandate, are reasonable and not excessive, and the claim was prepared in accordance with SCO's claiming instructions and the P's & G's adopted by CSM. If any

adjustments are made to a claim, a "Notice of Claim Adjustment" specifying the claim component adjusted, the amount adjusted, and the reason for the adjustment will be mailed within 30 days after payment of the claim.

### **13. Audit of Costs**

Pursuant to GC Section 17558.5, subdivision (a), a reimbursement claim for actual costs filed by SD and CSOS pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was 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. In any case, an audit shall be completed no later than two years after the date that the audit is commenced. All documents used to support the reimbursable activities 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. Supporting documents must be made available to SCO upon request.

### **14. Source Documents**

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 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 (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure section 2015.5. 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.

For costs incurred on or after January 1, 2005, a reasonable reimbursement methodology can be used as a formula for reimbursing a CCD mandated by the State that meets certain conditions specified in 17518.5(a). For costs incurred prior to January 1, 2005, time study can substitute for continuous records of actual time spent for a specific fiscal year only if the program's P's & G's allow for the use of time studies.

### **15. Claim Forms and Instructions**

A claimant may submit a computer generated report in substitution for Form-1 and Form-2, provided the format of the report and data fields contained within the report are identical to the claim forms included with these instructions. The claim forms provided with these instructions should be duplicated and used by the claimant to file a reimbursement claim. SCO will revise the manual and claim forms as necessary.

#### **A. Form-2, Activity Cost Detail**

This form is used to segregate the detail costs by claim activity. In some mandates, specific reimbursable activities have been identified for each activity. The expenses reported on this form must be supported by the official financial records of the claimant and copies of supporting documentation, as specified in the claiming instructions, must be submitted with the claims. All supporting documents must be retained for a period of not less than three years after the reimbursement claim was filed or last amended.

## B. Form-1, Claim Summary

This form is used to summarize direct costs by activity and compute allowable indirect costs for the mandate. The direct costs summarized on this form are derived from Form-2 and are carried forward to form FAM-27.

School districts and county superintendents of schools may compute the amount of indirect costs using the indirect cost rates approved by the California Department of Education based on J-380/580/780/SACS Expenditure Data applicable to the fiscal year of the claim.

## C. Form FAM-27, Claim for Payment

This form contains a certification that must be signed by an authorized officer of the CCD. All applicable information from Form-1 must be carried forward onto this form in order for SCO to process the claim for payment. An original and one copy of the FAM-27 are required.

Claims should be rounded to the nearest dollar. Submit a signed original and one copy of form FAM-27, Claim for Payment, and all other forms and supporting documents **(To expedite the payment process, please sign the form FAM-27 with blue ink, and attach a copy of the form FAM-27 to the top of the claim package.)** Use the following mailing addresses:

If delivered by  
U.S. Postal Service:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
P.O. Box 942850  
Sacramento, CA 94250

If delivered by  
Other delivery services:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
3301 C Street, Suite 500  
Sacramento, CA 95816

## 16. Retention of Claiming Instructions

For your convenience, the revised claiming instructions in this package have been arranged in alphabetical order by program name. These revisions should be inserted in the School District's Mandated Cost Manual and the old forms they replace should be removed. The instructions should then be retained permanently for future reference, and the forms should be duplicated to meet your filing requirements. Annually, updated forms and any other information or instructions claimants may need to file claims, as well as instructions and forms for all new programs released throughout the year will be placed on SCO's Web site at [www.sco.ca.gov/ard/local/locreim/index.shtml](http://www.sco.ca.gov/ard/local/locreim/index.shtml).

If you have any questions concerning mandated cost reimbursements, please write to us at the address listed for filing claims, or send e-mail to [lrsdar@sco.ca.gov](mailto:lrsdar@sco.ca.gov), or call the Local Reimbursements Section at (916) 324-5729.

## 17. Retention of Claim Records and Supporting Documentation

Pursuant to Government Code section 17558.5, subdivision (a), a reimbursement claim for actual costs filed by a SD and CSOS pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, 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. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. All documents used to support the reimbursable activities, as described in Section V, must be retained during the period subject to audit. If the Controller has initiated an audit during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings. Supporting documents must be made available to SCO on request.

OFFICE OF THE STATE CONTROLLER

STATE MANDATED COST CLAIMING INSTRUCTIONS NO. 2008-23

ANNUAL REVISIONS - SCHOOL DISTRICTS

OCTOBER 31, 2008

Government Code (GC) Section 17561 provides for the reimbursement of state mandated costs. Enclosed is information for updating the Mandated Cost Manual for Schools. The manual contains all forms and instructions that are necessary for school districts to file mandated cost claims with the State Controller's Office (SCO).

Reimbursement claims detailing the costs actually incurred in the 2007-08 fiscal year must be filed with SCO and be delivered or postmarked on or before **February 17, 2009**. If the reimbursement claim is filed after the deadline, but by **February 16, 2010**, the approved claim will be reduced by a late penalty of 10% without limit for initially filed claims and for continuing programs, the late fee is 10% not to exceed \$10,000. **Claims will not be accepted if filed more than one year after the deadline.**

Pursuant to GC Section 17561(d), the Controller will pay any eligible claim by August 15 or 45 days after the date the appropriation for the claim is effective, whichever is later.

Amounts appropriated for payment of program costs are shown beginning on page five under "Appropriations for the 2008-09 Fiscal Year." The fiscal years for which costs can be claimed for a program are shown beginning on page five under "Reimbursable State Mandated Cost Programs." To prepare for the 2007-08 reimbursement claims, forms in the manual should be duplicated to meet the district's filing requirements. Claim amounts should be rounded to the nearest dollar.

Submit a signed original and a copy of form FAM-27, Claim for Payment, and all other forms and supporting documents. **(To expedite the payment process, please sign the form in blue ink, and attach a copy of the form FAM-27 to the top of the claim package.)** Use the following mailing addresses:

If delivered by  
U.S. Postal Service:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
P.O. Box 942850  
Sacramento, CA 94250

If delivered by  
Other delivery services:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
3301 C Street, Suite 500  
Sacramento, CA 95816

**MINIMUM CLAIM COST**

GC Section 17564(a) provides that no claim will be filed pursuant to Sections 17551 and 17561, unless such claim exceeds one thousand dollars (\$1,000), provided that a county superintendent of schools may submit a combined claim on behalf of school districts within their county if the combined claim exceeds \$1,000, even if the individual school district's claim does not each exceed \$1,000. The county superintendent of schools must determine if the submission of the combined claim is economically feasible and be responsible for disbursing the funds to each

school district. Combined claims may be filed only when the county superintendent of schools is the fiscal agent for the school districts. A combined claim must show the individual claim costs for each eligible school district. All subsequent claims based upon the same mandate must only be filed in the combined form unless a school district provides a written notice of its intent to file a separate claim to the county superintendent of schools and to SCO at least 180 days prior to the deadline for filing the claim.

## **ESTIMATED CLAIMS**

Pursuant to AB 8, Chapter 6, Statutes of 2008, the option to file estimated claims has been eliminated. Therefore, estimated claims filed on or after February 16, 2008, will not be accepted by SCO.

## **PROGRAM UPDATES FOR 2007-08 FISCAL YEAR**

### **Updates of Rates and Factors**

The following rates are to be used for filing 2007-08 reimbursement claims. These rates are computed by adjusting the 2006-07 rates by changes in the Implicit Price Deflator (IPD) as determined by the State Department of Finance's Report of April 30, 2008, *National Deflators, State and Local Purchases*. The change in the IPD for 2007-08 is 5.5%.

- *Ch. 448/75, Consolidation of Annual Parent Notification/Schoolsite Discipline Rules/Alternative Schools/Pupil Suspensions: Parent Classroom Visits (Program No. 272).*

The 2007-08 unit rate is \$0.0822 per page of printed notification material distributed to parents and guardians, and \$0.3268 per notice.

- *Ch. 961/75, Collective Bargaining (Program No. 11)*

The 2007-08 GNP Deflator factor for adjusting the 1974-75 Winton Act cost is \$4.315.

- *Ch. 498/83, Graduation Requirements (Program No. 26)*

The 2007-08 maximum reimbursement hourly rate for contract services is \$147.77. Staffing cost reimbursement is limited to salary and other remuneration differentials, if any, of a science teacher, and the cost of lab assistants or special training aids required by a science class.

The addition of science classes should have resulted in offsetting savings due to a corresponding reduction of non-science classes.

- *Ch. 1177/76, Immunization Records (Program No. 32)*

The 2007-08 unit rate is \$6.84 per new entrant (K-12). A new entrant does not include a student previously enrolled in a school within the State of California.

Payment of the cost of immunization records for 1992-93 and subsequent fiscal years are made pursuant to the State Mandates Apportionment System (SMAS) to those school districts with an established base year entitlement. An entitlement amount is determined by SCO by averaging the district's actual costs (from reimbursement claims filed) for 1989-90, 1990-91, and 1991-92, or any three consecutive fiscal years thereafter, adjusted by changes in the IPD. The amount of apportionment the district receives for 1992-93 and subsequent fiscal years is the base year entitlement amount adjusted by annual changes in IPD and workload. "Workload" means change in the district's average daily attendance (ADA) from the previous fiscal year.

Once the district has filed actual costs for 1989-90 through 1991-92, or any three consecutive fiscal years thereafter, no further filing of claims is necessary. The claimant will automatically receive an annual payment by November 30 of each fiscal year. A district without an established entitlement amount must continue to file reimbursement claims until three consecutive fiscal years of costs are available to compute a base year cost.

- *Ch. 325/78, Immunization Records: Hepatitis B (Program No. 230)*

The 2007-08 unit rate is \$8.22 per new entrant (K-12) and \$4.30 per student in the seventh grade. A new entrant does not include a student previously enrolled in a school within the State of California.

- *Ch. 1423/84, Juvenile Court Notices II (Program No. 155)*

The 2007-08 unit rates for the number of notices received from the juvenile court system and distributed to school district personnel is \$48.29 per notice received, and the number of written requests received from parents or guardian to review the record to ensure the record has been destroyed is \$34.33 per letter received.

- *Ch. 498/83, Notification of Truancy (Program No. 48)*

The 2007-08 unit cost reimbursement is \$17.28 per initial truancy notification. The unit cost covers all costs (direct and indirect), including, but not limited to, identifying the truant pupil, preparing and distributing by mail or other methods of notification to parents or guardians, and associated record keeping.

- *Ch. 1347/80, Scoliosis Screening (Program No. 58)*

The 2007-08 unit cost rate is \$8.20 per student screened. This rate covers all costs (direct and indirect), incurred including activities for, but not limited to, parent notification, screening, re-screening, referral and follow-up, record keeping, and administration of the program.

- *Ch. 818/91, Aids Prevention Instruction II (Program No. 250)*

The 2007-08 uniform cost allowance is \$0.0827 per notice. This uniform allowance covers all of the direct and indirect costs incurred in compliance with this mandate.

- *Ch. 1208/76, Pupil Health Screenings (Program 261)*

The 2007-08 uniform cost allowance for: (a) Notification to Parents is \$0.0805; (b) Obtaining Parental Compliance is \$5.55; (c) Exclusion of Pupils is \$14.61; (d) Statistical Reporting is not applicable since the reimbursement period expired 12/31/04.

- *Ch. 1253/56, Pupil Suspensions, Expulsions, and Expulsion Appeals (Program 176)*

The 2007-08 unit cost rates are as follows: Preparation for expulsion hearing - \$173.86; conducting the expulsion hearing - \$217.22; for the hearing officer's or panel's expulsion recommendation to the Governing Board - \$256.91; and for the record of hearing \$2.21.

- *Ch. 465/76, Peace Officers Procedural Bill of Rights (Program 186)*

The 2007-08 unit cost rate for the Flat Rate Method is \$39.31.

## APPROPRIATIONS FOR THE 2008-09 FISCAL YEAR

### Item 6110-295-0001

272	(1)	Ch.	36/77	Annual Parent Notification	\$1,000
172	(2)	Ch.	98/94	Caregiver Affidavits	1,000
153	(3)	Ch.	161/93	Intradistrict Attendance	1,000
42	(4)	Ch.	486/75	Mandate Reimbursement Process	1,000 <sup>1</sup>
26	(5)	Ch.	498/83	Graduation Requirements	1,000
48	(6)	Ch.	498/83	Notification of Truancy	1,000
176	(7)	Ch.	498/83	Pupil Suspensions, Expulsions/Expulsion Appeals	1,000
277	(8)	Ch.	781/92	Charter Schools III	1,000
N/A	(9)	Ch.	799/80	PERS Death Benefits	1,000 <sup>2</sup>
250	(10)	Ch.	818/91	AIDS Prevention Instruction I and II	1,000
11	(11)	Ch.	961/75	Collective Bargaining	1,000
261	(12)	Ch.	1208/76	Pupil Health Screenings	1,000
173	(13)	Ch.	975/95	Physical Performance Tests	1,000
155	(14)	Ch.	1011/84	Juvenile Court Notices II	1,000
57	(15)	Ch.	1107/84	Removal of Chemicals	1,000
157	(16)	Ch.	1117/89	Law Enforcement Agency Notifications	1,000
32	(17)	Ch.	1176/77	Immunization Records	1,000
166	(18)	Ch.	1184/75	Habitual Truants	1,000
176	(19)	Ch.	1253/75	Pupil Expulsion Transcripts	1,000
150	(20)	Ch.	1306/89	Notification to Teachers of Public Expulsion	1,000
58	(21)	Ch.	1347/80	Scoliosis Screening	1,000
N/A	(22)	Ch.	1398/74	PERS Unused Sick Leave Credit	1,000 <sup>2</sup>
182	(23)	Ch.	309/95	Pupil Residency Verification and Appeals	1,000
251	(24)	Ch.	588/97	Criminal Background Checks II	1,000
184	(25)	Ch.	624/92	School Bus Safety I and II	0 <sup>3</sup>
186	(26)	Ch.	465/76	Peace Officers Procedural Bill of Rights	1,000
192	(27)	Ch.	36/77	Financial and Compliance Audits	1,000
195	(28)	Ch.	640/97	Physical Education Reports	1,000
198	(29)	Ch.	1120/96	Health Benefits for Survivors of Peace Officers & Firefighters	0 <sup>3</sup>
209	(30)	Ch.	917/87	County Office of Education Fiscal Accountability Reporting	1,000
258	(31)	Ch.	100/81	School District Fiscal Accountability Reporting	1,000
194	(32)	Ch.	126/93	Law Enforcement Sexual Harassment Training	0 <sup>3</sup>
206	(33)	Ch.	784/95	County Treasury Withdrawals	0 <sup>3</sup>
223	(34)	Ch.	736/97	Comprehensive School Safety Plans	1,000
230	(35)	Ch.	325/78	Immunization Records-Hepatitis B	1,000
228	(36)	Ch.	1192/80	School District Reorganization	1,000
249	(37)	Ch.	34/98	Charter Schools II	1,000
251	(38)	Ch.	594/98	Criminal Background Checks II	1,000
226	(39)	Ch.	1170/96	Grand Jury Proceedings	1,000
244	(40)	Ch.	100/81	Pupil Promotion and Retention	1,000
252	(41)	Ch.	331/98	Teacher Incentive Program	1,000
253	(42)	Ch.	30/98	Differential Pay and Reemployment	1,000
<b>Total Appropriations, Item 6110-295-0001</b>					<b><u>\$38,000</u></b>

<sup>1</sup> This program has been set aside by the Commission on State Mandates and is presently in litigation.

<sup>2</sup> Numbers (9) and (22) are for transfer to the Public Employees' Retirement Fund for reimbursement of costs incurred pursuant to 799/80 or 1398/74.

<sup>3</sup> These programs have been suspended for the 2007-08 and 2008-09 fiscal years.

## REIMBURSABLE STATE MANDATED COST PROGRAMS

An "x" indicates the fiscal year for which a claim may be filed with SCO.

2007-08 Reimbursement Claims	Pgm. #	School Districts and County Offices of Education		
x	170	Ch.	77/78	Absentee Ballots
x <sup>4</sup>	269	Ch.	893/00	Agency Fee Arrangements
x	250	Ch.	818/91	AIDS Prevention Instruction II
x	172	Ch.	98/94	Caregiver Affidavits
x	278	Ch.	781/92	Charter Schools I, II, & III
x	209	Ch.	917/87	COE Fiscal Accountability Reporting
x	11	Ch.	961/75	Collective Bargaining
x	223	Ch.	736/97	Comprehensive School Safety Plans
x	272	Ch.	448/75	Consolidation of Annual Parent Notification/Schoolsite Discipline Rules/Alternative Schools
x <sup>4</sup>	276	Ch.	1117/89	Consolidation of Law Enforcement Agency Notifications (LEAN) and Missing Children Reports (MCR)
x	251	Ch.	594/98	Criminal Background Checks II
x	253	Ch.	30/98	Differential Pay and Re-employment
x	192	Ch.	36/77	Financial and Compliance Audits
x	26	Ch.	498/83	Graduation Requirements
x	166	Ch.	1184/75	Habitual Truant
x	198	Ch.	1120/96	Health Benefits for Survivors of Peace Officers & Firefighters
x <sup>4</sup>	268	Ch.	1/99	High School Exit Exam
x	32	Ch.	1176/77	Immunization Records
x	230	Ch.	325/78	Immunization Records: Hepatitis B
x	153	Ch.	161/93	Intradistrict Attendance
x	155	Ch.	1011/84	Juvenile Court Notices II
x	265	Ch.	828/97	National Norm-Referenced Achievement Test
x	48	Ch.	498/83	Notification of Truancy
x <sup>5</sup>	150	Ch.	1306/89	Notification to Teachers: Pupils Subject to Suspension or Expulsion
x	186	Ch.	465/76	Peace Officers Procedural Bill of Rights
x	214	Ch.	875/85	Photographic Record of Evidence
x	195	Ch.	640/97	Physical Education Reports
x	173	Ch.	975/95	Physical Performance Tests
x	261	Ch.	965/77	Pupil Health Screenings
x	244	Ch.	100/81	Pupil Promotion and Retention
x	182	Ch.	309/95	Pupil Residency Verification and Appeals
x	176	Ch.	1253/75	Pupil Suspensions, Expulsions, and Expulsion Appeals

<sup>4</sup> These are new programs and no funding has been appropriated yet.

<sup>5</sup> Program ends 07-08. For 08-09 and following use program 292, Consolidation of NTT I & II and PDR.



## REIMBURSABLE STATE MANDATED COST PROGRAMS (Cont'd.)

2007-08 Reimbursement Claims	Pgm #	School Districts and County Offices of Education		
x	57	Ch.	1107/84	Removal of Chemicals
x	258	Ch.	100/81	School District Fiscal Accountability Reporting
x	228	Ch.	1192/80	School District Reorganization
x	58	Ch.	1347/80	Scoliosis Screening
x	252	Ch.	331/98	Teacher Incentive Program
x	260	Ch.	498/83	The Stull Act
x	162	Ch.	1249/92	Threats Against Peace Officers
<b>Initial Claims</b>				
x	280	Ch.	498/83	Pupil Safety Notices
x	286	Ch.	603/94	California State Teachers' Retirement System (CalSTRS) Service Credit
x	291	Ch.	345/00	Pupil Discipline Records, and Notification to Teachers: Pupils Subject to Suspension or Expulsion II

## **PROGRAMS SUSPENDED FOR THE 2007-08 AND 2008-09 FISCAL YEARS**

Pursuant to GC §17581.5, the following education state mandated programs are identified in the 2007 and 2008 State Budget Act, with a \$0 appropriation by the Legislature. Therefore, no claims for these programs may be filed for the 2007-08 and 2008-09 fiscal years.

### **Pgm. #**

206	Ch. 784/95	County Treasury Oversight Committee
198	Ch. 1120/96	Health Benefits for Survivors of Peace Officers & Firefighters
226	Ch. 1170/96	Grand Jury Proceedings
194	Ch. 126/93	Law Enforcement Sexual Harassment Training
184	Ch. 624/92	School Bus Safety I & II

**The following education state mandated programs have been determined to be optional, repealed, or overturned by the court:**

### **Pgm. #**

148	Ch. 172/86	Interdistrict Attendance Permits
149	Ch. 172/86	Interdistrict Transfer Requests: Parent's Employment
165	Ch. 668/78	Pupil Exclusions ( <b>AB 2855 and SB 512 eff. 1/1/05 and 10/7/05 resp.</b> )
156	Ch. 160/93	School District of Choice: Transfers and Appeals
199	Ch. 1138/93	Schoolsite Councils and Brown Act Reform
146	Ch. 87/86	Schoolsite Discipline Rules

**The Commission on State Mandates has set aside the following programs:**

### **Pgm. #**

179	Ch. 778/96	American Government Course Documentation Requirements
42 <sup>6</sup>	Ch. 486/75	Mandated Reimbursement Process
218 <sup>6</sup>	Ch. 641/86	Open Meetings/Brown Act Reform ( <b>AB 138 effective 07/19/05</b> )
109 <sup>7</sup>	Ch. 1607/84	School Crimes Statistic Reporting and Validation
151 <sup>7</sup>	Ch. 965/77	Pupil Classroom Suspensions: Counseling
154 <sup>7</sup>	Ch. 965/77	Pupil Suspension: Parent Classroom Visits
171 <sup>6</sup>	Ch. 1463/89	School Accountability Report Cards ( <b>AB 2855 and SB 512 eff. 1/1/05</b> )
190 <sup>7</sup>	Ch. 759/92	School Crime Reporting II

<sup>6</sup> These programs have been set aside by the Commission on State Mandates pursuant to AB 138, Ch. 72/05, effective 07/19/05. They are presently in litigation.

<sup>7</sup> These programs have been set aside by the Commission on State Mandates pursuant to AB 2855, Ch. 895/04, effective 01/01/05 and AB 38, Ch. 72/05, effective 07/19/05.

## **AUDIT OF COSTS**

All claims submitted to SCO are reviewed to determine if costs are related to the mandate, are reasonable and not excessive, and that the claim was prepared in accordance with SCO's claiming instructions and the Commission on State Mandate's Parameters and Guidelines (Ps and Gs). If any adjustments are made to a claim, a "Notice of Claim Adjustment" specifying the claim component adjusted, the amount adjusted, and the reason for the adjustment will be mailed within 30 days after payment of the claim.

On-site audits will be conducted by SCO as deemed necessary. Pursuant to GC §17558.5, subdivision (a), a reimbursement claim for actual costs filed by a school district is subject to audit by the State Controller no later than three years after the date the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. Therefore, all documentation to support actual costs claimed must be retained for the same period, and must be made available to SCO on request.

## **SOURCE DOCUMENTS**

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs incurred to implement the mandated activities. These 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 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.

## **RETENTION OF CLAIMING INSTRUCTIONS**

For your convenience, the revised claiming instructions in this package have been arranged in alphabetical order by program name. These revisions should be inserted in the School Mandated Cost Manual to replace the old forms. The instructions should then be retained permanently for future reference and the forms should be duplicated to meet your filing requirements. Annually, updated forms and any other information or instructions claimants may need to file claims, as well as instructions and forms for all new programs released throughout the year will be placed on SCO's Web site at [www.sco.ca.gov/ard/local/locreim/index.shtml](http://www.sco.ca.gov/ard/local/locreim/index.shtml).

If you have any questions concerning mandated cost reimbursements, please write to us at Office of the State Controller, Local Reimbursements Section, Division of Accounting and Reporting, P. O. Box 942850, Sacramento, CA 94250; send e-mail to [LRSDAR@sco.ca.gov](mailto:LRSDAR@sco.ca.gov); or call the Local Reimbursements Section at (916) 324-5729.

OFFICE OF THE STATE CONTROLLER  
STATE MANDATED COST CLAIMING INSTRUCTIONS NO. 2008-03  
NOTIFICATION OF TRUANCY

APRIL 4, 2008

Revised January 30, 2009

In accordance with Government Code (GC) Section 17561, eligible claimants may submit claims to the State Controller's Office (SCO) for reimbursement of state mandated cost programs. The following are claiming instructions and forms that eligible claimants will use for filing claims for the Notification of Truancy (NOT) program. These claiming instructions are issued subsequent to adoption of the program's amended Parameters and Guidelines (P's & G's) by the Commission on State Mandates (CSM).

On January 31, 2008, CSM adopted the attached amended P's and G's for NOT, which is effective July 1, 2006. For your reference, the amended P's & G's are included as an integral part of the claiming instructions.

**Limitations and Exceptions**

There shall be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to Government Code section 17581.5.

If an actual claim was filed for fiscal year 2006-07, you may file an amended claim for all costs including the increased costs based on the new definition of truancy. If no claim was previously filed you may file for fiscal year 2006-07 by **August 4, 2008**, without being assessed a late claim penalty.

**Eligible Claimants**

Except for community colleges, any school district or county office of education as defined in GC section 17519, that incurs increased costs as a result of this mandate, is eligible to claim reimbursement.

**Filing Deadlines**

**A. Reimbursement Claims**

A reimbursement claim is defined in GC Section 17522 as any claim filed with SCO by a school district for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim.

An actual claim may be filed by February 15 following the fiscal year in which costs were incurred. If the filing date falls on a weekend or holiday, the filing deadline will be the next business day. Since the 15<sup>th</sup> falls on a weekend in 2009, claims for fiscal year 2007-08 will be accepted without penalty if postmarked or delivered on or before February 17, 2009. Claims filed after the deadline will be reduced by a late penalty of 10%, not to exceed \$10,000. However, initial reimbursement claims will be reduced by a late penalty of 10% with no limitation. Claims filed more than one year after the deadline will not be accepted.

Documentation to support actual costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 16 of the instructions.

## **B. Estimated Claims**

Pursuant to AB 8, Chapter 6, Statutes of 2008, the option to file estimated claims has been eliminated. Therefore, estimated claims filed on or after February 16, 2008, will not be accepted by SCO.

## **Minimum Claim Cost**

GC Section 17564(a) provides that no claim may be filed pursuant to Sections 17551 and 17561, unless such a claim exceeds one thousand dollars (**\$1,000**), provided that a county superintendent of schools may submit a combined claim on behalf of school districts within their county if the combined claim exceeds **\$1,000**, even if the individual school district's claim does not each exceed **\$1,000**. The county superintendent of schools will determine if the submission of the combined claim is economically feasible and be responsible for disbursing the funds to each school district. These combined claims may be filed only when the county superintendent of schools is the fiscal agent for the districts. A combined claim must show the individual claim costs for each eligible school district. All subsequent claims based upon the same mandate will only be filed in the combined form unless a school district provides a written notice of its intent to file a separate claim to the county superintendent of schools and to SCO at least 180 days prior to the deadline for filing the claim.

## **Reimbursement of Claims**

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 (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure Section 2015.5.

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.

## **Audit of Costs**

All claims submitted to SCO are reviewed to determine if costs are related to the mandate, are reasonable and not excessive, and if the claim was prepared in accordance with SCO's claiming instructions and the P's & G's adopted by CSM. If any adjustments are made to a claim, a "Notice of Claim Adjustment" specifying the activity adjusted, the amount adjusted, and the reason for the adjustment, will be mailed within 30 days after payment of the claim.

Pursuant to GC Section 17558.5, subdivision (a), a reimbursement claim for actual costs filed by a claimant is subject to audit by SCO no later than three years after the date the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was 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 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.

On-site audits will be conducted by SCO as deemed necessary. Accordingly, all documentation to support actual costs claimed must be retained for a period of three years after the end of the calendar year in which the reimbursement claim was filed or last amended regardless of the year of costs incurred. When no funds were appropriated for initial claims at the time the claim was filed, supporting documents must be retained for three years from the date of initial payment of the claim. Therefore, all documentation to support actual costs claimed must be retained for the same period, and shall be made available to the SCO on request.

## **Retention of Claiming Instructions**

The claiming instructions and forms in this package should be retained permanently in your Mandated Cost Manual for future reference and use in filing claims. These forms should be duplicated to meet your filing requirements. You will be notified of updated forms or changes to claiming instructions as necessary.

Questions, or requests for hard copies of these instructions, should be faxed to Angie Lowi-Teng at (916) 323-6527 or e-mailed to **LRSDAR@sco.ca.gov**. Or, if you wish, you may call the Local Reimbursements Section at (916) 324-5729. For your reference, these and future mandated costs claiming instructions and forms can be found on the Internet at [www.sco.ca.gov/ard/local/locreim/index.shtml](http://www.sco.ca.gov/ard/local/locreim/index.shtml).

## **Address for Filing Claims**

Claims should be rounded to the nearest dollar. Submit a signed original and a copy of form FAM-27, Claim for Payment, and all other forms and supporting documents.

**To expedite the payment process, please sign the form in blue ink, and attach a copy of the form FAM-27 to the top of the claim package.**

Use the following mailing addresses:

If delivered by

U.S. Postal Service:

Office of the State Controller

Attn: Local Reimbursements Section

Division of Accounting and Reporting

P.O. Box 942850

Sacramento, CA 94250

If delivered by

other delivery services:

Office of the State Controller

Attn: Local Reimbursements Section

Division of Accounting and Reporting

3301 C Street, Suite 500

Sacramento, CA 95816

Adopted: 8/27/87  
Amended: 7/28/88  
Amended: 7/22/93  
Amended: 1/31/08

## **AMENDMENTS TO PARAMETERS AND GUIDELINES AS DIRECTED BY THE LEGISLATURE**

*Statutes 2007, Chapter 69 (AB 1698)*

Education Code Section 48260.5

Statutes 1983, Chapter 498

[Statutes 1994, Chapter 1023]

[Statutes 1995, Chapter 19]

*Notification of Truancy*

07-PGA-01 (4133)

### **I. BACKGROUND AND SUMMARY OF MANDATE**

Chapter 498, Statutes of 1983, added Education Code Section 48260.5 which requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with section 48290) of Chapter 2 of Part 27.

Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district, and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

A truancy occurs when a student is absent from school without valid excuse three (3) full days in one school year, or is tardy or absent without valid excuse for more than any thirty (30)-minute period during the school day on n three (3) occasions in one school year, or any combination thereof. (Definition from Ed. Code, § 48260, as amended by Stats. 1994, ch. 1023 and Stats. 1995, ch. 19.)

Upon a student's initial classification as a truant, the school must perform the requirements mandated by Education Code section 48260.5 as enacted by Statutes 1983, chapter 498 and amended by Statutes 1994, chapter 1023, and Statutes 1995, chapter 19.

#### **Board of Control Decision**

On November 29, 1984, the State Board of Control determined that Education Code Section 48260.5, as added by Chapter 498, Statutes of 1983, constitutes a state mandated program because it requires an increased level of service by requiring specified notifications be sent to the parents or guardians of pupils upon initial classification of truancy.



## Amendment to Parameters and Guidelines

The Legislature directed the Commission on State Mandates to revise the parameters and guidelines to modify the definition of truant and the required elements to be included in the initial truancy notifications to conform reimbursable activities to Statutes 1994, chapter 1023, and Statutes 1995, chapter 19, effective July 1, 2006. (Stats., 2007, ch. 69 (AB 1698).)

### II. ELIGIBLE CLAIMANTS

The claimants are all school districts and county offices of education of the state of California, except a community college district, as defined by Government Code Section 17519 (formerly Revenue and Taxation Code 2208.5), that incur increased costs as a result of implementing the program activities of Education Code Section 48260.5, Chapter 498, Statutes of 1983.

### III. PERIOD OF REIMBURSEMENT

The amendments to the parameters and guidelines adopted on January 31, 2008 are effective July 1, 2006.

### IV. REIMBURSABLE COSTS

#### A. Scope of Mandate

The eligible claimant shall be reimbursed for only those costs incurred for planning the notification process, revising district procedures, the printing and distribution of notification forms, and associated record keeping.

#### B. Reimbursable Activities

For each eligible school district the direct and indirect costs of labor, supplies, and services incurred for the following mandated program activities are reimbursable:

##### 1. Planning and Preparation -- One-time

Planning the method of implementation, revising school district policies, and designing and printing the forms.

##### 2. Notification process -- On-going

Identifying the truant pupils to receive the notification, preparing and distributing by first-class mail or other reasonable means the forms to parents/guardians, and associated recordkeeping to provide parents/guardians with the following required information upon a pupil's initial classification as a truant:

- a. That the pupil is truant.
- b. That the parent or guardian is obligated to compel the attendance of the pupil at school.
- c. That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48260) of Chapter 2 of Part 27.

- d. That alternative educational programs are available in the district.
- e. That the parent or guardian has the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.
- f. That the pupil may be subject to prosecution under Section 48264.
- g. That the pupil may be subject to suspension, restriction, or delay of the pupil's driving privileges pursuant to Section 13202.7 of the Vehicle Code.
- h. That it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

C. Uniform Cost Allowance

Pursuant to Government Code section 17557, the Commission on State Mandates has adopted a uniform cost allowance for reimbursement in lieu of payment of total actual costs incurred. The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983.

For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator.

D. Unique Costs

School districts incurring unique costs within the scope of the reimbursable mandated activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement, Pursuant to Section 1185.3, Title 2, California Code of Regulations, such requests must be made by November 30 immediately following the fiscal year of the reimbursement claim in which reimbursement for the costs is requested.

V. CLAIM PREPARATION

Each claim for reimbursement pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983, must be timely filed and provide documentation in support of the reimbursement claimed for this mandated program.

A. Uniform Cost Allowance Reimbursement

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial notification to the parent or guardian.

B. Recognized Unique Costs

As of fiscal year 1992-93, the Commission has not identified any circumstances which would cause a school district to incur additional costs to implement this mandate which have not already been incorporated in the uniform cost allowance.

If and when the Commission recognizes any unique circumstances which can cause the school district to incur additional reasonable costs to implement this mandated program, these unique implementation costs will be reimbursed for specified fiscal years in addition to the uniform cost allowance.

School districts which incur these recognized unique costs will be required to support those actual costs in the following manner:

1. Narrative Statement of Unique Costs Incurred

Provide a detailed written explanation of the costs associated with the unique circumstances recognized by the Commission.

2. Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The staff time claimed must be supported by source documentation, such as time reports, however, the average number of hours devoted to each function may be claimed if supported by a documented time study.

3. Services and Supplies

Only expenditures which can be identified as a direct cost as a result of the mandated program can be claimed. List cost of materials which have been consumed or expended specifically for the purposes of this mandated program.

4. Allowable Overhead Costs

School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education. County offices of education must use the J-73A (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.

VI. SUPPORTING DATA

For auditing purposes, documents must be kept on file for a period of 3 years from the date of final payment by the State Controller, unless otherwise specified by statute and be made available at the request of the State Controller or his agent.

A. Uniform Allowance Reimbursement

Documentation which indicates the total number of initial notifications of truancy distributed.

B. Reimbursement of Unique Costs

In addition to maintaining the **same** documentation as required for uniform cost allowance reimbursement, all costs claimed must be traceable to source documents **and/or** worksheets that show evidence of the validity of such **costs**.

VIII. OFFSETTING SAVINGS AND OTHER REIMBURSEMENT

Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the uniform cost allowance and actual cost reimbursement for unique circumstances claimed. In addition, reimbursement for this mandated program received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

IX. REQUIRED CERTIFICATION

An authorized representative of the claimant will be required to provide a certification of claim, as specified in the State Controller% claiming instructions, for those costs mandated by the state contained herein.

<b>CLAIM FOR PAYMENT</b> <b>Pursuant to Government Code Section 17561</b> <b>NOTIFICATION OF TRUANCY</b>			<b>For State Controller Use Only</b> (19) Program Number 00048 (20) Date Filed (21) LRS Input		<b>PROGRAM</b> <div style="font-size: 2em; font-weight: bold; margin-top: 10px;">048</div>	
(01) Claimant Identification Number			<b>Reimbursement Claim Data</b>			
(02) Claimant Name			(22) FORM-1, (03)			
Address			(23)			
			(24)			
			(25)			
<b>Type of Claim</b>	<b>Estimated Claim</b>	<b>Reimbursement Claim</b>	(26)			
	(03)	(09) Reimbursement <input type="checkbox"/>	(27)			
	(04)	(10) Combined <input type="checkbox"/>	(28)			
	(05)	(11) Amended <input type="checkbox"/>	(29)			
<b>Fiscal Year of Cost</b>	(06)	(12)	(30)			
<b>Total Claimed Amount</b>	(07)	(13)	(31)			
Less: <b>10% Late Penalty (Refer to claim instructions)</b>		(14)	(32)			
Less: <b>Prior Claim Payment Received</b>		(15)	(33)			
<b>Net Claimed Amount</b>		(16)	(34)			
<b>Due from State</b>	(08)	(17)	(35)			
<b>Due to State</b>		(18)	(36)			
<b>(37) CERTIFICATION OF CLAIM</b>  <p>In accordance with the provisions of Government Code § 17561, I certify that I am the officer authorized by the school district to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Government Code Sections 1090 to 1098, inclusive.</p> <p>I further certify that there was no application other than from the claimant, nor any grant or payment received, for reimbursement of costs claimed herein; and such costs are for a new program or increased level of services of an existing program. All offsetting savings and reimbursements set forth in the Parameters and Guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.</p> <p>The amounts for Reimbursement Claim are hereby claimed from the State for payment of actual costs set forth on the attached statements. I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.</p> <div style="display: flex; justify-content: space-between; margin-top: 20px;"> <div style="width: 45%;">           Signature of Authorized Officer   <hr style="border: 0; border-top: 1px solid black; margin-top: 10px;"/> </div> <div style="width: 45%;">           Date   <hr style="border: 0; border-top: 1px solid black; margin-top: 10px;"/> </div> </div> <div style="display: flex; justify-content: space-between; margin-top: 20px;"> <div style="width: 45%;">           Type or Print Name             (38) Name of Contact Person for Claim   <hr style="border: 0; border-top: 1px solid black; margin-top: 10px;"/> </div> <div style="width: 45%;">           Title             Telephone Number             E-mail Address   <hr style="border: 0; border-top: 1px solid black; margin-top: 10px;"/> </div> </div>						

<b>Program</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY</b> <b>Certification Claim Form</b> <b>Instructions</b>	<b>FORM</b> <b>FAM-27</b>
------------------------------	--	------------------------------

- (01) Enter the payee number assigned by the State Controller's Office.
- (02) Enter your Official Name, County of Location, Street or P. O. Box address, City, State, and Zip Code.
- (03) Leave blank.
- (04) Leave blank.
- (05) Leave blank.
- (06) Leave blank.
- (07) Leave blank.
- (08) Leave blank.
- (09) If filing a reimbursement claim, enter an "X" in the box on line (09) Reimbursement.
- (10) If filing a combined reimbursement claim on behalf of districts within the county, enter an "X" in the box on line (10) Combined.
- (11) If filing an amended reimbursement claim, enter an "X" in the box on line (11) Amended.
- (12) Enter the fiscal year for which actual costs are being claimed. If actual costs for more than one fiscal year are being claimed, complete a separate form FAM-27 for each fiscal year.
- (13) Enter the amount of the reimbursement claim from Form-1, line (08). The total claimed amount must exceed \$1,000.
- (14) Actual claims for fiscal year 06-07 must be filed by **August 4, 2008**, and for fy 07-08 must be filed by **February 17, 2009**, otherwise the claims will be reduced by a late penalty.
- (15) If filing a reimbursement claim or a claim was previously filed for the same fiscal year, enter the amount received for the claim. Otherwise, enter a zero.
- (16) Enter the result of subtracting line (14) and line (15) from line (13).
- (17) If line (16), Net Claimed Amount, is positive, enter that amount on line (17), Due from State.
- (18) If line (16), Net Claimed Amount, is negative, enter that amount on line (18), Due to State.
- (19) to (21) Leave blank.
- (22) to (36) Reimbursement Claim Data. Bring forward the cost information as specified on the left-hand column of lines (22) through (36) for the reimbursement claim, e.g., Form-1, (03), means the information is located on Form-1, block (03). 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., 7.548% should be shown as 8.  
**Completion of this data block will expedite the payment process.**
- (37) Read the statement "Certification of Claim." If it is true, the claim must be dated, signed by the district's authorized officer, and must include the person's name and title, typed or printed. **Claims cannot be paid unless accompanied by an original signed certification. (To expedite the payment process, please sign the form FAM-27 with blue ink, and attach a copy of the form FAM-27 to the top of the claim package.)**
- (38) Enter the name, telephone number, and e-mail address of the person to contact if additional information is required.

**SUBMIT A SIGNED ORIGINAL, AND A COPY OF FORM FAM-27, WITH ALL OTHER FORMS AND SUPPORTING DOCUMENTS TO:**

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

**OFFICE OF THE STATE CONTROLLER  
 ATTN: Local Reimbursements Section  
 Division of Accounting and Reporting  
 P.O. Box 942850  
 Sacramento, CA 94250**

***Address, if delivered by other delivery service:***

**OFFICE OF THE STATE CONTROLLER  
 ATTN: Local Reimbursements Section  
 Division of Accounting and Reporting  
 3301 C Street, Suite 500  
 Sacramento, CA 95816**

<b>Program</b> <b>048</b>	<b>MANDATED COSTS</b> <b>NOTIFICATION OF TRUANCY</b> <b>CLAIM SUMMARY</b>	<b>FORM</b> <b>1</b>
(01) Claimant		(02) Fiscal Year ____ / ____
<b>Claim Statistics</b>		
(03) Number of truant notifications		
(04) Unit Cost		[\$17.28 for fiscal year 2007-08]
(05) Total Costs		[Line (03) x line (04)]
<b>Cost Reduction</b>		
(06) Less: Offsetting Savings		
(07) Less: Other Reimbursements		
(08) Total Claimed Amount		[Line (05) - {line (06) + line (07)}]

<b>Program</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY</b> <b>CLAIM SUMMARY</b> <b>Instructions</b>	<b>FORM</b> <b>1</b>
------------------------------	---	-------------------------

- (01) Enter the name of the claimant. If more than one department has incurred costs for this mandate, give the name of each department. A Form-1 should be completed for each department.
- (02) Enter the fiscal year of costs.
- (03) Enter the number of truant notifications that were sent during the fiscal year of claim, upon the students' initial classification of truancy.
- (04) The unit cost rate for fiscal year 07-08 is \$17.28 per initial notification. This unit cost rate will be updated annually in the Annual Revisions for Schools issued in September.
- (05) Multiply line (03), the number of truant notifications by line (04), the unit cost rate.
- (06) Less: Offsetting Savings. If applicable, enter the total savings experienced by the claimant as a direct result of this mandate. Submit a detailed schedule of savings with the claim.
- (07) Less: Other Reimbursements. If applicable, enter the amount of other reimbursements received from any source including, but not limited to, service fees collected, federal funds, and other state funds, that reimbursed any portion of the mandated cost program. Submit a schedule detailing the reimbursement sources and amounts.
- (08) Total Claimed Amount. From Total Costs, line (05), subtract the sum of Offsetting Savings, line (06), and Other Reimbursements, line (07). Enter the remainder on this line and carry the amount forward to form FAM-27, line (13) for the Reimbursement Claim.



## A. STATE OF CALIFORNIA TRAVEL EXPENSE GUIDELINES

### Travel Program Effective January 31, 2002

The travel reimbursement program continues to be subject to the Internal Revenue Service (IRS) requirements for an accountable plan. There are no flat rate reimbursements. All items are to be claimed for the actual amount of expense, up to the maximum allowed. If the provisions below do not require submission of a receipt for a given item of expense, it is the employee's responsibility to retain receipts and other records of the expense and have them available for audit.

Lodging and meals that are provided by the State, including hotel expenses, conference fees, or transportation costs such as airline tickets; or otherwise provided shall not be claimed for reimbursement.

Employees may be reimbursed for actual expenses for breakfast, lunch, dinner, and incidentals for each 24 hours of travel, as follows:

Breakfast	up to	\$6.00
Lunch	up to	10.00
Dinner	up to	18.00
Incidentals	up to	6.00

Incidental expenses include, but are not limited to, expenses for laundering and pressing of clothing and tips for services such as porters and baggage handlers. Incidentals do not include taxicab fares, lodging taxes, or the cost of telegrams or telephone calls.

#### Lodging

All lodging reimbursements require a receipt from a commercial lodging establishment such as a hotel, motel, bed and breakfast inn, or campground that caters to the general public. No lodging will be reimbursed without a valid receipt. Employees who stay with friends or relatives are not eligible for lodging reimbursement, but may claim their actual expenses for meals and incidentals.

#### Short-Term Travel

A. For continuous short-term travel of more than 24 hours but less than 31 days, the employee will be reimbursed for actual costs up to the maximum for each meal, incidental, and lodging expense for each completed 24 hours of travel, beginning with the traveler's time of departure and return as follows:

1. On the first day of travel at the beginning of a trip of more than 24 hours:
  - Trip begins at or before 6 a.m. - Breakfast may be claimed
  - Trip begins at or before 11 a.m. - Lunch may be claimed
  - Trip begins at or before 5 p.m. - Dinner may be claimed
2. On the fractional day of travel at the end of a trip of more than 24 hours:
  - Trip ends at or after 8 a.m. - Breakfast may be claimed
  - Trip ends at or after 2 p.m. - Lunch may be claimed
  - Trip ends at or after 7 p.m. - Dinner may be claimed

If the fractional day includes an overnight stay, receipted lodging may be claimed. No meal or lodging expenses may be claimed or reimbursed more than once on any given date or during any 24-hour period.

- B.** For continuous travel of less than 24 hours, the employee will be reimbursed for actual expenses, up to a maximum as follows:

Travel begins at or before 6 a.m. and ends at or after 9 a.m. - Breakfast may be claimed

Travel begins at or before 4 p.m. and ends at or after 7 p.m. - Dinner may be claimed

If the trip extends overnight, receipted lodging may be claimed. No lunch or incidentals may be claimed on a trip of less than 24 hours.

### **Short-Term Travel Maximum Lodging Reimbursement Rate**

- A.** Statewide except as in (B) and (C) below, actual receipted lodging up to \$84 plus tax.
- B.** When required to conduct state business and obtain lodging in the counties of Los Angeles and San Diego, reimbursement will be for actual receipted lodging, to a maximum of \$110 plus tax.
- C.** When required to conduct state business and obtain lodging in the counties of Alameda, San Francisco, San Mateo, and Santa Clara, reimbursement will be for actual receipted lodging, to a maximum of \$140 plus tax.

### **Long-Term Travel**

Actual expenses for long-term meals and receipted lodging will be reimbursed when the employee incurs expenses in one location comparable to those arising from the use of establishments catering to long-term visitors.

#### **A. Full Long-Term Travel**

To qualify for full long-term travel reimbursement, the employee on a long-term field assignment must meet the following criteria:

- a) The employee continues to maintain a permanent residence at the primary headquarters, and either,
- b) The permanent residence is occupied by the employee's dependents, or
- c) The permanent residence is maintained at a net expense to the employee exceeding \$200 per month.

The employee who is living at the long-term location may claim either:

1. Reimbursement for actual individual expense, substantiated by receipts for lodging, water, sewer, gas, and electricity, up to a maximum of \$1,130 per calendar month while on the long-term assignment, and actual expenses up to \$10 for meals and incidentals, for each period of 12 to 24 hours and up to \$5 for actual meals and incidentals for each period of less than 12 hours at the long-term location, or
2. Long-term subsistence rates of \$24 for actual meals and incidentals, \$24 for receipted lodging for travel of 12 hours up to 24 hours, and either \$24 for actual meals or \$24 for receipted lodging for travel less than 12 hours when the employee incurs expenses in one location comparable to those arising from the use of establishments catering to long-term visitors.

**B. Partial Long-Term Travel**

An employee on long-term field assignment who does not maintain a separate residence in the headquarters area may claim long-term subsistence rates of up to \$12 for actual meals and incidentals and \$12 for receipted lodging for travel of 12 hours up to 24 hours at the long-term location, and either \$12 for actual meals or \$12 for receipted lodging for travel less than 12 hours at the long-term location.

**Receipts**

Receipts or vouchers shall be submitted for every item of expense of \$25 or more.

- a) Receipts are required for every item of transportation and business expense incurred as a result of conducting state business except for actual expenses as follows:
  - 1. Railroad and bus fares of less than \$25, when travel is wholly within the State of California.
  - 2. Street car, ferry fares, bridge and road tolls, local rapid transit system, taxi, shuttle, or hotel bus fares, and parking fees of \$10 or less for each continuous period of parking or each separate transportation expense noted in this item.
  - 3. Telephone, telegraph, tax, or other business charges related to state business of \$5 or less.
  - 4. In the absence of a receipt, reimbursement will be limited to the non-receipted amount above.
- b) Reimbursement will be claimed only for the actual and necessary expenses noted above. Regardless of the above exceptions, the approving officer may require additional certification and/or explanation in order to determine that an expense was actually and reasonably incurred. In the absence of a satisfactory explanation, the expense shall not be allowed.

**Mileage**

When an employee is authorized by his/her appointing authority or designee to operate a privately owned vehicle on state business, effective January 1, 2009, the employee will be allowed to claim and be reimbursed 55 cents per mile.

## B. GOVERNMENT CODE SECTIONS 17500-17617

### **GC §17500: Legislative Findings and Declarations**

The Legislature finds and declares that the existing system for reimbursing local agencies and school districts for the costs of state-mandated local programs has not provided for the effective determination of the state's responsibilities under Section 6 of Article XIII B of the California Constitution. The Legislature finds and declares that the failure of the existing process to adequately and consistently resolve the complex legal questions involved in the determination of state-mandated costs has led to an increasing reliance by local agencies and school districts on the judiciary and, therefore, in order to relieve unnecessary congestion of the judicial system, it is necessary to create a mechanism which is capable of rendering sound quasi-judicial decisions and providing an effective means of resolving disputes over the existence of state-mandated local programs. It is the intent of the Legislature in enacting this part to provide for the implementation of Section 6 of Article XIII B of the California Constitution. Further, the Legislature intends that the Commission on State Mandates, as a quasi-judicial body, will act in a deliberative manner in accordance with the requirements of Section 6 of Article XIII B of the California Constitution.

### **GC §17510: Construction of Part**

Unless the context otherwise requires, the definitions contained in this chapter govern the construction of this part. The definition of a word applies to any variants thereof and the singular tense of a word includes the plural.

### **GC §17511: "City"**

"City" means any city whether general law or charter, except a city and county.

### **GC §17512: "Commission"**

"Commission" means the Commission on State Mandates.

### **GC §17513: "Cost Mandated by the Federal Government"**

"Costs mandated by the federal government" means any increased costs incurred by a local agency or school district after January 1, 1973, in order to comply with the requirements of a federal statute or regulation. "Costs mandated by the federal government" includes costs resulting from enactment of a state law or regulation where failure to enact that law or regulation to meet specific federal program or service requirements imposed upon the state would result in substantial monetary penalties or loss of funds to public or private persons in the state whether the federal law was enacted before or after the enactment of the state law, regulation, or executive order. "Costs mandated by the federal government" does not include costs which are specifically reimbursed or funded by the federal or state government or programs or services which may be implemented at the option of the state, local agency, or school district.

### **GC §17514: "Costs Mandated by the State"**

"Costs mandated by the state" means any increased costs which a local agency or school district is required to incur after July 1, 1980, as a result of any statute enacted on or after January 1, 1975, or any executive order implementing any statute enacted on or after January 1, 1975, which mandates a new program or higher level of service of an existing program within the meaning of Section 6 of Article XIII B of the California Constitution.

**GC §17515: "County"**

"County" means any chartered or general law county. "County" includes a city and county.

**GC §17516: "Executive Order"**

"Executive order" means any order, plan, requirement, rule, or regulation issued by any of the following: (a) The Governor. (b) Any officer or official serving at the pleasure of the Governor. (c) Any agency, department, board, or commission of state government. "Executive order" does not include any order, plan, requirement, rule, or regulation issued by the State Water Resources Control Board or by any regional water quality control board pursuant to Division 7 (commencing with Section 13000) of the Water Code. It is the intent of the Legislature that the State Water Resources Control Board and regional water quality control boards will not adopt enforcement orders against publicly owned dischargers which mandate major waste water treatment facility construction costs unless federal financial assistance and state financial assistance pursuant to the Clean Water Bond Act of 1970 and 1974, is simultaneously made available. "Major" means either a new treatment facility or an addition to an existing facility, the cost of which is in excess of 20 percent of the cost of replacing the facility.

**GC §17517.5: "Cost Savings authorized by the state"**

"Cost savings authorized by the state" means any decreased costs that a local agency or school district realizes as a result of any statute enacted or any executive order adopted that permits or requires the discontinuance of or a reduction in the level of service of an existing program that was mandated before January 1, 1975.

**GC §17518: "Local Agency"**

"Local agency" means any city, county, special district, authority, or other political subdivision of the state.

**GC §17518.5: "Reasonable Reimbursement Methodology"**

(a) "Reasonable reimbursement methodology" means a formula for reimbursing local agencies and school districts for costs mandated by the state, as defined in Section 17514. (b) A reasonable reimbursement methodology shall be based on cost information from a representative sample of eligible claimants, information provided by associations of local agencies and school districts, or other projections of local costs. (c) A reasonable reimbursement methodology shall consider the variation in costs among local agencies and school districts to implement the mandate in a cost-efficient manner. (d) Whenever possible, a reasonable reimbursement methodology shall be based on general allocation formulas, uniform cost allowances, and other approximations of local costs mandated by the state, rather than detailed documentation of actual local costs. In cases when local agencies and school districts are projected to incur costs to implement a mandate over a period of more than one fiscal year, the determination of a reasonable reimbursement methodology may consider local costs and state reimbursements over a period of greater than one fiscal year, but not exceeding 10 years. (e) A reasonable reimbursement methodology may be developed by any of the following: (1) The Department of Finance. (2) The Controller. (3) An affected state agency. (4) A claimant. (5) An interested party.

**GC §17519: "School District"**

"School district" means any school district, community college district, or county superintendent of schools.

**GC §17520: "Special District"**

"Special district" means any agency of the state that performs governmental or proprietary functions within limited boundaries. "Special district" includes a county service area, a maintenance district or area, an improvement district or improvement zone, or any other zone or area. "Special district" does not include a city, a county, a school district, or a community college district. County free libraries established pursuant to Chapter 2 (commencing with Section 27151) of Division 20 of the Education Code, areas receiving county fire protection services pursuant to Section 25643 of the Government Code, and county road districts established pursuant to Chapter 7 (commencing with Section 1550) of Division 2 of the Streets and Highways Code shall be considered "special districts" for all purposes of this part.

**GC §17521: "Test Claim"**

"Test claim" means the first claim filed with the commission alleging that a particular statute or executive order imposes costs mandated by the state, and includes a claim filed pursuant to Section 17574.

**GC §17521.5: "Legislatively Determined Mandate"**

"Legislatively determined mandate" means the provisions of a statute or executive order that the Legislature, pursuant to Article 1.5, has declared by statute to be a mandate for which reimbursement is required by Section 6 of Article XIII B of the California Constitution.

**GC §17522: Definitions**

(a) "Initial reimbursement claim" means a claim filed with the Controller by a local agency or school district for costs to be reimbursed for the fiscal years specified in the first claiming instructions issued by the Controller pursuant to subdivision (b) of Section 17558. (b) "Annual reimbursement claim" means a claim for actual costs incurred in a prior fiscal year filed with the Controller by a local agency or school district for which appropriations are made to the Controller for this purpose. (c) "Estimated reimbursement claim" means a claim filed with the Controller by a local agency or school district in conjunction with an initial reimbursement claim, annual reimbursement claim, or at other times, for estimated costs to be reimbursed during the current or future fiscal years, for which appropriations are made to the Controller for this purpose. (d) "Entitlement claim" means a claim filed by a local agency or school district with the Controller for the purpose of establishing or adjusting a base year entitlement. All entitlement claims are subject to Section 17616.

**GC §17523: "Deflator"**

"Deflator" means the Implicit Price Deflator for the Costs of Goods and Services to Governmental Agencies, as determined by the Department of Finance.

**GC §17524: "Base Year Entitlement"**

"Base year entitlement" means that amount determined to be the average for the approved reimbursement claims of each local agency or school district for the three preceding fiscal years adjusted by the change in the deflator. A base year entitlement shall not include any nonrecurring or initial startup costs incurred by a local agency or school district in any of those three fiscal years. For those mandates which become operative on January 1 of any year, the amount of the "approved reimbursement claim" for the first of the three years may be computed by annualizing the amount claimed for the six-month period of January through June in that first year, excluding nonrecurring or startup costs.

**GC §17525: Members: Term and Per Diem for Specified Members**

(a) There is hereby created the Commission on State Mandates, which shall consist of seven members as follows: (1) The Controller. (2) The Treasurer. (3) The Director of Finance. (4) The Director of the Office of Planning and Research. (5) A public member with experience in public finance, appointed by the Governor and approved by the Senate. (6) Two members from the following three categories appointed by the Governor and approved by the Senate, provided that no more than one member shall come from the same category: (A) A city council member. (B) A member of a county or city and county board of supervisors. (C) A governing board member of a school district as defined in Section 17519. (b) Each member appointed pursuant to paragraph (5) or (6) of subdivision (a) shall be subject to both of the following: (1) The member shall serve for a term of four years subject to renewal. (2) The member shall receive per diem of one hundred dollars (\$100) for each day actually spent in the discharge of official duties and shall be reimbursed for any actual and necessary expenses incurred in connection with the performance of duties as a member of the commission.

**GC §17526: Commission Meetings**

(a) All meetings of the commission shall be open to the public, except that the commission may meet in executive session to consider the appointment or dismissal of officers or employees of the commission or to hear complaints or charges brought against a member, officer, or employee of the commission. (b) The commission shall meet at least once every two months. (c) The time and place of meetings may be set by resolution of the commission, by written petition of a majority of the members, or by written call of the chairperson. The chairperson may, for good cause, change the starting time or place, reschedule, or cancel any meeting.

**GC §17527: Powers of Commission**

In carrying out its duties and responsibilities, the commission shall have the following powers: (a) To examine any document, report, or data, including computer programs and data files, held by any local agency or school district. (b) To meet at times and places as it may deem proper. (c) As a body or, on the authorization of the commission, as a committee composed of one or more members, to hold hearings at any time and place it may deem proper. (d) Upon a majority vote of the commission, to issue subpoenas to compel the attendance of witnesses and the production of books, records, papers, accounts, reports, and documents. (e) To administer oaths. (f) To contract with other agencies or individuals, public or private, as it deems necessary, to provide or prepare services, facilities, studies, and reports to the commission as will assist it in carrying out its duties and responsibilities. (g) To adopt, promulgate, amend, and rescind rules and regulations, which shall not be subject to the review and approval of the Office of Administrative Law pursuant to the provisions of the Administrative Procedure Act provided for in Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2. (h) To do any and all other actions necessary or convenient to enable it fully and adequately to perform its duties and to exercise the powers expressly granted to it.

**GC §17528: Election of Officers**

The members of the commission shall elect a chairperson and a vice chairperson of the commission.

**GC §17529: Appointment of Attorney: Duties**

The commission may appoint as attorney to the commission an attorney at law of this state, who shall hold office at the pleasure of the commission. The attorney shall represent and appear for the commission in all actions and proceedings involving any question under this part or under any order or act of the commission. The attorney shall advise the commission and each member of the commission, when so requested, in regard to all matters in connection with the powers and duties of the commission and the members thereof. The attorney shall generally perform all duties and services as attorney to the commission which the commission may require.

**GC §17530: Appointment of Executive Director: Duties**

The commission shall appoint an executive director, who shall be exempt from civil service and shall hold office at the pleasure of the commission. The executive director shall be responsible for the executive and administrative duties of the commission and shall organize, coordinate, supervise, and direct the operations and affairs of the commission and expedite all matters within the jurisdiction of the commission. The executive director shall keep a full and true record of all proceedings of the commission, issue all necessary process, writs, warrants, and notices, and perform other duties as the commission prescribes.

**GC §17531: Authority of Executive Director to Employ Necessary Staff**

The executive director may employ those officers, examiners, experts, statisticians, accountants, inspectors, clerks, and employees as the executive director deems necessary to carry out the provisions of this part or to perform the duties and exercise the powers conferred upon the commission by law.

**GC §17532: Quorum: Investigations, Inquiries, and Hearing**

A majority of the commissioners shall constitute a quorum for the transaction of any business, for the performance of any duty, or for the exercise of any power of the commission. Any investigation, inquiry, or hearing which the commission has power to undertake or to hold may be undertaken or held by or before any commissioner or commissioners designated for the purpose by the commission. The evidence in any investigation, inquiry, or hearing may be taken by the commissioner or commissioners to whom the investigation, inquiry, or hearing has been assigned or, in his or her or their behalf, by an examiner designated for that purpose. Every finding, opinion, and order made by the commissioner or commissioners so designated, pursuant to the investigation, inquiry, or hearing, when approved or confirmed by the commission and ordered filed in its office, shall be deemed to be the finding, opinion, and order of the commission.

**GC §17533: Provisions not Applicable to Hearing by Commission**

Notwithstanding Section 11425.10, Chapter 4.5 (commencing with Section 11400) of Part 1 of Division 3 does not apply to a hearing by the commission under this part.

**GC §17550: Reimbursements of Local Agencies and Special Districts**

Reimbursement of local agencies and school districts for costs mandated by the state shall be provided pursuant to this chapter.

**GC §17551: Commission Hearing and Decision Upon Claims**

(a) The commission, pursuant to the provisions of this chapter, shall hear and decide upon a claim by a local agency or school district that the local agency or school district is entitled to be reimbursed by the state for costs mandated by the state as required by Section 6 of Article XIIB of the California Constitution. (b) Except as provided in Sections 17573 and 17574, commission review of claims may be had pursuant to subdivision (a) only if the test claim is filed within the time limits specified in this section. (c) Local agency and school district test claims shall be filed not later than 12 months following the effective date of a statute or executive order, or within 12 months of incurring increased costs as a result of a statute or executive order, whichever is later. (d) The commission, pursuant to the provisions of this chapter, shall hear and decide upon a claim by a local agency or school district filed on or after January 1, 1985, that the Controller has incorrectly reduced payments to the local agency or school district pursuant to paragraph (2) of subdivision (d) of Section 17561.



**GC §17552: Exclusivity of Procedure by Chapter**

This chapter shall provide the sole and exclusive procedure by which a local agency or school district may claim reimbursement for costs mandated by the state as required by Section 6 of Article XIII B of the California Constitution.

**GC §17553: Adoption of Procedure for Receiving Claims and Providing Hearings: Postponement of Hearings**

(a) The commission shall adopt procedures for receiving claims filed pursuant to this article and Section 17574 for providing a hearing on those claims. The procedures shall do all of the following: (1) Provide for presentation of evidence by the claimant, the Department of Finance and any other affected department or agency, and any other interested person. (2) Ensure that a statewide cost estimate is adopted within 12 months after receipt of a test claim, when a determination is made by the commission that a mandate exists. This deadline may be extended for up to six months upon the request of either the claimant or the commission. (3) Permit the hearing of a claim to be postponed at the request of the claimant, without prejudice, until the next scheduled hearing. (b) All test claims shall be filed on a form prescribed by the commission and shall contain at least the following elements and documents: (1) A written narrative that identifies the specific sections of statutes or executive orders and the effective date and register number of regulations alleged to contain a mandate and shall include all of the following: (A) A detailed description of the new activities and costs that arise from the mandate. (B) A detailed description of existing activities and costs that are modified by the mandate. (C) The actual increased costs incurred by the claimant during the fiscal year for which the claim was filed to implement the alleged mandate. (D) The actual or estimated annual costs that will be incurred by the claimant to implement the alleged mandate during the fiscal year immediately following the fiscal year for which the claim was filed. (E) A statewide cost estimate of increased costs that all local agencies or school districts will incur to implement the alleged mandate during the fiscal year immediately following the fiscal year for which the claim was filed. (F) Identification of all of the following: (i) Dedicated state funds appropriated for this program. (ii) Dedicated federal funds appropriated for this program. (iii) Other non-local agency funds dedicated for this program. (iv) The local agency's general purpose funds for this program. (v) Fee authority to offset the costs of this program. (G) Identification of prior mandate determinations made by the Commission on State Mandates or a predecessor agency that may be related to the alleged mandate. (H) Identification of a legislatively determined mandate pursuant to Section 17573 that is on the same statute or executive order. (2) The written narrative shall be supported with declarations under penalty of perjury, based on the declarant's personal knowledge, information or belief, and signed by persons who are authorized and competent to do so, as follows: (A) Declarations of actual or estimated increased costs that will be incurred by the claimant to implement the alleged mandate. (B) Declarations identifying all local, state, or federal funds, or fee authority that may be used to offset the increased costs that will be incurred by the claimant to implement the alleged mandate, including direct and indirect costs. (C) Declarations describing new activities performed to implement specified provisions of the new statute or executive order alleged to impose a reimbursable state-mandated program. Specific references shall be made to chapters, articles, sections, or page numbers alleged to impose a reimbursable state-mandated program. (D) If applicable, declarations describing the period of reimbursement and payments received for full reimbursement of costs for a legislatively determined mandate pursuant to Section 17573, and the authority to file a test claim pursuant to paragraph (1) of Section 17574. (3) (A) The written narrative shall be supported with copies of all of the following: (i) The test claim statute that includes the bill number or executive order, alleged to impose or impact a mandate. (ii) Relevant portions of state constitutional provisions, federal statutes, and executive orders that may impact the alleged mandate. (iii) Administrative decisions and court decisions cited in the narrative. (B) State mandate determinations made by the Commission on State Mandates or a predecessor agency and published court decisions on state mandate determinations made by the Commission on State Mandates are exempt from this requirement. (4) A test claim shall be signed at the end of the document, under penalty of perjury by the claimant or its authorized representative, with the declaration that the test claim is true and complete to the best of the declarant's personal knowledge or information or belief. The date of signing, the declarant's title, address, telephone number, facsimile machine telephone number, and electronic mail address shall be included.

(c) If a completed test claim is not received by the commission within 30 calendar days from the date that an incomplete test claim was returned by the commission, the original test claim filing date may be disallowed, and a new test claim may be accepted on the same statute or executive order. (d) In addition, the commission shall determine whether an incorrect reduction claim is complete within 10 days after the date that the incorrect reduction claim is filed. If the commission determines that an incorrect reduction claim is not complete, the commission shall notify the local agency and school district that filed the claim stating the reasons that the claim is not complete. The local agency or school district shall have 30 days to complete the claim. The commission shall serve a copy of the complete incorrect reduction claim on the Controller. The Controller shall have no more than 90 days after the date the claim is delivered or mailed to file any rebuttal to an incorrect reduction claim. The failure of the Controller to file a rebuttal to an incorrect reduction claim shall not serve to delay the consideration of the claim by the commission.

#### **GC §17554: Commission's Authority to Expedite Claim**

With the agreement of all parties to the claim, the commission may waive the application of any procedural requirement imposed by this chapter or pursuant to Section 17553. The authority granted by this section includes the consolidation of claims and the shortening of time periods.

#### **GC §17555: Date for Public Hearing: Test Claim Form and Procedure**

(a) No later than 30 days after hearing and deciding upon a test claim pursuant to subdivision (a) of Section 17551, and determining the amount to be subvended to local agencies and school districts for reimbursement pursuant to subdivision (a) of Section 17557, the commission shall notify the appropriate Senate and Assembly policy and fiscal committees, the Legislative Analyst, the Department of Finance, and the Controller of that decision. (b) For purposes of this section, the "appropriate policy committee" means the policy committee that has jurisdiction over the subject matter of the statute, regulation, or executive order, and bills relating to that subject matter would have been heard.

#### **GC §17556: Criteria for not Finding Costs Mandated by the State**

The commission shall not find costs mandated by the state, as defined in Section 17514, in any claim submitted by a local agency or school district, if, after a hearing, the commission finds any one of the following: (a) The claim is submitted by a local agency or school district that requested legislative authority for that local agency or school district to implement the program specified in the statute, and that statute imposes costs upon that local agency or school district requesting the legislative authority. A resolution from the governing body or a letter from a delegated representative of the governing body of a local agency or school district that requests authorization for that local agency or school district to implement a given program shall constitute a request within the meaning of this subdivision. (b) The statute or executive order affirmed for the state a mandate that had been declared existing law or regulation by action of the courts. (c) The statute or executive order imposes a requirement that is mandated by a federal law or regulation and results in costs mandated by the federal government, unless the statute or executive order mandates costs that exceed the mandate in that federal law or regulation. This subdivision applies regardless of whether the federal law or regulation was enacted or adopted prior to or after the date on which the state statute or executive order was enacted or issued. (d) The local agency or school district has the authority to levy service charges, fees, or assessments sufficient to pay for the mandated program or increased level of service. (e) The statute, executive order, or an appropriation in a Budget Act or other bill provides for offsetting savings to local agencies or school districts that result in no net costs to the local agencies or school districts, or includes additional revenue that was specifically intended to fund the costs of the state mandate in an amount sufficient to fund the cost of the state mandate. (f) The statute or executive order imposes duties that are necessary to implement, reasonably within the scope of, or expressly included in, a ballot measure approved by the votes in a statewide or local election. This subdivision applies regardless of whether the statute or executive order was enacted or adopted before or after the date on which the ballot measure was approved by the voters. (g) The statute created a new crime or infraction, eliminated a

crime or infraction, or changed the penalty for a crime or infraction, but only for that portion of the statute relating directly to the enforcement of the crime or infraction.

**GC §17557: Determination of Amount to be Subvened for Reimbursement:  
Parameters and Guidelines**

(a) If the commission determines there are costs mandated by the state pursuant to Section 17551, it shall determine the amount to be subvened to local agencies and school districts for reimbursement. In so doing it shall adopt parameters and guidelines for reimbursement of any claims relating to the statute or executive order. The successful test claimants shall submit proposed parameters and guidelines within 30 days of adoption of a statement of decision on a test claim. At the request of a successful test claimant, the commission may provide for one or more extensions of this 30-day period at any time prior to its adoption of the parameters and guidelines. If proposed parameters and guidelines are not submitted within the 30-day period and the commission has not granted an extension, then the commission shall notify the test claimant that the amount of reimbursement the test claimant is entitled to for the first 12 months of incurred costs will be reduced by 20 percent, unless the test claimant can demonstrate to the commission why an extension of the 30-day period is justified. (b) In adopting parameters and guidelines, the commission may adopt a reasonable reimbursement methodology. (c) The parameters and guidelines adopted by the commission shall specify the fiscal years for which local agencies and school districts shall be reimbursed for costs incurred. However, the commission may not specify in the parameters and guidelines any fiscal year for which payment could be provided in the annual Budget Act. (d) A local agency, school district, or the state may file a written request with the commission to amend, modify, or supplement the parameters or guidelines. The commission may, after public notice and hearing, amend, modify, or supplement the parameters and guidelines. A parameters and guidelines amendment submitted within 90 days of the claiming deadline for initial claims, as specified in the claiming instructions pursuant to Section 17561, shall apply to all years eligible for reimbursement as defined in the original parameters and guidelines. A parameters and guidelines amendment filed more than 90 days after the claiming deadline for initial claims, as specified in the claiming instructions pursuant to Section 17561, and on or before the claiming deadline following a fiscal year, shall establish reimbursement eligibility for that fiscal year. (e) A test claim shall be submitted on or before June 30 following a fiscal year in order to establish eligibility for reimbursement for that fiscal year. The claimant may thereafter amend the test claim at any time, but before the test claim is set for a hearing, without affecting the original filing date as long as the amendment substantially relates to the original test claim. (f) In adopting parameters and guidelines, the commission shall consult with the Department of Finance, the affected state agency, the Controller, the fiscal and policy committees of the Assembly and Senate, the Legislative Analyst, and the claimants to consider a reasonable reimbursement methodology that balances accuracy with simplicity.

**GC §17557.1: Statement of Decision on Test Claim**

(a) Notwithstanding any other provision of this part within 30 days of the commission's adoption of a statement of decision on a test claim, the test claimant and the Department of Finance may notify the executive director of the commission in writing of their intent to follow the process described in this section to develop a reasonable reimbursement methodology and statewide estimate of costs for the initial claiming period and budget year for reimbursement of costs mandated by the state in accordance with the statement of decision. The letter of intent shall include the date on which the test claimant and the Department of Finance will submit a plan to ensure that costs from a representative sample of eligible local agency or school district claimants are considered in the development of a reasonable reimbursement methodology. (b) This plan shall also include all of the following information: (1) The date on which the test claimant and Department of Finance will provide to the executive director an informational update regarding their progress in developing the reasonable reimbursement methodology. (2) The date on which the test claimant and Department of Finance will submit to the executive director the draft reasonable reimbursement methodology and proposed statewide estimate of costs for the initial claiming period and budget year. This date shall be no later than 180 days after the date the letter of intent is sent by the test claimant and Department of Finance to the executive

director. (c) At the request of the test claimant and Department of Finance, the executive director may provide for up to four extensions of this 180-day period. (d) The test claimant or Department of Finance may notify the executive director at any time that the claimant or Department of Finance no longer intends to develop a reasonable reimbursement methodology pursuant to this section. In this case, paragraph (2) of subdivision (a) of Section 17553 and Section 17557 shall apply to the test claim. Upon receipt of this notification, the executive director shall notify the test claimant of the duty to submit proposed parameters and guidelines within 30 days under subdivision (a) of Section 17557.

#### **GC §17557.2: Broad Support Required; Joint Proposal Prior to Commission Hearing**

(a) A reasonable reimbursement methodology developed pursuant to Section 17557.1 or a joint request for early termination of a reasonable reimbursement methodology shall have broad support from a wide range of local agencies or school districts. The test claimant and Department of Finance may demonstrate broad support from a wide range of local agencies or school districts in different ways including, but not limited to, obtaining endorsement by one or more statewide associations of local agencies or school districts and securing letters of approval from local agencies or school districts. (b) No later than 60 days before a commission hearing, the test claimant and Department of Finance shall submit to the commission joint proposal that shall include all of the following: (1) The draft reasonable reimbursement methodology. (2) The proposed statewide estimate of costs for the initial claiming period and budget year. (3) A description of the steps the test claimant and the Department of Finance undertook to determine the level of support by local agencies or school districts for the draft reasonable reimbursement methodology. (4) An agreement that the reasonable reimbursement methodology developed and approved under this section shall be in effect for a period of five years unless a different term is approved by the commission, or upon submission to the commission of a letter indicating the Department of Finance and test claimant's joint interest in early termination of the reasonable reimbursement methodology. (5) An agreement that, at the conclusion of the period established in paragraph (4), the Department of Finance and the test claimant will consider jointly whether amendments to the methodology are necessary. (c) The commission shall approve the draft reasonable reimbursement methodology if review of the information submitted pursuant to Section 17557.1 and subdivision (b) of this section demonstrates that the draft reasonable reimbursement methodology and statewide estimate of costs for the initial claiming period and budget year have been developed in accordance with Section 17557.1 and meet the requirements of subdivision (a). The commission thereafter shall adopt the proposed statewide estimate of costs for the initial claiming period and budget year. Statewide cost estimates adopted under this section shall be included in the report to the Legislature required under Section 17600 and shall be reported by the commission to the appropriate Senate and Assembly policy and fiscal committees, the Legislative Analyst, and the Department of Finance not later than 30 days after adoption. (d) Unless amendments are proposed pursuant to this subdivision, the reasonable reimbursement methodology approved by the commission pursuant to this section shall expire after either five years, any other term approved by the commission, or upon submission to the commission of a letter indicating the Department of Finance's and test claimant's joint interest in early termination of the reasonable reimbursement methodology. (e) The commission shall approved a joint request for early termination of a reasonable reimbursement methodology if the request meets the requirements of subdivision (a). If the commission approves a joint request for early termination, the commission shall notify the test claimant of the duty to submit proposed parameters and guidelines to the commission pursuant to subdivision (a) of Section 17557. (f) At least one year before the expiration of a reasonable reimbursement methodology, the commission shall notify the Department of Finance and the test claimant that they may do one of the following: (1) Jointly propose amendments to the reasonable reimbursement methodology by submitting the information described in paragraphs (1), (3), and (4) of subdivision (b), and providing an estimate of the mandate's annual cost for the subsequent budget year. (2) Jointly propose that the reasonable reimbursement methodology remain in effect. (3) Allow the reasonable reimbursement methodology to expire and notify the commission that the test claimant will submit proposed parameters and guidelines to the commission pursuant to subdivision (a) of Section 17557 to replace the reasonable reimbursement methodology. (g) The commission shall either approve the continuation of the reasonable reimbursement methodology or approve the jointly proposed amendments to the reasonable reimbursement methodology if the

information submitted in accordance with paragraph (1) of subdivision (d) demonstrates that the proposed amendments were developed in accordance with Section 17557.1 and meet the requirements of subdivision (a) of this section.

**GC §17558: Submission of Parameters and Guidelines to Controller: Transfer of Claims; Claiming Instructions**

(a) The commission shall submit the adopted parameters and guidelines or a reasonable reimbursement methodology approved pursuant to Section 17557.2 to the Controller. As used in this chapter, a "reasonable reimbursement methodology" approved pursuant to Section 17557.2 includes all amendments to the reasonable reimbursement methodology. When the Legislature declares a legislatively determined mandate in accordance with Section 17573 in which claiming instructions are necessary, the Department of Finance shall notify the Controller. (b) Not later than 60 days after receiving the adopted parameters and guidelines, a reasonable reimbursement methodology from the commission, or notification from the Department of Finance, the Controller shall issue claiming instructions for each mandate that requires state reimbursement, to assist local agencies and school districts in claiming costs to be reimbursed. In preparing claiming instructions, the Controller shall request assistance from the Department of Finance and may request the assistance of other state agencies. The claiming instructions shall be derived from the test claim decision and the adopted parameters and guidelines, reasonable reimbursement methodology, or statute declaring a legislatively determined mandate. (c) The Controller shall, within 60 days after receiving adopted parameters and guidelines, an amended reasonable reimbursement methodology from the commission or other information necessitating a revision of the claiming instructions, prepare and issue revised claiming instructions for mandates that require state reimbursement that have been established by commission action pursuant to Section 17557, Section 17557.2 or after any decision or order of the commission pursuant to Section 17557.2, or after any action by the Legislature pursuant to Section 17573. In preparing revised claiming instructions, the Controller may request the assistance of other state agencies.

**GC §17558.5: Reimbursement Claim: Audit; Remittance Advice and Other Notices of Payment**

(a) A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, 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. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. (b) The Controller may conduct a field review of any claim after the claim has been submitted, prior to the reimbursement of the claim. (c) The Controller shall notify the claimant in writing within 30 days after issuance of a remittance advice of any adjustment to a claim for reimbursement that results from an audit or review. The notification shall specify the claim components adjusted, the amounts adjusted, interest charges on claims adjusted to reduce the overall reimbursement to the local agency or school district, and the reason for the adjustment. Remittance advices and other notices of payment action shall not constitute notice of adjustment from an audit or review. (d) The interest rate charged by the Controller on reduced claims shall be set at the Pooled Money Investment Account rate and shall be imposed on the dollar amount of the overpaid claim from the time the claim was paid until overpayment is satisfied. (e) Nothing in this section shall be construed to limit the adjustment of payments when inaccuracies are determined to be the result of the intent to defraud, or when a delay in the completion of an audit is the result of willful acts by the claimant or inability to reach agreement on terms of final settlement.

**GC §17558.6: Legislative Intent**

It is the intent of the Legislature that the Commission on State Mandates review its process by which local agencies may appeal the reduction of reimbursement claims on the basis that the reduction is incorrect in order to provide for a more expeditious and less costly process.

**GC §17559: Judicial Review**

(a) The commission may order a reconsideration of all or part of a test claim or incorrect reduction claim on petition of any party. The power to order a reconsideration or amend a test claim decision shall expire 30 days after the statement of decision is delivered or mailed to the claimant. If additional time is needed to evaluate a petition for reconsideration filed prior to the expiration of the 30-day period, the commission may grant a stay of that expiration for no more than 30 days, solely for the purpose of considering the petition. If no action is taken on a petition within the time allowed for ordering reconsideration, the petition shall be deemed denied. (b) 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. The court may order the commission to hold another hearing regarding the claim and may direct the commission on what basis the claim is to receive a rehearing.

**GC §17560: Deadlines for Filing Reimbursement Claims**

Reimbursement for state-mandated costs may be claimed as follows: (a) A local agency or school district may, by February 15 following the fiscal year in which costs are incurred, file an annual reimbursement claim that details the costs actually incurred for that fiscal year. (b) In the event revised claiming instructions are issued by the Controller pursuant to subdivision (c) of Section 17558 between November 15 and February 15, a local agency or school district filing an annual reimbursement claim shall have 120 days following the issuance date of the revised claiming instructions to file a claim.

**GC §17561: Reimbursement of Costs for State Mandated Programs**

(a) The state shall reimburse each local agency and school district for all "costs mandated by the state," as defined in Section 17514 and for legislatively determined mandates in accordance with Section 17573. (b) (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 that is intended to serve as the source from which the Controller may pay the claims of local agencies and school districts. (2) In subsequent fiscal years appropriations for these costs shall be included in the annual Governor's Budget and in the accompanying Budget Bill. In addition, appropriations to reimburse local agencies and school districts for continuing costs resulting from chaptered bills or executive orders for which claims have been awarded pursuant to subdivision (a) of Section 17551 shall be included in the annual Governor's Budget and in the accompanying Budget Bill. (c) The amount appropriated to reimburse local agencies and school districts for costs mandated by the state shall be appropriated to the Controller for disbursement. (d) The Controller shall pay any eligible claim pursuant to this section by August 15 or 45 days after the date of the appropriation for the claim is effective, whichever is later. The Controller shall disburse reimbursement funds to local agencies or school districts if the costs of these mandates are not payable to state agencies, or to state agencies that would otherwise collect the costs of these mandates from local agencies or school districts in the form of fees, premiums, or payments. When disbursing reimbursement funds to local agencies or school districts, the Controller shall disburse them as follows: (1) For initial reimbursement claims, the Controller shall issue claiming instructions to the relevant local agencies and school districts pursuant to Section 17558. 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, the

reasonable reimbursement methodology approved by the commission pursuant to Section 17557.2, or statutory declaration of a legislative determined and reimbursement methodology pursuant to Section 17573. (A) When claiming instructions are issued by the Controller pursuant to Section 17558 for each mandate determined pursuant to Section 17551 or 17573 that requires state reimbursement, each local agency or school district to which the mandate is applicable shall submit claims for initial fiscal year costs to the Controller within 120 days of the issuance date for the claiming instructions. (B) When the commission is requested to review the claiming instructions pursuant to Section 17571, each local agency or school district to which the mandate is applicable shall submit a claim for reimbursement within 120 days after the commission reviews the claiming instructions for reimbursement issued by the Controller. (C) If the local agency or school district does not submit a claim for reimbursement within the 120-day period, or submits a claim pursuant to revised claiming instructions, it may submit its claim for reimbursement as specified in Section 17560. 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, the application of a reasonable reimbursement methodology, or application of a legislatively enacted reimbursement methodology under Section 17573, and (ii) may reduce any claim that the Controller determines is excessive or unreasonable. (2) In subsequent fiscal years each local agency or school district shall submit its claims as specified in Section 17560. The Controller shall pay these claims from funds appropriated therefor, provided that the Controller (A) may audit (i) the records of any local agency or school district to verify the actual amount of the mandated costs, (ii) the application of a reasonable reimbursement methodology, or (iii) application of a legislatively enacted reimbursement methodology under Section 17573.(B) may reduce any claim that the Controller determines is excessive or unreasonable, and (C) shall adjust the payment to correct for any underpayments or overpayments which occurred in previous fiscal years. (3) When paying a timely filed claim for initial reimbursement, the Controller shall withhold 20 percent of the amount of the claim until the claim is audited to verify the actual amount of the mandated costs. All initial reimbursement claims for all fiscal years required to be filed on their initial filing date for a state-mandated local program shall be considered as one claim for the purpose of computing any late claim penalty. Any claim for initial reimbursement filed after the filing deadline shall be reduced by 10 percent of the amount that would have been allowed had the claim been timely filed. The Controller may withhold payment of any late claim for initial reimbursement until the next deadline for funded claims unless sufficient funds are available to pay the claim after all timely filed claims have been paid. In no case may a reimbursement claim be paid if submitted more than one year after the filing deadline specified in the Controller's claiming instructions on funded mandates . (e) (1) Except as specified in paragraph (2), for the purposes of determining the state's payment obligation under paragraph (1) of subdivision (b) of Section 6 of Article XIII B of the Constitution, a mandate that is "determined in a preceding fiscal year to be payable by the state" means any mandate for which the commission adopted a statewide cost estimate pursuant to this part during a previous fiscal year or that were identified as mandates by a predecessor agency to the commission, or that the Legislature declared by statute to be a legislatively determined mandate, unless the mandate has been repealed or otherwise eliminated. (2) If the commission adopts a statewide cost estimate for a mandate during the months of April, May, or June, the state's payment obligation under subdivision (b) of Section 6 of Article XIII B shall commence one year after the time specified in paragraph (1).

#### **GC §17561.5: Payment of Claim with Interest**

The payment of an initial reimbursement claim by the Controller shall include accrued interest at the Pooled Money Investment Account rate, if the payment is being made more than 365 days after adoption of the statewide cost estimate for an initial claim or, in the case of payment of a subsequent claim relating to that same statute or executive order, if payment is being made more than 60 days after the filing deadline for, or the actual date of receipt of, the subsequent claim, whichever is later. In those instances, interest shall begin to accrue as of the 366th day after adoption of the statewide cost estimate for an initial claim and as of the 61st day after the filing deadline for, or actual date of receipt of, the subsequent claim, whichever is later.

**GC §17561.6: Payment**

A budget act item or appropriation pursuant to this part for reimbursement of claims shall include an amount necessary to reimburse any interest due pursuant to Section 17561.5.

**GC §17562: Review of Costs of State-Mandated Local Programs**

(a) The Legislature hereby finds and declares that the increasing revenue constraints on state and local government and the increasing costs of financing state-mandated local programs make evaluation of state-mandated local programs imperative. Accordingly, it is the intent of the Legislature to increase information regarding state mandates and establish a method for regularly reviewing the costs and benefits of state-mandated local programs. (b) The Controller shall submit a report to the Joint Legislative Budget Committee and fiscal committees by October 31 of each fiscal year beginning with the 2007-08 fiscal year. This report shall summarize, by state mandate, the total amount of claims paid per fiscal year and the amount, if any, of mandate deficiencies or surpluses. This report shall be made available in an electronic spreadsheet format. The report shall compare the annual cost of each mandate. In the preceding fiscal year to the amount determined to be payable by the state for that fiscal year. (2) The Controller shall submit a report to the Joint Legislative Budget Committee, the applicable fiscal committees, and the Director of Finance by April 30 of each fiscal year. This report shall summarize, by state mandate, the total amount of unpaid claims by fiscal year that were submitted before April 1 of that fiscal year. The report shall also summarize any mandate deficiencies or surpluses. It shall be made available in an electronic spreadsheet, and shall be used for the purpose of determining the state's payment obligation under paragraph (1) of subdivision (b) of Section 6 of Article XIII B of the California Constitution. (c) After the commission submits its second semiannual report to the Legislature pursuant to Section 17600, the Legislative Analyst shall submit a report to the Joint Legislative Budget Committee and legislative fiscal committees on the mandates included in the commission's reports. The report shall make recommendations as to whether the mandate should be repealed, funded, suspended, or modified. (d) In its annual analysis of the Budget Bill and based on information provided pursuant to subdivision (b), the Legislative Analyst shall report total annual state costs for mandated programs and, as appropriate, provide an analysis of specific mandates and make recommendations on whether the mandate should be repealed, funded, suspended, or modified. (e) (1) A statewide association of local agencies or school districts or a Member of the Legislature may submit a proposal to the Legislature recommending the elimination or modification of a state-mandated local program. To make such a proposal, the association or member shall submit a letter to the Chairs of the Assembly Committee on Education or the Assembly Committee on Local Government, as the case may be, and the Senate Committee on Education or the Senate Committee on Local Government, as the case may be, specifying the mandate and the concerns and recommendations regarding the mandate. The association or member shall include in the proposal all information relevant to the conclusions. If the chairs of the committees desire additional analysis of the submitted proposal, the chairs may refer the proposal to the Legislative Analyst for review and comment. The chairs of the committees may refer up to a total of 10 of these proposals to the Legislative Analyst for review in any year. Referrals shall be submitted to the Legislative Analyst by December 1 of each year. (2) The Legislative Analyst shall review and report to the Legislature with regard to each proposal that is referred to the office pursuant to paragraph (1). The Legislative Analyst shall recommend that the Legislature adopt, reject, or modify the proposal. The report and recommendations shall be submitted annually to the Legislature by March 1 of the year subsequent to the year in which referrals are submitted to the Legislative Analyst. (3) The Department of Finance shall review all statutes enacted each year that contain provisions making inoperative Section 17561 or Section 17565 that have resulted in costs or revenue losses mandated by the state that were not identified when the statute was enacted. The review shall identify the costs or revenue losses involved in complying with the statutes. The Department of Finance shall also review all statutes enacted each year that may result in cost savings authorized by the state. The Department of Finance shall submit an annual report of the review required by this subdivision, together with the recommendations as it may deem appropriate, by December 1 of each year. (f) It is the intent of the Legislature that the Assembly Committee on Local Government and the Senate Committee on Local Government hold a joint hearing each year regarding the following: (1) The reports and recommendations submitted pursuant to subdivision (e). (2) The reports submitted pursuant to Sections



17570, 17600, and 17601. (3) Legislation to continue, eliminate, or modify any provision of law reviewed pursuant to this subdivision. The legislation may be by subject area or by year or years of enactment.

**GC §17563: Use of Funds Received for Public Purpose**

Any funds received by a local agency or school district pursuant to the provisions of this chapter may be used for any public purpose.

**GC §17564: Filing of Claims: Threshold Amount**

(a) No claim shall be made pursuant to Sections 17551, 17561, or 17573, nor shall any payment be made on claims submitted pursuant to Sections 17551 or 17561, or pursuant to a legislative determination under Section 17573, unless these claims exceed one thousand dollars (\$1,000), provided that a county superintendent of schools or county may submit a combined claim on behalf of school districts, direct service districts, or special districts within their county if the combined claim exceeds one thousand dollars (\$1,000) even if the individual school district's, direct service district's, or special district's claims do not each exceed one thousand dollars (\$1,000). The county superintendent of schools or the county shall determine if the submission of the combined claim is economically feasible and shall be responsible for disbursing the funds to each school, direct service, or special district. These combined claims may be filed only when the county superintendent of schools or the county is the fiscal agent for the districts. All subsequent claims based upon the same mandate shall only be filed in the combined form unless a school district, direct service district, or special district provides to the county superintendent of schools or county and to the Controller, at least 180 days prior to the deadline for filing the claim, a written notice of its intent to file a separate claim. (b) Claims for direct and indirect costs filed pursuant to Section 17561 shall be filed in the manner prescribed in the parameters and guidelines or reasonable reimbursement methodology and claiming instructions. (c) Claims for direct and indirect costs filed pursuant to a legislatively determined mandate pursuant to Section 17573 shall be filed and paid in the manner prescribed in the Budget Act or other bill, or claiming instructions, if applicable.

**GC §17565: Reimbursement of Subsequently Mandated Costs**

If a local agency or a school district, at its option, has been incurring costs which are subsequently mandated by the state, the state shall reimburse the local agency or school district for those costs incurred after the operative date of the mandate.

**GC §17567: Insufficiency of Appropriation: Proration of Claims**

In the event that the amount appropriated for reimbursement purposes pursuant to Section 17561 is not sufficient to pay all of the claims approved by the Controller, the Controller shall prorate claims in proportion to the dollar amount of approved claims timely filed and on hand at the time of proration. The Controller shall adjust prorated claims if supplementary funds are appropriated for this purpose. In the event that the Controller finds it necessary to prorate claims as provided by this section, the Controller shall immediately report this action to the Department of Finance, the Chairperson of the Joint Legislative Budget Committee, and the Chairperson of the respective committee in each house of the Legislature which considers appropriations in order to assure appropriation of these funds in the Budget Act.

**GC §17568: Payment of Claims Submitted After Deadline**

If a local agency or school district submits an otherwise valid reimbursement claim to the Controller after the deadline specified in Section 17560, the Controller shall reduce the reimbursement claim in an amount equal to 10 percent of the amount which would have been allowed had the reimbursement claim been timely filed, provided that the amount of this reduction shall not exceed ten thousand dollars (\$10,000). In no case shall a reimbursement claim be paid which is submitted more than one year after

the deadline specified in Section 17560. Estimated claims which were filed by the deadline specified in that section shall be paid in full before payments are made on estimated claims filed after the deadline. In the event the amount appropriated to the Controller for reimbursement purposes is not sufficient to pay the estimated claims approved by the Controller, the Controller shall prorate those claims in proportion to the dollar amount of approved claims filed after the deadline and shall report to the commission or the Legislature in the same manner as described in Section 17566 in order to assure appropriation of funds sufficient to pay those claims.

**GC §17570: Annual Report to Legislature**

The Legislative Analyst shall review each unfunded statutory or regulatory mandate for which claims have been approved by the Legislature pursuant to a claims bill during the preceding fiscal year. Any recommendations by the Legislative Analyst to eliminate or modify the mandates shall be contained in the annual analysis of the Budget Bill prepared by the Legislative Analyst.

**GC §17571: Review and Modification of Claiming Instructions**

The commission, upon request of a local agency or school district, shall review the claiming instructions issued by the Controller or any other authorized state agency for reimbursement of mandated costs. 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.

**GC §17575: Review of Bills**

When a bill is introduced in the Legislature, and each time a bill is amended, on and after January 1, 1985, the Legislative Counsel shall determine whether the bill mandates a new program or higher level of service pursuant to Section 6 of Article XIII B of the California Constitution. The Legislative Counsel shall make this determination known in the digest of the bill and shall describe in the digest the basis for this determination. The determination by the Legislative Counsel shall not be binding on the commission in making its determination pursuant to Section 17555.

**GC §17576: Determination of Bills by the Legislative Counsel**

Whenever the Legislative Counsel determines that a bill will mandate a new program or higher level of service pursuant to Section 6 of Article XIII B of the California Constitution, the Department of Finance shall prepare an estimate of the amount of reimbursement which will be required. This estimate shall be prepared for the respective committees of each house of the Legislature which consider taxation measures and appropriation measures and shall be prepared prior to any hearing on the bill by any such committee.

**GC §17577: Amount of Estimates**

The estimate required by Section 17576 shall be the amount estimated to be required during the first fiscal year of a bill's operation in order to reimburse local agencies and school districts for costs mandated by the state by the bill.

**GC §17578: Amendment of Bills on Floor: Notification by Legislative Counsel**

In the event that a bill is amended on the floor of either house, whether by adoption of the report of a conference committee or otherwise, in such a manner as to mandate a new program or higher level of service pursuant to Section 6 of Article XIII B of the California Constitution, the Legislative Counsel shall immediately inform, respectively, the Speaker of the Assembly and the President of the Senate of that fact. Notification from the Legislative Counsel shall be published in the journal of the respective houses of the Legislature.

**GC §17579: Requirement for New Mandates to Specify Reimbursement Requirements: Appropriations**

Any bill introduced or amended for which the Legislative Counsel has determined the bill will mandate a new program or higher level of service pursuant to Section 6 of Article XIII B of the California Constitution shall contain a section specifying that reimbursement shall be made pursuant to this chapter or that the mandate is being disclaimed and the reason therefor.

**GC §17581: Conditions for Exemption from Implementation of Statute or Executive Order**

(a) No local agency shall be required to implement or give effect to any statute or executive order, or portion thereof, during any fiscal year and for the period immediately following that fiscal year for which the Budget Act has not been enacted for the subsequent fiscal year if all of the following apply: (1) The statute or executive order, or portion thereof, has been determined by the Legislature, the commission, or any court to mandate a new program or higher level of service requiring reimbursement of local agencies pursuant to Section 6 of Article XIII B of the California Constitution. (2) The statute or executive order, or portion thereof, has been specifically identified by the Legislature in the Budget Act for the fiscal year as being one for which reimbursement is not provided for that fiscal year. For purposes of this paragraph, a mandate shall be considered to have been specifically identified by the Legislature only if it has been included within the schedule of reimbursable mandates shown in the Budget Act and it is specifically identified in the language of a provision of the item providing the appropriation for mandate reimbursements. (b) Within 30 days after enactment of the Budget Act, the Department of Finance shall notify local agencies of any statute or executive order, or portion thereof, for which operation of the mandate is suspended because reimbursement is not provided for that fiscal year pursuant to this section and Section 6 of Article XIII B of the California Constitution. (c) Notwithstanding any other provision of law, if a local agency elects to implement or give effect to a statute or executive order described in subdivision (a), the local agency may assess fees to persons or entities which benefit from the statute or executive order. Any fee assessed pursuant to this subdivision shall not exceed the costs reasonably borne by the local agency. (c) This section shall not apply to any state-mandated local program for the trial courts, as specified in Section 77203. (d) This section shall not apply to any state-mandated local program for which the reimbursement funding counts toward the minimum General Fund requirements of Section 8 of Article XVI of the Constitution.

**GC §17581.5 Exemption from Provisions of School Bus Safety II Mandate and School Crimes Reporting II Mandate**

(a) A school district may not be required to implement or give effect to the statutes, or portion thereof, identified in subdivision (b) during any fiscal year and for the period immediately following that fiscal year for which the Budget Act has not been enacted for the subsequent fiscal year if all of the following apply: (1) The statute or portion thereof, has been determined by the Legislature, the commission, or any court to mandate a new program or higher level of service requiring reimbursement of school districts pursuant to Section 6 of Article XIII B of the California Constitution. (2) The statute, or portion thereof, has been specifically identified by the Legislature in the Budget Act for the fiscal year as being one for which reimbursement is not provided for that fiscal year. For purposes of this paragraph, a mandate shall be considered to have been specifically identified by the Legislature only if it has been included within the schedule of reimbursable mandates shown in the Budget Act and it is specifically identified in the language of a provision of the item providing the appropriation for mandate reimbursements. (b) This section applies only to the following mandates: (1) The School Bus Safety I (CSM-4433) and II (97-TC-22) mandates (Chapter 642 of the Statutes of 1992; Chapter 831 of the Statutes of 1994; and Chapter 739 of the Statutes of 1997). (2) The School Crimes Reporting II mandate (97-TC-03; and Chapter 759 of the Statutes of 1992 and Chapter 410 of the Statutes of 1995). (3) Investment reports (96-358-02; and Chapter 783 of the Statutes of 1995 and Chapters 156 and 749 of the Statutes of 1996). (4) County treasury oversight committees (96-365-03; and Chapter 784 of the Statutes of 1995 and Chapter 156 of the Statutes of 1996).

**GC §17600: Report on Number of Mandates and Their Costs**

At least twice each calendar year the commission shall report to the Legislature on the number of mandates it has found pursuant to Article 1 (commencing with Section 17550) and the estimated statewide costs of these mandates. This report shall identify the statewide costs estimated for each mandate and the reasons for recommending reimbursement.

**GC §17601: Report on Claims Denied**

The commission shall report to the Legislature on January 15, 1986, and each January 15 thereafter, on the number of claims it denied during the preceding calendar year and the basis on which the particular claims were denied.

**GC §17612: Local Government Claims Bills: Judicial Review of Funding Deletions**

(a) Upon receipt of the report submitted by the commission pursuant to Section 17600, funding shall be provided in the subsequent Budget Act for costs incurred in prior years. No funding shall be provided for years in which a mandate is suspended. (b) The Legislature may amend, modify, or supplement the parameters and guidelines for mandates contained in the local government claims bill. If the Legislature amends, modifies, or supplements the parameters and guidelines, reasonable reimbursement methodology, and adopted statewide estimate of costs for the initial claiming period and budget year for mandates contained in the annual Budget Act. If the Legislature amends, modifies, or supplements the parameters and guidelines, reasonable reimbursement methodology, and adopted statewide estimate of costs for the initial claiming period and budget year, it shall make a declaration in a separate legislation specifying the basis for the amendment, modification, or supplement. (c) If the Legislature deletes from a local government claims bill funding for a mandate, the local agency or school district may file in the Superior Court of the County of Sacramento an action in declaratory relief to declare the mandate unenforceable and enjoin its enforcement.

**GC §17613: Authorization of Augmentation for Mandated Costs**

(a) The Director of Finance may, upon receipt of any report submitted pursuant to Section 17567, authorize the augmentation of the amount available for expenditure to reimburse costs mandated by the state, as defined in Section 17514, as follows: (1) For augmentation of (A) any schedule in any item to reimburse costs mandated by the state in any budget act, or (B) the amount appropriated in a local government claims bill for reimbursement of the claims of local agencies, as defined by Section 17518, from the unencumbered balance of any other item to reimburse costs mandated by the state in that budget act or another budget act or in an appropriation for reimbursement of the claims of local agencies in another local government claims bill. (2) For augmentation of (A) any schedule in any budget act item, or (B) any amount appropriated in a local government claims bill, when either of these augmentations is for reimbursement of mandated claims of school districts, as defined in Section 17519, when the source of this augmentation is (A) the unencumbered balance of any other scheduled amount in that budget act or another budget act, or (B) an appropriation in another local government claims bill, when either of these appropriations is for reimbursement of mandate claims of school districts. This paragraph applies only to appropriations that are made for the purpose of meeting the minimum funding guarantee for educational programs pursuant to Section 8 of Article XVI of the California Constitution. (b) No authorization for an augmentation pursuant to this section may be made sooner than 30 days after the notification in writing of the necessity therefor to the chairperson of the committee in each house which considers appropriations and the chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time as the chairperson of the joint committee, or his or her designee, may in each instance determine.

**GC §17615: Legislative Findings and Intent**

The Legislature finds and declares that the existing system for reimbursing local agencies and school districts for actual costs mandated by the state on an annual claim basis is time consuming,

cumbersome, and expensive at both the local and state levels. The Controller must process voluminous claims with all claims subject to a desk audit and selected claims also subject to a field audit. Local agencies are required to maintain extensive documentation of all claims in anticipation of such an audit. The volume of these records is substantial and will continue to grow with no relief in sight as new programs are mandated. The cost to local agencies and school districts for filing claims, and for maintaining documentation and responding to the Controller's audits is substantial. The current administrative cost to both state and local governments represents a significant expenditure of public funds with no apparent benefit to the taxpayers. It is the intent of the Legislature to streamline the reimbursement process for costs mandated by the state by creating a system of state mandate apportionments to fund the costs of certain programs mandated by the state.

### **GC §17615.1: Review of Programs for Inclusion in System**

The commission shall establish a procedure for reviewing, upon request, mandated cost programs for which appropriations have been made by the Legislature for the 1982-83, 1983-84, and 1984-85 fiscal years, or any three consecutive fiscal years thereafter. At the request of the Department of Finance, the Controller, or any local agency or school district receiving reimbursement for the mandated program, the commission shall review the mandated cost program to determine whether the program should be included in the State Mandates Apportionment System. If the commission determines that the State Mandates Apportionment System would accurately reflect the costs of the state-mandated program, the commission shall direct the Controller to include the program in the State Mandates Apportionment System.

### **GC §17615.2: Calculation of Disbursement Amounts**

(a) Notwithstanding Section 17561, after November 30, 1985, for those programs included in the State Mandates Apportionment System, after approval by the commission, there shall be disbursed by the Controller to each local agency and school district which has submitted a reimbursement claim for costs mandated by the state in the 1982-83, 1983-84, and the 1984-85 fiscal years, or any three consecutive fiscal years thereafter, an amount computed by averaging the approved reimbursement claims for this three-year period. The amount shall first be adjusted according to any changes in the deflator. The deflator shall be applied separately to each year's costs for the three years which comprise the base period. Funds for these purposes shall be available to the extent they are provided for in the Budget Act of 1985 and the Budget Act for any subsequent fiscal year thereafter. For purposes of this article, "base period" means the three fiscal years immediately succeeding the commission's approval. (b) When the Controller has made payment on claims prior to commission approval of the program for inclusion in the State Mandates Apportionment System, the payment shall be adjusted in the next apportionment to the amount which would have been subvented to the local agency or school district for that fiscal year had the State Mandates Apportionment System been in effect at the time of the initial payment.

### **GC §17615.3: Annual Recalculation of Allocation**

Notwithstanding Section 17561, by November 30, 1986, and by November 30 of each year thereafter, for those programs included in the State Mandates Apportionment System, the Controller shall recalculate each allocation for each local agency and school district for the 1985-86 fiscal year, by using the actual change in the deflator for that year. That recalculated allocation shall then be adjusted by the estimated change in the deflator for the 1986 -87 fiscal year, and each fiscal year thereafter, to establish the allocation amount for the 1986-87 fiscal year, and each fiscal year thereafter. Additionally, for programs approved by the commission for inclusion in the State Mandates Apportionment System on or after January 1, 1988, the allocation for each year succeeding the three-year base period shall be adjusted according to any changes in both the deflator and workload. The Controller shall then subvene that amount after adjusting it by any amount of overpayment or underpayment in the 1985-86 fiscal year, and each fiscal year thereafter, due to a discrepancy between the actual change and the estimated change in the deflator or workload. Funds for these purposes shall be available to the extent they are provided for in the Budget Act of 1986 and the Budget Act for any subsequent fiscal year thereafter. For purposes of this article, "workload" means, for school districts and county offices of

education, changes in the average daily attendance; for community colleges, changes in the number of full-time equivalent students; for cities and counties, changes in the population within their boundaries; and for special districts, changes in the population of the county in which the largest percentage of the district's population is located.

#### **GC §17615.4: Procedure for Newly Mandated Program**

(a) When a new mandate imposes costs that are funded either by legislation or in local government claims bills, local agencies and school districts may file reimbursement claims as required by Section 17561, for a minimum of three years after the initial funding of the new mandate. (b) After actual cost claims are submitted for three fiscal years against such a new mandate, the commission shall determine, upon request of the Controller or a local entity or school district receiving reimbursement for the program, whether the amount of the base year entitlement adjusted by changes in the deflator and workload accurately reflects the costs incurred by the local agency or school district. If the commission determines that the base year entitlement, as adjusted, does accurately reflect the costs of the program, the commission shall direct the Controller to include the program in the State Mandates Apportionment System. (c) The Controller shall make recommendations to the commission and the commission shall consider the Controller's recommendations for each new mandate submitted for inclusion in the State Mandates Apportionment System. All claims included in the State Mandates Apportionment System pursuant to this section are also subject to the audit provisions of Section 17616.

#### **GC §17615.5: Procedure Where No Base Year Entitlement Has Been Established**

(a) If any local agency or school district has an established base year entitlement which does not include costs for a particular mandate, that local agency or school district may submit reimbursement claims for a minimum of three consecutive years, adjusted pursuant to Section 17615.3 by changes in the deflator and workload, or entitlement claims covering a minimum of three consecutive years, after which time its base year entitlement may be adjusted by an amount necessary to fund the costs of that mandate. (b) If any local agency or school district has no base year entitlement, but wishes to begin claiming costs of one or more of the mandates included in the State Mandates Apportionment System, that local agency or school district may submit reimbursement claims for a minimum of three consecutive years, or entitlement claims covering the preceding three consecutive years, which shall be adjusted pursuant to Sections 17615.2 and 17615.3 by changes in the deflator and workload, after which time a base year entitlement may be established in an amount necessary to fund the costs of the mandate or mandates.

#### **GC §17615.6: Procedure Where Program is No Longer Mandatory**

If a local agency or school district realizes a decrease in the amount of costs incurred because a mandate is discontinued, or made permissive, the Controller shall determine the amount of the entitlement attributable to that mandate by determining the base year amount for that mandate for the local agency or school district plus the annual adjustments. This amount shall be subtracted from the annual subvention which would otherwise have been allocated to the local agency or school district.

#### **GC §17615.7: Procedure Where Program is Modified**

If a mandated program included in the State Mandates Apportionment System is modified or amended by the Legislature or by executive order, and the modification or amendment significantly affects the costs of the program, as determined by the commission, the program shall be removed from the State Mandate Apportionment System, and the payments reduced accordingly. Local entities or school districts may submit actual costs claims for a period of three years, after which the program may be considered for inclusion in the State Mandates Apportionment System, pursuant to the provisions of Section 17615.4.

**GC §17615.8: Review of Base Year Entitlement**

(a) The commission shall establish a procedure for reviewing, upon request, any apportionment or base year entitlement of a local agency or school district. (b) Local agencies and school districts which request such a review shall maintain and provide those records and documentation as the commission or its designee determines are necessary for the commission or its designee to make the required determinations. With the exception of records required to verify base year entitlements, the records may not be used to adjust current or prior apportionments, but may be used to adjust future apportionments. (c) If the commission determines that an apportionment or base year entitlement for funding costs mandated by the state does not accurately reflect the costs incurred by the local agency or school district for all mandates upon which that apportionment is based, the commission shall direct the Controller to adjust the apportionment accordingly. For the purposes of this section, an apportionment or a base year entitlement does not accurately reflect the costs incurred by a local agency or school district if it falls short of reimbursing, or overreimburses, that local agency's or school district's actual costs by 20 percent or by one thousand dollars (\$1,000), whichever is less. (d) If the commission determines that an apportionment or base year entitlement for funding costs mandated by the state accurately reflects the costs incurred by the local agency or school district for all mandates upon which that apportionment is based, the commission may, in its discretion, direct the Controller to withhold, and, if so directed, the Controller shall withhold the costs of the commission's review from the next apportionment to the local agency or school district, if the commission review was requested by the local agency or school district.

**GC §17615.9: Review of Programs Under SMAS**

The commission shall periodically review programs funded under the State Mandate Apportionments System to evaluate the effectiveness or continued statewide need for each such mandate.

**GC §17616: Audits and Verification by Controller**

The Controller shall have the authority to do either or both of the following: (a) Audit the fiscal years comprising the base year entitlement no later than three years after the year in which the base year entitlement is established. The results of such audits shall be used to adjust the base year entitlements and any subsequent apportionments based on that entitlement, in addition to adjusting actual cost payments made for the base years audited. (b) Verify that any local agency or school district receiving funds pursuant to this article is providing the reimbursed activities.

**GC §17617: Local Agency Payment**

The total amount due to each city, county, city and county, and special district, for which the state has determined, as of June 30, 2005, that reimbursement is required under Section 6 of Article XIII B of the California Constitution, shall be appropriated for payment to these entities over a period of not more than five years, commencing with the Budget Act for the 2006-07 fiscal year and concluding with the Budget Act for the 2011-12 fiscal year.

# FILING A CLAIM

**RECEIVED**  
December 16, 2013  
**Commission on  
State Mandates**

## 1. Introduction

Government Code (GC) Sections 17500 through 17617 provide for the reimbursement of costs incurred by school districts (SD) for mandated cost programs as a result of any statute enacted after January 1, 1975, or any executive order implementing such statute which mandates a new program or higher level of service of an existing program.

A reimbursement claim is defined in Government Code (GC) Section 17522 as any claim filed with the State Controller's Office (SCO) by a SD for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim. Actual claims for the 2008-09 fiscal year, will be accepted without penalty if postmarked or delivered on or before **February 16, 2010**. Ongoing reimbursement claims filed after the deadline will be reduced by a late penalty of **10%, not to exceed \$10,000**. Amended claims filed after the filing deadline will be reduced by **10% of the increased amount not to exceed \$10,000** for the total claim. Initial reimbursement claims filed after the filing deadline will be reduced by a late penalty of **10% with no limitation**. Claims filed more than one year after the deadline will not be accepted by the SCO.

A charter school is not eligible to file mandated cost claims under these programs because it is not defined as a school district pursuant to GC Section 17519. Accordingly, charter schools cannot be reimbursed for their costs by filing a claim or through a third party's claim such as a school district or superintendent of schools. The Commission on State Mandates (Commission) adopted the Charter School III Statement of Decision on May 25, 2006, which stated that a charter school is voluntarily participating in the charter program at issue and that a charter school is not a school district under GC Section 17519 and therefore is not eligible to claim reimbursement under GC Section 17560.

SD's may use the indirect cost rates from the Restricted Indirect Cost Rates for K-12 Local Educational Agencies (LEA's) Five Year Listing issued by the California Department of Education (CDE), School Fiscal Services Division, for the fiscal year of the claim. Since this information is readily available online, there is no need for SD's to file supporting documentation for indirect costs with their claims. Additional information regarding indirect cost rates can be found in Section 2, Filing a Claim, page 9, *Indirect Costs*.

When a program has been reimbursed for three or more years, the Commission may approve the program for inclusion in the State Mandates Apportionment System (SMAS). For programs included in SMAS, the SCO determines the amount of each claimant's entitlement based on an average of three consecutive fiscal years of actual costs adjusted by any changes in the Implicit Price Deflator (IPD). Claimants with an established entitlement receive an annual apportionment adjusted by any changes in the implicit price deflator (IPD) and under certain circumstances, by any changes in workload. Claimants with an established entitlement no longer need to file claims for that program.

The SCO is authorized to make payments for costs of mandated programs from amounts appropriated by the State Budget Act, by the State Mandates Claims Fund, or by specific legislation. In the event the appropriation is insufficient to pay claims in full, claimants will receive prorated payments in proportion to the dollar amount of approved claims for the program. Balances of prorated payments will be made when supplementary funds become available.

The claiming instructions included in this manual are issued to help claimants prepare manual and/or electronic mandated cost claims, for submission to the SCO. These instructions are based on the State of California's statutes, regulations, and the parameters and guidelines (P's & G's) adopted by the Commission. Since each mandate is unique, it is important to refer to the P's and G's for each program for information relating to established policies and eligible reimbursable costs.



## **2. Electronic Filing: Local Government e-Claims (LGeC)**

LGeC enables claimants and their consultants to securely prepare and submit mandated cost claims via the Internet. LGeC uses a series of data input screens to collect the information needed to prepare a claim and provides a Web service so claims can be uploaded in batch files. The system also incorporates an attachment feature so claimants can electronically attach supporting documentation if required.

In addition, it provides an easy and straightforward approach to the claiming process. Filing claims using LGeC eliminates the manual preparation and submission of paper claims by SD's and the receiving, processing, key entry, verification, and storage of the paper claims by the SCO. LGeC also provides mathematical checks and automated error detection to reduce erroneous and incomplete claims, provides the State with an electronic workflow process, and stores the claims in an electronic format. Making the change from paper claims to electronic claims reduces the manual handling of paper claims and decreases the costs incurred for postage, handling, and storage of claims filed.

In order to use the LGeC system you will need to obtain a user ID and password for each person who will access the LGeC system. To obtain a User ID and password you must file an application with the SCO. The application and instructions are available on the LGeC Web site located at [http://www.sco.ca.gov/ard\\_lgec.html](http://www.sco.ca.gov/ard_lgec.html). Complete the application and other documents as requested and mail them to the SCO using the address provided in the instructions. The SCO will process the application within three business days and issue a User ID and password to each applicant.

In addition, you may want to subscribe to an email distribution list to automatically receive timely, comprehensive information regarding mandated cost claims, payments, guidelines, electronic claims, and other news and updates. You also will receive related audit reports and mandate information disseminated by other state agencies.

You can find more information about LGeC and the email distribution lists at [http://www.sco.ca.gov/ard\\_lgec.html](http://www.sco.ca.gov/ard_lgec.html). This Web site provides access to the LGeC system, an application for User ID's and passwords, an instructional guide, frequently asked questions (FAQ's) and additional help files. Questions may be directed to [LRSDAR@sco.ca.gov](mailto:LRSDAR@sco.ca.gov), or you may call the Local Reimbursements Section at (916) 324-5729.

## **3. Types of Claims**

Claimants may file a reimbursement claim for actual mandated costs incurred in the prior fiscal year. An entitlement claim may be filed for the purpose of establishing a base year entitlement amount for mandated programs included in SMAS. A claimant who has established a base year entitlement for a program, would receive an automatic annual payment which is reflective of the current costs for the program. All claims received by the SCO will be reviewed to verify actual costs. An adjustment of the claim will be made if the amount claimed is determined to be excessive, improper, or unreasonable.

### **A. Reimbursement Claim**

A reimbursement claim is defined in GC Section 17522 as any claim filed with the SCO by a School District for reimbursement of costs incurred for which an appropriation is made for paying the claim.

Initial reimbursement claims are first-time claims for reimbursement of costs for one or more prior fiscal year(s) of a program that was previously unfunded. Claims are due one hundred and twenty days from the date of issuance of the claiming instructions for the program by the SCO. The first statute that appropriates funds for the mandated program will specify the fiscal years for which costs are eligible for reimbursement. Annual ongoing reimbursement claims must be filed by February 15<sup>th</sup> following the fiscal year in which costs were incurred for the program.

## **B. Estimated Claims**

Pursuant to AB 8, Chapter 6, Statutes of 2008, the option to file estimated claims has been eliminated. Therefore, estimated claims will not be accepted for reimbursement.

## **C. Entitlement Claim**

An entitlement claim is defined in GC Section 17522 as any claim filed by SD's with the SCO for the sole purpose of establishing or adjusting a base year entitlement for a mandated cost program that has been included in SMAS. An entitlement claim should not contain nonrecurring or initial start-up costs. There is no statutory deadline for the filing of entitlement claims. However, these claims should be filed by February 15th, following the third fiscal year used to develop the entitlement claim, to permit an orderly processing of claims. When the claims are approved and a base year entitlement amount is determined, the claimant will receive an apportionment reflective of the program's current year costs.

The automatic apportionment is determined by adjusting the claimant's base year entitlement for changes in the IPD of costs of goods and services to governmental agencies, as determined by the State Department of Finance. For programs approved by the Commission for inclusion in SMAS, the payment for each year succeeding the three year base period is adjusted according to any changes by both the IPD and average daily attendance (ADA).

The SCO will perform this computation for each claimant who has filed claims for three consecutive years. If a claimant has incurred costs for three consecutive years but has not filed a claim in each of those years, the claimant may file an entitlement claim, form FAM-43, to establish a base year entitlement. The form FAM-43 is included in the claiming instructions for SMAS programs. An entitlement claim does not result in the claimant being reimbursed for the costs incurred, but rather entitles the claimant to receive automatic payments from SMAS. Annual apportionments for programs included in the SMAS system are paid on or before November 30th of each year.

## **4. Minimum Claim Amount**

For initial and annual claims, if the total costs for a given year do not exceed \$1,000 no reimbursement will be allowed except as otherwise allowed by GC Section 17564.

## **5. Filing Deadline for Claims**

Pursuant to GC Section 17561(d) initial reimbursement claims (first time claims) for reimbursement of costs of a previously unfunded mandated program must be filed within one hundred and twenty days from the date the SCO issues the claiming instructions for the program. When paying a timely filed claim for initial reimbursement, the Controller may withhold twenty percent of the amount of the claim until the claim is audited to verify the actual amount of the mandated costs. Initial reimbursement claims filed after the filing deadline will be reduced by ten percent of the amount that would have been allowed had the claim been timely filed.

The Controller may withhold payment of any late claim for initial reimbursement until the next deadline for funded claims unless sufficient funds are available to pay the claim after all timely filed claims have been paid. All initial reimbursement claims for all fiscal years required to be filed on their initial filing date for a program will be considered as one claim for the purpose of computing any late claim penalty. In no case will a reimbursement claim be paid if submitted more than one year after the filing deadline specified in the Controller's claiming instructions on funded mandates.

Pursuant to GC Section 17560, annual reimbursement claims (recurring claims) for costs incurred during the previous fiscal year must be filed with the SCO and postmarked on or before February 15th following the fiscal year in which costs were incurred. If the annual reimbursement claim is filed after the deadline, but within one year of the deadline, the approved claim must be reduced by a 10% late penalty, not to exceed \$10,000. Amended claims filed after the deadline will be reduced by 10% of the increased amount not to exceed \$10,000 for the total claim. Claims may not be filed more than one year after the deadline.

## **6. Payment of Claims**

In order for the SCO to authorize payment of a claim, the Certification of Claim, form FAM-27, must be properly filled out, signed, and dated by the entity's authorized officer. When using the LGeC system, the logon ID and password of the authorized officer is used for the signature and is applied by the LGeC system when the claim is submitted. Pursuant to GC 17561(d), reimbursement claims are paid by October 15 or sixty days after the date the appropriation for the claim is effective, whichever is later. In the event the amount appropriated by the Legislature is insufficient to pay the approved amount in full for a program, claimants will receive a prorated payment in proportion to the amount of approved claims timely filed and on hand at the time of proration. A reasonable reimbursement methodology (RRM), which meets certain conditions specified in Government Code Section 17518.5, Subdivision (a), can be used as a formula for reimbursing SD's costs mandated by the State.

A claimant is entitled to receive accrued interest at the pooled money investment account rate if the payment was made more than 60 days after the claim filing deadline or the actual date of claim receipt, whichever is later. For an initial claim, interest begins to accrue when the payment is made more than one year after the adoption of the program's statewide cost estimate.

The SCO reports the amounts of insufficient appropriations to the State Department of Finance, the Chairperson of the Joint Legislative Budget Committee, and the Chairperson of the respective committee in each House of the Legislature, in order to ensure appropriation of these funds in the Budget Act. If these funds cannot be appropriated on a timely basis in the Budget Act, this information is transmitted to the Commission who will include these amounts in its reports to assure that an appropriation sufficient to pay the claims is included in the next local government claims bill or other appropriation bills. Any balances remaining on these claims will be paid when supplementary funds become available.

Unless specified in the statutes, regulations, or P's & G's, the determination of allowable and unallowable costs for mandates is based on the P's & G's adopted by the Commission. The determination of allowable reimbursable mandated costs for unfunded mandates is made by the Commission. The SCO determines allowable reimbursable costs, subject to amendment by the Commission, for mandates funded by special legislation. Allowable costs are those direct and indirect costs, less applicable credits, considered eligible for reimbursement. In order for costs to be allowable and thus eligible for reimbursement, the costs must meet the following general criteria:

1. The cost is necessary and reasonable for proper and efficient administration of the mandate and not a general expense required to carry out the overall responsibilities of government.
2. The cost is allocable to a particular cost objective identified in the P's & G's.
3. The cost is net of any applicable credits that offset or reduce expenses of items allocable to the mandate.

The SCO has identified certain costs that should not be claimed as direct program costs unless specified as reimbursable under the program's P's & G's. These costs include, but are not limited to, subscriptions, depreciation, memberships, conferences, workshops, general education, and travel costs.

## **7. State Mandates Apportionment System (SMAS)**

Chapter 1534, Statutes of 1985, established SMAS, a method of paying certain mandated programs as apportionments. This method is utilized whenever a program has been approved for inclusion in SMAS by the Commission.

When a mandated program has been included in SMAS, the SCO will determine a base year entitlement amount for each SD that has submitted reimbursement claims (or entitlement claims) for three consecutive fiscal years. A base year entitlement amount is determined by averaging the approved reimbursement claims (or entitlement claims) for any three consecutive fiscal years. The amounts are first adjusted by any change in the IPD, which is applied separately to each year's

costs for the three years that comprise the base period. The base period means the three fiscal years immediately succeeding the Commission's approval.

Each SD with an established base year entitlement for the program will receive automatic annual payments from the SCO reflective of the program's current year costs. The apportionment amount is adjusted annually for any change in the IPD. If the mandated program was included in SMAS after January 1, 1988, the annual apportionment is adjusted for any change in both the IPD and ADA.

In the event a SD has incurred costs for three consecutive fiscal years but did not file a reimbursement claim in one or more of those fiscal years, the SD may file an entitlement claim for each of those missed years to establish a base year entitlement. An entitlement claim means any claim filed by a SD with the SCO for the sole purpose of establishing a base year entitlement. A base year entitlement may not include any nonrecurring or initial start-up costs.

Initial apportionments are made on an individual program basis. After the initial year, all apportionments are made by November 30<sup>th</sup>. The amount to be apportioned is the base year entitlement adjusted by annual changes in the IPD for the cost of goods and services to governmental agencies as determined by the State Department of Finance.

In the event the SD determines that the amount of apportionment does not accurately reflect costs incurred to comply with a mandate, the process of adjusting an established base year entitlement upon which the apportionment is based is set forth in GC Section 17615.8 and requires the approval of the Commission.

## **8. Direct Costs**

A direct cost is a cost that can be identified specifically with a particular program or activity. Documentation to support direct costs must be kept on hand unless otherwise specified in the claiming instructions and made available to the SCO on request

It is the responsibility of the claimant to maintain documentation in the form of general and subsidiary ledgers, purchase orders, invoices, contracts, canceled warrants, equipment usage records, land deeds, receipts, employee time sheets, agency travel guidelines, inventory records, and other relevant documents to support claimed costs. The type of documentation necessary for each claim may differ with the type of mandate.

Costs typically classified as direct costs are:

### **(1) Employee Wages, Salaries, and Benefits**

For each of the mandated activities performed, the claimant must list the names of the employees who worked on the mandate, their job classifications, hours worked on the mandate, and rate of pay. The claimant may use a productive hourly rate in-lieu of reporting actual compensation and benefits:

#### **(a) Productive Hourly Rate Options**

A SD may use one of the following methods to compute productive hourly rates:

- Actual annual productive hours for each employee;
- The weighted-average annual productive hours for each job title; or
- 1,800\* annual productive hours for all employees.

If actual annual productive hours or weighted-average annual productive hours for each job title is chosen, the claimant must maintain documentation of how these hours were computed.

\* 1,800 annual productive hours excludes the following employee time:

- Paid holidays;
- Vacation earned;

- Sick leave taken;
- Informal time off;
- Jury duty;
- Military leave taken.

**(b) Compute a Productive Hourly Rate**

1. Compute a productive hourly rate for salaried employees to include actual benefit costs. The methodology for converting a salary to a productive hourly rate is to compute the employee's annual salary and benefits and divide by the annual productive hours.

**Table 1: Productive Hourly Rate, Annual Salary + Benefits Method**

<b>Formula:</b>	<b>Description:</b>
$[(EAS + Benefits) \div APH] = PHR$	EAS = Employee's Annual Salary
	APH = Annual Productive Hours
$[(\$26,000 + \$8,099) \div 1,800 \text{ hrs}] = 18.94$	PHR = Productive Hourly Rate

- As illustrated in Table 1, if an employee's compensation was \$26,000 and \$8,099 for annual salary and benefits, respectively, using the Salary + Benefits Method, the productive hourly rate would be \$18.94. To convert a biweekly salary to Annual Salary, multiply the biweekly salary by 26. To convert a monthly salary to Annual Salary, multiply the monthly salary by 12. Use the same methodology to convert other salary periods.
2. A claimant may also compute the productive hourly rate by using the Percent of Salary Method.

**Table 2: Productive Hourly Rate, Percent of Salary Method**

<b>Example:</b>		
<b>Step 1: Benefits as a Percent of Salary</b>		<b>Step 2: Productive Hourly Rate</b>
Retirement	15.00 %	<b>Formula:</b> $[(EAS \times (1 + BR)) \div APH] = PHR$
Social Security & Medicare	7.65	
Health & Dental Insurance	5.25	
Workers Compensation	3.25	
<b>Total</b>	<b>31.15 %</b>	$[(\$26,000 \times (1.3115)) \div 1,800] = \$18.94$
<b>Description:</b>		
EAS = Employee's Annual Salary		APH = Annual Productive Hours
BR = Benefit Rate		PHR = Productive Hourly Rate

- As illustrated in Table 2, both methods produce the same productive hourly rate.
- Reimbursement for personnel services includes, but is not limited to, compensation paid

for salaries, wages, and employee benefits. Employee benefits include employer's contributions for social security, pension plans, insurance, workers compensation insurance and similar payments. These benefits are eligible for reimbursement as long as they are distributed equitably to all activities. Whether these costs are allowable is based on the following presumptions:

- The amount of compensation is reasonable for the service rendered;
- The compensation paid and benefits received are appropriately authorized by the governing board;
- Amounts charged for personnel services are based on payroll documents that are supported by time and attendance or equivalent records for individual employees;
- The methods used to distribute personnel services should produce an equitable distribution of direct and indirect allowable costs.

For each of the employees included in the claim, the claimant must use reasonable rates and hours in computing the wage cost. If a person of a higher-level position performs an activity which normally would be performed by a lower-level position, reimbursement for time spent is allowable at the average salary range for the lower-level position. The salary rate of the person at a higher-level position may be claimed if it can be shown that it was more cost effective in comparison to the performance by a person at the lower-level position under normal circumstances and conditions. The number of hours charged to an activity should reflect the time expected to complete the activity under normal circumstances and conditions. The numbers of hours in excess of normal expected hours are not reimbursable.

### (c) Calculating an Average Productive Hourly Rate

In those instances where the P's & G's allow a unit as a basis of claiming costs, the direct labor component of the unit cost should be expressed as an average productive hourly rate and can be determined as follows:

**Table 3: Calculating an Average Productive Hourly Rate**

	<u>Time Spent</u>	<u>Productive Hourly Rate</u>	<u>Total Cost by Employee</u>
Employee A	1.25 hrs	\$6.00	\$7.50
Employee B	0.75 hrs	4.50	3.38
Employee C	3.50 hrs	10.00	35.00
Total	5.50 hrs		\$45.88
Average Productive Hourly Rate is $\$45.88 \div 5.50 \text{ hrs.} = \$8.34$			

### (d) Employer's Benefits Contribution

A SD has the option of claiming actual employer's benefit contributions or may compute an average benefit cost for the employee's job classification and claim it as a percentage of direct labor. The same time base should be used for both salary and benefits when computing a percentage. For example, if health and dental insurance payments are made annually, use an annual salary. After the percentage of salary for each benefit is computed, total them.

For example:

<u>Employer's Contribution</u>	<u>% of Salary</u>
Retirement	15.00%
Social Security	7.65%
Health and Dental Insurance	5.25%
Worker's Compensation	0.75%
Total	<u>28.65%</u>

## (2) Materials and Supplies

Only actual expenses can be claimed for materials and supplies, which were acquired and consumed specifically for the purpose of a mandated program. The claimant must list the materials and supplies that were used to perform the mandated activity, the number of units consumed, the cost per unit, and the total dollar amount claimed. Materials and supplies in excess of reasonable quality, quantity, and cost are not reimbursable. Materials and supplies withdrawn from inventory and charged to the mandated activity must be based on a recognized method of pricing, consistently applied. Purchases must be claimed at the actual price after deducting discounts, rebates and allowances received by the SD.

### (a) Calculating a Unit Cost for Materials and Supplies

In those instances where the P's & G's suggest that a unit cost be developed for use as a basis of claiming costs mandated by the State, the materials and supplies component of the unit cost should be expressed as a unit cost of materials and supplies as shown in Table 1 or Table 2:

**Table 1: Calculating a Unit Cost for Materials and Supplies**

<b>Supplies</b>	<u>Cost Per Unit</u>	<u>Amount of Supplies Used Per Activity</u>	<u>Unit Cost of Supplies Per Activity</u>
Paper	0.02	4	\$0.08
Files	0.10	1	0.10
Envelopes	0.03	2	0.06
Photocopies	0.10	4	<u>0.40</u>
			<u>\$0.64</u>

**Table 2: Calculating a Unit Cost for Materials and Supplies**

<b>Supplies</b>	<u>Supplies Used</u>	<u>Unit Cost of Supplies Per Activity</u>
Paper (\$10.00 for 500 sheet ream)	250 Sheets	\$5.00
Files (\$2.50 for box of 25)	10 Folders	1.00
Envelopes (\$3.00 for box of 100)	50 Envelopes	1.50
Photocopies (\$0.05 per copy)	40 Copies	<u>2.00</u>
		<u>\$9.50</u>
If the number of reimbursable instances is 25, then the unit cost of supplies is \$0.38 per reimbursable instance (\$9.50 ÷ 25).		

### **(3) Contract Services**

The cost of contract services is allowable if the SD lacks the staff resources or necessary expertise, or it is economically feasible to hire a contractor to perform the mandated activity. The claimant must keep documentation on hand to support the name of the contractor, explain the reason for having to hire a contractor, describe the mandated activities performed, give the dates when the activities were performed, the number of hours spent performing the mandate, the hourly billing rate, and the total cost. The hourly billing rate must not exceed the rate specified in the P's & G's for the mandated program. The contractor's invoice or statement must include an itemized list of costs for activities performed.

### **(4) Equipment Rental Costs**

Equipment purchases and leases (with an option to purchase) are not reimbursable as a direct cost unless specifically allowed by the P's & G's for the particular mandate. Equipment rentals used solely for the mandate are reimbursable to the extent that such costs do not exceed the retail purchase price of the equipment plus a finance charge. The claimant must maintain documentation to support the purpose and use of the equipment, the time period for which the equipment was rented and the total cost of the rental. If the equipment is used for purposes other than reimbursable activities, only the pro rata portion of the rental costs can be claimed.

### **(5) Capital Outlay**

Capital outlay for land, buildings, equipment, furniture and fixtures may be claimed if the P's & G's specify them as allowable. If they are allowable, the P's & G's for the program will specify a basis for the reimbursement. If the fixed asset or equipment is also used for purposes other than reimbursable activities for a specific mandate, only the pro rata portion of the purchase price used to implement the reimbursable activities can be claimed.

### **(6) Travel Expenses**

Travel expenses are normally reimbursable in accordance with travel rules and regulations of the local jurisdiction. For some programs, however, the P's & G's may specify certain limitations on expenses, or that expenses can only be reimbursed in accordance with the Department of Personnel Administration (DPA) travel standards. When claiming travel expenses, the claimant must maintain documentation to support the purpose of the trip, the names and addresses of the persons incurring the expense, the date and time of departure and return, a description of each expense claimed, and the cost of transportation, number of private auto miles traveled, and the cost of tolls and parking. Receipts are required for charges over \$10.00.

## **9. Indirect Costs**

Indirect costs are: (a) Incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved. Indirect costs can originate in the department performing the mandate or in departments that supply the department performing the mandate with goods, services, and facilities. To be allowable, a cost must be allocable to a particular cost objective. Indirect costs must be distributed to benefiting cost objectives on bases which produce an equitable result related to the benefits derived by the mandate.

School District's may use the indirect cost rate from the Restricted Indirect Cost rates for K-12 Local Education Agencies (LEA's) Five Year Listing issued by the California Department of Education (CDE), School Fiscal Services Division, for the fiscal year of costs. The amount of indirect costs the claimant is eligible to claim is computed by multiplying the rate by direct costs.



## **10. Time Study Guidelines**

### **Background**

Two methods are acceptable for documenting employee time charged to mandated cost programs: 1) Actual Time Reporting and 2) Time Study. These methods are described below. Application of time study results is restricted. As explained in the Time Study Results section below, the results may be projected forward a maximum of two years or applied retroactively to initial claims, current-year claims, and late-filed claims, provided certain criteria are met.

### **Actual Time Reporting**

Each program's P's and G's define reimbursable activities for the mandated cost program. When employees work on multiple activities, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the following standards:

- They must reflect an after-the-fact distribution of the actual activity of each employee;
- They must account for the total activity for which each employee is compensated;
- They must be prepared at least monthly and must coincide with one or more pay periods; and
- They must be signed by the employee.

Budget estimates or other distribution percentages determined before services are performed do not qualify as support for actual time reporting.

### **Time Study**

In certain cases, a time study may be used as a substitute for continuous records of actual time spent on multiple activities and/or programs. A time study can be used for an activity when the task is repetitive in nature. Activities that require varying levels of effort are not appropriate for time studies.

### **Time Study Plan**

The claimant must develop a plan before the time study is conducted. The claimant must retain the time study plan for audit purposes. The plan must identify the following:

- Time periods to be studied - The plan must show that all time periods selected are representative of the fiscal year and that the results can be reasonably projected to approximate actual costs;
- Activities to be studied - The time study must separately identify each reimbursable activity defined in the mandated program's P's and G's. If a reimbursable activity identifies separate and distinct sub-activities, these sub-activities also must be treated as individual activities;

For example, sub-activities (a) and (b) under reimbursable activity (1) of the Agency Fee Arrangements Program relate to salary deduction and payment of fair share and are not separate and distinct activities. It is not necessary to separately study these sub-activities.

- Process used to accomplish each reimbursable activity - Use flowcharts or similar analytical tools and/or written desk procedures to describe the process followed to complete each activity;
- Employee universe - The employee universe used in the time study must include all positions for which salaries and wages are to be allocated by means of the time study;
- Employee sample selection methodology - The plan must show that employees selected are representative of the employee universe and that the results can be reasonably projected to approximate actual costs. In addition, the employee sample size should be proportional to the variation in time spent to perform a task. The sample size should be larger for tasks with significant time variations;
- Time increments to be recorded - The time increments used should be sufficient to recognize the number of different activities performed and the dynamics of these responsibilities. Very large

increments (such as one hour or more) can be used for employees performing only a few functions that change very slowly over time. Small increments (a number of minutes) can be used for employees performing more short-term tasks.

Random-moment sampling is not an acceptable alternative to continuous time records for mandated cost claims. Random-moment sampling techniques are most applicable in situations where employees perform many different types of activities on a variety of programs with small time increments throughout the fiscal year.

### **Time Study Documentation**

Time studies must:

- Be supported by time records that are completed when the activity occurs;
- Report activity on a daily basis;
- Be sufficiently detailed to reflect all mandated activities performed during a specific time period; and
- Coincide with one or more pay periods.

Time records must be signed by the employee and be supported by documentation that validates that the work was actually performed. As with actual time reporting, budget estimates or other distribution percentages determined before services are performed do not qualify as valid time studies.

### **Time Study Results**

Claimants must summarize time study results to show how the time study supports the costs claimed for each activity. Any variation from the procedures identified in the original time study plan must be documented and explained. Current-year costs must be used to prepare a time study. Claimants may project time study results to no more than two subsequent fiscal years. A claimant also may apply time study results retroactively to initial claims, current-year claims, and late-filed claims.

When projecting time study results, the claimant must certify that no significant changes have occurred between years in either (1) the requirements of each mandated program activity; or (2) the processes and procedures used to accomplish the activity. For all years, the claimant must maintain documentation that shows that the mandated activity was actually performed. Time study results used to support claims are subject to the record-keeping requirements for those claims.

## **11. Offset Against State Mandated Claims**

As noted previously, allowable costs are defined as those direct and indirect costs, less applicable credits, considered eligible for reimbursement. When all or part of the costs of a mandated program are specifically reimbursable from local assistance revenue sources (e.g., state, federal, foundation, etc.), only that portion of any increased cost payable from SD funds is eligible for reimbursement under the provisions of GC Section 17561.

### **Example 1:**

As illustrated in Table 5, this example shows how the Offset Against State Mandated Claims is determined for SD receiving block grant revenues not based on a formula allocation. Program costs for each situation equals \$100,000.

**Table 5: Offset Against State Mandates, Example 1**

	<b>Program Costs</b>	<b>Actual Local Assistance Revenues</b>	<b>State Mandated Costs</b>	<b>Offset Against State Mandated Claims</b>	<b>Claimable Mandated Costs</b>
1.	\$100,000	\$95,000	\$2,500	\$-0-	\$2,500
2.	100,000	97,000	2,500	-0-	2,500
3.	100,000	98,000	2,500	500	2,000
4.	100,000	100,000	2,500	2,500	-0-
5.	100,000 *	50,000	2,500	1,250	1,250
6.	100,000 *	49,000	2,500	250	2,250

\* SD's share is \$50,000 of the program cost.

Numbers (1) through (4) in Table 5, show intended funding at 100% from local assistance revenue sources. Numbers (5) and (6) show cost sharing on a 50/50 basis with the district. In numbers (1) through (6), included in the program costs of \$100,000 are state mandated costs of \$2,500. The offset against state mandated claims are the amount of actual local assistance revenues, which exceeds the difference between program costs and state mandated costs. This offset cannot exceed the amount of state mandated costs.

In (1), local assistance revenues were less than expected. Local assistance funding was not in excess of the difference between program costs and state mandated costs. As a result, the offset against state mandated claims is zero and \$2,500 is claimable as mandated costs.

In (4), local assistance revenues were fully realized to cover the entire cost of the program, including the state mandated activity; therefore, the offset against state mandated claims is \$2,500, and claimable cost is \$0.

In (5), the district is sharing 50% of the project cost. Since local assistance revenues of \$50,000 were fully realized, the offset against state mandated claims is \$1,250.

In (6), local assistance revenues were less than the amount expended and the offset against state mandated claims is \$250. Therefore, the claimable mandated costs are \$2,250.

#### **Example 2:**

As illustrated in Table 6, this example shows how the offset against state mandated claims is determined for SD's receiving special project funds based on approved actual costs. Local assistance revenues for special projects must be applied proportionately to the approved costs.

**Table 6: Offset Against State Mandates, Example 2**

	<b>Program Costs</b>	<b>Actual Local Assistance Revenues</b>	<b>State Mandated Costs</b>	<b>Offset Against State Mandated Claims</b>	<b>Claimable Mandated Costs</b>
1.	\$100,000	\$100,000	\$2,500	\$2,500	\$-0-
2.	100,000 **	75,000	2,500	1,875	625
3.	100,000 **	45,000	1,500	1,125	375

\*\* SD's share is \$25,000 of the program cost.

In (2), the entire program cost was approved. Since the local assistance revenue source covers

75% of the program cost, it also proportionately covered 75% of the \$2,500 state mandated costs, or \$1,875.

If in (3) local assistance revenues are less than the amount expected because only \$60,000 of the \$100,000 program costs were determined to be valid by the contracting agency, then a proportionate share of state mandated costs is likewise reduced to \$1,500. The offset against state mandated claims is \$1,125. Therefore, the claimable mandated costs are \$375.

### **Federal and State Funding Sources**

State school fund apportionments and federal aid for education, which are based on ADA and are part of the general system of financing public schools as well as block grants which do not provide for specific reimbursement of costs (i.e. allocation formulas not tied to expenditures), should not be included as reimbursements from local assistance revenue sources.

## **12. Notice of Claim Adjustment**

All claims submitted to the SCO are reviewed to determine if the claim was prepared in accordance with the claiming instructions. Claimants will receive a *Notice of Claim Adjustment* detailing any adjustments made by the SCO.

## **13. Audit of Costs**

Pursuant to GC Section 17558.5, Subdivision (b), the SCO may conduct a field review of any claim after it has been submitted to determine if costs are related to the mandate, are reasonable and not excessive, and the claim was prepared in accordance with the SCO's claiming instructions and the P's & G's adopted by the Commission. If any adjustments are made to a claim, a Notice of Claim Adjustment specifying the claim activity adjusted, the amount adjusted, and the reason for the adjustment, will be mailed within thirty days after payment of the claim.

## **14. Source Documents**

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. These 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 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 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 stating: "I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct" and must further comply with the requirements of Code of Civil Procedure Section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, these documents cannot be substituted for source documents.

## **15. Claim Forms and Instructions**

Unless you are filing electronically, a claimant may submit a computer generated report in substitution for Form-1 and Form-2, provided the format of the report and data fields contained within the report are identical to the claim forms included with these instructions. The claim forms provided with these instructions should be duplicated or printed from SCO's Web site and used by the claimant to file reimbursement claims. The SCO will revise the manual and claim forms as necessary.

#### A. Form-2, Activity Cost Detail

This form is used to segregate the direct costs by claim activity. In some mandates, specific reimbursable activities have been identified for each activity. The expenses reported on this form must be supported by the official financial records of the claimant. All documents used to support the reimbursable activities must be retained by the claimant unless required to be submitted with the claim and must be made available to the SCO on request.

#### B. Form-1, Claim Summary

This form is used to summarize direct costs by activity and compute allowable indirect costs for the mandate. The direct costs summarized on this form are derived from Form-2 and are carried forward to form FAM-27.

#### C. Form FAM-27, Claim for Payment

This form contains a certification that must be signed by an authorized officer of the SD's. All applicable information from Form-1 must be carried forward onto this form in order for the SCO to process the claim for payment. An original and one copy of the FAM-27 are required.

Claims should be rounded to the nearest dollar. Submit a signed original and one copy of form FAM-27, Claim for Payment. **To expedite the payment process, please sign the FAM-27 with blue ink, and attach a copy of the form FAM-27 to the top of the claim package.**

Use the following mailing addresses:

If delivered by  
U.S. Postal Service:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
P.O. Box 942850  
Sacramento, CA 94250

If delivered by  
Other delivery services:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
3301 C Street, Suite 700  
Sacramento, CA 95816

### 16. Retention of Claiming Instructions

The revised claiming instructions in this package have been arranged in alphabetical order by program name. This Manual should be retained for future reference, and the forms should be duplicated to meet your filing requirements. Annually, new or revised forms, instructions, and any other information claimants may need to file claims will be placed on the SCO's Web site located at [www.sco.ca.gov/ard\\_mancost.html](http://www.sco.ca.gov/ard_mancost.html).

If you have any questions concerning mandated cost reimbursements, please write to us at the address listed for filing claims, or by e-mail to [LRSDAR@sco.ca.gov](mailto:LRSDAR@sco.ca.gov), or call the Local Reimbursements Section at (916) 324-5729.

### 17. Retention of Claim Records and Supporting Documentation

Pursuant to Government Code Section 17558.5, (a), a reimbursement claim for actual costs filed by SD's is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was filed, the time for the Controller to initiate an audit will commence to run from the date of initial payment of the claim. In any case, an audit will be completed not later than two years after the date that the audit is commenced.

All documents used to support the reimbursable activities must be retained during the period subject to audit. If the Controller has initiated an audit during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings. Supporting documents must be made available to the SCO on request.

OFFICE OF THE STATE CONTROLLER  
STATE MANDATED COST CLAIMING INSTRUCTIONS NO. 2008-03  
NOTIFICATION OF TRUANCY

APRIL 4, 2008

Revised September 5, 2009

In accordance with Government Code (GC) Section 17561, eligible claimants may submit claims to the State Controller's Office (SCO) for reimbursement of state mandated cost programs. The following are claiming instructions and forms that eligible claimants will use for filing claims for the Notification of Truancy (NOT) program. These claiming instructions are issued subsequent to adoption of the program's amended Parameters and Guidelines (P's & G's) by the Commission on State Mandates (Commission).

On January 31, 2008, the Commission adopted the attached amended P's and G's for NOT, which is effective July 1, 2006, and are included as an integral part of the claiming instructions.

**Limitations and Exceptions**

There will be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to Government Code Section 17581.5.

**Eligible Claimants**

Except for community colleges, any school district or county office of education as defined in GC Section 17519 that incurs increased costs as a result of this mandate is eligible to claim reimbursement.

**Filing Deadlines**

**A. Reimbursement Claims**

A reimbursement claim is defined in GC Section 17522 as any claim filed with the SCO by a school district for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim.

An actual claim may be filed by February 15 following the fiscal year in which costs were incurred. Claims for fiscal year 2008-09 will be accepted without penalty if postmarked or delivered on or before **February 16, 2010. Claims filed more than one year after the deadline will not be accepted.**

**B. Late Penalty**

**1. Initial Claims**

Late initial claims are assessed a late penalty of 10% of the total amount of the initial claims without limitation.

## **2. Annual Reimbursement Claims**

Late annual reimbursement claims are assessed a late penalty of 10% of the claim amount; \$10,000 maximum penalty.

### **Minimum Claim Cost**

GC Section 17564(a) provides that no claim may be filed pursuant to Sections 17551 and 17561, unless such a claim exceeds one thousand dollars (**\$1,000**), provided that a county superintendent of schools may submit a combined claim on behalf of school districts within their county if the combined claim exceeds **\$1,000**, even if the individual school district's claim does not each exceed **\$1,000**. The county superintendent of schools will determine if the submission of the combined claim is economically feasible and be responsible for disbursing the funds to each school district. These combined claims may be filed only when the county superintendent of schools is the fiscal agent for the districts. A combined claim must show the individual claim costs for each eligible school district. All subsequent claims based upon the same mandate must only be filed in the combined form unless a school district provides a written notice of its intent to file a separate claim to the county superintendent of schools and to the SCO at least one hundred and eighty days prior to the deadline for filing the claim.

### **Reimbursement of Claims**

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 (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure Section 2015.5.

Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, these documents cannot be substituted for source documents.

### **Audit of Costs**

All claims submitted to the SCO are reviewed to determine if costs are related to the mandate, are reasonable and not excessive, and if the claim was prepared in accordance with SCO's claiming instructions and the P's & G's adopted by the Commission. If any adjustments are made to a claim, a Notice of Claim Adjustment specifying the activity adjusted, the amount adjusted, and the reason for the adjustment, will be mailed within thirty days after payment of the claim.



On-site audits will be conducted by the SCO as deemed necessary. Pursuant to GC Section 17558.5, Subdivision (a), a reimbursement claim for actual costs filed by a claimant is subject to audit by the SCO no later than three years after the date the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was 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 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.

### **Retention of Claiming Instructions**

All documentation to support actual costs claimed must be retained for a period of three years after the end of the calendar year in which the reimbursement claim was filed or last amended regardless of the year of costs incurred. When no funds were appropriated for initial claims at the time the claim was filed, supporting documents must be retained for three years from the date of initial payment of the claim. Therefore, all documentation to support actual costs claimed must be retained for the same period, and must be made available to the SCO on request.

Questions, or requests for hard copies of these instructions, should be faxed to LRSDAR at (916) 323-6527 or e-mailed to **LRSDAR@sco.ca.gov** or you may call the Local Reimbursements Section at (916) 324-5729. Future mandated costs claiming instructions and forms can be found on the Internet at [www.sco.ca.gov/ard\\_mancost.html](http://www.sco.ca.gov/ard_mancost.html).

### **Address for Filing Claims**

Claims should be rounded to the nearest dollar. Submit a signed original and a copy of form FAM-27, Claim for Payment, and all other forms. **To expedite the payment process, please sign the form in blue ink, and attach a copy of the form FAM-27 to the top of the claim package.**

Use the following mailing addresses:

If delivered by  
U.S. Postal Service:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
P.O. Box 942850  
Sacramento, CA 94250

If delivered by  
other delivery services:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
3301 C Street, Suite 700  
Sacramento, CA 95816

Adopted: 8/27/87  
Amended: 7/28/88  
Amended: 7/22/93  
Amended: 1/31/08

## **AMENDMENTS TO PARAMETERS AND GUIDELINES AS DIRECTED BY THE LEGISLATURE**

*Statutes 2007, Chapter 69 (AB 1698)*

Education Code Section 48260.5

Statutes 1983, Chapter 498

[Statutes 1994, Chapter 1023]

[Statutes 1995, Chapter 19]

*Notification of Truancy*

07-PGA-01 (4133)

### **I. BACKGROUND AND SUMMARY OF MANDATE**

Chapter 498, Statutes of 1983, added Education Code Section 48260.5 which requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with section 48290) of Chapter 2 of Part 27.

Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district, and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

A truancy occurs when a student is absent from school without valid excuse three (3) full days in one school year, or is tardy or absent without valid excuse for more than any thirty (30)-minute period during the school day on n three (3) occasions in one school year, or any combination thereof. (Definition from Ed. Code, § 48260, as amended by Stats. 1994, ch. 1023 and Stats. 1995, ch. 19.)

Upon a student's initial classification as a truant, the school must perform the requirements mandated by Education Code section 48260.5 as enacted by Statutes 1983, chapter 498 and amended by Statutes 1994, chapter 1023, and Statutes 1995, chapter 19.

#### **Board of Control Decision**

On November 29, 1984, the State Board of Control determined that Education Code Section 48260.5, as added by Chapter 498, Statutes of 1983, constitutes a state mandated program because it requires an increased level of service by requiring specified notifications be sent to the parents or guardians of pupils upon initial classification of truancy.

## Amendment to Parameters and Guidelines

The Legislature directed the Commission on State Mandates to revise the parameters and guidelines to modify the definition of truant and the required elements to be included in the initial truancy notifications to conform reimbursable activities to Statutes 1994, chapter 1023, and Statutes 1995, chapter 19, effective July 1, 2006. (Stats., 2007, ch. 69 (AB 1698).)

### II. ELIGIBLE CLAIMANTS

The claimants are all school districts and county offices of education of the state of California, except a community college district, as defined by Government Code Section 17519 (formerly Revenue and Taxation Code 2208.5), that incur increased costs as a result of implementing the program activities of Education Code Section 48260.5, Chapter 498, Statutes of 1983.

### III. PERIOD OF REIMBURSEMENT

The amendments to the parameters and guidelines adopted on January 31, 2008 are effective July 1, 2006.

### IV. REIMBURSABLE COSTS

#### A. Scope of Mandate

The eligible claimant shall be reimbursed for only those costs incurred for planning the notification process, revising district procedures, the printing and distribution of notification forms, and associated record keeping.

#### B. Reimbursable Activities

For each eligible school district the direct and indirect costs of labor, supplies, and services incurred for the following mandated program activities are reimbursable:

##### 1. Planning and Preparation -- One-time

Planning the method of implementation, revising school district policies, and designing and printing the forms.

##### 2. Notification process -- On-going

Identifying the truant pupils to receive the notification, preparing and distributing by first-class mail or other reasonable means the forms to parents/guardians, and associated recordkeeping to provide parents/guardians with the following required information upon a pupil's initial classification as a truant:

- a. That the pupil is truant.
- b. That the parent or guardian is obligated to compel the attendance of the pupil at school.
- c. That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48260) of Chapter 2 of Part 27.

- d. That alternative educational programs are available in the district.
- e. That the parent or guardian has the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.
- f. That the pupil may be subject to prosecution under Section 48264.
- g. That the pupil may be subject to suspension, restriction, or delay of the pupil's driving privileges pursuant to Section 13202.7 of the Vehicle Code.
- h. That it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

C. Uniform Cost Allowance

Pursuant to Government Code section 17557, the Commission on State Mandates has adopted a uniform cost allowance for reimbursement in lieu of payment of total actual costs incurred. The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983.

For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator.

D. Unique Costs

School districts incurring unique costs within the scope of the reimbursable mandated activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement, Pursuant to Section 1185.3, Title 2, California Code of Regulations, such requests must be made by November 30 immediately following the fiscal year of the reimbursement claim in which reimbursement for the costs is requested.

V. CLAIM PREPARATION

Each claim for reimbursement pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983, must be timely filed and provide documentation in support of the reimbursement claimed for this mandated program.

A. Uniform Cost Allowance Reimbursement

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial notification to the parent or guardian.

B. Recognized Unique Costs

As of fiscal year 1992-93, the Commission has not identified any circumstances which would cause a school district to incur additional costs to implement this mandate which have not already been incorporated in the uniform cost allowance.

If and when the Commission recognizes any unique circumstances which can cause the school district to incur additional reasonable costs to implement this mandated program, these unique implementation costs will be reimbursed for specified fiscal years in addition to the uniform cost allowance.

School districts which incur these recognized unique costs will be required to support those actual costs in the following manner:

1. Narrative Statement of Unique Costs Incurred

Provide a detailed written explanation of the costs associated with the unique circumstances recognized by the Commission.

2. Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The staff time claimed must be supported by source documentation, such as time reports, however, the average number of hours devoted to each function may be claimed if supported by a documented time study.

3. Services and Supplies

Only expenditures which can be identified as a direct cost as a result of the mandated program can be claimed. List cost of materials which have been consumed or expended specifically for the purposes of this mandated program.

4. Allowable Overhead Costs

School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education. County offices of education must use the J-73A (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.

VI. SUPPORTING DATA

For auditing purposes, documents must be kept on file for a period of 3 years from the date of final payment by the State Controller, unless otherwise specified by statute and be made available at the request of the State Controller or his agent.

A. Uniform Allowance Reimbursement

Documentation which indicates the total number of initial notifications of truancy distributed.

B. Reimbursement of Unique Costs

In addition to maintaining the **same** documentation as required for uniform cost allowance reimbursement, all costs claimed must be traceable to source documents **and/or** worksheets that show evidence of the validity of such **costs**.

VIII. OFFSETTING SAVINGS AND OTHER REIMBURSEMENT

Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the uniform cost allowance and actual cost reimbursement for unique circumstances claimed. In addition, reimbursement for this mandated program received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

IX. REQUIRED CERTIFICATION

An authorized representative of the claimant will be required to provide a certification of claim, as specified in the State Controller% claiming instructions, for those costs mandated by the state contained herein.

<b>CLAIM FOR PAYMENT</b> <b>Pursuant to Government Code Section 17561</b> <b>NOTIFICATION OF TRUANCY</b>			<b>For State Controller Use Only</b>		<b>PROGRAM</b>  <div style="font-size: 2em; font-weight: bold;">048</div>		
(01) Claimant Identification Number			<b>Reimbursement Claim Data</b>				
(02) Claimant Name			(22) FORM-1, (03)				
County of Location			(23) FORM-1, (04)				
Street Address or P.O. Box		Suite	(24) FORM-1, (06)				
City	State	Zip Code	(25) FORM-1, (07)				
		<b>Type of Claim</b>	(26)				
		(03)	(09) Reimbursement <input type="checkbox"/>	(27)			
		(04)	(10) Combined <input type="checkbox"/>	(28)			
		(05)	(11) Amended <input type="checkbox"/>	(29)			
<b>Fiscal Year of Cost</b>		(06)	(12)	(30)			
<b>Total Claimed Amount</b>		(07)	(13)	(31)			
Less: <b>10% Late Penalty</b> (refer to attached Instructions)			(14)	(32)			
Less: <b>Prior Claim Payment Received</b>			(15)	(33)			
<b>Net Claimed Amount</b>			(16)	(34)			
<b>Due from State</b>	(08)	(17)	(35)				
<b>Due to State</b>		(18)	(36)				

**(37) CERTIFICATION OF CLAIM**

In accordance with the provisions of Government Code Section 17561, I certify that I am the officer authorized by the school district or county office of education to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Article 4, Chapter 1 of Division 4 of Title 1 of the Government Code.

I further certify that there was no application other than from the claimant, nor any grant(s) or payment(s) received, for reimbursement of costs claimed herein; claimed costs are for a new program or increased level of services of an existing program; and claimed amounts do not include charter school costs, either directly or through a third party. All offsetting savings and reimbursements set forth in the parameters and guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.

The amount for this reimbursement is hereby claimed from the State for payment of actual costs set forth on the attached statements.

I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Signature of Authorized Officer

\_\_\_\_\_

Date Signed \_\_\_\_\_

Telephone Number \_\_\_\_\_

E-mail Address \_\_\_\_\_

Type or Print Name and Title of Authorized Signatory \_\_\_\_\_

(38) Name of Agency Contact Person for Claim

\_\_\_\_\_

Telephone Number \_\_\_\_\_

E-mail Address \_\_\_\_\_

Name of Consulting Firm / Claim Preparer

\_\_\_\_\_

Telephone Number \_\_\_\_\_

E-mail Address \_\_\_\_\_

**PROGRAM**  
**048**

**NOTIFICATION OF TRUANCY**  
**Certification Claim Form**  
**Instructions for Form FAM-27**

**FORM**  
**FAM-27**

- (01) Enter the claimant identification number assigned by the State Controller's Office.
- (02) Enter claimant official name, county of location, street or postal office box address, city, state, and zip code.
- (03) to (08) Leave blank.
- (09) If filing a reimbursement claim, enter an "X" in the box on line (09) Reimbursement.
- (10) If filing a combined reimbursement claim on behalf of districts within the county, enter an "X" in the box on line (10) Combined.
- (11) If filing an amended reimbursement claim, enter an "X" in the box on line (11) Amended.
- (12) Enter the fiscal year for which actual costs are being claimed. If actual costs for more than one fiscal year are being claimed, complete a separate form FAM-27 for each fiscal year.
- (13) Enter the amount of the reimbursement claim as shown in the attached Form-1 line (08). The total claimed amount must exceed \$1,000.
- (14) Reimbursement claims must be filed by **February 15** of the following fiscal year in which costs were incurred or the claims must be reduced by a late penalty. Enter zero if the claim is timely filed. Otherwise, enter the penalty amount as a result of the calculation formula as follows:
- Late Initial Claims: FAM-27 line(13) multiplied by 10%, without limitation; or
  - Late Annual Reimbursement Claims: FAM-27, line (13) multiplied by 10%, late penalty not to exceed \$10,000.
- (15) Enter the amount of payment, if any, received for the claim. If no payment was received, enter zero.
- (16) Enter the net claimed amount by subtracting the sum of lines (14) and (15) from line (13).
- (17) If line (16), Net Claimed Amount, is positive, enter that amount on line (17), Due from State.
- (18) If line (16), Net Claimed Amount, is negative, enter that amount on line (18), Due to State.
- (19) to (21) Leave blank.
- (22) to (36) Reimbursement Claim Data. Bring forward the cost information as specified on the left-hand column of lines (22) through (36) for the reimbursement claim, e.g., Form-1, (03), means the information is located on form Form-1, line (03). 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., 7.548% should be shown as 8. **Completion of this data block will expedite the payment process.**
- (37) Read the statement of Certification of Claim. The claim must be dated, signed by the agency's authorized officer, and must type or print name, title, telephone number and E-mail address. **Claims cannot be paid unless accompanied by an original signed certification. (To expedite the payment process, please sign the form FAM-27 with blue ink, and attach a copy of the form FAM-27 to the top of the claim package.)**
- (38) Enter the name, telephone number, and E-mail address of the agency contact person for the claim. If claim is prepared by external consultant, type or print the name of the consulting firm, telephone number, and e-mail address.

**SUBMIT A SIGNED ORIGINAL, AND A COPY OF FORM FAM-27, WITH ALL OTHER FORMS TO:**

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

**OFFICE OF THE STATE CONTROLLER**  
**ATTN: Local Reimbursements Section**  
**Division of Accounting and Reporting**  
**P.O. Box 942850**  
**Sacramento, CA 94250**

***Address, if delivered by other delivery service:***

**OFFICE OF THE STATE CONTROLLER**  
**ATTN: Local Reimbursements Section**  
**Division of Accounting and Reporting**  
**3301 C Street, Suite 700**  
**Sacramento, CA 95816**



<b>Program</b> <b>048</b>	<b>MANDATED COSTS</b> <b>NOTIFICATION OF TRUANCY</b> <b>CLAIM SUMMARY</b>	<b>FORM</b> <b>1</b>
(01) Claimant		(02) Fiscal Year ____ / ____
<b>Claim Statistics</b>		
(03) Number of truant notifications		
(04) Unit Cost		[\$17.74 for fiscal year 2008-09]
(05) Total Costs		[Line (03) x line (04)]
<b>Cost Reduction</b>		
(06) Less: Offsetting Savings		
(07) Less: Other Reimbursements		
(08) Total Claimed Amount		[Line (05) - {line (06) + line (07)}]

<b>Program</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY</b> <b>CLAIM SUMMARY</b> <b>Instructions</b>	<b>FORM</b> <b>1</b>
------------------------------	---	-------------------------

- (01) Enter the name of the claimant. If more than one department has incurred costs for this mandate, give the name of each department. A Form-1 should be completed for each department.
- (02) Enter the fiscal year of costs.
- (03) Enter the number of truant notifications that were sent during the fiscal year of claim, upon the students' initial classification of truancy.
- (04) The unit cost rate for fiscal year 08-09 is \$17.74 per initial notification. This unit cost rate will be updated annually in the Annual Revisions for Schools.
- (05) Multiply line (03), the number of truant notifications by line (04), the unit cost rate.
- (06) Less: Offsetting Savings. If applicable, enter the total savings experienced by the claimant as a direct result of this mandate. Submit a detailed schedule of savings with the claim.
- (07) Less: Other Reimbursements. If applicable, enter the amount of other reimbursements received from any source including, but not limited to, service fees collected, federal funds, and other state funds, that reimbursed any portion of the mandated cost program. Submit a schedule detailing the reimbursement sources and amounts.
- (08) Total Claimed Amount. From Total Costs, line (05), subtract the sum of Offsetting Savings, line (06), and Other Reimbursements, line (07). Enter the remainder on this line and carry the amount forward to form FAM-27, line (13) for the Reimbursement Claim.

## A. STATE OF CALIFORNIA TRAVEL EXPENSE GUIDELINES

### Travel Program Effective January 31, 2002

The travel reimbursement program continues to be subject to the Internal Revenue Service (IRS) requirements for an accountable plan. There are no flat rate reimbursements. All items are to be claimed for the actual amount of expense, up to the maximum allowed. If the provisions below do not require submission of a receipt for a given item of expense, it is the employee's responsibility to retain receipts and other records of the expense and have them available for audit.

Lodging and meals that are provided by the State, including hotel expenses, conference fees, or transportation costs such as airline tickets; or otherwise provided shall not be claimed for reimbursement.

Employees may be reimbursed for actual expenses for breakfast, lunch, dinner, and incidentals for each 24 hours of travel, as follows:

Breakfast	up to	\$6.00
Lunch	up to	10.00
Dinner	up to	18.00
Incidentals	up to	6.00

Incidental expenses include, but are not limited to, expenses for laundering and pressing of clothing and tips for services such as porters and baggage handlers. Incidentals do not include taxicab fares, lodging taxes, or the cost of telegrams or telephone calls.

#### Lodging

All lodging reimbursements require a receipt from a commercial lodging establishment such as a hotel, motel, bed and breakfast inn, or campground that caters to the general public. No lodging will be reimbursed without a valid receipt. Employees who stay with friends or relatives are not eligible for lodging reimbursement, but may claim their actual expenses for meals and incidentals.

#### Short-Term Travel

A. For continuous short-term travel of more than 24 hours but less than 31 days, the employee will be reimbursed for actual costs up to the maximum for each meal, incidental, and lodging expense for each completed 24 hours of travel, beginning with the traveler's time of departure and return as follows:

1. On the first day of travel at the beginning of a trip of more than 24 hours:

Trip begins at or before 6 a.m. - Breakfast may be claimed

Trip begins at or before 11 a.m. - Lunch may be claimed

Trip begins at or before 5 p.m. - Dinner may be claimed

2. On the fractional day of travel at the end of a trip of more than 24 hours:

Trip ends at or after 8 a.m. - Breakfast may be claimed

Trip ends at or after 2 p.m. - Lunch may be claimed

Trip ends at or after 7 p.m. - Dinner may be claimed

If the fractional day includes an overnight stay, receipted lodging may be claimed. No meal or lodging expenses may be claimed or reimbursed more than once on any given date or during any 24-hour period.

- B.** For continuous travel of less than 24 hours, the employee will be reimbursed for actual expenses, up to a maximum as follows:

Travel begins at or before 6 a.m. and ends at or after 9 a.m. - Breakfast may be claimed  
Travel begins at or before 4 p.m. and ends at or after 7 p.m. - Dinner may be claimed

If the trip extends overnight, receipted lodging may be claimed. No lunch or incidentals may be claimed on a trip of less than 24 hours.

### **Short-Term Travel Maximum Lodging Reimbursement Rate**

- A.** Statewide except as in (B) and (C) below, actual receipted lodging up to \$84 plus tax.
- B.** When required to conduct state business and obtain lodging in the counties of Los Angeles and San Diego, reimbursement will be for actual receipted lodging, to a maximum of \$110 plus tax.
- C.** When required to conduct state business and obtain lodging in the counties of Alameda, San Francisco, San Mateo, and Santa Clara, reimbursement will be for actual receipted lodging, to a maximum of \$140 plus tax.

### **Long-Term Travel**

Actual expenses for long-term meals and receipted lodging will be reimbursed when the employee incurs expenses in one location comparable to those arising from the use of establishments catering to long-term visitors.

#### **A. Full Long-Term Travel**

To qualify for full long-term travel reimbursement, the employee on a long-term field assignment must meet the following criteria:

- a) The employee continues to maintain a permanent residence at the primary headquarters, and either,
- b) The permanent residence is occupied by the employee's dependents, or
- c) The permanent residence is maintained at a net expense to the employee exceeding \$200 per month.

The employee who is living at the long-term location may claim either:

- 1. Reimbursement for actual individual expense, substantiated by receipts for lodging, water, sewer, gas, and electricity, up to a maximum of \$1,130 per calendar month while on the long-term assignment, and actual expenses up to \$10 for meals and incidentals, for each period of 12 to 24 hours and up to \$5 for actual meals and incidentals for each period of less than 12 hours at the long-term location, or
- 2. Long-term subsistence rates of \$24 for actual meals and incidentals, \$24 for receipted lodging for travel of 12 hours up to 24 hours, and either \$24 for actual meals or \$24 for receipted lodging for travel less than 12 hours when the employee incurs expenses in one location comparable to those arising from the use of establishments catering to long-term visitors.

**B. Partial Long-Term Travel**

An employee on long-term field assignment who does not maintain a separate residence in the headquarters area may claim long-term subsistence rates of up to \$12 for actual meals and incidentals and \$12 for receipted lodging for travel of 12 hours up to 24 hours at the long-term location, and either \$12 for actual meals or \$12 for receipted lodging for travel less than 12 hours at the long-term location.

**Receipts**

Receipts or vouchers shall be submitted for every item of expense of \$25 or more.

- a) Receipts are required for every item of transportation and business expense incurred as a result of conducting state business except for actual expenses as follows:
  - 1. Railroad and bus fares of less than \$25, when travel is wholly within the State of California.
  - 2. Street car, ferry fares, bridge and road tolls, local rapid transit system, taxi, shuttle, or hotel bus fares, and parking fees of \$10 or less for each continuous period of parking or each separate transportation expense noted in this item.
  - 3. Telephone, telegraph, tax, or other business charges related to state business of \$5 or less.
  - 4. In the absence of a receipt, reimbursement will be limited to the non-receipted amount above.
- b) Reimbursement will be claimed only for the actual and necessary expenses noted above. Regardless of the above exceptions, the approving officer may require additional certification and/or explanation in order to determine that an expense was actually and reasonably incurred. In the absence of a satisfactory explanation, the expense shall not be allowed.

**Mileage**

When an employee is authorized by his/her appointing authority or designee to operate a privately owned vehicle on state business, effective January 1, 2009, the employee will be allowed to claim and be reimbursed 55 cents per mile.

## B. GOVERNMENT CODE SECTIONS 17500-17617

### **GC §17500: Legislative Findings and Declarations**

The Legislature finds and declares that the existing system for reimbursing local agencies and school districts for the costs of state-mandated local programs has not provided for the effective determination of the state's responsibilities under Section 6 of Article XIII B of the California Constitution. The Legislature finds and declares that the failure of the existing process to adequately and consistently resolve the complex legal questions involved in the determination of state-mandated costs has led to an increasing reliance by local agencies and school districts on the judiciary and, therefore, in order to relieve unnecessary congestion of the judicial system, it is necessary to create a mechanism which is capable of rendering sound quasi-judicial decisions and providing an effective means of resolving disputes over the existence of state-mandated local programs. It is the intent of the Legislature in enacting this part to provide for the implementation of Section 6 of Article XIII B of the California Constitution. Further, the Legislature intends that the Commission on State Mandates, as a quasi-judicial body, will act in a deliberative manner in accordance with the requirements of Section 6 of Article XIII B of the California Constitution.

### **GC §17510: Construction of Part**

Unless the context otherwise requires, the definitions contained in this chapter govern the construction of this part. The definition of a word applies to any variants thereof and the singular tense of a word includes the plural.

### **GC §17511: "City"**

"City" means any city whether general law or charter, except a city and county.

### **GC §17512: "Commission"**

"Commission" means the Commission on State Mandates.

### **GC §17513: "Cost Mandated by the Federal Government"**

"Costs mandated by the federal government" means any increased costs incurred by a local agency or school district after January 1, 1973, in order to comply with the requirements of a federal statute or regulation. "Costs mandated by the federal government" includes costs resulting from enactment of a state law or regulation where failure to enact that law or regulation to meet specific federal program or service requirements imposed upon the state would result in substantial monetary penalties or loss of funds to public or private persons in the state whether the federal law was enacted before or after the enactment of the state law, regulation, or executive order. "Costs mandated by the federal government" does not include costs which are specifically reimbursed or funded by the federal or state government or programs or services which may be implemented at the option of the state, local agency, or school district.

### **GC §17514: "Costs Mandated by the State"**

"Costs mandated by the state" means any increased costs which a local agency or school district is required to incur after July 1, 1980, as a result of any statute enacted on or after January 1, 1975, or any executive order implementing any statute enacted on or after January 1, 1975, which mandates a new program or higher level of service of an existing program within the meaning of Section 6 of Article XIII B of the California Constitution.

**GC §17515: "County"**

"County" means any chartered or general law county. "County" includes a city and county.

**GC §17516: "Executive Order"**

"Executive order" means any order, plan, requirement, rule, or regulation issued by any of the following: (a) The Governor. (b) Any officer or official serving at the pleasure of the Governor. (c) Any agency, department, board, or commission of state government. "Executive order" does not include any order, plan, requirement, rule, or regulation issued by the State Water Resources Control Board or by any regional water quality control board pursuant to Division 7 (commencing with Section 13000) of the Water Code. It is the intent of the Legislature that the State Water Resources Control Board and regional water quality control boards will not adopt enforcement orders against publicly owned dischargers which mandate major waste water treatment facility construction costs unless federal financial assistance and state financial assistance pursuant to the Clean Water Bond Act of 1970 and 1974, is simultaneously made available. "Major" means either a new treatment facility or an addition to an existing facility, the cost of which is in excess of 20 percent of the cost of replacing the facility.

**GC §17517.5: "Cost Savings authorized by the state"**

"Cost savings authorized by the state" means any decreased costs that a local agency or school district realizes as a result of any statute enacted or any executive order adopted that permits or requires the discontinuance of or a reduction in the level of service of an existing program that was mandated before January 1, 1975.

**GC §17518: "Local Agency"**

"Local agency" means any city, county, special district, authority, or other political subdivision of the state.

**GC §17518.5: "Reasonable Reimbursement Methodology"**

(a) "Reasonable reimbursement methodology" means a formula for reimbursing local agencies and school districts for costs mandated by the state, as defined in Section 17514. (b) A reasonable reimbursement methodology shall be based on cost information from a representative sample of eligible claimants, information provided by associations of local agencies and school districts, or other projections of local costs. (c) A reasonable reimbursement methodology shall consider the variation in costs among local agencies and school districts to implement the mandate in a cost-efficient manner. (d) Whenever possible, a reasonable reimbursement methodology shall be based on general allocation formulas, uniform cost allowances, and other approximations of local costs mandated by the state, rather than detailed documentation of actual local costs. In cases when local agencies and school districts are projected to incur costs to implement a mandate over a period of more than one fiscal year, the determination of a reasonable reimbursement methodology may consider local costs and state reimbursements over a period of greater than one fiscal year, but not exceeding 10 years. (e) A reasonable reimbursement methodology may be developed by any of the following: (1) The Department of Finance. (2) The Controller. (3) An affected state agency. (4) A claimant. (5) An interested party.

**GC §17519: "School District"**

"School district" means any school district, community college district, or county superintendent of schools.

**GC §17520: "Special District"**

"Special district" means any agency of the state that performs governmental or proprietary functions within limited boundaries. "Special district" includes a county service area, a maintenance district or area, an improvement district or improvement zone, or any other zone or area. "Special district" does not include a city, a county, a school district, or a community college district. County free libraries established pursuant to Chapter 2 (commencing with Section 27151) of Division 20 of the Education Code, areas receiving county fire protection services pursuant to Section 25643 of the Government Code, and county road districts established pursuant to Chapter 7 (commencing with Section 1550) of Division 2 of the Streets and Highways Code shall be considered "special districts" for all purposes of this part.

**GC §17521: "Test Claim"**

"Test claim" means the first claim filed with the commission alleging that a particular statute or executive order imposes costs mandated by the state, and includes a claim filed pursuant to Section 17574.

**GC §17521.5: "Legislatively Determined Mandate"**

"Legislatively determined mandate" means the provisions of a statute or executive order that the Legislature, pursuant to Article 1.5, has declared by statute to be a mandate for which reimbursement is required by Section 6 of Article XIII B of the California Constitution.

**GC §17522: Definitions**

(a) "Initial reimbursement claim" means a claim filed with the Controller by a local agency or school district for costs to be reimbursed for the fiscal years specified in the first claiming instructions issued by the Controller pursuant to subdivision (b) of Section 17558. (b) "Annual reimbursement claim" means a claim for actual costs incurred in a prior fiscal year filed with the Controller by a local agency or school district for which appropriations are made to the Controller for this purpose. (c) "Estimated reimbursement claim" means a claim filed with the Controller by a local agency or school district in conjunction with an initial reimbursement claim, annual reimbursement claim, or at other times, for estimated costs to be reimbursed during the current or future fiscal years, for which appropriations are made to the Controller for this purpose. (d) "Entitlement claim" means a claim filed by a local agency or school district with the Controller for the purpose of establishing or adjusting a base year entitlement. All entitlement claims are subject to Section 17616.

**GC §17523: "Deflator"**

"Deflator" means the Implicit Price Deflator for the Costs of Goods and Services to Governmental Agencies, as determined by the Department of Finance.

**GC §17524: "Base Year Entitlement"**

"Base year entitlement" means that amount determined to be the average for the approved reimbursement claims of each local agency or school district for the three preceding fiscal years adjusted by the change in the deflator. A base year entitlement shall not include any nonrecurring or initial startup costs incurred by a local agency or school district in any of those three fiscal years. For those mandates which become operative on January 1 of any year, the amount of the "approved reimbursement claim" for the first of the three years may be computed by annualizing the amount claimed for the six-month period of January through June in that first year, excluding nonrecurring or startup costs.



**GC §17525: Members: Term and Per Diem for Specified Members**

(a) There is hereby created the Commission on State Mandates, which shall consist of seven members as follows: (1) The Controller. (2) The Treasurer. (3) The Director of Finance. (4) The Director of the Office of Planning and Research. (5) A public member with experience in public finance, appointed by the Governor and approved by the Senate. (6) Two members from the following three categories appointed by the Governor and approved by the Senate, provided that no more than one member shall come from the same category: (A) A city council member. (B) A member of a county or city and county board of supervisors. (C) A governing board member of a school district as defined in Section 17519. (b) Each member appointed pursuant to paragraph (5) or (6) of subdivision (a) shall be subject to both of the following: (1) The member shall serve for a term of four years subject to renewal. (2) The member shall receive per diem of one hundred dollars (\$100) for each day actually spent in the discharge of official duties and shall be reimbursed for any actual and necessary expenses incurred in connection with the performance of duties as a member of the commission.

**GC §17526: Commission Meetings**

(a) All meetings of the commission shall be open to the public, except that the commission may meet in executive session to consider the appointment or dismissal of officers or employees of the commission or to hear complaints or charges brought against a member, officer, or employee of the commission. (b) The commission shall meet at least once every two months. (c) The time and place of meetings may be set by resolution of the commission, by written petition of a majority of the members, or by written call of the chairperson. The chairperson may, for good cause, change the starting time or place, reschedule, or cancel any meeting.

**GC §17527: Powers of Commission**

In carrying out its duties and responsibilities, the commission shall have the following powers: (a) To examine any document, report, or data, including computer programs and data files, held by any local agency or school district. (b) To meet at times and places as it may deem proper. (c) As a body or, on the authorization of the commission, as a committee composed of one or more members, to hold hearings at any time and place it may deem proper. (d) Upon a majority vote of the commission, to issue subpoenas to compel the attendance of witnesses and the production of books, records, papers, accounts, reports, and documents. (e) To administer oaths. (f) To contract with other agencies or individuals, public or private, as it deems necessary, to provide or prepare services, facilities, studies, and reports to the commission as will assist it in carrying out its duties and responsibilities. (g) To adopt, promulgate, amend, and rescind rules and regulations, which shall not be subject to the review and approval of the Office of Administrative Law pursuant to the provisions of the Administrative Procedure Act provided for in Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2. (h) To do any and all other actions necessary or convenient to enable it fully and adequately to perform its duties and to exercise the powers expressly granted to it.

**GC §17528: Election of Officers**

The members of the commission shall elect a chairperson and a vice chairperson of the commission.

**GC §17529: Appointment of Attorney: Duties**

The commission may appoint as attorney to the commission an attorney at law of this state, who shall hold office at the pleasure of the commission. The attorney shall represent and appear for the commission in all actions and proceedings involving any question under this part or under any order or act of the commission. The attorney shall advise the commission and each member of the commission, when so requested, in regard to all matters in connection with the powers and duties of the commission and the members thereof. The attorney shall generally perform all duties and services as attorney to the commission which the commission may require.

**GC §17530: Appointment of Executive Director: Duties**

The commission shall appoint an executive director, who shall be exempt from civil service and shall hold office at the pleasure of the commission. The executive director shall be responsible for the executive and administrative duties of the commission and shall organize, coordinate, supervise, and direct the operations and affairs of the commission and expedite all matters within the jurisdiction of the commission. The executive director shall keep a full and true record of all proceedings of the commission, issue all necessary process, writs, warrants, and notices, and perform other duties as the commission prescribes.

**GC §17531: Authority of Executive Director to Employ Necessary Staff**

The executive director may employ those officers, examiners, experts, statisticians, accountants, inspectors, clerks, and employees as the executive director deems necessary to carry out the provisions of this part or to perform the duties and exercise the powers conferred upon the commission by law.

**GC §17532: Quorum: Investigations, Inquiries, and Hearing**

A majority of the commissioners shall constitute a quorum for the transaction of any business, for the performance of any duty, or for the exercise of any power of the commission. Any investigation, inquiry, or hearing which the commission has power to undertake or to hold may be undertaken or held by or before any commissioner or commissioners designated for the purpose by the commission. The evidence in any investigation, inquiry, or hearing may be taken by the commissioner or commissioners to whom the investigation, inquiry, or hearing has been assigned or, in his or her or their behalf, by an examiner designated for that purpose. Every finding, opinion, and order made by the commissioner or commissioners so designated, pursuant to the investigation, inquiry, or hearing, when approved or confirmed by the commission and ordered filed in its office, shall be deemed to be the finding, opinion, and order of the commission.

**GC §17533: Provisions not Applicable to Hearing by Commission**

Notwithstanding Section 11425.10, Chapter 4.5 (commencing with Section 11400) of Part 1 of Division 3 does not apply to a hearing by the commission under this part.

**GC §17550: Reimbursements of Local Agencies and Special Districts**

Reimbursement of local agencies and school districts for costs mandated by the state shall be provided pursuant to this chapter.

**GC §17551: Commission Hearing and Decision Upon Claims**

(a) The commission, pursuant to the provisions of this chapter, shall hear and decide upon a claim by a local agency or school district that the local agency or school district is entitled to be reimbursed by the state for costs mandated by the state as required by Section 6 of Article XIIB of the California Constitution. (b) Except as provided in Sections 17573 and 17574, commission review of claims may be had pursuant to subdivision (a) only if the test claim is filed within the time limits specified in this section. (c) Local agency and school district test claims shall be filed not later than 12 months following the effective date of a statute or executive order, or within 12 months of incurring increased costs as a result of a statute or executive order, whichever is later. (d) The commission, pursuant to the provisions of this chapter, shall hear and decide upon a claim by a local agency or school district filed on or after January 1, 1985, that the Controller has incorrectly reduced payments to the local agency or school district pursuant to paragraph (2) of subdivision (d) of Section 17561.

**GC §17552: Exclusivity of Procedure by Chapter**

This chapter shall provide the sole and exclusive procedure by which a local agency or school district may claim reimbursement for costs mandated by the state as required by Section 6 of Article XIII B of the California Constitution.

**GC §17553: Adoption of Procedure for Receiving Claims and Providing Hearings: Postponement of Hearings**

(a) The commission shall adopt procedures for receiving claims filed pursuant to this article and Section 17574 for providing a hearing on those claims. The procedures shall do all of the following: (1) Provide for presentation of evidence by the claimant, the Department of Finance and any other affected department or agency, and any other interested person. (2) Ensure that a statewide cost estimate is adopted within 12 months after receipt of a test claim, when a determination is made by the commission that a mandate exists. This deadline may be extended for up to six months upon the request of either the claimant or the commission. (3) Permit the hearing of a claim to be postponed at the request of the claimant, without prejudice, until the next scheduled hearing. (b) All test claims shall be filed on a form prescribed by the commission and shall contain at least the following elements and documents: (1) A written narrative that identifies the specific sections of statutes or executive orders and the effective date and register number of regulations alleged to contain a mandate and shall include all of the following: (A) A detailed description of the new activities and costs that arise from the mandate. (B) A detailed description of existing activities and costs that are modified by the mandate. (C) The actual increased costs incurred by the claimant during the fiscal year for which the claim was filed to implement the alleged mandate. (D) The actual or estimated annual costs that will be incurred by the claimant to implement the alleged mandate during the fiscal year immediately following the fiscal year for which the claim was filed. (E) A statewide cost estimate of increased costs that all local agencies or school districts will incur to implement the alleged mandate during the fiscal year immediately following the fiscal year for which the claim was filed. (F) Identification of all of the following: (i) Dedicated state funds appropriated for this program. (ii) Dedicated federal funds appropriated for this program. (iii) Other non-local agency funds dedicated for this program. (iv) The local agency's general purpose funds for this program. (v) Fee authority to offset the costs of this program. (G) Identification of prior mandate determinations made by the Commission on State Mandates or a predecessor agency that may be related to the alleged mandate. (H) Identification of a legislatively determined mandate pursuant to Section 17573 that is on the same statute or executive order. (2) The written narrative shall be supported with declarations under penalty of perjury, based on the declarant's personal knowledge, information or belief, and signed by persons who are authorized and competent to do so, as follows: (A) Declarations of actual or estimated increased costs that will be incurred by the claimant to implement the alleged mandate. (B) Declarations identifying all local, state, or federal funds, or fee authority that may be used to offset the increased costs that will be incurred by the claimant to implement the alleged mandate, including direct and indirect costs. (C) Declarations describing new activities performed to implement specified provisions of the new statute or executive order alleged to impose a reimbursable state-mandated program. Specific references shall be made to chapters, articles, sections, or page numbers alleged to impose a reimbursable state-mandated program. (D) If applicable, declarations describing the period of reimbursement and payments received for full reimbursement of costs for a legislatively determined mandate pursuant to Section 17573, and the authority to file a test claim pursuant to paragraph (1) of Section 17574. (3) (A) The written narrative shall be supported with copies of all of the following: (i) The test claim statute that includes the bill number or executive order, alleged to impose or impact a mandate. (ii) Relevant portions of state constitutional provisions, federal statutes, and executive orders that may impact the alleged mandate. (iii) Administrative decisions and court decisions cited in the narrative. (B) State mandate determinations made by the Commission on State Mandates or a predecessor agency and published court decisions on state mandate determinations made by the Commission on State Mandates are exempt from this requirement. (4) A test claim shall be signed at the end of the document, under penalty of perjury by the claimant or its authorized representative, with the declaration that the test claim is true and complete to the best of the declarant's personal knowledge or information or belief. The date of signing, the declarant's title, address, telephone number, facsimile machine telephone number, and electronic mail address shall be included.

(c) If a completed test claim is not received by the commission within 30 calendar days from the date that an incomplete test claim was returned by the commission, the original test claim filing date may be disallowed, and a new test claim may be accepted on the same statute or executive order. (d) In addition, the commission shall determine whether an incorrect reduction claim is complete within 10 days after the date that the incorrect reduction claim is filed. If the commission determines that an incorrect reduction claim is not complete, the commission shall notify the local agency and school district that filed the claim stating the reasons that the claim is not complete. The local agency or school district shall have 30 days to complete the claim. The commission shall serve a copy of the complete incorrect reduction claim on the Controller. The Controller shall have no more than 90 days after the date the claim is delivered or mailed to file any rebuttal to an incorrect reduction claim. The failure of the Controller to file a rebuttal to an incorrect reduction claim shall not serve to delay the consideration of the claim by the commission.

#### **GC §17554: Commission's Authority to Expedite Claim**

With the agreement of all parties to the claim, the commission may waive the application of any procedural requirement imposed by this chapter or pursuant to Section 17553. The authority granted by this section includes the consolidation of claims and the shortening of time periods.

#### **GC §17555: Date for Public Hearing: Test Claim Form and Procedure**

(a) No later than 30 days after hearing and deciding upon a test claim pursuant to subdivision (a) of Section 17551, and determining the amount to be subvended to local agencies and school districts for reimbursement pursuant to subdivision (a) of Section 17557, the commission shall notify the appropriate Senate and Assembly policy and fiscal committees, the Legislative Analyst, the Department of Finance, and the Controller of that decision. (b) For purposes of this section, the "appropriate policy committee" means the policy committee that has jurisdiction over the subject matter of the statute, regulation, or executive order, and bills relating to that subject matter would have been heard.

#### **GC §17556: Criteria for not Finding Costs Mandated by the State**

The commission shall not find costs mandated by the state, as defined in Section 17514, in any claim submitted by a local agency or school district, if, after a hearing, the commission finds any one of the following: (a) The claim is submitted by a local agency or school district that requested legislative authority for that local agency or school district to implement the program specified in the statute, and that statute imposes costs upon that local agency or school district requesting the legislative authority. A resolution from the governing body or a letter from a delegated representative of the governing body of a local agency or school district that requests authorization for that local agency or school district to implement a given program shall constitute a request within the meaning of this subdivision. (b) The statute or executive order affirmed for the state a mandate that had been declared existing law or regulation by action of the courts. (c) The statute or executive order imposes a requirement that is mandated by a federal law or regulation and results in costs mandated by the federal government, unless the statute or executive order mandates costs that exceed the mandate in that federal law or regulation. This subdivision applies regardless of whether the federal law or regulation was enacted or adopted prior to or after the date on which the state statute or executive order was enacted or issued. (d) The local agency or school district has the authority to levy service charges, fees, or assessments sufficient to pay for the mandated program or increased level of service. (e) The statute, executive order, or an appropriation in a Budget Act or other bill provides for offsetting savings to local agencies or school districts that result in no net costs to the local agencies or school districts, or includes additional revenue that was specifically intended to fund the costs of the state mandate in an amount sufficient to fund the cost of the state mandate. (f) The statute or executive order imposes duties that are necessary to implement, reasonably within the scope of, or expressly included in, a ballot measure approved by the votes in a statewide or local election. This subdivision applies regardless of whether the statute or executive order was enacted or adopted before or after the date on which the ballot measure was approved by the voters. (g) The statute created a new crime or infraction, eliminated a

crime or infraction, or changed the penalty for a crime or infraction, but only for that portion of the statute relating directly to the enforcement of the crime or infraction.

**GC §17557: Determination of Amount to be Subvened for Reimbursement: Parameters and Guidelines**

(a) If the commission determines there are costs mandated by the state pursuant to Section 17551, it shall determine the amount to be subvened to local agencies and school districts for reimbursement. In so doing it shall adopt parameters and guidelines for reimbursement of any claims relating to the statute or executive order. The successful test claimants shall submit proposed parameters and guidelines within 30 days of adoption of a statement of decision on a test claim. At the request of a successful test claimant, the commission may provide for one or more extensions of this 30-day period at any time prior to its adoption of the parameters and guidelines. If proposed parameters and guidelines are not submitted within the 30-day period and the commission has not granted an extension, then the commission shall notify the test claimant that the amount of reimbursement the test claimant is entitled to for the first 12 months of incurred costs will be reduced by 20 percent, unless the test claimant can demonstrate to the commission why an extension of the 30-day period is justified. (b) In adopting parameters and guidelines, the commission may adopt a reasonable reimbursement methodology. (c) The parameters and guidelines adopted by the commission shall specify the fiscal years for which local agencies and school districts shall be reimbursed for costs incurred. However, the commission may not specify in the parameters and guidelines any fiscal year for which payment could be provided in the annual Budget Act. (d) A local agency, school district, or the state may file a written request with the commission to amend, modify, or supplement the parameters or guidelines. The commission may, after public notice and hearing, amend, modify, or supplement the parameters and guidelines. A parameters and guidelines amendment submitted within 90 days of the claiming deadline for initial claims, as specified in the claiming instructions pursuant to Section 17561, shall apply to all years eligible for reimbursement as defined in the original parameters and guidelines. A parameters and guidelines amendment filed more than 90 days after the claiming deadline for initial claims, as specified in the claiming instructions pursuant to Section 17561, and on or before the claiming deadline following a fiscal year, shall establish reimbursement eligibility for that fiscal year. (e) A test claim shall be submitted on or before June 30 following a fiscal year in order to establish eligibility for reimbursement for that fiscal year. The claimant may thereafter amend the test claim at any time, but before the test claim is set for a hearing, without affecting the original filing date as long as the amendment substantially relates to the original test claim. (f) In adopting parameters and guidelines, the commission shall consult with the Department of Finance, the affected state agency, the Controller, the fiscal and policy committees of the Assembly and Senate, the Legislative Analyst, and the claimants to consider a reasonable reimbursement methodology that balances accuracy with simplicity.

**GC §17557.1: Statement of Decision on Test Claim**

(a) Notwithstanding any other provision of this part within 30 days of the commission's adoption of a statement of decision on a test claim, the test claimant and the Department of Finance may notify the executive director of the commission in writing of their intent to follow the process described in this section to develop a reasonable reimbursement methodology and statewide estimate of costs for the initial claiming period and budget year for reimbursement of costs mandated by the state in accordance with the statement of decision. The letter of intent shall include the date on which the test claimant and the Department of Finance will submit a plan to ensure that costs from a representative sample of eligible local agency or school district claimants are considered in the development of a reasonable reimbursement methodology. (b) This plan shall also include all of the following information: (1) The date on which the test claimant and Department of Finance will provide to the executive director an informational update regarding their progress in developing the reasonable reimbursement methodology. (2) The date on which the test claimant and Department of Finance will submit to the executive director the draft reasonable reimbursement methodology and proposed statewide estimate of costs for the initial claiming period and budget year. This date shall be no later than 180 days after the date the letter of intent is sent by the test claimant and Department of Finance to the executive

director. (c) At the request of the test claimant and Department of Finance, the executive director may provide for up to four extensions of this 180-day period. (d) The test claimant or Department of Finance may notify the executive director at any time that the claimant or Department of Finance no longer intends to develop a reasonable reimbursement methodology pursuant to this section. In this case, paragraph (2) of subdivision (a) of Section 17553 and Section 17557 shall apply to the test claim. Upon receipt of this notification, the executive director shall notify the test claimant of the duty to submit proposed parameters and guidelines within 30 days under subdivision (a) of Section 17557.

#### **GC §17557.2: Broad Support Required; Joint Proposal Prior to Commission Hearing**

(a) A reasonable reimbursement methodology developed pursuant to Section 17557.1 or a joint request for early termination of a reasonable reimbursement methodology shall have broad support from a wide range of local agencies or school districts. The test claimant and Department of Finance may demonstrate broad support from a wide range of local agencies or school districts in different ways including, but not limited to, obtaining endorsement by one or more statewide associations of local agencies or school districts and securing letters of approval from local agencies or school districts. (b) No later than 60 days before a commission hearing, the test claimant and Department of Finance shall submit to the commission joint proposal that shall include all of the following: (1) The draft reasonable reimbursement methodology. (2) The proposed statewide estimate of costs for the initial claiming period and budget year. (3) A description of the steps the test claimant and the Department of Finance undertook to determine the level of support by local agencies or school districts for the draft reasonable reimbursement methodology. (4) An agreement that the reasonable reimbursement methodology developed and approved under this section shall be in effect for a period of five years unless a different term is approved by the commission, or upon submission to the commission of a letter indicating the Department of Finance and test claimant's joint interest in early termination of the reasonable reimbursement methodology. (5) An agreement that, at the conclusion of the period established in paragraph (4), the Department of Finance and the test claimant will consider jointly whether amendments to the methodology are necessary. (c) The commission shall approve the draft reasonable reimbursement methodology if review of the information submitted pursuant to Section 17557.1 and subdivision (b) of this section demonstrates that the draft reasonable reimbursement methodology and statewide estimate of costs for the initial claiming period and budget year have been developed in accordance with Section 17557.1 and meet the requirements of subdivision (a). The commission thereafter shall adopt the proposed statewide estimate of costs for the initial claiming period and budget year. Statewide cost estimates adopted under this section shall be included in the report to the Legislature required under Section 17600 and shall be reported by the commission to the appropriate Senate and Assembly policy and fiscal committees, the Legislative Analyst, and the Department of Finance not later than 30 days after adoption. (d) Unless amendments are proposed pursuant to this subdivision, the reasonable reimbursement methodology approved by the commission pursuant to this section shall expire after either five years, any other term approved by the commission, or upon submission to the commission of a letter indicating the Department of Finance's and test claimant's joint interest in early termination of the reasonable reimbursement methodology. (e) The commission shall approved a joint request for early termination of a reasonable reimbursement methodology if the request meets the requirements of subdivision (a). If the commission approves a joint request for early termination, the commission shall notify the test claimant of the duty to submit proposed parameters and guidelines to the commission pursuant to subdivision (a) of Section 17557. (f) At least one year before the expiration of a reasonable reimbursement methodology, the commission shall notify the Department of Finance and the test claimant that they may do one of the following: (1) Jointly propose amendments to the reasonable reimbursement methodology by submitting the information described in paragraphs (1), (3), and (4) of subdivision (b), and providing an estimate of the mandate's annual cost for the subsequent budget year. (2) Jointly propose that the reasonable reimbursement methodology remain in effect. (3) Allow the reasonable reimbursement methodology to expire and notify the commission that the test claimant will submit proposed parameters and guidelines to the commission pursuant to subdivision (a) of Section 17557 to replace the reasonable reimbursement methodology. (g) The commission shall either approve the continuation of the reasonable reimbursement methodology or approve the jointly proposed amendments to the reasonable reimbursement methodology if the

information submitted in accordance with paragraph (1) of subdivision (d) demonstrates that the proposed amendments were developed in accordance with Section 17557.1 and meet the requirements of subdivision (a) of this section.

**GC §17558: Submission of Parameters and Guidelines to Controller: Transfer of Claims; Claiming Instructions**

(a) The commission shall submit the adopted parameters and guidelines or a reasonable reimbursement methodology approved pursuant to Section 17557.2 to the Controller. As used in this chapter, a "reasonable reimbursement methodology" approved pursuant to Section 17557.2 includes all amendments to the reasonable reimbursement methodology. When the Legislature declares a legislatively determined mandate in accordance with Section 17573 in which claiming instructions are necessary, the Department of Finance shall notify the Controller. (b) Not later than 60 days after receiving the adopted parameters and guidelines, a reasonable reimbursement methodology from the commission, or notification from the Department of Finance, the Controller shall issue claiming instructions for each mandate that requires state reimbursement, to assist local agencies and school districts in claiming costs to be reimbursed. In preparing claiming instructions, the Controller shall request assistance from the Department of Finance and may request the assistance of other state agencies. The claiming instructions shall be derived from the test claim decision and the adopted parameters and guidelines, reasonable reimbursement methodology, or statute declaring a legislatively determined mandate. (c) The Controller shall, within 60 days after receiving adopted parameters and guidelines, an amended reasonable reimbursement methodology from the commission or other information necessitating a revision of the claiming instructions, prepare and issue revised claiming instructions for mandates that require state reimbursement that have been established by commission action pursuant to Section 17557, Section 17557.2 or after any decision or order of the commission pursuant to Section 17557.2, or after any action by the Legislature pursuant to Section 17573. In preparing revised claiming instructions, the Controller may request the assistance of other state agencies.

**GC §17558.5: Reimbursement Claim: Audit; Remittance Advice and Other Notices of Payment**

(a) A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, 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. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. (b) The Controller may conduct a field review of any claim after the claim has been submitted, prior to the reimbursement of the claim. (c) The Controller shall notify the claimant in writing within 30 days after issuance of a remittance advice of any adjustment to a claim for reimbursement that results from an audit or review. The notification shall specify the claim components adjusted, the amounts adjusted, interest charges on claims adjusted to reduce the overall reimbursement to the local agency or school district, and the reason for the adjustment. Remittance advices and other notices of payment action shall not constitute notice of adjustment from an audit or review. (d) The interest rate charged by the Controller on reduced claims shall be set at the Pooled Money Investment Account rate and shall be imposed on the dollar amount of the overpaid claim from the time the claim was paid until overpayment is satisfied. (e) Nothing in this section shall be construed to limit the adjustment of payments when inaccuracies are determined to be the result of the intent to defraud, or when a delay in the completion of an audit is the result of willful acts by the claimant or inability to reach agreement on terms of final settlement.

**GC §17558.6: Legislative Intent**

It is the intent of the Legislature that the Commission on State Mandates review its process by which local agencies may appeal the reduction of reimbursement claims on the basis that the reduction is incorrect in order to provide for a more expeditious and less costly process.

**GC §17559: Judicial Review**

(a) The commission may order a reconsideration of all or part of a test claim or incorrect reduction claim on petition of any party. The power to order a reconsideration or amend a test claim decision shall expire 30 days after the statement of decision is delivered or mailed to the claimant. If additional time is needed to evaluate a petition for reconsideration filed prior to the expiration of the 30-day period, the commission may grant a stay of that expiration for no more than 30 days, solely for the purpose of considering the petition. If no action is taken on a petition within the time allowed for ordering reconsideration, the petition shall be deemed denied. (b) 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. The court may order the commission to hold another hearing regarding the claim and may direct the commission on what basis the claim is to receive a rehearing.

**GC §17560: Deadlines for Filing Reimbursement Claims**

Reimbursement for state-mandated costs may be claimed as follows: (a) A local agency or school district may, by February 15 following the fiscal year in which costs are incurred, file an annual reimbursement claim that details the costs actually incurred for that fiscal year. (b) In the event revised claiming instructions are issued by the Controller pursuant to subdivision (c) of Section 17558 between November 15 and February 15, a local agency or school district filing an annual reimbursement claim shall have 120 days following the issuance date of the revised claiming instructions to file a claim.

**GC §17561: Reimbursement of Costs for State Mandated Programs**

(a) The state shall reimburse each local agency and school district for all "costs mandated by the state," as defined in Section 17514 and for legislatively determined mandates in accordance with Section 17573. (b) (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 that is intended to serve as the source from which the Controller may pay the claims of local agencies and school districts. (2) In subsequent fiscal years appropriations for these costs shall be included in the annual Governor's Budget and in the accompanying Budget Bill. In addition, appropriations to reimburse local agencies and school districts for continuing costs resulting from chaptered bills or executive orders for which claims have been awarded pursuant to subdivision (a) of Section 17551 shall be included in the annual Governor's Budget and in the accompanying Budget Bill. (c) The amount appropriated to reimburse local agencies and school districts for costs mandated by the state shall be appropriated to the Controller for disbursement. (d) The Controller shall pay any eligible claim pursuant to this section by August 15 or 45 days after the date of the appropriation for the claim is effective, whichever is later. The Controller shall disburse reimbursement funds to local agencies or school districts if the costs of these mandates are not payable to state agencies, or to state agencies that would otherwise collect the costs of these mandates from local agencies or school districts in the form of fees, premiums, or payments. When disbursing reimbursement funds to local agencies or school districts, the Controller shall disburse them as follows: (1) For initial reimbursement claims, the Controller shall issue claiming instructions to the relevant local agencies and school districts pursuant to Section 17558. 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, the



reasonable reimbursement methodology approved by the commission pursuant to Section 17557.2, or statutory declaration of a legislative determined and reimbursement methodology pursuant to Section 17573. (A) When claiming instructions are issued by the Controller pursuant to Section 17558 for each mandate determined pursuant to Section 17551 or 17573 that requires state reimbursement, each local agency or school district to which the mandate is applicable shall submit claims for initial fiscal year costs to the Controller within 120 days of the issuance date for the claiming instructions. (B) When the commission is requested to review the claiming instructions pursuant to Section 17571, each local agency or school district to which the mandate is applicable shall submit a claim for reimbursement within 120 days after the commission reviews the claiming instructions for reimbursement issued by the Controller. (C) If the local agency or school district does not submit a claim for reimbursement within the 120-day period, or submits a claim pursuant to revised claiming instructions, it may submit its claim for reimbursement as specified in Section 17560. 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, the application of a reasonable reimbursement methodology, or application of a legislatively enacted reimbursement methodology under Section 17573, and (ii) may reduce any claim that the Controller determines is excessive or unreasonable. (2) In subsequent fiscal years each local agency or school district shall submit its claims as specified in Section 17560. The Controller shall pay these claims from funds appropriated therefor, provided that the Controller (A) may audit (i) the records of any local agency or school district to verify the actual amount of the mandated costs, (ii) the application of a reasonable reimbursement methodology, or (iii) application of a legislatively enacted reimbursement methodology under Section 17573.(B) may reduce any claim that the Controller determines is excessive or unreasonable, and (C) shall adjust the payment to correct for any underpayments or overpayments which occurred in previous fiscal years. (3) When paying a timely filed claim for initial reimbursement, the Controller shall withhold 20 percent of the amount of the claim until the claim is audited to verify the actual amount of the mandated costs. All initial reimbursement claims for all fiscal years required to be filed on their initial filing date for a state-mandated local program shall be considered as one claim for the purpose of computing any late claim penalty. Any claim for initial reimbursement filed after the filing deadline shall be reduced by 10 percent of the amount that would have been allowed had the claim been timely filed. The Controller may withhold payment of any late claim for initial reimbursement until the next deadline for funded claims unless sufficient funds are available to pay the claim after all timely filed claims have been paid. In no case may a reimbursement claim be paid if submitted more than one year after the filing deadline specified in the Controller's claiming instructions on funded mandates . (e) (1) Except as specified in paragraph (2), for the purposes of determining the state's payment obligation under paragraph (1) of subdivision (b) of Section 6 of Article XIII B of the Constitution, a mandate that is "determined in a preceding fiscal year to be payable by the state" means any mandate for which the commission adopted a statewide cost estimate pursuant to this part during a previous fiscal year or that were identified as mandates by a predecessor agency to the commission, or that the Legislature declared by statute to be a legislatively determined mandate, unless the mandate has been repealed or otherwise eliminated. (2) If the commission adopts a statewide cost estimate for a mandate during the months of April, May, or June, the state's payment obligation under subdivision (b) of Section 6 of Article XIII B shall commence one year after the time specified in paragraph (1).

#### **GC §17561.5: Payment of Claim with Interest**

The payment of an initial reimbursement claim by the Controller shall include accrued interest at the Pooled Money Investment Account rate, if the payment is being made more than 365 days after adoption of the statewide cost estimate for an initial claim or, in the case of payment of a subsequent claim relating to that same statute or executive order, if payment is being made more than 60 days after the filing deadline for, or the actual date of receipt of, the subsequent claim, whichever is later. In those instances, interest shall begin to accrue as of the 366th day after adoption of the statewide cost estimate for an initial claim and as of the 61st day after the filing deadline for, or actual date of receipt of, the subsequent claim, whichever is later.

**GC §17561.6: Payment**

A budget act item or appropriation pursuant to this part for reimbursement of claims shall include an amount necessary to reimburse any interest due pursuant to Section 17561.5.

**GC §17562: Review of Costs of State-Mandated Local Programs**

(a) The Legislature hereby finds and declares that the increasing revenue constraints on state and local government and the increasing costs of financing state-mandated local programs make evaluation of state-mandated local programs imperative. Accordingly, it is the intent of the Legislature to increase information regarding state mandates and establish a method for regularly reviewing the costs and benefits of state-mandated local programs. (b) The Controller shall submit a report to the Joint Legislative Budget Committee and fiscal committees by October 31 of each fiscal year beginning with the 2007-08 fiscal year. This report shall summarize, by state mandate, the total amount of claims paid per fiscal year and the amount, if any, of mandate deficiencies or surpluses. This report shall be made available in an electronic spreadsheet format. The report shall compare the annual cost of each mandate. In the preceding fiscal year to the amount determined to be payable by the state for that fiscal year. (2) The Controller shall submit a report to the Joint Legislative Budget Committee, the applicable fiscal committees, and the Director of Finance by April 30 of each fiscal year. This report shall summarize, by state mandate, the total amount of unpaid claims by fiscal year that were submitted before April 1 of that fiscal year. The report shall also summarize any mandate deficiencies or surpluses. It shall be made available in an electronic spreadsheet, and shall be used for the purpose of determining the state's payment obligation under paragraph (1) of subdivision (b) of Section 6 of Article XIIIB of the California Constitution. (c) After the commission submits its second semiannual report to the Legislature pursuant to Section 17600, the Legislative Analyst shall submit a report to the Joint Legislative Budget Committee and legislative fiscal committees on the mandates included in the commission's reports. The report shall make recommendations as to whether the mandate should be repealed, funded, suspended, or modified. (d) In its annual analysis of the Budget Bill and based on information provided pursuant to subdivision (b), the Legislative Analyst shall report total annual state costs for mandated programs and, as appropriate, provide an analysis of specific mandates and make recommendations on whether the mandate should be repealed, funded, suspended, or modified. (e) (1) A statewide association of local agencies or school districts or a Member of the Legislature may submit a proposal to the Legislature recommending the elimination or modification of a state-mandated local program. To make such a proposal, the association or member shall submit a letter to the Chairs of the Assembly Committee on Education or the Assembly Committee on Local Government, as the case may be, and the Senate Committee on Education or the Senate Committee on Local Government, as the case may be, specifying the mandate and the concerns and recommendations regarding the mandate. The association or member shall include in the proposal all information relevant to the conclusions. If the chairs of the committees desire additional analysis of the submitted proposal, the chairs may refer the proposal to the Legislative Analyst for review and comment. The chairs of the committees may refer up to a total of 10 of these proposals to the Legislative Analyst for review in any year. Referrals shall be submitted to the Legislative Analyst by December 1 of each year. (2) The Legislative Analyst shall review and report to the Legislature with regard to each proposal that is referred to the office pursuant to paragraph (1). The Legislative Analyst shall recommend that the Legislature adopt, reject, or modify the proposal. The report and recommendations shall be submitted annually to the Legislature by March 1 of the year subsequent to the year in which referrals are submitted to the Legislative Analyst. (3) The Department of Finance shall review all statutes enacted each year that contain provisions making inoperative Section 17561 or Section 17565 that have resulted in costs or revenue losses mandated by the state that were not identified when the statute was enacted. The review shall identify the costs or revenue losses involved in complying with the statutes. The Department of Finance shall also review all statutes enacted each year that may result in cost savings authorized by the state. The Department of Finance shall submit an annual report of the review required by this subdivision, together with the recommendations as it may deem appropriate, by December 1 of each year. (f) It is the intent of the Legislature that the Assembly Committee on Local Government and the Senate Committee on Local Government hold a joint hearing each year regarding the following: (1) The reports and recommendations submitted pursuant to subdivision (e). (2) The reports submitted pursuant to Sections

17570, 17600, and 17601. (3) Legislation to continue, eliminate, or modify any provision of law reviewed pursuant to this subdivision. The legislation may be by subject area or by year or years of enactment.

**GC §17563: Use of Funds Received for Public Purpose**

Any funds received by a local agency or school district pursuant to the provisions of this chapter may be used for any public purpose.

**GC §17564: Filing of Claims: Threshold Amount**

(a) No claim shall be made pursuant to Sections 17551, 17561, or 17573, nor shall any payment be made on claims submitted pursuant to Sections 17551 or 17561, or pursuant to a legislative determination under Section 17573, unless these claims exceed one thousand dollars (\$1,000), provided that a county superintendent of schools or county may submit a combined claim on behalf of school districts, direct service districts, or special districts within their county if the combined claim exceeds one thousand dollars (\$1,000) even if the individual school district's, direct service district's, or special district's claims do not each exceed one thousand dollars (\$1,000). The county superintendent of schools or the county shall determine if the submission of the combined claim is economically feasible and shall be responsible for disbursing the funds to each school, direct service, or special district. These combined claims may be filed only when the county superintendent of schools or the county is the fiscal agent for the districts. All subsequent claims based upon the same mandate shall only be filed in the combined form unless a school district, direct service district, or special district provides to the county superintendent of schools or county and to the Controller, at least 180 days prior to the deadline for filing the claim, a written notice of its intent to file a separate claim. (b) Claims for direct and indirect costs filed pursuant to Section 17561 shall be filed in the manner prescribed in the parameters and guidelines or reasonable reimbursement methodology and claiming instructions. (c) Claims for direct and indirect costs filed pursuant to a legislatively determined mandate pursuant to Section 17573 shall be filed and paid in the manner prescribed in the Budget Act or other bill, or claiming instructions, if applicable.

**GC §17565: Reimbursement of Subsequently Mandated Costs**

If a local agency or a school district, at its option, has been incurring costs which are subsequently mandated by the state, the state shall reimburse the local agency or school district for those costs incurred after the operative date of the mandate.

**GC §17567: Insufficiency of Appropriation: Proration of Claims**

In the event that the amount appropriated for reimbursement purposes pursuant to Section 17561 is not sufficient to pay all of the claims approved by the Controller, the Controller shall prorate claims in proportion to the dollar amount of approved claims timely filed and on hand at the time of proration. The Controller shall adjust prorated claims if supplementary funds are appropriated for this purpose. In the event that the Controller finds it necessary to prorate claims as provided by this section, the Controller shall immediately report this action to the Department of Finance, the Chairperson of the Joint Legislative Budget Committee, and the Chairperson of the respective committee in each house of the Legislature which considers appropriations in order to assure appropriation of these funds in the Budget Act.

**GC §17568: Payment of Claims Submitted After Deadline**

If a local agency or school district submits an otherwise valid reimbursement claim to the Controller after the deadline specified in Section 17560, the Controller shall reduce the reimbursement claim in an amount equal to 10 percent of the amount which would have been allowed had the reimbursement claim been timely filed, provided that the amount of this reduction shall not exceed ten thousand dollars (\$10,000). In no case shall a reimbursement claim be paid which is submitted more than one year after

the deadline specified in Section 17560. Estimated claims which were filed by the deadline specified in that section shall be paid in full before payments are made on estimated claims filed after the deadline. In the event the amount appropriated to the Controller for reimbursement purposes is not sufficient to pay the estimated claims approved by the Controller, the Controller shall prorate those claims in proportion to the dollar amount of approved claims filed after the deadline and shall report to the commission or the Legislature in the same manner as described in Section 17566 in order to assure appropriation of funds sufficient to pay those claims.

**GC §17570: Annual Report to Legislature**

The Legislative Analyst shall review each unfunded statutory or regulatory mandate for which claims have been approved by the Legislature pursuant to a claims bill during the preceding fiscal year. Any recommendations by the Legislative Analyst to eliminate or modify the mandates shall be contained in the annual analysis of the Budget Bill prepared by the Legislative Analyst.

**GC §17571: Review and Modification of Claiming Instructions**

The commission, upon request of a local agency or school district, shall review the claiming instructions issued by the Controller or any other authorized state agency for reimbursement of mandated costs. 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.

**GC §17575: Review of Bills**

When a bill is introduced in the Legislature, and each time a bill is amended, on and after January 1, 1985, the Legislative Counsel shall determine whether the bill mandates a new program or higher level of service pursuant to Section 6 of Article XIII B of the California Constitution. The Legislative Counsel shall make this determination known in the digest of the bill and shall describe in the digest the basis for this determination. The determination by the Legislative Counsel shall not be binding on the commission in making its determination pursuant to Section 17555.

**GC §17576: Determination of Bills by the Legislative Counsel**

Whenever the Legislative Counsel determines that a bill will mandate a new program or higher level of service pursuant to Section 6 of Article XIII B of the California Constitution, the Department of Finance shall prepare an estimate of the amount of reimbursement which will be required. This estimate shall be prepared for the respective committees of each house of the Legislature which consider taxation measures and appropriation measures and shall be prepared prior to any hearing on the bill by any such committee.

**GC §17577: Amount of Estimates**

The estimate required by Section 17576 shall be the amount estimated to be required during the first fiscal year of a bill's operation in order to reimburse local agencies and school districts for costs mandated by the state by the bill.

**GC §17578: Amendment of Bills on Floor: Notification by Legislative Counsel**

In the event that a bill is amended on the floor of either house, whether by adoption of the report of a conference committee or otherwise, in such a manner as to mandate a new program or higher level of service pursuant to Section 6 of Article XIII B of the California Constitution, the Legislative Counsel shall immediately inform, respectively, the Speaker of the Assembly and the President of the Senate of that fact. Notification from the Legislative Counsel shall be published in the journal of the respective houses of the Legislature.

**GC §17579: Requirement for New Mandates to Specify Reimbursement Requirements: Appropriations**

Any bill introduced or amended for which the Legislative Counsel has determined the bill will mandate a new program or higher level of service pursuant to Section 6 of Article XIII B of the California Constitution shall contain a section specifying that reimbursement shall be made pursuant to this chapter or that the mandate is being disclaimed and the reason therefor.

**GC §17581: Conditions for Exemption from Implementation of Statute or Executive Order**

(a) No local agency shall be required to implement or give effect to any statute or executive order, or portion thereof, during any fiscal year and for the period immediately following that fiscal year for which the Budget Act has not been enacted for the subsequent fiscal year if all of the following apply: (1) The statute or executive order, or portion thereof, has been determined by the Legislature, the commission, or any court to mandate a new program or higher level of service requiring reimbursement of local agencies pursuant to Section 6 of Article XIII B of the California Constitution. (2) The statute or executive order, or portion thereof, has been specifically identified by the Legislature in the Budget Act for the fiscal year as being one for which reimbursement is not provided for that fiscal year. For purposes of this paragraph, a mandate shall be considered to have been specifically identified by the Legislature only if it has been included within the schedule of reimbursable mandates shown in the Budget Act and it is specifically identified in the language of a provision of the item providing the appropriation for mandate reimbursements. (b) Within 30 days after enactment of the Budget Act, the Department of Finance shall notify local agencies of any statute or executive order, or portion thereof, for which operation of the mandate is suspended because reimbursement is not provided for that fiscal year pursuant to this section and Section 6 of Article XIII B of the California Constitution. (c) Notwithstanding any other provision of law, if a local agency elects to implement or give effect to a statute or executive order described in subdivision (a), the local agency may assess fees to persons or entities which benefit from the statute or executive order. Any fee assessed pursuant to this subdivision shall not exceed the costs reasonably borne by the local agency. (c) This section shall not apply to any state-mandated local program for the trial courts, as specified in Section 77203. (d) This section shall not apply to any state-mandated local program for which the reimbursement funding counts toward the minimum General Fund requirements of Section 8 of Article XVI of the Constitution.

**GC §17581.5 Exemption from Provisions of School Bus Safety II Mandate and School Crimes Reporting II Mandate**

(a) A school district may not be required to implement or give effect to the statutes, or portion thereof, identified in subdivision (b) during any fiscal year and for the period immediately following that fiscal year for which the Budget Act has not been enacted for the subsequent fiscal year if all of the following apply: (1) The statute or portion thereof, has been determined by the Legislature, the commission, or any court to mandate a new program or higher level of service requiring reimbursement of school districts pursuant to Section 6 of Article XIII B of the California Constitution. (2) The statute, or portion thereof, has been specifically identified by the Legislature in the Budget Act for the fiscal year as being one for which reimbursement is not provided for that fiscal year. For purposes of this paragraph, a mandate shall be considered to have been specifically identified by the Legislature only if it has been included within the schedule of reimbursable mandates shown in the Budget Act and it is specifically identified in the language of a provision of the item providing the appropriation for mandate reimbursements. (b) This section applies only to the following mandates: (1) The School Bus Safety I (CSM-4433) and II (97-TC-22) mandates (Chapter 642 of the Statutes of 1992; Chapter 831 of the Statutes of 1994; and Chapter 739 of the Statutes of 1997). (2) The School Crimes Reporting II mandate (97-TC-03; and Chapter 759 of the Statutes of 1992 and Chapter 410 of the Statutes of 1995). (3) Investment reports (96-358-02; and Chapter 783 of the Statutes of 1995 and Chapters 156 and 749 of the Statutes of 1996). (4) County treasury oversight committees (96-365-03; and Chapter 784 of the Statutes of 1995 and Chapter 156 of the Statutes of 1996).

**GC §17600: Report on Number of Mandates and Their Costs**

At least twice each calendar year the commission shall report to the Legislature on the number of mandates it has found pursuant to Article 1 (commencing with Section 17550) and the estimated statewide costs of these mandates. This report shall identify the statewide costs estimated for each mandate and the reasons for recommending reimbursement.

**GC §17601: Report on Claims Denied**

The commission shall report to the Legislature on January 15, 1986, and each January 15 thereafter, on the number of claims it denied during the preceding calendar year and the basis on which the particular claims were denied.

**GC §17612: Local Government Claims Bills: Judicial Review of Funding Deletions**

(a) Upon receipt of the report submitted by the commission pursuant to Section 17600, funding shall be provided in the subsequent Budget Act for costs incurred in prior years. No funding shall be provided for years in which a mandate is suspended. (b) The Legislature may amend, modify, or supplement the parameters and guidelines for mandates contained in the local government claims bill. If the Legislature amends, modifies, or supplements the parameters and guidelines, reasonable reimbursement methodology, and adopted statewide estimate of costs for the initial claiming period and budget year for mandates contained in the annual Budget Act. If the Legislature amends, modifies, or supplements the parameters and guidelines, reasonable reimbursement methodology, and adopted statewide estimate of costs for the initial claiming period and budget year, it shall make a declaration in a separate legislation specifying the basis for the amendment, modification, or supplement. (c) If the Legislature deletes from a local government claims bill funding for a mandate, the local agency or school district may file in the Superior Court of the County of Sacramento an action in declaratory relief to declare the mandate unenforceable and enjoin its enforcement.

**GC §17613: Authorization of Augmentation for Mandated Costs**

(a) The Director of Finance may, upon receipt of any report submitted pursuant to Section 17567, authorize the augmentation of the amount available for expenditure to reimburse costs mandated by the state, as defined in Section 17514, as follows: (1) For augmentation of (A) any schedule in any item to reimburse costs mandated by the state in any budget act, or (B) the amount appropriated in a local government claims bill for reimbursement of the claims of local agencies, as defined by Section 17518, from the unencumbered balance of any other item to reimburse costs mandated by the state in that budget act or another budget act or in an appropriation for reimbursement of the claims of local agencies in another local government claims bill. (2) For augmentation of (A) any schedule in any budget act item, or (B) any amount appropriated in a local government claims bill, when either of these augmentations is for reimbursement of mandated claims of school districts, as defined in Section 17519, when the source of this augmentation is (A) the unencumbered balance of any other scheduled amount in that budget act or another budget act, or (B) an appropriation in another local government claims bill, when either of these appropriations is for reimbursement of mandate claims of school districts. This paragraph applies only to appropriations that are made for the purpose of meeting the minimum funding guarantee for educational programs pursuant to Section 8 of Article XVI of the California Constitution. (b) No authorization for an augmentation pursuant to this section may be made sooner than 30 days after the notification in writing of the necessity therefor to the chairperson of the committee in each house which considers appropriations and the chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time as the chairperson of the joint committee, or his or her designee, may in each instance determine.

**GC §17615: Legislative Findings and Intent**

The Legislature finds and declares that the existing system for reimbursing local agencies and school districts for actual costs mandated by the state on an annual claim basis is time consuming,

cumbersome, and expensive at both the local and state levels. The Controller must process voluminous claims with all claims subject to a desk audit and selected claims also subject to a field audit. Local agencies are required to maintain extensive documentation of all claims in anticipation of such an audit. The volume of these records is substantial and will continue to grow with no relief in sight as new programs are mandated. The cost to local agencies and school districts for filing claims, and for maintaining documentation and responding to the Controller's audits is substantial. The current administrative cost to both state and local governments represents a significant expenditure of public funds with no apparent benefit to the taxpayers. It is the intent of the Legislature to streamline the reimbursement process for costs mandated by the state by creating a system of state mandate apportionments to fund the costs of certain programs mandated by the state.

### **GC §17615.1: Review of Programs for Inclusion in System**

The commission shall establish a procedure for reviewing, upon request, mandated cost programs for which appropriations have been made by the Legislature for the 1982-83, 1983-84, and 1984-85 fiscal years, or any three consecutive fiscal years thereafter. At the request of the Department of Finance, the Controller, or any local agency or school district receiving reimbursement for the mandated program, the commission shall review the mandated cost program to determine whether the program should be included in the State Mandates Apportionment System. If the commission determines that the State Mandates Apportionment System would accurately reflect the costs of the state-mandated program, the commission shall direct the Controller to include the program in the State Mandates Apportionment System.

### **GC §17615.2: Calculation of Disbursement Amounts**

(a) Notwithstanding Section 17561, after November 30, 1985, for those programs included in the State Mandates Apportionment System, after approval by the commission, there shall be disbursed by the Controller to each local agency and school district which has submitted a reimbursement claim for costs mandated by the state in the 1982-83, 1983-84, and the 1984-85 fiscal years, or any three consecutive fiscal years thereafter, an amount computed by averaging the approved reimbursement claims for this three-year period. The amount shall first be adjusted according to any changes in the deflator. The deflator shall be applied separately to each year's costs for the three years which comprise the base period. Funds for these purposes shall be available to the extent they are provided for in the Budget Act of 1985 and the Budget Act for any subsequent fiscal year thereafter. For purposes of this article, "base period" means the three fiscal years immediately succeeding the commission's approval. (b) When the Controller has made payment on claims prior to commission approval of the program for inclusion in the State Mandates Apportionment System, the payment shall be adjusted in the next apportionment to the amount which would have been subvented to the local agency or school district for that fiscal year had the State Mandates Apportionment System been in effect at the time of the initial payment.

### **GC §17615.3: Annual Recalculation of Allocation**

Notwithstanding Section 17561, by November 30, 1986, and by November 30 of each year thereafter, for those programs included in the State Mandates Apportionment System, the Controller shall recalculate each allocation for each local agency and school district for the 1985-86 fiscal year, by using the actual change in the deflator for that year. That recalculated allocation shall then be adjusted by the estimated change in the deflator for the 1986 -87 fiscal year, and each fiscal year thereafter, to establish the allocation amount for the 1986-87 fiscal year, and each fiscal year thereafter. Additionally, for programs approved by the commission for inclusion in the State Mandates Apportionment System on or after January 1, 1988, the allocation for each year succeeding the three-year base period shall be adjusted according to any changes in both the deflator and workload. The Controller shall then subvene that amount after adjusting it by any amount of overpayment or underpayment in the 1985-86 fiscal year, and each fiscal year thereafter, due to a discrepancy between the actual change and the estimated change in the deflator or workload. Funds for these purposes shall be available to the extent they are provided for in the Budget Act of 1986 and the Budget Act for any subsequent fiscal year thereafter. For purposes of this article, "workload" means, for school districts and county offices of

education, changes in the average daily attendance; for community colleges, changes in the number of full-time equivalent students; for cities and counties, changes in the population within their boundaries; and for special districts, changes in the population of the county in which the largest percentage of the district's population is located.

#### **GC §17615.4: Procedure for Newly Mandated Program**

(a) When a new mandate imposes costs that are funded either by legislation or in local government claims bills, local agencies and school districts may file reimbursement claims as required by Section 17561, for a minimum of three years after the initial funding of the new mandate. (b) After actual cost claims are submitted for three fiscal years against such a new mandate, the commission shall determine, upon request of the Controller or a local entity or school district receiving reimbursement for the program, whether the amount of the base year entitlement adjusted by changes in the deflator and workload accurately reflects the costs incurred by the local agency or school district. If the commission determines that the base year entitlement, as adjusted, does accurately reflect the costs of the program, the commission shall direct the Controller to include the program in the State Mandates Apportionment System. (c) The Controller shall make recommendations to the commission and the commission shall consider the Controller's recommendations for each new mandate submitted for inclusion in the State Mandates Apportionment System. All claims included in the State Mandates Apportionment System pursuant to this section are also subject to the audit provisions of Section 17616.

#### **GC §17615.5: Procedure Where No Base Year Entitlement Has Been Established**

(a) If any local agency or school district has an established base year entitlement which does not include costs for a particular mandate, that local agency or school district may submit reimbursement claims for a minimum of three consecutive years, adjusted pursuant to Section 17615.3 by changes in the deflator and workload, or entitlement claims covering a minimum of three consecutive years, after which time its base year entitlement may be adjusted by an amount necessary to fund the costs of that mandate. (b) If any local agency or school district has no base year entitlement, but wishes to begin claiming costs of one or more of the mandates included in the State Mandates Apportionment System, that local agency or school district may submit reimbursement claims for a minimum of three consecutive years, or entitlement claims covering the preceding three consecutive years, which shall be adjusted pursuant to Sections 17615.2 and 17615.3 by changes in the deflator and workload, after which time a base year entitlement may be established in an amount necessary to fund the costs of the mandate or mandates.

#### **GC §17615.6: Procedure Where Program is No Longer Mandatory**

If a local agency or school district realizes a decrease in the amount of costs incurred because a mandate is discontinued, or made permissive, the Controller shall determine the amount of the entitlement attributable to that mandate by determining the base year amount for that mandate for the local agency or school district plus the annual adjustments. This amount shall be subtracted from the annual subvention which would otherwise have been allocated to the local agency or school district.

#### **GC §17615.7: Procedure Where Program is Modified**

If a mandated program included in the State Mandates Apportionment System is modified or amended by the Legislature or by executive order, and the modification or amendment significantly affects the costs of the program, as determined by the commission, the program shall be removed from the State Mandate Apportionment System, and the payments reduced accordingly. Local entities or school districts may submit actual costs claims for a period of three years, after which the program may be considered for inclusion in the State Mandates Apportionment System, pursuant to the provisions of Section 17615.4.



**GC §17615.8: Review of Base Year Entitlement**

(a) The commission shall establish a procedure for reviewing, upon request, any apportionment or base year entitlement of a local agency or school district. (b) Local agencies and school districts which request such a review shall maintain and provide those records and documentation as the commission or its designee determines are necessary for the commission or its designee to make the required determinations. With the exception of records required to verify base year entitlements, the records may not be used to adjust current or prior apportionments, but may be used to adjust future apportionments. (c) If the commission determines that an apportionment or base year entitlement for funding costs mandated by the state does not accurately reflect the costs incurred by the local agency or school district for all mandates upon which that apportionment is based, the commission shall direct the Controller to adjust the apportionment accordingly. For the purposes of this section, an apportionment or a base year entitlement does not accurately reflect the costs incurred by a local agency or school district if it falls short of reimbursing, or overreimburses, that local agency's or school district's actual costs by 20 percent or by one thousand dollars (\$1,000), whichever is less. (d) If the commission determines that an apportionment or base year entitlement for funding costs mandated by the state accurately reflects the costs incurred by the local agency or school district for all mandates upon which that apportionment is based, the commission may, in its discretion, direct the Controller to withhold, and, if so directed, the Controller shall withhold the costs of the commission's review from the next apportionment to the local agency or school district, if the commission review was requested by the local agency or school district.

**GC §17615.9: Review of Programs Under SMAS**

The commission shall periodically review programs funded under the State Mandate Apportionments System to evaluate the effectiveness or continued statewide need for each such mandate.

**GC §17616: Audits and Verification by Controller**

The Controller shall have the authority to do either or both of the following: (a) Audit the fiscal years comprising the base year entitlement no later than three years after the year in which the base year entitlement is established. The results of such audits shall be used to adjust the base year entitlements and any subsequent apportionments based on that entitlement, in addition to adjusting actual cost payments made for the base years audited. (b) Verify that any local agency or school district receiving funds pursuant to this article is providing the reimbursed activities.

**GC §17617: Local Agency Payment**

The total amount due to each city, county, city and county, and special district, for which the state has determined, as of June 30, 2005, that reimbursement is required under Section 6 of Article XIII B of the California Constitution, shall be appropriated for payment to these entities over a period of not more than five years, commencing with the Budget Act for the 2006-07 fiscal year and concluding with the Budget Act for the 2011-12 fiscal year.

## FILING A CLAIM

**RECEIVED**  
December 16, 2013  
*Commission on  
State Mandates*

### 1. Introduction

Government Code (GC) Sections 17500 through 17617 provide for the reimbursement of costs incurred by school districts (SD) for mandated cost programs as a result of any statute enacted after January 1, 1975, or any executive order implementing such statute which mandates a new program or higher level of service of an existing program.

A reimbursement claim is defined in Government Code (GC) Section 17522 as any claim filed with the State Controller's Office (SCO) by a SD for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim. Actual claims for the 2009-10 fiscal year, will be accepted without penalty if postmarked or delivered on or before **February 15, 2011**. Ongoing reimbursement claims filed after the deadline will be reduced by a late penalty of **10%, not to exceed \$10,000**. Amended claims filed after the filing deadline will be reduced by **10% of the increased amount not to exceed \$10,000** for the total claim. Initial reimbursement claims filed after the filing deadline will be reduced by a late penalty of **10% with no limitation**. Claims filed more than one year after the deadline will not be accepted by the SCO.

A charter school is not eligible to file mandated cost claims under these programs because it is not defined as a school district pursuant to GC Section 17519. Accordingly, charter schools cannot be reimbursed for their costs by filing a claim or through a third party's claim such as a school district or superintendent of schools. The Commission on State Mandates (Commission) adopted the Charter School III Statement of Decision on May 25, 2006, which stated that a charter school is voluntarily participating in the charter program at issue and that a charter school is not a school district under GC Section 17519 and therefore is not eligible to claim reimbursement under GC Section 17560.

SD's may use the indirect cost rates from the Restricted Indirect Cost Rates for K-12 Local Educational Agencies (LEA's) Five Year Listing issued by the California Department of Education (CDE), School Fiscal Services Division, for the fiscal year of the claim. Since this information is readily available online, there is no need for SD's to file supporting documentation for indirect costs with their claims. Additional information regarding indirect cost rates can be found in Section 2, Filing a Claim, page 10, *Indirect Costs*.

When a program has been reimbursed for three or more years, the Commission may approve the program for inclusion in the State Mandates Apportionment System (SMAS). For programs included in SMAS, the SCO determines the amount of each claimant's entitlement based on an average of three consecutive fiscal years of actual costs adjusted by any changes in the Implicit Price Deflator (IPD). Claimants with an established entitlement receive an annual apportionment adjusted by any changes in the implicit price deflator (IPD) and average daily attendance (ADA). Claimants with an established entitlement no longer need to file claims for that program.

The SCO is authorized to make payments for costs of mandated programs from amounts appropriated by the State Budget Act, by the State Mandates Claims Fund, or by specific legislation. In the event the appropriation is insufficient to pay claims in full, claimants will receive prorated payments in proportion to the dollar amount of approved claims for the program. Balances of prorated payments will be made when supplementary funds become available.

### 2. Electronic Filing: Local Government e-Claims (LGeC)

LGeC enables claimants and their consultants to securely prepare and submit mandated cost claims via the Internet. LGeC uses a series of data input screens to collect the information needed to prepare a claim and provides a Web service so claims can be uploaded in batch files. The system also incorporates an attachment feature so claimants can electronically attach supporting documentation if required.

The LGeC system provides an easy and straightforward approach to the claiming process. Filing claims using LGeC eliminates the manual preparation and submission of paper claims by SD's and the receiving, processing, key entry, verification, and storage of the paper claims by the SCO. LGeC also provides mathematical checks and automated error detection to reduce erroneous and incomplete claims, provides the State with an electronic workflow process, and stores the claims in an electronic format. Making the change from paper claims to electronic claims reduces the manual handling of paper claims and decreases the costs incurred for postage, handling, and storage of claims filed.

In order to use the LGeC system you will need to obtain a user ID and password for each person who will access the LGeC system. To obtain a User ID and password you must file an application with the SCO. The application and instructions are available on the LGeC Web site located at [http://www.sco.ca.gov/ard\\_lgec.html](http://www.sco.ca.gov/ard_lgec.html). Complete the application and other documents as requested and mail them to the SCO using the address provided in the instructions. The SCO will process the application within three business days and issue a User ID and password to each applicant.

In addition, you may want to subscribe to an email distribution list to automatically receive timely, comprehensive information regarding mandated cost claims, payments, guidelines, electronic claims, and other news and updates. You also will receive related audit reports and mandate information provided by other state agencies.

You can find more information about LGeC and the email distribution lists at [http://www.sco.ca.gov/ard\\_lgec.html](http://www.sco.ca.gov/ard_lgec.html). This Web site provides access to the LGeC system, an application for User ID's and passwords, an instructional guide, frequently asked questions (FAQ's) and additional help files. Questions may be directed to [LRSDAR@sco.ca.gov](mailto:LRSDAR@sco.ca.gov), or you may call the Local Reimbursements Section at (916) 324-5729.

### 3. Types of Claims

Claimants may file a reimbursement claim for actual mandated costs incurred in the prior fiscal year. An entitlement claim may be filed for the purpose of establishing a base year entitlement amount for mandated programs included in SMAS. A claimant who has established a base year entitlement for a program, would receive an automatic annual payment which is reflective of the current costs for the program.

All claims received by the SCO will be reviewed to verify actual costs. An adjustment of the claim will be made if the amount claimed is determined to be excessive, improper, or unreasonable.

#### A. Reimbursement Claim

Initial reimbursement claims are first-time claims for reimbursement of costs for one or more prior fiscal year(s) of a program that was previously unfunded. Claims are due one hundred and twenty days from the date of issuance of the claiming instructions for the program by the SCO. The first statute that appropriates funds for the mandated program will specify the fiscal years for which costs are eligible for reimbursement.

Annual ongoing reimbursement claims must be filed by February 15<sup>th</sup> following the fiscal year in which costs were incurred for the program. Claims for fiscal year 2009-10 will be accepted without late penalty if postmarked or delivered on before February 15<sup>th</sup>, 2011. Claims filed after the deadline will be reduced by a late penalty of 10%, not to exceed \$10,000. However, initial reimbursement claims will be reduced by a late penalty of 10% with no limitation. Amended claims filed after the deadline will be reduced by 10% of the increased amount not to exceed \$10,000 for the claim. Claims filed more than one year after the deadline will not be accepted for reimbursement.

#### B. Entitlement Claim

An entitlement claim is defined in GC Section 17522 as any claim filed by SD's with the SCO for the sole purpose of establishing or adjusting a base year entitlement for a mandated cost

program that has been included in SMAS. An entitlement claim should not contain nonrecurring or initial start-up costs. There is no statutory deadline for the filing of entitlement claims. However, these claims should be filed by February 15th, following the third fiscal year used to develop the entitlement claim, to permit an orderly processing of claims. When the claims are approved and a base year entitlement amount is determined, the claimant will receive an apportionment reflective of the program's current year costs.

The automatic apportionment is determined by adjusting the claimant's base year entitlement for changes in the IPD of costs of goods and services to governmental agencies, as determined by the State Department of Finance. For programs approved by the Commission for inclusion in SMAS, the payment for each year succeeding the three year base period is adjusted according to any changes by both the IPD and average daily attendance (ADA).

The SCO will perform this computation for each claimant who has filed claims for three consecutive years. If a claimant has incurred costs for three consecutive years but has not filed a claim in each of those years, the claimant may file an entitlement claim, form FAM-43, to establish a base year entitlement. The form FAM-43 is included in the claiming instructions for SMAS programs. An entitlement claim does not result in the claimant being reimbursed for the costs incurred, but rather entitles the claimant to receive automatic payments from SMAS. Annual apportionments for programs included in the SMAS system are paid on or before November 30th of each year.

#### **4. Minimum Claim Amount**

For initial claims and annual claims filed on or after September 30, 2002, if the total costs for a given year do not exceed \$1,000, no reimbursement will be allowed except as otherwise allowed by GC Section 17564. Combined claims may be filed only when the county office of education (COE) is the fiscal agent for school districts. The COE will determine if the submission of a combined claim is economically feasible and will be responsible for disbursing the funds to each school district. A combined claim must show the individual claim costs for each eligible school district. All subsequent claims based upon the same mandate must only be filed in the combined form unless a school district provides to the COE and to the Controller, at least 180 days prior to the deadline for filing the claim, a written notice of its intent to file a separate claim.

#### **5. Filing Deadline for Claims**

Pursuant to GC Section 17561(d) initial reimbursement claims (first time claims) for reimbursement of costs of a previously unfunded mandated program must be filed within one hundred and twenty days from the date the SCO issues the claiming instructions for the program. When paying a timely filed claim for initial reimbursement, the Controller may withhold twenty percent of the amount of the claim until the claim is audited to verify the actual amount of the mandated costs. Initial reimbursement claims filed after the filing deadline will be reduced by ten percent of the amount that would have been allowed had the claim been timely filed.

The Controller may withhold payment of any late claim for initial reimbursement until the next deadline for funded claims unless sufficient funds are available to pay the claim after all timely filed claims have been paid. All initial reimbursement claims for all fiscal years required to be filed on their initial filing date for a program will be considered as one claim for the purpose of computing any late claim penalty. In no case will a reimbursement claim be paid if submitted more than one year after the filing deadline specified in the Controller's claiming instructions on funded mandates.

Pursuant to GC Section 17560, annual reimbursement claims (recurring claims) for costs incurred during the previous fiscal year must be filed with the SCO and postmarked on or before February 15th following the fiscal year in which costs were incurred. If the annual reimbursement claim is filed after the deadline, but within one year of the deadline, the approved claim must be reduced by a 10% late penalty, not to exceed \$10,000. Amended claims filed after the deadline will be reduced by 10% of the increased amount not to exceed \$10,000 for the total claim. Claims may not be filed more than one year after the deadline.

## 6. Payment of Claims

In order for the SCO to authorize payment of a claim, the Certification of Claim, form FAM-27, must be properly filled out, signed, and dated by the entity's authorized officer. When using the LGeC system, the logon ID and password of the authorized officer is used for the signature and is applied by the LGeC system when the claim is submitted. Pursuant to GC 17561(d), reimbursement claims are paid by October 15 or sixty days after the date the appropriation for the claim is effective, whichever is later. In the event the amount appropriated by the Legislature is insufficient to pay the approved amount in full for a program, claimants will receive a prorated payment in proportion to the amount of approved claims timely filed and on hand at the time of proration.

A claimant is entitled to receive accrued interest at the pooled money investment account rate if the payment was made more than 60 days after the claim filing deadline or the actual date of claim receipt, whichever is later. For an initial claim, interest begins to accrue when the payment is made more than one year after the adoption of the program's statewide cost estimate.

The SCO reports the amounts of insufficient appropriations to the State Department of Finance, the Chairperson of the Joint Legislative Budget Committee, and the Chairperson of the respective committee in each House of the Legislature, in order to ensure appropriation of these funds in the Budget Act. If these funds cannot be appropriated on a timely basis in the Budget Act, this information is transmitted to the Commission who will include these amounts in its reports to assure that an appropriation sufficient to pay the claims is included in the next local government claims bill or other appropriation bills. Any balances remaining on these claims will be paid when supplementary funds become available.

Unless specified in the statutes, regulations, or P's & G's, the determination of allowable and unallowable costs for mandates is based on the P's & G's adopted by the Commission. The determination of allowable reimbursable mandated costs for unfunded mandates is made by the Commission. The SCO determines allowable reimbursable costs, subject to amendment by the Commission, for mandates funded by special legislation. Allowable costs are those direct and indirect costs, less applicable credits, considered eligible for reimbursement. In order for costs to be allowable and thus eligible for reimbursement, the costs must meet the following general criteria:

1. The cost is necessary and reasonable for proper and efficient administration of the mandate and not a general expense required to carry out the overall responsibilities of government.
2. The cost is allocable to a particular cost objective identified in the P's & G's.
3. The cost is net of any applicable credits that offset or reduce expenses of items allocable to the mandate.

The SCO has identified certain costs that should not be claimed as direct program costs unless specified as reimbursable under the program's P's & G's. These costs include, but are not limited to, subscriptions, depreciation, memberships, conferences, workshops, general education, and travel costs.

## 7. State Mandates Apportionment System (SMAS)

Chapter 1534, Statutes of 1985, established SMAS, a method of paying certain mandated programs as apportionments. This method is utilized whenever a program has been approved for inclusion in SMAS by the Commission.

When a mandated program has been included in SMAS, the SCO will determine a base year entitlement amount for each SD that has submitted reimbursement claims (or entitlement claims) for three consecutive fiscal years. A base year entitlement amount is determined by averaging the approved reimbursement claims (or entitlement claims) for any three consecutive fiscal years. The amounts are first adjusted by any change in the IPD, which is applied separately to each year's costs for the three years that comprise the base period. The base period means the three fiscal years immediately succeeding the Commission's approval.

Each SD with an established base year entitlement for the program will receive automatic annual payments from the SCO reflective of the program's current year costs. The apportionment amount is adjusted annually for any change in the IPD. If the mandated program was included in SMAS after January 1, 1988, the annual apportionment is adjusted for any change in both the IPD and ADA.

In the event a SD has incurred costs for three consecutive fiscal years but did not file a reimbursement claim in one or more of those fiscal years, the SD may file an entitlement claim for each of those missed years to establish a base year entitlement. An entitlement claim means any claim filed by a SD with the SCO for the sole purpose of establishing a base year entitlement. A base year entitlement may not include any nonrecurring or initial start-up costs.

Initial apportionments are made on an individual program basis. After the initial year, all apportionments are made by November 30<sup>th</sup>. The amount to be apportioned is the base year entitlement adjusted by annual changes in the IPD for the cost of goods and services to governmental agencies as determined by the State Department of Finance.

In the event the SD determines that the amount of apportionment does not accurately reflect costs incurred to comply with a mandate, the process of adjusting an established base year entitlement upon which the apportionment is based is set forth in GC Section 17615.8 and requires the approval of the Commission.

The following programs are placed in SMAS:

<b>Program Name</b>	<b>Chapter/Statute</b>	<b>Program Number</b>
Expulsion of Pupil: Transcript Cost	1253/75	91
Immunization Records	1176/77	32

## **8. Direct Costs**

A direct cost is a cost that can be identified specifically with a particular program or activity. Documentation to support direct costs must be kept on hand unless otherwise specified in the claiming instructions and made available to the SCO on request.

It is the responsibility of the claimant to maintain documentation in the form of general and subsidiary ledgers, purchase orders, invoices, contracts, canceled warrants, equipment usage records, land deeds, receipts, employee time sheets, agency travel guidelines, inventory records, and other relevant documents to support claimed costs. The type of documentation necessary for each claim may differ with the type of mandate.

Costs typically classified as direct costs are:

### **(1) Employee Wages, Salaries, and Benefits**

For each of the mandated activities performed, the claimant must list the names of the employees who worked on the mandate, their job classifications, hours worked on the mandate, and rate of pay. The claimant may use a productive hourly rate in-lieu of reporting actual compensation and benefits:

#### **(a) Productive Hourly Rate Options**

A SD may use one of the following methods to compute productive hourly rates:

- Actual annual productive hours for each employee;
- The weighted-average annual productive hours for each job title; or
- 1,800\* annual productive hours for all employees.

If actual annual productive hours or weighted-average annual productive hours for each job title is chosen, the claimant must maintain documentation of how these hours were computed.

\* 1,800 annual productive hours excludes the following employee time:

- Paid holidays;
- Vacation earned;
- Sick leave taken;
- Informal time off;
- Jury duty;
- Military leave taken.

**(b) Compute a Productive Hourly Rate**

1. Compute a productive hourly rate for salaried employees to include actual benefit costs. The methodology for converting a salary to a productive hourly rate is to compute the employee's annual salary and benefits and divide by the annual productive hours.

**Table 1: Productive Hourly Rate, Annual Salary + Benefits Method**

<b>Formula:</b>	<b>Description:</b>
$[(EAS + Benefits) \div APH] = PHR$	EAS = Employee's Annual Salary APH = Annual Productive Hours
$[(\$26,000 + \$8,099) \div 1,800 \text{ hrs}] = 18.94$	PHR = Productive Hourly Rate

- As illustrated in Table 1, if an employee's compensation was \$26,000 and \$8,099 for annual salary and benefits, respectively, using the Salary + Benefits Method, the productive hourly rate would be \$18.94. To convert a biweekly salary to Annual Salary, multiply the biweekly salary by 26. To convert a monthly salary to Annual Salary, multiply the monthly salary by 12. Use the same methodology to convert other salary periods.
2. A claimant may also compute the productive hourly rate by using the Percent of Salary Method.

**Table 2: Productive Hourly Rate, Percent of Salary Method**

<b>Example:</b>		<b>Step 2: Productive Hourly Rate</b>
<b>Step 1: Benefits as a Percent of Salary</b>		<b>Formula:</b>
Retirement	15.00 %	$[(EAS \times (1 + BR)) \div APH] = PHR$
Social Security & Medicare	7.65	
Health & Dental Insurance	5.25	$[(\$26,000 \times (1.3115)) \div 1,800] = \$18.94$
Workers Compensation	3.25	
<b>Total</b>	<b>31.15 %</b>	
<b>Description:</b>		
EAS = Employee's Annual Salary		APH = Annual Productive Hours
BR = Benefit Rate		PHR = Productive Hourly Rate

- As illustrated in Table 2, both methods produce the same productive hourly rate.

Reimbursement for personnel services includes, but is not limited to, compensation paid for salaries, wages, and employee benefits. Employee benefits include employer's contributions for social security, pension plans, insurance, workers compensation insurance and similar payments. These benefits are eligible for reimbursement as long as they are distributed equitably to all activities. Whether these costs are allowable is based on the following presumptions:

- The amount of compensation is reasonable for the service rendered;
- The compensation paid and benefits received are appropriately authorized by the governing board;
- Amounts charged for personnel services are based on payroll documents that are supported by time and attendance or equivalent records for individual employees;
- The methods used to distribute personnel services should produce an equitable distribution of direct and indirect allowable costs.

For each of the employees included in the claim, the claimant must use reasonable rates and hours in computing the wage cost. If a person of a higher-level position performs an activity which normally would be performed by a lower-level position, reimbursement for time spent is allowable at the average salary range for the lower-level position. The salary rate of the person at a higher-level position may be claimed if it can be shown that it was more cost effective in comparison to the performance by a person at the lower-level position under normal circumstances and conditions. The number of hours charged to an activity should reflect the time expected to complete the activity under normal circumstances and conditions. The numbers of hours in excess of normal expected hours are not reimbursable.

### (c) Calculating an Average Productive Hourly Rate

In those instances where the P's & G's allow a unit as a basis of claiming costs, the direct labor component of the unit cost should be expressed as an average productive hourly rate and can be determined as follows:

**Table 3: Calculating an Average Productive Hourly Rate**

	<u>Time Spent</u>	<u>Productive Hourly Rate</u>	<u>Total Cost by Employee</u>
Employee A	1.25 hrs	\$6.00	\$7.50
Employee B	0.75 hrs	4.50	3.38
Employee C	3.50 hrs	10.00	35.00
Total	5.50 hrs		\$45.88
Average Productive Hourly Rate is $\$45.88 \div 5.50 \text{ hrs.} = \$8.34$			

### (d) Employer's Benefits Contribution

A SD has the option of claiming actual employer's benefit contributions or may compute an average benefit cost for the employee's job classification and claim it as a percentage of direct labor. The same time base should be used for both salary and benefits when computing a percentage. For example, if health and dental insurance payments are made annually, use an annual salary. After the percentage of salary for each benefit is computed, total them.



For example:

<u>Employer's Contribution</u>	<u>% of Salary</u>
Retirement	15.00%
Social Security	7.65%
Health and Dental Insurance	5.25%
Worker's Compensation	0.75%
Total	<u>28.65%</u>

## (2) Materials and Supplies

Only actual expenses can be claimed for materials and supplies, which were acquired and consumed specifically for the purpose of a mandated program. The claimant must list the materials and supplies that were used to perform the mandated activity, the number of units consumed, the cost per unit, and the total dollar amount claimed. Materials and supplies in excess of reasonable quality, quantity, and cost are not reimbursable. Materials and supplies withdrawn from inventory and charged to the mandated activity must be based on a recognized method of pricing, consistently applied. Purchases must be claimed at the actual price after deducting discounts, rebates and allowances received by the SD.

### (a) Calculating a Unit Cost for Materials and Supplies

In those instances where the P's & G's suggest that a unit cost be developed for use as a basis of claiming costs mandated by the State, the materials and supplies component of the unit cost should be expressed as a unit cost of materials and supplies as shown in Table 1 or Table 2:

**Table 1: Calculating a Unit Cost for Materials and Supplies**

<b>Supplies</b>	<u>Cost Per Unit</u>	<u>Amount of Supplies Used Per Activity</u>	<u>Unit Cost of Supplies Per Activity</u>
Paper	0.02	4	\$0.08
Files	0.10	1	0.10
Envelopes	0.03	2	0.06
Photocopies	0.10	4	<u>0.40</u>
			<u>\$0.64</u>

**Table 2: Calculating a Unit Cost for Materials and Supplies**

<b>Supplies</b>	<u>Supplies Used</u>	<u>Unit Cost of Supplies Per Activity</u>
Paper (\$10.00 for 500 sheet ream)	250 Sheets	\$5.00
Files (\$2.50 for box of 25)	10 Folders	1.00
Envelopes (\$3.00 for box of 100)	50 Envelopes	1.50
Photocopies (\$0.05 per copy)	40 Copies	<u>2.00</u>
		<u>\$9.50</u>
If the number of reimbursable instances is 25, then the unit cost of supplies is \$0.38 per reimbursable instance (\$9.50 ÷ 25).		

**(3) Contract Services**

The cost of contract services is allowable if the SD lacks the staff resources or necessary expertise, or it is economically feasible to hire a contractor to perform the mandated activity. The claimant must keep documentation on hand to support the name of the contractor, explain the reason for having to hire a contractor, describe the mandated activities performed, give the dates when the activities were performed, the number of hours spent performing the mandate, the hourly billing rate, and the total cost. The hourly billing rate must not exceed the rate specified in the P's & G's for the mandated program. The contractor's invoice or statement must include an itemized list of costs for activities performed.

**(4) Equipment Rental Costs**

Equipment purchases and leases (with an option to purchase) are not reimbursable as a direct cost unless specifically allowed by the P's & G's for the particular mandate. Equipment rentals used solely for the mandate are reimbursable to the extent that such costs do not exceed the retail purchase price of the equipment plus a finance charge. The claimant must maintain documentation to support the purpose and use of the equipment, the time period for which the equipment was rented and the total cost of the rental. If the equipment is used for purposes other than reimbursable activities, only the pro rata portion of the rental costs can be claimed.

**(5) Capital Outlay**

Capital outlay for land, buildings, equipment, furniture and fixtures may be claimed if the P's & G's specify them as allowable. If they are allowable, the P's & G's for the program will specify a basis for the reimbursement. If the fixed asset or equipment is also used for purposes other than reimbursable activities for a specific mandate, only the pro rata portion of the purchase price used to implement the reimbursable activities can be claimed.

**(6) Travel Expenses**

Travel expenses are normally reimbursable in accordance with travel rules and regulations of the local jurisdiction. For some programs, however, the P's & G's may specify certain limitations on expenses, or that expenses can only be reimbursed in accordance with the Department of Personnel Administration (DPA) travel standards. When claiming travel expenses, the claimant must maintain documentation to support the purpose of the trip, the names and addresses of the persons incurring the expense, the date and time of departure and return, a description of each expense claimed, and the cost of transportation, number of private auto miles traveled, and the cost of tolls and parking. Receipts are required for charges over \$10.00.

**9. Indirect Costs**

Indirect costs are: (a) Incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved. Indirect costs can originate in the department performing the mandate or in departments that supply the department performing the mandate with goods, services, and facilities. To be allowable, a cost must be allocable to a particular cost objective. Indirect costs must be distributed to benefiting cost objectives on bases which produce an equitable result related to the benefits derived by the mandate.

School District's may use the indirect cost rate from the Restricted Indirect Cost rates for K-12 Local Education Agencies (LEA's) Five Year Listing issued by the California Department of Education (CDE), School Fiscal Services Division, for the fiscal year of costs. The amount of indirect costs the claimant is eligible to claim is computed by multiplying the rate by direct costs.

## 10. Time Study Guidelines

### Background

Two methods are acceptable for documenting employee time charged to mandated cost programs: 1) Actual Time Reporting and 2) Time Study. These methods are described below. Application of time study results is restricted. As explained in the Time Study Results section below, the results may be projected forward a maximum of two years or applied retroactively to initial claims, current-year claims, and late-filed claims, provided certain criteria are met.

### Actual Time Reporting

Each program's P's and G's define reimbursable activities for the mandated cost program. When employees work on multiple activities, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the following standards:

- They must reflect an after-the-fact distribution of the actual activity of each employee;
- They must account for the total activity for which each employee is compensated;
- They must be prepared at least monthly and must coincide with one or more pay periods; and
- They must be signed by the employee.

Budget estimates or other distribution percentages determined before services are performed do not qualify as support for actual time reporting.

### Time Study

In certain cases, a time study may be used as a substitute for continuous records of actual time spent on multiple activities and/or programs. A time study can be used for an activity when the task is repetitive in nature. Activities that require varying levels of effort are not appropriate for time studies.

### Time Study Plan

The claimant must develop a plan before the time study is conducted. The claimant must retain the time study plan for audit purposes. The plan must identify the following:

- Time periods to be studied - The plan must show that all time periods selected are representative of the fiscal year and that the results can be reasonably projected to approximate actual costs;
- Activities to be studied - The time study must separately identify each reimbursable activity defined in the mandated program's P's and G's. If a reimbursable activity identifies separate and distinct sub-activities, these sub-activities also must be treated as individual activities;

For example, sub-activities (a) and (b) under reimbursable activity (1) of the Agency Fee Arrangements Program relate to salary deduction and payment of fair share and are not separate and distinct activities. It is not necessary to separately study these sub-activities.

- Process used to accomplish each reimbursable activity - Use flowcharts or similar analytical tools and/or written desk procedures to describe the process followed to complete each activity;
- Employee universe - The employee universe used in the time study must include all positions for which salaries and wages are to be allocated by means of the time study;
- Employee sample selection methodology - The plan must show that employees selected are representative of the employee universe and that the results can be reasonably projected to approximate actual costs. In addition, the employee sample size should be proportional to the variation in time spent to perform a task. The sample size should be larger for tasks with significant time variations;
- Time increments to be recorded - The time increments used should be sufficient to recognize the

number of different activities performed and the dynamics of these responsibilities. Very large increments (such as one hour or more) can be used for employees performing only a few functions that change very slowly over time. Small increments (a number of minutes) can be used for employees performing more short-term tasks.

Random-moment sampling is not an acceptable alternative to continuous time records for mandated cost claims. Random-moment sampling techniques are most applicable in situations where employees perform many different types of activities on a variety of programs with small time increments throughout the fiscal year.

### **Time Study Documentation**

Time studies must:

- Be supported by time records that are completed when the activity occurs;
- Report activity on a daily basis;
- Be sufficiently detailed to reflect all mandated activities performed during a specific time period; and
- Coincide with one or more pay periods.

Time records must be signed by the employee and be supported by documentation that validates that the work was actually performed. As with actual time reporting, budget estimates or other distribution percentages determined before services are performed do not qualify as valid time studies.

### **Time Study Results**

Claimants must summarize time study results to show how the time study supports the costs claimed for each activity. Any variation from the procedures identified in the original time study plan must be documented and explained. Current-year costs must be used to prepare a time study. Claimants may project time study results to no more than two subsequent fiscal years. A claimant also may apply time study results retroactively to initial claims, current-year claims, and late-filed claims.

When projecting time study results, the claimant must certify that no significant changes have occurred between years in either (1) the requirements of each mandated program activity; or (2) the processes and procedures used to accomplish the activity. For all years, the claimant must maintain documentation that shows that the mandated activity was actually performed. Time study results used to support claims are subject to the record-keeping requirements for those claims.

## **11. Offsets Against State Mandated Claims**

As noted previously, allowable costs are defined as those direct and indirect costs, less applicable credits, considered eligible for reimbursement. When all or part of the costs of a mandated program are specifically reimbursable from local assistance revenue sources (e.g., state, federal, foundation, etc.), only that portion of any increased cost payable from SD funds is eligible for reimbursement under the provisions of GC Section 17561.

### **A. Example 1:**

As illustrated in Table 5, this example shows how the Offset Against State Mandated Claims is determined for SD receiving block grant revenues not based on a formula allocation. Program costs for each situation equals \$100,000.

**Table 5: Offset Against State Mandates, Example 1**

	<b>Program Costs</b>	<b>Actual Local Assistance Revenues</b>	<b>State Mandated Costs</b>	<b>Offset Against State Mandated Claims</b>	<b>Claimable Mandated Costs</b>
1.	\$100,000	\$95,000	\$2,500	\$-0-	\$2,500
2.	100,000	97,000	2,500	-0-	2,500
3.	100,000	98,000	2,500	500	2,000
4.	100,000	100,000	2,500	2,500	-0-
5.	100,000 *	50,000	2,500	1,250	1,250
6.	100,000 *	49,000	2,500	250	2,250

\* SD's share is \$50,000 of the program cost.

Numbers (1) through (4) in Table 5, show intended funding at 100% from local assistance revenue sources. Numbers (5) and (6) show cost sharing on a 50/50 basis with the district. In numbers (1) through (6), included in the program costs of \$100,000 are state mandated costs of \$2,500. The offset against state mandated claims are the amount of actual local assistance revenues, which exceeds the difference between program costs and state mandated costs. This offset cannot exceed the amount of state mandated costs.

In (1), local assistance revenues were less than expected. Local assistance funding was not in excess of the difference between program costs and state mandated costs. As a result, the offset against state mandated claims is zero and \$2,500 is claimable as mandated costs.

In (4), local assistance revenues were fully realized to cover the entire cost of the program, including the state mandated activity; therefore, the offset against state mandated claims is \$2,500, and claimable cost is \$0.

In (5), the district is sharing 50% of the project cost. Since local assistance revenues of \$50,000 were fully realized, the offset against state mandated claims is \$1,250.

In (6), local assistance revenues were less than the amount expended and the offset against state mandated claims is \$250. Therefore, the claimable mandated costs are \$2,250.

#### **B. Example 2:**

As illustrated in Table 6, this example shows how the offset against state mandated claims is determined for SD's receiving special project funds based on approved actual costs. Local assistance revenues for special projects must be applied proportionately to the approved costs.

**Table 6: Offset Against State Mandates, Example 2**

	<b>Program Costs</b>	<b>Actual Local Assistance Revenues</b>	<b>State Mandated Costs</b>	<b>Offset Against State Mandated Claims</b>	<b>Claimable Mandated Costs</b>
1.	\$100,000	\$100,000	\$2,500	\$2,500	\$-0-
2.	100,000 **	75,000	2,500	1,875	625
3.	100,000 **	45,000	1,500	1,125	375

\*\* SD's share is \$25,000 of the program cost.

In (2), the entire program cost was approved. Since the local assistance revenue source covers 75% of the program cost, it also proportionately covered 75% of the \$2,500 state mandated costs, or \$1,875.

If in (3) local assistance revenues are less than the amount expected because only \$60,000 of the \$100,000 program costs were determined to be valid by the contracting agency, then a proportionate share of state mandated costs is likewise reduced to \$1,500. The offset against state mandated claims is \$1,125. Therefore, the claimable mandated costs are \$375.

### **Federal and State Funding Sources**

State school fund apportionments and federal aid for education, which are based on ADA and are part of the general system of financing public schools as well as block grants which do not provide for specific reimbursement of costs (i.e. allocation formulas not tied to expenditures), should not be included as reimbursements from local assistance revenue sources.

## **12. Notice of Claim Adjustment**

All claims submitted to the SCO are reviewed to determine if the claim was prepared in accordance with the claiming instructions. Claimants will receive a *Notice of Claim Adjustment* detailing any adjustment made by the SCO.

## **13. Audit of Costs**

Pursuant to GC Section 17558.5, Subdivision (b), the SCO may conduct a field review of any claim after it has been submitted to determine if costs are related to the mandate, are reasonable and not excessive, and the claim was prepared in accordance with the SCO's claiming instructions and the

P's & G's adopted by the Commission. If any adjustments are made to a claim, a Notice of Claim Adjustment specifying the claim activity adjusted, the amount adjusted, and the reason for the adjustment, will be mailed within thirty days after payment of the claim.

## **14. Source Documents**

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 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 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 stating: "I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct" and must further comply with the requirements of Code of Civil Procedure Section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, these documents cannot be substituted for source documents.

## **15. Claim Forms and Instructions**

Unless you are filing electronically, a claimant may submit a computer generated report in substitution for Form-1 and Form-2, provided the format of the report and data fields contained within the report are identical to the claim forms included with these instructions. The claim forms provided with these instructions should be duplicated or printed from SCO's Web site and used by the claimant to file reimbursement claims. The SCO will revise the manual and claim forms as necessary.

### **A. Form-2, Activity Cost Detail**

This form is used to segregate the direct costs by claim activity. In some mandates, specific reimbursable activities have been identified for each activity. The expenses reported on this form must be supported by the official financial records of the claimant. All documents used to

support the reimbursable activities must be retained by the claimant unless required to be submitted with the claim and must be made available to the SCO on request.

### B. Form-1, Claim Summary

This form is used to summarize direct costs by activity and compute allowable indirect costs for the mandate. The direct costs summarized on this form are derived from Form-2 and are carried forward to form FAM-27.

### C. Form FAM-27, Claim for Payment

This form contains a certification that must be signed by an authorized officer of the SD's. All applicable information from Form-1 must be carried forward onto this form in order for the SCO to process the claim for payment. An original and one copy of the FAM-27 are required.

Submit a signed original and one copy of form FAM-27, Claim for Payment. **To expedite the payment process, please sign the FAM-27 with blue ink, and attach a copy of the form FAM-27 to the top of the claim package.**

Use the following mailing addresses:

If delivered by  
U.S. Postal Service:

Office of the State Controller  
Attn.: Local Reimbursements Section  
Division of Accounting and Reporting  
P. O. Box 942850  
Sacramento, CA 94250

If delivered by  
Other delivery services:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
3301 C Street, Suite 700  
Sacramento, CA 95816

## 16. Retention of Claiming Instructions

The revised claiming instructions in this package have been arranged in alphabetical order by program name. This Manual should be retained for future reference, and the forms should be duplicated to meet your filing requirements. Annually, new or revised forms, instructions, and any other information claimants may need to file claims will be placed on the SCO's Web site located at [www.sco.ca.gov/ard\\_mancost.html](http://www.sco.ca.gov/ard_mancost.html).

If you have any questions concerning mandated cost reimbursements, please write to us at the address listed for filing claims, or by e-mail to [LRSDAR@sco.ca.gov](mailto:LRSDAR@sco.ca.gov), or call the Local Reimbursements Section at (916) 324-5729.

## 17. Retention of Claim Records and Supporting Documentation

Pursuant to Government Code Section 17558.5, (a), a reimbursement claim for actual costs filed by SD's is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was filed, the time for the Controller to initiate an audit will commence to run from the date of initial payment of the claim. In any case, an audit will be completed not later than two years after the date that the audit was commenced.

All documents used to support the reimbursable activities must be retained during the period subject to audit. If the Controller has initiated an audit during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings. Supporting documents must be made available to the SCO on request.



**JOHN CHIANG**  
**California State Controller**  
Division of Accounting and Reporting

February 15, 2011

TO: COUNTY SUPERINTENDENTS OF SCHOOLS  
SUPERINTENDENTS OF SCHOOL DISTRICTS

RE: Notification of Truancy, Program 48  
Rate Change for 2009-10 Fiscal Year

The claiming instructions for the Notification of Truancy mandate reimbursement program contains a unit cost rate to calculate the reimbursement amount. The unit cost rate included on Form 1 of the claiming instructions for the 2009-10 fiscal year was erroneously calculated as \$17.66 and posted to the State Controller's web site in December of 2010. The Form 1 was amended with the correct rate of \$17.87 and was re-posted on February 7, 2011.

If a claim has already been filed for fiscal year 2009-10 using the erroneous rate, the claim will be adjusted by the State Controller's Office to reflect the increase and a copy will be mailed to you. If you did not file a 2009-10 claim due to the inability to meet the \$1,001 threshold, but are now able to meet it, you may file a claim until March 15, 2011; no late penalty will be imposed. The updated forms for this program are now available online at the SCO's web site: [http://www.sco.ca.gov/ard\\_mancost\\_claim\\_instruct.html](http://www.sco.ca.gov/ard_mancost_claim_instruct.html).

We apologize for any inconvenience this may have caused. Questions regarding this program may be e-mailed to [LRSDAR@sco.ca.gov](mailto:LRSDAR@sco.ca.gov) or you may call the Local Reimbursements Section at (916) 324-5729.

Sincerely,

*(Original Signed By)*

JILL KANEMASU, Chief  
Bureau of Payments

JL/AL/tb



OFFICE OF THE STATE CONTROLLER  
STATE MANDATED COST CLAIMING INSTRUCTIONS NO. 2008-03  
NOTIFICATION OF TRUANCY

APRIL 4, 2008

Revised October 15, 2010

In accordance with Government Code (GC) Section 17561, eligible claimants may submit claims to the State Controller's Office (SCO) for reimbursement of state mandated cost programs. The following are claiming instructions and forms that eligible claimants will use for filing claims for the Notification of Truancy (NOT) program. These claiming instructions are issued subsequent to adoption of the program's amended Parameters and Guidelines (P's & G's) by the Commission on State Mandates (Commission).

On January 31, 2008, the Commission adopted the attached amended P's and G's for NOT, which is effective July 1, 2006, and are included as an integral part of the claiming instructions.

**Limitations and Exceptions**

There will be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to Government Code Section 17581.5.

**Eligible Claimants**

Except for community colleges, any school district or county office of education as defined in GC Section 17519 that incurs increased costs as a result of this mandate is eligible to claim reimbursement.

**Filing Deadlines**

**A. Reimbursement Claims**

A reimbursement claim is defined in GC Section 17522 as any claim filed with the SCO by a school district for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim.

An actual claim may be filed by February 15 following the fiscal year in which costs were incurred. Claims for fiscal year 2009-10 will be accepted without penalty if postmarked or delivered on or before **February 15, 2011. Claims filed more than one year after the deadline will not be accepted.**

**B. Late Penalty**

**1. Initial Claims**

Late initial claims are assessed a late penalty of 10% of the total amount of the initial claims without limitation.

## **2. Annual Reimbursement Claims**

Annual reimbursement claims must be filed by February 15 of the following fiscal year in which costs were incurred or the claims will be reduced by a late penalty.

Late annual reimbursement claims are assessed a late penalty of 10% of the claim amount; \$10,000 maximum penalty.

### **Minimum Claim Cost**

GC Section 17564(a) provides that no claim may be filed pursuant to Sections 17551 and 17561, unless such a claim exceeds one thousand dollars (**\$1,000**), provided that a county superintendent of schools may submit a combined claim on behalf of school districts within their county if the combined claim exceeds **\$1,000**, even if the individual school district's claim does not each exceed **\$1,000**. The county superintendent of schools will determine if the submission of the combined claim is economically feasible and be responsible for disbursing the funds to each school district. These combined claims may be filed only when the county superintendent of schools is the fiscal agent for the districts. A combined claim must show the individual claim costs for each eligible school district. All subsequent claims based upon the same mandate must only be filed in the combined form unless a school district provides a written notice of its intent to file a separate claim to the county superintendent of schools and to the SCO at least one hundred and eighty days prior to the deadline for filing the claim.

### **Reimbursement of Claims**

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 (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure Section 2015.5.

Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, these documents cannot be substituted for source documents.

### **Audit of Costs**

All claims submitted to the SCO are reviewed to determine if costs are related to the mandate, are reasonable and not excessive, and if the claim was prepared in accordance with SCO's claiming instructions and the P's & G's adopted by the Commission. If any adjustments are made to a claim, a Notice of Claim Adjustment specifying the activity adjusted, the amount

adjusted, and the reason for the adjustment, will be mailed within thirty days after payment of the claim.

On-site audits will be conducted by the SCO as deemed necessary. Pursuant to GC Section 17558.5, Subdivision (a), a reimbursement claim for actual costs filed by a claimant is subject to audit by the SCO no later than three years after the date the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was 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 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.

### **Retention of Claim Documentation**

All documentation to support actual costs claimed must be retained for a period of three years after the end of the calendar year in which the reimbursement claim was filed or last amended regardless of the year of costs incurred. If no funds were appropriated for initial claims at the time the claim was filed, supporting documents must be retained for three years from the date of initial payment of the claim. Therefore, all documentation to support actual costs claimed must be retained for the same period, and must be made available to the SCO on request.

### **Address for Filing Claims**

Submit a signed original and a copy of form FAM-27, Claim for Payment, and all other forms and supporting documents. **To expedite the payment process, please sign the form in blue ink, and attach a copy of the form FAM-27 to the top of the claim package.**

Use the following mailing addresses:

If delivered by  
U.S. Postal Service:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
P.O. Box 942850  
Sacramento, CA 94250

If delivered by  
other delivery services:

Office of the State Controller  
Attn: Local Reimbursements Section  
Division of Accounting and Reporting  
3301 C Street, Suite 700  
Sacramento, CA 95816

Mandated costs claiming instructions and forms are available online at the SCO's Web site: [www.sco.ca.gov/ard\\_mancost.html](http://www.sco.ca.gov/ard_mancost.html). If you have any questions, call the Local Reimbursements Section at (916) 324-5729 or e-mail **LRSDAR@sco.ca.gov**.

Adopted: 8/27/87  
Amended: 7/28/88  
Amended: 7/22/93  
Amended: 1/31/08  
Amended: 5/27/10

## **Amendment to Parameters and Guidelines as Directed by the Legislature**

*Statutes 2007, Chapter 69 (AB 1698)*

Education Code Section 48260.5

Statutes 1983, Chapter 498

Statutes 1994, Chapter 1023

Statutes 1995, Chapter 19

*Notification of Truancy*

05-PGA-56 (07-PGA-01; 4133)

Effective Date: Beginning with Claims Filed for the  
July 1, 2006 – June 30, 2007 Period of Reimbursement

### **I. BACKGROUND AND SUMMARY OF MANDATE**

Chapter 498, Statutes of 1983, added Education Code Section 48260.5 which requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with section 48290) of Chapter 2 of Part 27.

Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district, and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

A truancy occurs when a student is absent from school without valid excuse three (3) full days in one school year, or is tardy or absent without valid excuse for more than any thirty (30)-minute period during the school day on n three (3) occasions in one school year, or any combination thereof. (Definition from Ed. Code, § 48260, as amended by Stats. 1994, ch. 1023 and Stats. 1995, ch. 19.)

Upon a student's initial classification as a truant, the school must perform the requirements mandated by Education Code section 48260.5 as enacted by Statutes 1983, chapter 498 and amended by Statutes 1994, chapter 1023, and Statutes 1995, chapter 19.

#### **Board of Control Decision**

On November 29, 1984, the State Board of Control determined that Education Code Section 48260.5, as added by Chapter 498, Statutes of 1983, constitutes a

state mandated program because it requires an increased level of service by requiring specified notifications be sent to the parents or guardians of pupils upon initial classification of truancy.

#### Amendment to Parameters and Guidelines

The Legislature directed the Commission on State Mandates to revise the parameters and guidelines to modify the definition of truant and the required elements to be included in the initial truancy notifications to conform reimbursable activities to Statutes 1994, chapter 1023, and Statutes 1995, chapter 19, effective July 1, 2006. (Stats., 2007, ch. 69 (AB 1698).)

#### II. ELIGIBLE CLAIMANTS

The claimants are all school districts and county offices of education of the state of California, except a community college district, as defined by Government Code Section 17519 (formerly Revenue and Taxation Code 2208.5), that incur increased costs as a result of implementing the program activities of Education Code Section 48260.5, Chapter 498, Statutes of 1983.

#### III. PERIOD OF REIMBURSEMENT

The amendments to the parameters and guidelines adopted on January 31, 2008 are effective July 1, 2006.

#### IV. REIMBURSABLE COSTS

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.

A. Scope of Mandate

The eligible claimant shall be reimbursed for only those costs incurred for planning the notification process, revising district procedures, the printing and distribution of notification forms, and associated record keeping.

B. Reimbursable Activities

For each eligible school district the direct and indirect costs of labor, supplies, and services incurred for the following mandated program activities are reimbursable:

1. Planning and Preparation -- One-time

Planning the method of implementation, revising school district policies, and designing and printing the forms.

2. Notification process -- On-going

Identifying the truant pupils to receive the notification, preparing and distributing by first-class mail or other reasonable means the forms to parents/guardians, and associated recordkeeping to provide parents/guardians with the following required information upon a pupil's initial classification as a truant:

- a. That the pupil is truant.
- b. That the parent or guardian is obligated to compel the attendance of the pupil at school.
- c. That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48260) of Chapter 2 of Part 27.
- d. That alternative educational programs are available in the district.
- e. That the parent or guardian has the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.
- f. That the pupil may be subject to prosecution under Section 48264.
- g. That the pupil may be subject to suspension, restriction, or delay of the pupil's driving privileges pursuant to Section 13202.7 of the Vehicle Code.
- h. That it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

C. Uniform Cost Allowance

Pursuant to Government Code section 17557, the Commission on State Mandates has adopted a uniform cost allowance for reimbursement in lieu of payment of total actual costs incurred. The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983.

For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator.

D. Unique Costs

School districts incurring unique costs within the scope of the reimbursable mandated activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement, Pursuant to Section 1185.3, Title 2, California Code of Regulations, such requests must be made by November 30 immediately following the fiscal year of the reimbursement claim in which reimbursement for the costs is requested.

V. CLAIM PREPARATION

Each claim for reimbursement pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983, must be timely filed and provide documentation in support of the reimbursement claimed for this mandated program.

A. Uniform Cost Allowance Reimbursement

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial notification to the parent or guardian. The agency must maintain documentation that indicates the total number of initial notifications of truancy distributed.

B. Recognized Unique Costs

As of fiscal year 1992-93, the Commission has not identified any circumstances which would cause a school district to incur additional costs to implement this mandate which have not already been incorporated in the uniform cost allowance.

If and when the Commission recognizes any unique circumstances which can cause the school district to incur additional reasonable costs to implement this mandated program, these unique implementation costs will be reimbursed for specified fiscal years in addition to the uniform cost allowance.

School districts which incur these recognized unique costs will be required to support those actual costs in the following manner:

1. Narrative Statement of Unique Costs Incurred

Provide a detailed written explanation of the costs associated with the unique circumstances recognized by the Commission.

2. Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The staff time claimed must be supported by source documentation, such as time reports, however, the average number of hours devoted to each function may be claimed if supported by a documented time study.

### 3. Services and Supplies

Only expenditures which can be identified as a direct cost as a result of the mandated program can be claimed. List cost of materials which have been consumed or expended specifically for the purposes of this mandated program.

### 4. Allowable Overhead Costs

School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education. County offices of education must use the J-73A (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.

## 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>1</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. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. All documents used to support the reimbursable activities, as described in Section V, must be retained during the period subject to audit. If the Controller has initiated an audit during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings.

For auditing purposes, documents must be kept on file for a period of 3 years from the date of final payment by the State Controller, unless otherwise specified by statute and be made available at the request of the State Controller or his agent.

### A. Uniform Allowance Reimbursement

Documentation which indicates the total number of initial notifications of truancy distributed.

### B. Reimbursement of Unique Costs

In addition to maintaining the **same** documentation as required for uniform cost allowance reimbursement, all costs claimed must be traceable to source documents **and/or** worksheets that show evidence of the validity of such **costs**.

## VIII. OFFSETTING SAVINGS AND OTHER REIMBURSEMENT

Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the uniform cost allowance and actual cost reimbursement for unique circumstances claimed. In addition, reimbursement for this mandated

---

<sup>1</sup> This refers to Title 2, division 4, part 7, chapter 4 of the Government Code.



program received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

IX. REQUIRED CERTIFICATION

An authorized representative of the claimant will be required to provide a certification of claim, as specified in the State Controller% claiming instructions, for those costs mandated by the state contained herein.

<b>NOTIFICATION OF TRUANCY</b>  <b>CLAIM FOR PAYMENT</b>			<b>For State Controller Use Only</b> (19) Program Number 00048 (20) Date Filed (21) LRS Input		<b>PROGRAM</b>  <b>048</b>	
(01) Claimant Identification Number			<b>Reimbursement Claim Data</b>			
(02) Claimant Name			(22) FORM-1, (03)			
County of Location			(23) FORM-1, (04)			
Street Address or P.O. Box		Suite	(24) FORM-1, (06)			
City	State	Zip Code	(25) FORM-1, (07)			
	(03) (04) (05)	<b>Type of Claim</b>	(26)			
		(09) Reimbursement <input type="checkbox"/>	(27)			
		(10) Combined <input type="checkbox"/>	(28)			
		(11) Amended <input type="checkbox"/>	(29)			
<b>Fiscal Year of Cost</b>		(06)	(12)	(30)		
<b>Total Claimed Amount</b>		(07)	(13)	(31)		
Less: <b>10% Late Penalty</b> (refer to attached Instructions)			(14)	(32)		
Less: <b>Prior Claim Payment Received</b>			(15)	(33)		
<b>Net Claimed Amount</b>			(16)	(34)		
<b>Due from State</b>	(08)	(17)	(35)			
<b>Due to State</b>		(18)	(36)			
<b>(37) CERTIFICATION OF CLAIM</b>  <p>In accordance with the provisions of Government Code Sections 17560 and 17561, I certify that I am the officer authorized by the school district or county office of education to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Article 4, Chapter 1 of Division 4 of Title 1 of the Government Code.</p> <p>I further certify that there was no application other than from the claimant, nor any grant(s) or payment(s) received, for reimbursement of costs claimed herein; claimed costs are for a new program or increased level of services of an existing program; and claimed amounts do not include charter school costs, either directly or through a third party. All offsetting savings and reimbursements set forth in the parameters and guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.</p> <p>The amount for this reimbursement is hereby claimed from the State for payment of actual costs set forth on the attached statements.</p> <p>I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.</p> <div style="display: flex; justify-content: space-between;"> <div>           Signature of Authorized Officer             _____             _____            Type or Print Name and Title of Authorized Signatory         </div> <div>           Date Signed _____             Telephone Number _____             E-mail Address _____         </div> </div> <div style="display: flex; justify-content: space-between;"> <div>           (38) Name of Agency Contact Person for Claim             _____             Name of Consulting Firm / Claim Preparer             _____         </div> <div>           Telephone Number _____             E-mail Address _____             Telephone Number _____             E-mail Address _____         </div> </div>						

**PROGRAM**  
**048**

**NOTIFICATION OF TRUANCY  
CLAIM FOR PAYMENT  
INSTRUCTIONS**

**FORM**  
**FAM-27**

- (01) Enter the claimant identification number assigned by the State Controller's Office.
- (02) Enter claimant official name, county of location, street or postal office box address, city, state, and zip code.
- (03) to (08) Leave blank.
- (09) If filing a reimbursement claim, enter an "X" in the box on line (09) Reimbursement.
- (10) If filing a combined reimbursement claim on behalf of districts within the county, enter an "X" in the box on line (10) Combined.
- (11) If filing an amended reimbursement claim, enter an "X" in the box on line (11) Amended.
- (12) Enter the fiscal year for which actual costs are being claimed. If actual costs for more than one fiscal year are being claimed, complete a separate form FAM-27 for each fiscal year.
- (13) Enter the amount of the reimbursement claim as shown in the attached Form-1 line (08). The total claimed amount must exceed \$1,000.
- (14) Initial claims must be filed as specified in the claiming instructions. Annual reimbursement claims must be filed by **February 15** of the following fiscal year in which costs were incurred or the claims must be reduced by a late penalty. Enter zero if the claim is timely filed. Otherwise, enter the penalty amount as a result of the calculation formula as follows:
- Late Initial Claims: FAM-27 line(13) multiplied by 10%, without limitation; or
  - Late Annual Reimbursement Claims: FAM-27, line (13) multiplied by 10%, late penalty not to exceed \$10,000.
- (15) Enter the amount of payment, if any, received for the claim. If no payment was received, enter zero.
- (16) Enter the net claimed amount by subtracting the sum of lines (14) and (15) from line (13).
- (17) If line (16), Net Claimed Amount, is positive, enter that amount on line (17), Due from State.
- (18) If line (16), Net Claimed Amount, is negative, enter that amount on line (18), Due to State.
- (19) to (21) Leave blank.
- (22) to (36) Reimbursement Claim Data. Bring forward the cost information as specified on the left-hand column of lines (22) through (36) for the reimbursement claim, e.g., Form-1, (03), means the information is located on form Form-1, line (03). 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., 7.548% should be shown as 8. **Completion of this data block will expedite the payment process.**
- (37) Read the statement of Certification of Claim. The claim must be dated, signed by the agency's authorized officer, and must type or print name, title, telephone number and E-mail address. **Claims cannot be paid unless accompanied by an original signed certification. (To expedite the payment process, please sign the form FAM-27 with blue ink, and attach a copy of the form FAM-27 to the top of the claim package.)**
- (38) Enter the name, telephone number, and E-mail address of the agency contact person for the claim. If claim is prepared by external consultant, type or print the name of the consulting firm, telephone number, and e-mail address.

**SUBMIT A SIGNED ORIGINAL, AND A COPY OF FORM FAM-27, WITH ALL OTHER FORMS TO:**

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

**OFFICE OF THE STATE CONTROLLER  
ATTN: Local Reimbursements Section  
Division of Accounting and Reporting  
P.O. Box 942850  
Sacramento, CA 94250**

***Address, if delivered by other delivery service:***

**OFFICE OF THE STATE CONTROLLER  
ATTN: Local Reimbursements Section  
Division of Accounting and Reporting  
3301 C Street, Suite 700  
Sacramento, CA 95816**

<b>PROGRAM</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY</b> <b>CLAIM SUMMARY</b>	<b>FORM</b> <b>1</b>
(01) Claimant		(02) Fiscal Year  ____ / ____
<b>Claim Statistics</b>		
(03) Number of initial truant notifications		
(04) Unit Cost		[\$17.87 for fiscal year 2009-10]
(05) Total Costs		[Line (03) x line (04)]
<b>Cost Reduction</b>		
(06) Less: Offsetting Savings		
(07) Less: Other Reimbursements		
(08) Total Claimed Amount		[Line (05) - {line (06) + line (07)}]

<b>PROGRAM</b> <b>048</b>	<b>NOTIFICATION OF TRUANCY</b> <b>CLAIM SUMMARY</b> <b>INSTRUCTIONS</b>	<b>FORM</b> <b>1</b>
------------------------------	---	-------------------------

- (01) Enter the name of the claimant. If more than one department has incurred costs for this mandate, give the name of each department. A Form-1 should be completed for each department.
- (02) Enter the fiscal year of costs.
- (03) Enter the number of initial truant notifications that were sent during the fiscal year of claim, upon the students' initial classification of truancy.
- (04) The unit cost rate for fiscal year 2009-10 is \$17.87 per initial notification. This unit cost rate will be updated annually in the Annual Revisions for Schools.
- (05) Multiply line (03), the number of truant notifications by line (04), the unit cost rate.
- (06) Less: Offsetting Savings. If applicable, enter the total savings experienced by the claimant as a direct result of this mandate. Submit a detailed schedule of savings with the claim.
- (07) Less: Other Reimbursements. If applicable, enter the amount of other reimbursements received from any source including, but not limited to, service fees collected, federal funds, and other state funds, that reimbursed any portion of the mandated cost program. Submit a schedule detailing the reimbursement sources and amounts.
- (08) Total Claimed Amount. From Total Costs, line (05), subtract the sum of Offsetting Savings, line (06), and Other Reimbursements, line (07). Enter the remainder on this line and carry the amount forward to form FAM-27, line (13) for the Reimbursement Claim.

## **DEPARTMENT OF PERSONNEL ADMINISTRATION RULES**

### **Moving and Relocation Expenses**

**Effective January 1, 2010**

#### **599.714.1 Scope**

(a) Whenever a permanent state officer or employee is required by any appointing power because of a change in assignment promotion or other reason related to his/her duties, to change his/her place of residence, such officer, agent or employee shall receive reimbursement of his/her actual and necessary moving and relocation expenses incurred by him/her both before and after and by reason of such change of residence, subject to the provisions and limitations of this article.

(b) For the purposes of this article, a move occurs on the official reporting date to the new headquarters, and when a change in residence is reasonable to be required. Relocation shall be paid, when the following conditions are met:

(1) The officer's or employees officially designated headquarters is changed for the advantage of the State, which includes the following:

(A) A promotion offered by any appointing authority, not including those movements that the employee could make through transfer, reinstatement, or reemployment eligibility; or

(B) An involuntary transfer initiated by and at the discretion of the appointing authority,

(C) Any involuntary transfer required to affect a mandatory reinstatement following:

(I) Termination of a career executive or exempt appointment

(II) Leave of absence

(III) Rejection from probation

(D) Any involuntary transfer required to affect a mandatory reinstatement following the expiration or involuntary termination of a temporary appointment, limited term appointment, or training and development assignment when:

(I) the employee did not relocate to accept the appointment or assignment, or

(II) the employee did relocate, at State expense, to accept the appointment or assignment

(2) The move must be a minimum of 50 miles plus the number of miles between the old residence and the old headquarters.

(3) Relocations that meet the above criteria will be fully reimbursed to the extent and limitations in this article.

(c) A change of residence is not deemed reasonable to be required for voluntary transfers or permissive reinstatements, with or without a salary increase, in response to general requests which specify that moving and relocation expenses will not be paid, or for any non-promotional transfer which is primarily for the benefit of the officer or employee.

(d) When an appointment does not meet the criteria in (a) and (b) the appointing power may, at his/her discretion, determine in advance that it is in the best interest of the State to reimburse all or part of the actual reasonable and necessary relocation expenses provided in this article as an incentive to recruit employees to positions that are designated by the appointing power as difficult to fill or because of outstanding qualifications of the appointee, or due to unusual and unavoidable hardship to the employee by reason of the change of residence.

(1) Relocations that meet this criteria shall be reimbursed only for the items in this article specifically authorized by the appointing power, and may be subject to further limitations designated by the appointing power.

(2) Upon determination that any reimbursement will be made, the appointing power shall:

(A) Determine which provisions will apply to the relocation and establish any additional limitations to those provisions such as dollar limits, weight limits, or time limits.

(B) Notify the employee in writing, of specific allowable reimbursements prior to the move.

(e) Requirements and limitations specified in this article may not be waived or exceeded by the appointing power.

(f) Unauthorized relocation expenses and relocation expenses incurred prior to receipt of a written notice of allowable relocation expenses are the responsibility of the employee.

#### **599.715.1 Reimbursement for Miscellaneous Expenses-Excluded Employees**

An officer or employee who is required to change his/her place of residence according to Section 599.714.1 may receive reimbursement for up to \$200 for miscellaneous expenses upon submittal of documentation of the payment of all such expenses and certification that the expenses were related to dissolution to the old household and/or the establishment of a new household and were not otherwise reimbursed.

(a) Reimbursement for the installation and/or connection of appliances or antennas purchased after the change of residence shall be allowed provided no claim is made for installation and/or connection of a similar item in the movement of household goods, and installation and/or connection occurs within sixty days of the establishment of a new residence.

(b) Deposits are not reimbursable.

NOTE: Authority cited: Sections 19815.4(d), 19816 and 19820, Government Code. Reference: Section 19841, Government Code.

#### **599.716.1 Reimbursement for Sale of a Residence**

(a) Whenever an officer or employee is required, as defined in Section 599.714, to change his/her officially designated headquarter and such change requires the settlement of a lease on the employee's old residence, the officer or employee shall receive the actual and necessary costs of settlement of the unexpired lease to a maximum of one year.

(b) Reimbursement shall not be allow if it is determined that the officer or employee knew or reasonably should have known that a transfer according to Section 599.714 was imminent before entering into a lease agreement.

(c) Claims for settlement of a lease shall be documented and itemized and submitted within six months following the new reporting date except that the Director of the Department of Personnel Administration may grant an extension of not more than three months upon receipt of evidence warranting such extension prior to the expiration of the six-months period.

(1) The claim may be a signed agreement between the officer or employee and the lessor or it may be made unilaterally by the officer or employee.

(2) In no event shall the final settlement by the State exceed one year's rent nor shall it include any costs, deposits or fees.

#### **599.717.1 Settlement of a Lease-Excluded Employee**

(a) Whenever an officer or employee is required, as defined by Section 599.714.1(a) to change his/her place of residence and such change requires the settlement of a lease on the employee's old residence, the officer or employee shall receive the actual and necessary cost of settlement of the unexpired lease to a maximum of one year. In no event shall the lease settlement include any costs, deposits or fees.

(1) Reimbursement shall not be allowed if it is determined that the officer or employee knew or reasonably should have known that a transfer according to Section 599.714.1 was imminent before entering into a lease agreement.

(2) Claims for settlement of a lease shall include a lease agreement signed by both the employee and the lessor, and shall be itemized and submitted within nine months following the new reporting date.

(b) If an employee is required under 599.714.1(a) to change his/her place of residence and such notice to the employee is insufficient to provide the employee the notice period required by a month to month rental agreement, reimbursement may be claimed for the number of days penalty paid by the employee to a maximum of 30 calendar days.

(1) Reimbursement shall not be allowed for days that the employee failed to notify the landlord after notification by the employer of the reassignments.

(2) Claims shall be accompanied by a copy of the rental agreement, an itemized receipt for the penalty and the name and address of the individual or company to which the rental penalty has been paid.

(c) No reimbursement shall be made for forfeiture of cleaning or security deposits, or for repair, replacement, or damages of rental property.

#### **599.718.1 Expenses for Moving Household Effects**

(a) For the purpose of these regulations, household or personal effects include items such as furniture, clothing, musical instruments, household appliances, food, and other items that are usual or necessary for the maintenance of one household.

(b) Household effects shall not include items connected to a for profit business, items from another household, items that are permanently affixed to the property being vacated or items that would normally be discarded or recycled.

(c) At the discretion of the appointing power, other items may be considered household effects based on a consideration of the estimated cost of the move and a review of the items listed on the inventory. Expenses related to moving items other than those described in (a) that have not been approved by the appointing power shall be the responsibility of the employee.

NOTE: Authority cited: Sections 19815.4(d), 19816 and 19820, Government Code, Reference: Section 19841.

#### **599.719.1 Reimbursement for Moving Household Effects**

Reimbursement shall be allowed for the cost of moving an employee's effects either via commercial household goods carrier or by the employee. Reimbursements under this rule shall not exceed the cost of moving the employee's household goods from the old residence to the new headquarters plus 50 miles unless the appointing authority determines that a longer move is in the best interest of the State. Any additional expense associated with an interstate or intercountry move shall be approved in advance by the appointing power. No reimbursement will be allowed for the hiring of casual labor.

(a) When the employee retains a commercial mover, reimbursement for actual and necessary expenses incurred by a commercial mover under this article for the packing, insurance, one pickup, transportation, storage-in-transit (not including warehouse handling charges except when required by interstate tariffs), one delivery, unpacking, and installation at the new location of an employee's household effects shall be allowed subject to the following:

(1) Weight of household effects for which expenses may be reimbursed shall not exceed 5,000 kilograms (11,000 pounds).

(2) Duration of storage-in-transit for which charges may be reimbursed shall not exceed 60 calendar days unless a longer period of storage is approved in advance by the appointing authority based on hardship to the employee.

(3) Rates at which reimbursement is allowed shall not exceed the minimum rates, at the minimum declared valuation, established by the California Public Utilities Commission for household goods carriers, unless a higher rate is approved by the Department of General Services.

(4) Cost of insurance for which reimbursement is allowed shall not exceed the cost of insurance coverage at \$2.00 valuation for each pound of household effects shipped by household goods carrier.

(5) Claims for exceptions to the 11,000 pounds statutory limit will be considered by the appointing authority up to a maximum of 23,000 pounds, only when it has been determined that every reasonable effort had been made to conform to the limit. Exceptions to the number of pick-ups and deliveries may be made by the appointing power when it is reasonably necessary and in the best interest of the state.



(b) When the employee does not retain a commercial mover, reimbursement shall be allowed as follows for expenses related to the movement by the employee of his/her household effects in a truck or trailer.

(1) Rental of a truck or trailer from a commercial establishment. When not included in the truck rental rate, the cost of gasoline, rental of furniture, dolly, packing cartons and protective pads will be reimbursed. If the total costs exceed \$1,000 the claim must be accompanied by at least one written commercial rate quote. Reimbursement will be made at the rate (including gasoline) which results in the lowest cost; or

(2) Mileage reimbursement at the rates provided in Section or 599.631.1 (b) for noncommercial privately owned motor vehicles used in transporting the employee's household effects.

(3) Reimbursement for more than one trip by the method described in (b)(1) or (2) above may be allowed if the employee's agency has determined that the total cost would be less than the cost of movement by a commercial household goods carrier.

(c) If household goods are moved exclusively in the employee's personal vehicle, reimbursement for mileage may be claimed at the State mileage rate. No other mileage or moving expense shall be allowed.

(d) All claims for the reimbursement of the movement of household goods require receipts. Unless an exception is granted by the appointing authority, claims shall be submitted no later than 2 years and 60 days from the effective date of appointment or 15 days prior to voluntary separation, whichever is first.

#### **599.720.1 Reimbursement for Movement of a Mobile Home**

For the movement of a mobile home, which contains the household effects of an officer or employee, and has served as the employee's residence at the previous location at the time of notification of relocation, reimbursement will be allowed as follows:

(a) Where transportation of the trailer coach is by a commercial mobile home transporter and receipts are submitted:

(1) For tolls, taxes, charges, fees, or permits fixed by the State or local authority required for the transportation or assembly or trailer coaches actually incurred by the employee.

(2) Charges for disassembly and assembly of the trailer, including but not limited to, disassembly and assembly of trailer, skirt, awnings, porch, the trailer coach itself, and other miscellaneous documented, itemized expenses related to the dissolution of the old household and/or the establishment of the new household, up to \$2,500 unless an exception is approved by the appointing power.

(3) Reimbursement will be allowed for the actual cost supported by voucher and installation of wheels and axles necessary to comply with the requirements of Chapter 5, Article 1 of the California Vehicle Code.

(4) Three competitive bids shall be obtained and reimbursement will be approved at the lowest bid. Based on information documenting the attempt to obtain three bids as provided by the employee, the appointing power may waive the three-bid requirement.

(5) Reimbursement received under this section precludes any additional reimbursement for miscellaneous expenses under Section 599.715.1.

(6) Movement of the trailer coach at rates exceeding the minimum rates established by the California Public Utilities Commission for mobile home transporters:

(7) Charges at P. U. C. minimum rates to obtain permits identified above:

(8) Storage-in-transit for up to 60 calendar days at P. U. C. minimum rates, unless an extension is approved by the appointing authority.

(b) Where transportation of the coach is by an employee, expenses may be claimed for a one-way trip by submitting gasoline receipts.

(c) Reimbursement will not be allowed for :

(1) Purchase of parts and materials except for those items necessary to comply with the minimum requirements of the California Administrative Code, Title 25, Chapter 5.

(2) Repairs including tires and tubes, and breakdown in transit.

(3) Costs associated with maintenance or repair of the trailer coach.

(4) Costs for separate shipment of household goods carrier unless that is determined to be the most economical method of transport.

(5) Costs associated with the movement or handling of permanent structures.

(d) All claims related to the movement of a trailer coach and the household goods therein require receipts and shall be submitted no later than 2 years and 60 days from the effective date of appointment, or 15 days prior to the voluntary separation, whichever is first. No extension will be granted.

#### **599.722.1 Relocation Subsistence Reimbursement and Mileage**

(a) If eligible under Section 599.714(a), an officer or employee shall be reimbursed for actual lodging, supported by a receipt, and meal and incidental expenses in accordance with and not to exceed the rate established in Section 599.619(a)(1) and (2), while locating a permanent residence at the new location. Employees who do not furnish receipts for lodging may be reimbursed for noncommercial meals and noncommercial lodging in accordance with 599.619(b). A permanent residence is typically an abode that is purchased, or rented on a monthly basis, of a type that provides long-term living accommodations, where any utilities are hooked up (gas, electric, cable, phone), and mail is delivered.

(1) Reimbursement may be claimed for up to 60 days, except an extension of up to 30 days may be granted when the Appointing power has determined in advance that the delay of change of residence is a result of unusual and unavoidable circumstances that are beyond the control of the officer or employee. The maximum reimbursement to be received by said officer, or employee shall not exceed the equivalent dollar amount of 60 days of full meals, incidentals, and receipted lodging.

(2) Interruptions in relocation caused by sick leave, vacation or other authorized leaves of absence shall be reimbursable at the option of the employee providing the employee remains at the new location and is actively seeking a permanent residence.

(3) The relocation subsistence reimbursement shall terminate immediately upon establishment of a permanent residence. The appointing power shall determine when a permanent residence has been established.

(4) Partial days shall count as full days for the purpose of computing the 60-day period.

(b) Upon approval of the Appointing Power, meals and/or lodging expenses, for up to fourteen days, arising from trips to the new location for the sole purpose of locating housing shall be reimbursed in accordance with Section 599.619(a)(1) and (2), or 599.619(c)(1) or 599.619(d). Claims for reimbursement of meals/lodging expenses in this item are limited to those incurred after receipt of formal written authorization for relocation and prior to the effective date of appointment.

The period claimed should be included in the computation of the 60-day relocation period.

(c) Reimbursement for travel from the old residence to the new headquarters may be claimed one way one time and shall not exceed the mileage rate allowed in 599.631(a).

Note: Authority cited: Section 3539.5, Government Code. Reference: Section 19841, Government Code.

#### **599.724.1 Payment of Claims for Moving and Relocation Expenses**

(a) The Department of Personnel Administration shall be responsible for prescribing any specific procedures necessary for effective and economical operation of this article. Claims shall be made on authorized forms, scheduled in the normal manner and submitted through regular channels to the State Controller for payment. All claims must be substantiated by invoices, receipts, or other evidence for each item claimed.

(b) Agencies may contract directly with the carrier for movement of household effects of officers and employees at state expense, subject to the same restrictions as if the shipment was arranged by the officer or employee and reimbursed by the State.

(c) If the change in residence results in the salary of the officer or employee being paid by a different appointing power, all allowable moving and relocation expenses shall be paid by the new appointing power except where the old appointing power agrees to pay all or part of the expenses allowable under this Article.

(d) Each department shall be responsible for insuring that upon notice to the employee of an impending move a copy of these rules shall be given to the officer or employee.

(e) When exceptions have been granted by an appointing authority, the written justification of those exceptions shall be maintained with the applicable claims.

### **599.619 Reimbursement for Meals and Lodging**

The employee on travel status shall be reimbursed actual expenses for receipted lodging, and for meals and incidentals as provided in this section, unless directed to travel under the provision of 599.624.1. Lodging and/or meals provided by the State or included in hotel expenses or conference fees, or in transportation costs such as airline tickets, or otherwise provided shall not be claimed for reimbursement. Snacks and continental breakfasts, such as rolls, juice and coffee, are not considered to be meals. The circumstances of travel will determine the rate allowed.

(a) Short-term Travel. Reimbursement for short-term subsistence will be authorized only when the traveler incurs expenses arising from the use of reasonable, moderately priced commercial lodging and meal establishments, such as hotels, motels, bed and breakfast inns, campgrounds, restaurants, cafes, diners, etc., that cater to the general public. Employees who stay with friends or relatives may claim meals only in accordance with the rates and time frames set forth below. Lodging receipts are required. The short-term rate is intended for trips of such duration that weekly or monthly rates are not obtainable and will be discontinued after the 30th consecutive day assigned to one location unless an extension has been previously documented and approved by the appointing power. In extending short-term travel, the appointing power shall consider the expected remaining length of travel assignment.

(1) In computing reimbursement for continuous short-term travel of more than 24 hours and less than 31 consecutive days, the employee will be reimbursed for actual costs up to the maximum allowed for each meal, incidental, and lodging expense for each complete 24 hours of travel, beginning with the traveler's time of departure and return, as follows:

(A) On the first day of travel on a trip of 24 hours or more:

Trip begins at or before 6am:	breakfast may be claimed on the first day
Trip begins at or before 11am:	lunch may be claimed on the first day
Trip begins at or before 5pm:	dinner may be claimed on the first day

(B) On the fractional day of travel at the end of the trip of more than 24 hours:

Trip ends at 8 am:	breakfast may be claimed
Trip ends at or after 2pm:	lunch may be claimed
Trip ends at or after 7pm:	dinner may be claimed

If the fractional day includes an overnight stay, receipted lodging may be claimed. No meal or lodging expense may be claimed or reimbursed more than once on any given date or during any 24-hour period.

(C) Reimbursement shall be for actual expenses, subject to the following maximum rates:

#### **Meals:**

Breakfast	\$ 6.00
Lunch	\$10.00
Dinner	\$18.00
Incidentals	\$ 6.00

Receipts for meals must be maintained by the employee as substantiation that the amount claimed was not in excess of the amount of actual expense. The term incidentals includes but is not limited to expenses for laundry, cleaning and pressing of clothing, and fees and tips for services, such as for porters and baggage carriers. It does not include taxicab fares, lodging taxes or the costs of telegrams or telephone calls.

## Lodging

Statewide, with receipts. Actual up to \$84.00 plus tax

When employees are required to do business and obtain lodging in the Counties of Los Angeles and San Diego and an actual lodging up to \$110.00 plus tax.

When employees are required to do business and obtain lodging in the Counties of Alameda, San Francisco, San Mateo and Santa Clara, actual lodging up to \$140.00 plus tax.

If lodging receipts are not submitted, reimbursement will be for actual expenses for meals/incidentals only at the rates and time frames set forth in this section.

(2) In computing reimbursement for continuous travel of less than 24 hours, actual expenses, up to the maximums in (C) above, will be reimbursed for breakfast and/or dinner and/or lodging in accordance with the following time frames:

Travel begins at or before 6 a.m. and ends at or after 9 a.m.: Breakfast may be claimed

Travel begins at or before 4 p.m. and ends at or after 7 p.m.: Dinner may be claimed

If the trip of less than 24 hours includes an overnight stay, receipted lodging may be claimed.

No lunch or incidentals may be reimbursed on travel of less than 24 hours.

(b) Long-term Travel. Reimbursement for long-term meals and receipted lodging will be authorized when the traveler incurs expenses in one location comparable to those arising from the use of commercial establishments catering to the long-term visitor. Meals and/or lodging provided by the State shall not be claimed for reimbursement. With approval of the appointing power and upon meeting the criteria in (3) below, an employee on long-term field assignment who is living at the long-term location may claim either:

(1) \$24.00 for meals and incidentals and up to \$24.00 for receipted lodging for travel of 12 hours up to 24 hours; either \$24.00 for meals or up to \$24.00 for receipted lodging for travel less than 12 hours, or

(2) Reimbursement for actual individual expense, substantiated by receipts for lodging, utility, gas, and electricity, up to a maximum of \$1,130.00 per calendar month while on a long term assignment, and \$10.00 for incidentals, without receipts, for each period of 12 to 24 hours; \$5.00 for meals and incidentals for periods of less than 12 hours at the long term location.

(3) To claim expenses under either (1) or (2) above, the employee must meet the following criteria:

(A) The employee continues to maintain a permanent residence at the primary headquarters and

(B) The permanent residence is occupied by the employee's dependents, or

(C) The permanent residence is maintained at a net expense to the employee exceeding \$200 per month.

(D) The employee must submit substantiating evidence of these conditions to the appointing power in accordance with its requirements.

(4) Employees who do not meet the criteria to claim (1) or (2) above may claim \$12.00 for meals and incidentals and \$12.00 for receipted lodging for every 12 to 24 hours at the long term location; \$12.00 for meals or \$12.00 receipted lodging for periods of less than 12 hours at the long term location.

(5) With the approval of the appointing power, the reimbursement of long term lodging may continue when the employee is away from the long term location on short term business travel or other absences from the location as approved by the appointing authority.

(c) Out-of-State Travel. Out-of-State travel is any kind of travel outside the State of California for the purpose of conducting business outside the State of California. For short-term out-of-state travel, employees will be reimbursed for actual lodging expenses, supported by receipt, and will be reimbursed for meal and incidental expenses as defined in section 599.619(a). Failure to furnish lodging receipts will limit reimbursement to meals only at the rates specified in (a). Long-term out-of-

state travel will be reimbursed according to Section 599.619(c).

(d) Out-of-Country Travel. For short-term out-of-country travel, employees will be reimbursed for actual lodging expenses, supported by a receipt, and will be reimbursed for actual meal and incidental expenses subject to maximum rates in accordance with the published Government meal and incidental rates for foreign travel for the dates of travel. Failure to furnish lodging receipts will limit reimbursement to meals only in accordance with the published Government meals and incidental rates for foreign travel. Long-term out-of-country travel will be reimbursed according to Section 599.619(a) through (c).

(e) Exceptions to reimburse in excess of the maximum lodging rate cited in (a) of this rule may be granted by the Appointing Power only in an emergency, or when there is no lodging available at the State maximum rate or when it is cost effective. The Appointing Power shall document the reasons for each exception and shall keep this documentation on file for three calendar years from the date of the exception.

NOTE: Authority cited; sections 3539.5, 19815.4(d), 19816 and 19820, Government Code. Reference: Sections 3527(b) and 11030, Government Code.

### **599.631 TRANSPORTATION BY PRIVATELY OWNED AUTOMOBILE**

(a) Where the employee is authorized to use a privately owned automobile on official state business the reimbursement rate shall be up to 50 cents per mile. Claims for reimbursement for private vehicle expenses must include the vehicle license number and the name of each state officer, employee, or board, commission, or authority, member transported on the trip. No reimbursement of transportation expense shall be allowed any passenger in any vehicle operated by another state officer, employee, or member.

(1) Expenses arriving from travel between home and headquarters or garage shall not be allowed, except as provided in 599.626(d)(2) or 599.626.1(c), regardless of the employee's normal mode of transportation.

(2) When a trip is commenced or terminated at a claimant's home on a regularly scheduled work day, the distance traveled shall be computed from either his or her residence or headquarters, whichever shall result in the lesser distance except as provided in 599.626.1(c).

(3) However, if the employee commences or terminates travel on a regularly scheduled day off, mileage may be computed from his or her residence.

(b) Where the employee's use of a privately owned automobile is authorized for travel to or from a common carrier terminal, and the automobile is not parked at the terminal during the period of travel, the employee may claim double the number of miles between the terminal and the employee's headquarters of residence, whichever is less, at a rate defined in section 599.631(a), while the employee occupies the automobile for the distance between the terminal and his or her residence or headquarters. If the employee commences or terminates travel one hour before or after his/her regularly scheduled work day, or on a regularly scheduled day off, mileage may be computed from his/her residence.

(c) All ferry, bridge, or toll charges while on state business will be allowed with any required receipts.

(d) All necessary parking charges while on state business will be allowed, with any required receipts, for:

(1) Day parking on trips away from the headquarters office and employee's primary residence.

(2) Overnight parking on trips away from the headquarters and employee's primary residence, except that parking shall not be claimed if expense-free overnight parking is available.

(3) Day parking adjacent to either headquarters office, a temporary job site, or training site, but only if the employee had other reimbursable private or state automobile expenses for the same day. An employee may not prorate weekly or monthly parking fees.

(e) Gasoline, maintenance, and automobile repair expenses will not be allowed.

(f) The mileage reimbursement rates include the cost of maintaining liability insurance at the minimum amount prescribed by a law and collection insurance sufficient to cover the reasonable value of the automobile, less a deductible. When a privately owned automobile operated by a state officer, agent, or employee is damaged by collision or is otherwise accidentally damaged, reimbursement for repair or the deductible to a maximum of \$500.00 will be allowed if:

- (1) The damage occurred while the automobile was used on official business by permission or authorization of the employing agency; and
  - (2) The automobile was damaged through no fault of the state officer, agent, or employee; and
  - (3) The amount claimed is an actual loss to the state officer, agent, or employee, and is not recoverable directly from or through the insurance coverage of any party involved in the accident; and
  - (4) The loss claimed does not result from a decision of a state officer, agent, or employee not to maintain collision coverage; and
  - (5) The claim is processed in accordance with the procedures prescribed by the Department of Personnel Administration.
- (g) **Specialized Vehicles.** An employee with a physical disability who must operate a motor vehicle on official state business and who can operate only specially equipped or modified vehicles may claim a rate of 34 cents per mile without certification and up to 37 cents per mile with certification. Where travel is authorized to and from a common carrier terminal, as specified in section 599.631(b) the employee may compute the mileage as defined in Section 599.631(b). Supervisors approving these claims must determine the employee's need for the use of such vehicles.

### **AUTHORIZED RELOCATION EXPENSES**

Per Diem - Employees may claim up to 60 days while at the new location until a new permanent residence is found. Specific per diem allowance for excluded employee are attached. Extensions of the per diem may be granted by the Department of Personnel Administration if the employee suffers unusual hardship. Requests for extensions must be submitted to the Relocation Liaison, on a Std. 256 prior to the expiration of the 60 day period. The Relocation Liaison will review the Std. 256 for completeness then forward to the Department of Personnel Administration.

Shipment of Household Goods - The State will pay for the packing, transportation, insurance, storage-in-transit, unpacking and installation of employee's household effects. The employer will issue the relocating employee a "Moving Service Authorization" which the employee will give to any licensed mover. The Moving Service Authorization authorizes the mover to bill the State directly. There is no actual dollar limitation, (the State only pays minimum tariff rates), however there is an 11,000 pound weight limit. If the mover estimates the weight of the household goods to be more than 11,000 pounds, the employee should immediately submit a Std. 256 with the mover's estimate to the Relocation Liaison. The Department of Personnel Administration may approve excess weight provided the employee requests the exception in advance of the actual move.

The State will not pay for the shipment of the following prohibited items:

Automobiles other motor vehicles farm tractor, implements and equipment trailers with or without other property boats all animals, livestock, or pets belongings which are not the property of the immediate family of the officer or employee belongings related to commercial enterprises engaged in by the officer or employee firewood, fuels bricks, sand ceramic wall tile wire fence or other building materials wastepaper and rags.

Storage in Transit - The State will pay for the storage of household goods for up to 60 days. Storage is limited to 11,000 pounds of household goods unless the excess weight has been previously approved by DPA. The storage company should bill the State directly using the authorization of the Moving Service Authorization. Miscellaneous items taken out of storage prior to the moving company delivering all household goods is not reimbursable and must be paid by the employee.

Sale of Residence - The State will pay for certain costs associated with the sale of the employee's dwelling which was his/her residence at the time of notification of the transfer.

Reimbursable costs are:

Brokerage Commission, Escrow fees, Title insurance, Prepayment penalties, Local taxes, charges or fees required to consummate the sale. Miscellaneous sellers costs up to \$200.00.

Nonreimbursable Costs are:

Seller's Points, Property tax, Repair work and re-inspection fees.

Excluded employees have two years from the reporting date at the new headquarters to submit a claim for

reimbursement of seller's costs. There is no extension of the time limit for Non-represented employees.

Settlement of a Lease - The State will pay for the settlement of a lease which was entered into prior to notification of the transfer. Claims for payment of the lease settlement must be submitted within 9 months from the reporting date at the new headquarters.

Movement of a Trailer Coach - The State will pay for the actual cost of transporting the mobile home to the new location plus up to \$2,500 for disassembly and assembly of the trailer. Request for reimbursement in excess of \$2,500 must be submitted to DPA on a Std. 256 prior to the move; approval will only be given for the lowest of three bids. Household goods must be shipped in the mobile home unless DPA approves a separate shipment.

Miscellaneous - There is a \$200.00 miscellaneous allowance with documentation and certification, which is intended to assist the employee in establishing the new household. This allowance should be used to pay utility installation fees, appliance hook-up fees and the like. It is appropriate to use this allowance for cable hook-up. This allowance may not be used to satisfy deposit requirements. The allowance may not be claimed if moving a mobile home; hook-up, etc., are included in the mobile home set-up charge.

Mileage - The employee may be reimbursed 50 cents per mile for one vehicle to make one-way trip between the old residence and the new residence effective January 1, 2010. Anything over locating cents is considered taxable income.

Private car mileage for the purpose of locating housing at the new location is not reimbursable.

EXPENSES INCURRED PRIOR TO THE OFFICIAL TRANSFER CANNOT BE CLAIMED.





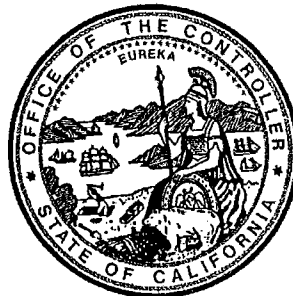
# **RIVERSIDE UNIFIED SCHOOL DISTRICT**

Audit Report

## **NOTIFICATION OF TRUANCY PROGRAM**

Chapter 498, Statutes of 1983;  
Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995;  
and Chapter 69, Statutes of 2007

*July 1, 2007, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

February 2013



JOHN CHIANG  
California State Controller

February 22, 2013

Gayle Cloud, President  
Board of Education  
Riverside Unified School District  
3380 14<sup>th</sup> Street  
Riverside, CA 92501

Dear Mrs. Cloud:

The State Controller's Office audited the costs claimed by the Riverside Unified School District for the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007) for the period of July 1, 2007, through June 30, 2010.

The district claimed \$796,110 (\$806,110 less a \$10,000 penalty for filing a late claim) for the mandated program. Our audit found that \$684,558 is allowable and \$111,552 is unallowable. The costs are unallowable because the district claimed unsupported, unallowable, and non-reimbursable initial truancy notifications. The State paid the district \$110,231. The State will pay allowable costs claimed that exceed the amount paid, totaling \$574,327, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/vb

cc: Richard L. Miller, Ph.D., Superintendent  
Riverside Unified School District  
Michael H. Fine, Deputy Superintendent  
Business Services and Governmental Relations  
Riverside Unified School District  
Timothy Walker, Executive Director of Pupil Services/SELPA  
Riverside Unified School District  
Annette Alvarez, Fiscal Services Manager  
Riverside Unified School District  
Gerald P. Colapinto, President, Board of Education  
Riverside County Office of Education  
Scott Hannan, Director  
School Fiscal Services Division  
California Department of Education  
Carol Bingham, Director  
Fiscal Policy Division  
California Department of Education  
Thomas Todd, Assistant Program Budget Manager  
Education Systems Unit  
Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

# Contents

## Audit Report

Summary .....	1
Background .....	1
Objective, Scope, and Methodology .....	2
Conclusion .....	2
Views of Responsible Official .....	2
Restricted Use .....	3
Schedule 1—Summary of Program Costs .....	4
Findings and Recommendations .....	5
Attachment—District’s Response to Draft Audit Report	

# **Audit Report**

## **Summary**

The State Controller's Office (SCO) audited the costs claimed by the Riverside Unified School District for the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007) for the period of July 1, 2007, through June 30, 2010.

The district claimed \$796,110 (\$806,110 less a \$10,000 penalty for filing a late claim) for the mandated program. Our audit found that \$684,558 is allowable and \$111,552 is unallowable. The costs are unallowable because the district claimed unsupported, unallowable, and non-reimbursable initial truancy notifications. The State paid the district \$110,231. The State will pay allowable costs claimed that exceed the amount paid, totaling \$574,327, contingent upon available appropriations.

## **Background**

Education Code section 48260.5 (added by Chapter 498, Statutes of 1983) originally required school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means that: (1) the pupil is truant; (2) parents or guardians are obligated to compel the pupil's attendance at school; (3) parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution; (4) alternative educational programs are available in the district; and (5) they have the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

Chapter 1023, Statutes of 1994, amended Education Code section 48260.5 to additionally require school districts to notify the pupil's parent or guardian that (1) the pupil may be subject to prosecution; (2) the pupil may be subject to suspension, restriction, or delay of the pupil's driving privilege; and (3) it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

Chapter 1023, Statutes of 1994, and Chapter 19, Statutes of 1995, amended Education Code section 48260 and renumbered it to section 48260, subdivision (a), stating that a pupil is truant when he or she is absent from school without valid excuse three full days in one school year or is tardy or absent for more than any 30-minute period during the school day without a valid excuse on three occasions in one school year, or any combination thereof.

On November 29, 1984, the State Board of Control (now the Commission on State Mandates [CSM]) determined that Chapter 498, Statutes of 1983, imposed a state mandate upon school districts reimbursable under Government Code section 17561.

The parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted parameters and guidelines on August 27, 1987. The CSM subsequently amended the parameters and guidelines four times, most recently on May 27, 2010. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and schools districts in claiming mandated program reimbursable costs.

### **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Notification of Truancy Program for the period of July 1, 2007, through June 30, 2010.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

### **Conclusion**

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Riverside Unified School District claimed \$796,110 (\$806,110 less a \$10,000 penalty for filing a late claim) for costs of the Notification of Truancy Program. Our audit disclosed that \$684,558 is allowable and \$111,552 is unallowable. The State paid the district \$110,231. The State will pay allowable costs claimed that exceed the amount paid, totaling \$574,327, contingent upon available appropriations.

### **Views of Responsible Official**

We issued a draft audit report on December 19, 2012. Michael H. Fine, Deputy Superintendent, Business Services and Governmental Relations, responded by letter dated January 18, 2013 (Attachment). The district disagreed with Findings 1 and 2, but did not dispute Finding 3. This final audit report includes the district's response.

**Restricted Use**

This report is solely for the information and use of the Riverside Unified School District, the Riverside County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

February 22, 2013

**Schedule 1—  
Summary of Program Costs  
July 1, 2007, through June 30, 2010**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference <sup>1</sup></u>
<u>July 1, 2007, through June 30, 2008</u>				
Number of initial truancy notifications	16,718	14,426	(2,292)	Findings 1, 2
Uniform cost allowance	× \$17.28	× \$17.28	× \$17.28	
Subtotal	\$ 288,887	\$ 249,280	\$ (39,607)	
Noncompliant initial truancy notifications	—	(31,160)	(31,160)	Finding 3
Less late filing penalty	(10,000)	(10,000)	—	
Total program costs <sup>2</sup>	<u>\$ 278,887</u>	208,120	<u>\$ (70,767)</u>	
Less amount paid by the State		(8)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 208,112</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Number of initial truancy notifications	16,130	14,243	(1,887)	Findings 1, 2
Uniform cost allowance	× \$17.74	× \$17.74	× \$17.74	
Total program costs <sup>2</sup>	<u>\$ 286,146</u>	\$ 252,670	<u>\$ (33,476)</u>	
Less amount paid by the State		(64,836)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 187,834</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Number of initial truancy notifications	12,931	12,522	(409)	Findings 1, 2
Uniform cost allowance	× \$17.87	× \$17.87	× \$17.87	
Total program costs <sup>2</sup>	<u>\$ 231,077</u>	\$ 223,768	<u>\$ (7,309)</u>	
Less amount paid by the State		(45,387)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 178,381</u>		
<u>Summary: July 1, 2007, through June 30, 2010</u>				
Total costs	\$ 806,110	\$ 694,558	\$ (111,552)	
Less late filing penalty	(10,000)	(10,000)	—	
Total program costs	<u>\$ 796,110</u>	684,558	<u>\$ (111,552)</u>	
Less amount paid by the state		(110,231)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 574,327</u>		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> Calculation differences due to rounding.



## Findings and Recommendations

### FINDING 1— Overstated, understated, and unallowable initial truancy notifications

For each fiscal year, the district either overstated or understated the total number of initial truancy notifications distributed. The district also claimed costs for unallowable initial truancy notifications. For the audit period, the district claimed unallowable costs totaling \$11,982. The costs were unallowable for the following reasons:

- The district's records show that the district overstated the total number of initial truancy notifications claimed for fiscal year (FY) 2007-08 and FY 2008-09, and understated the total number of notifications claimed for FY 2009-10.
- The district claimed initial truancy notifications distributed for students who attended charter schools. Charter school activities are not eligible for mandated program reimbursement.
- The district claimed initial truancy notifications distributed for independent study students. Independent study students are evaluated for compliance with their individual independent study agreements. They do not attend a normal class schedule and thus are not evaluated for normal school attendance tardiness and period or daily absences unless/until they return to a regular classroom schedule. Therefore, the initial truancy notification process is not applicable to independent study students.

The following table summarizes the audit adjustment:

	Fiscal Year			Total
	2007-08	2008-09	2009-10	
Number of notifications documented—daily attendance accounting	6,724	6,996	5,995	
Number of notifications documented—period attendance accounting	9,645	9,039	6,963	
Total number of notifications documented	16,369	16,035	12,958	
Less number of notifications claimed	(16,718)	(16,130)	(12,931)	
(Overstated)/understated number of notifications	(349)	(95)	27	
Uniform cost allowance	× \$17.28	× \$17.74	× \$17.87	
Audit adjustment	\$ (6,031)	\$ (1,685)	\$ 482	\$ (7,234)
Number of notifications distributed for charter school students	(6)	(1)	(4)	
Uniform cost allowance	× \$17.28	× \$17.74	× \$17.87	
Audit adjustment	\$ (104)	\$ (18)	\$ (71)	(193)
Number of notifications distributed for independent study students	(143)	(55)	(62)	
Uniform cost allowance	× \$17.28	× \$17.74	× \$17.87	
Audit adjustment	\$ (2,471)	\$ (976)	\$ (1,108)	(4,555)
Total audit adjustment	\$ (8,606)	\$ (2,679)	\$ (697)	\$ (11,982)

The program's parameters and guidelines instruct claimants to claim mandate-related costs as follows:

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial notification to the parent or guardian.

The parameters and guidelines also require claimants to maintain documentation that supports the total number of initial notifications of truancy distributed.

In addition, Government code section 17519 defines a "school district" as any school district, community college district, or county superintendent of schools. This definition does not include charter schools. As a result, charter school activities are not eligible for reimbursement under Government Code section 17560.

#### Recommendation

We recommend that the district claim the number of allowable initial truancy notifications that its records support. We also recommend that the district exclude from this count any notifications that it distributes for charter school and independent study students.

#### District's Response

The district did not dispute the overstated and understated total number of initial truancy notifications distributed. The district agreed with the audit adjustment for charter school students. The district disagreed with the audit adjustment related to independent study students. The district provided the following response:

The draft audit report does not state a legal basis to exclude independent study students from the attendance accounting system required by Title 5 or the mandated initial notice of truancy mandated by the California Education Code. The nature of the independent study course delivery and student evaluation does not exclude those students from the attendance accounting system absent some legal reason which has not been [sic] cited by the draft audit report.

#### SCO's Comment

The finding and recommendation are unchanged. The district disputed only the audit adjustment related to independent study students.

Education Code section 51747, subdivision (c)(7), specifies that independent study is an optional educational alternative to the student; no student may be required to participate. Education Code section 51747, subdivisions (a), (b), and (c), specify that districts evaluate an independent study student's satisfactory progress by establishing a maximum length of time that may elapse between the time an assignment is made and the date by which the student must complete the assigned work. Districts also determine the number of missed assignments that will be allowed before an evaluation is conducted to determine whether

the student should return to the regular school program. Thus, students are not held accountable to specific daily or period attendance and cannot be evaluated within the parameters of Education Code section 48260, subdivision (a).

The California Department of Education's School Attendance Review Board Handbook addresses the evaluation of independent study students' progress. It states in part:

However, many pupils do not meet the requirements of their written independent study agreements or do not show up for their independent study meetings. When pupils do not make progress in independent study or do not show up for their independent study meetings with teachers, they should be referred back for regular classroom instruction. If the pupils remain absent after being enrolled in the regular school classroom, further intervention activities at the school [i.e. compliance with Education Code section 48260, subdivision (a)] should begin immediately.

**FINDING 2—  
Non-reimbursable  
initial truancy  
notifications**

The district claimed non-reimbursable initial truancy notifications totaling \$68,410. The district claimed notifications that it distributed for students who did not accumulate the required number of unexcused absences or tardiness occurrences to be classified as truant under the mandated program.

The district accounts for student attendance differently depending on the student's grade level. Therefore, we stratified students into two groups: those students subject to daily attendance accounting and those subject to period attendance accounting. We excluded charter school and independent study students identified in Finding 1 from the population sampled.

The following table summarizes the notifications sampled:

	Fiscal Year		
	2007-08	2008-09	2009-10
Total notifications sampled, daily attendance accounting	6,724	6,996	5,995
Period attendance accounting:			
Documented notifications	9,645	9,039	6,963
Less number of notifications distributed for charter school students (Finding 1)	(6)	(1)	(4)
Less number of notifications distributed for independent study students (Finding 1)	(143)	(55)	(62)
Total notifications sampled, period attendance accounting	9,496	8,983	6,897

For each group of students, we selected a statistical sample of initial truancy notifications based on a 95% confidence level, a precision rate of +/-8%, and an expected error rate of 50%. We used statistical samples so that we could project the sample results to the population.

Some initial truancy notifications were non-reimbursable for the following reasons:

- Students accumulated fewer than three unexcused absences or tardiness occurrences while between ages 6 and 18.
- Students accumulated fewer than three total unexcused absences or tardiness occurrences during the school year.

The following table summarizes the non-reimbursable initial truancy notifications identified in our statistical samples:

	Fiscal Year		
	2007-08	2008-09	2009-10
Number of unexcused absences and tardiness occurrences accumulated during the school year:			
Daily attendance accounting:			
Fewer than three while between ages 6 and 18	(22)	(20)	(8)
Fewer than three total	(6)	(5)	(1)
Unallowable initial truancy notifications, daily attendance accounting	(28)	(25)	(9)
Period attendance accounting:			
Fewer than three while between ages 6 and 18	8	9	—

The following table summarizes the audit adjustment based on the unallowable initial truancy notifications identified for each group sampled:

	Fiscal Year			Total
	2007-08	2008-09	2009-10	
Daily attendance accounting:				
Number of unallowable initial truancy notifications from statistical sample	(28)	(25)	(9)	
Statistical sample size	÷ 147	÷ 147	÷ 146	
Unallowable percentage	(19.05)%	(17.01)%	(6.16)%	
Population sampled	× 6,724	× 6,996	× 5,995	
Extrapolated number of unallowable initial truancy notifications	(1,281)	(1,190)	(370)	
Uniform cost allowable	× \$17.28	× \$17.74	× \$17.87	
Audit adjustment, daily attendance accounting <sup>1</sup>	\$ (22,136)	\$ (21,111)	\$ (6,612)	\$ (49,859)

	Fiscal Year		
	2007-08	2008-09	2009-10
			Total
Period attendance accounting:			
Number of unallowable initial truancy notifications from statistical sample	(8)	(9)	
Statistical sample size	÷ 148	÷ 148	
Unallowable percentage	(5.41)%	(6.08)%	
Population sampled	× 9,496	× 8,983	
Extrapolated number of unallowable initial truancy notifications	(513)	(546)	
Uniform cost allowable	× \$17.28	× \$17.74	
Audit adjustment, period attendance accounting <sup>1</sup>	\$ (8,865)	\$ (9,686)	— (18,551)
Total audit adjustment	\$ (31,001)	\$ (30,797)	\$ (6,612) \$ (68,410)

<sup>1</sup> Calculation differences due to rounding.

Education Code section 48260, subdivision (a), as amended in 1994, states:

*Any pupil subject to compulsory full-time education or to compulsory continuation education [emphasis added] who is absent from school without valid excuse three full days in one school year or tardy or absent for more than any 30-minute period during the schoolday [sic] without a valid excuse on three occasions in one school year, or any combination thereof, is a truant. . . .*

Education Code section 48200 states that children between ages 6 and 18 are subject to compulsory full-time education. Therefore, student absences that occur before a student's 6<sup>th</sup> birthday or after a student's 18<sup>th</sup> birthday are not relevant when determining whether a student is a truant.

The parameters and guidelines state:

A truancy occurs when a student is absent from school without valid excuse three (3) full days in one school year, or is tardy or absent without valid excuse for more than any thirty (30)-minute period during the school day on three (3) occasions in one school year, or any combination thereof.

#### Recommendation

We recommend that the district claim initial truancy notifications only for those students who meet the truancy definition provided in the parameters and guidelines.

### District's Response

The district did not dispute the audit adjustment related to students who accumulated fewer than three total unexcused absences or tardiness occurrences during the school year. The district disagreed with the use of statistical sampling and the exclusion of unexcused absences that did not occur between students' 6<sup>th</sup> and 18<sup>th</sup> birthdays. The district's response is as follows:

This finding is based on statistical sampling. The draft audit report has cited no statutory or regulatory authority to allow the Controller to reduce claimed reimbursement based on an extrapolation of a statistical sample. The Controller does not assert that the claimed costs were excessive or unreasonable, which is the only mandated cost audit standard in statute (California Government Code Section 17561(d) (2)). It would, therefore, appear that the findings are based upon the wrong standard for review.

Statistical sampling was used for the two previous Controller audits of this mandate program at this District. . . . The District's objections to the statistical sampling were stated in its two incorrect reduction claims and those objections apply to this third audit. . . .

A total of 67 (50+17) of the notices sampled were disallowed because of the student's age at the time of the unexcused absences. That is, the student was younger than 6 years and [sic] older than 17 years at the time some or all of the absences were accrued which is outside the compulsory attendance law (California Education Code Section 48200). However, the District has statutory duties to enroll some children who are five-years old at the beginning of the school year and 18 years old at the end of the school year, as well as continue to enroll special education students through age 21. To the extent that these particular circumstances occur for any of the sampled students, the disallowance is without legal authority and the sampled student is statistically not representative of the universe. The adjustments that result from the statistical sampling should be withdrawn as unrepresentative and unsupported by law. . . .

### SCO's Comment

The finding and recommendation are unchanged. The district did not provide additional documentation to refute the audit finding.

The district states, "The Controller does not assert that the claimed costs were excessive or unreasonable, which is the only mandated cost audit standard. . . ." We disagree on two points.

We do assert that the claimed costs were excessive. Excessive is defined as "Exceeding what is usual, *proper* [emphasis added], necessary, or normal." <sup>1</sup> The district filed claims that were improper because the district claimed costs that are not reimbursable under the mandated program.

<sup>1</sup> Merriam-Webster's Collegiate Dictionary, Tenth Edition © 2001.

Further, Government Code section 17561, subdivision (d)(2)(B) is not the only applicable audit standard. Government Code section 17561, subdivision (d)(2)(A)(i) states that the SCO may audit the records of any school district "to verify the actual amount of the mandated costs."

Finally, Government Code section 12410 states, "The Controller shall audit *all claims* [emphasis added] against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment."

The district states that we cited no statutory or regulatory authority to "reduce claimed reimbursement based on an extrapolation of a statistical sample." As the district previously indicated, Government Code section 17561, subdivision (d)(2) allows the SCO to reduce any claim that it determines is excessive or unreasonable. We properly used statistical sampling in our audit to reach such a determination.

We conducted our audit according to generally accepted government auditing standards (*Government Auditing Standards*, issued by the U.S. Government Accountability Office, July 2007). *Government Auditing Standards*, section 1.03, states, "The professional standards and guidance contained in this document . . . provide a framework for conducting high quality government audits and attestation engagements with competence, integrity, objectivity, and independence." The standards recognize statistical sampling as an acceptable method to provide sufficient, appropriate evidence. *Government Auditing Standards*, section 7.55, states, "Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions." Section 7.56 states, "Appropriateness is the measure of the quality of evidence. . . ." In further discussing appropriateness, section 7.63 states, "When a representative sample is needed, the use of statistical sampling approaches generally result in stronger evidence. . . ." Thus, statistical sampling provides appropriate evidence to determine whether the district's claims are excessive or unreasonable.

Regarding unexcused absences or tardiness occurrences that did not occur between students' 6<sup>th</sup> and 18<sup>th</sup> birthdays, the district states that it has "statutory duties" to enroll some students before age 6 or after age 18. The district confuses students' statutory *requirement* to attend school between ages 6 and 18 with students' *entitlement* to attend outside of that age range. Education Code section 48260, subdivision (a), states:

A pupil *subject to compulsory full-time education or to compulsory continuation education* [emphasis added] who is absent from school without a valid excuse three full days in one school year or tardy or absent for more than a 30-minute period during the schoolday [sic] without a valid excuse on three occasions in one school year, or any combination thereof, shall be classified as a truant. . . .

Education Code section 48200 states:

Each person *between the ages of 6 and 18 years* [emphasis added] not exempted . . . is subject to compulsory full-time education.

While the district is obligated to enroll the student before age 6 or after age 18, the student is not obligated to attend. Therefore, student absences that occur before a student's 6<sup>th</sup> birthday or after a student's 18<sup>th</sup> birthday are irrelevant in determining whether a student is truant.

**FINDING 3—  
Noncompliant initial  
truancy notifications**

The district claimed unallowable costs totaling \$31,160 for FY 2007-08. The costs are unallowable because the district distributed initial truancy notifications that did not comply with the parameters and guidelines.

The parameters and guidelines require that districts distribute initial truancy notifications that notify parents/guardians of the following eight items:

1. The pupil is truant.
2. The parent or guardian is obligated to compel the attendance of the pupil at school.
3. Parents or guardians who fail to meet the obligation specified in item 2 may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48290) of Chapter 2 of Part 27.
4. Alternative educational programs are available in the district.
5. The parent or guardian has the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.
6. The pupil may be subject to prosecution under Education Code section 48264.
7. The pupil may be subject to suspension, restriction, or delay of the pupil's driving privileges pursuant to Vehicle Code section 13202.7.
8. It is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

The district distributed initial truancy notifications that did not include the sixth item identified above. Therefore, 1/8 (12.5%) of the unit cost allowance for each notification is unallowable.



The following table summarizes the audit adjustment:

	Fiscal Year 2007-08
Number of notifications documented	16,369
Less charter school students (Finding 1)	(6)
Less independent study students (Finding 1)	(143)
Less nonreimbursable notifications, daily attendance accounting (Finding 2)	(1,281)
Less nonreimbursable notifications, period attendance accounting (Finding 2)	(513)
Allowable initial truancy notifications	14,426
Uniform cost allowance	× \$17.28
Subtotal <sup>1</sup>	\$ 249,280
Unallowable percentage	× (12.5)%
Audit adjustment	\$ (31,160)

<sup>1</sup> Calculation difference due to rounding.

#### Recommendation

We recommend that the district ensure that all initial truancy notifications contain the minimum information required by the parameters and guidelines.

#### District's Response

The district stated that it does not dispute the audit finding at this time.

The district's response included a public records request. The district's response and SCO's comment are as follows:

#### District's Response

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period relevant to the findings, and specifically, the Controller's legal authority to use statistical sampling to adjust claims and to disallow notices sent to students whose attendance is otherwise required by law. . . .

#### SCO's Comment

The SCO will respond to the district's request separate from this report.

#### **OTHER ISSUE— Public records request**

**Attachment—  
District's Response to  
Draft Audit Report**

---

BOARD OF EDUCATION  
Mrs. Gayle Cloud  
President  
Charles L. Beaty Ph.D.  
Vice President  
Mrs. Kathy Y. Allavie  
Clerk  
Mr. Tom Hunt  
Mrs. Patricia Lock-Dawson

## Riverside Unified School District

ADMINISTRATION BUILDING  
3380 14TH STREET - P. O. BOX 2800  
RIVERSIDE, CALIFORNIA 92516  
OFFICE OF THE SUPERINTENDENT  
(951) 788-7131  
FAX: (951) 778-5668

RICHARD L. MILLER, PH.D.  
District Superintendent



### CERTIFIED MAIL - RETURN RECEIPT REQUESTED

January 18, 2013

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

Re: Chapter 498, Statutes of 1983  
Notification of Truancy (Third Audit)  
Fiscal Years: 2007-08, 2008-09, and 2009-10  
Riverside Unified School District

Dear Mr. Spano:

This letter is the response of the Riverside Unified School District to the letter from Jeffrey V. Brownfield, Chief, Division of Audits, dated December 19, 2012, and received by the District on January 7, 2013, that transmitted the draft audit report of the District's Notification of Truancy mandate reimbursement annual claims for the period of July 1, 2007 through June 30, 2010.

#### **FINDING 1 - Overstated, understated, and unallowable initial truancy notifications**

This finding disallows \$11,982 (688 notifications) from the total number of notifications claimed. There are three sources for the total adjustment to allowable notifications:

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Total</u>
A. No documentation	<349>	<95>	27	<417>

The District does not dispute this adjustment at this time. The District has not located the additional supporting documentation requested by the auditor after an extensive search. These 417 notices represent about one-percent of the total 45,779 notices claimed for the three fiscal years.

B. Charter school students	<6>	<1>	<4>	<11>
----------------------------	-----	-----	-----	------

The District agrees with the adjustment. The Charter schools were incorrectly included in the number of notices claimed as a result of software error when extracting relevant information from the attendance accounting system that has been corrected.

ONE COMMUNITY . . . DIVERSE, CHALLENGED, PREPARED

## C. Independent Study &lt;143&gt; &lt;55&gt; &lt;62&gt; &lt;260&gt;

The District does not agree with this adjustment. This has not been a finding in previous audits of this District. The draft audit report states:

*The district claimed initial truancy notifications distributed for independent study students. Independent study students are evaluated for compliance with their individual independent study agreements. They do not attend a normal class schedule and thus are not evaluated for normal school attendance tardiness and period or daily absences unless/until they return to a regular classroom schedule. Therefore, the initial truancy notification process is not applicable to independent study students.*

The draft audit report does not state a legal basis to exclude independent study students from the attendance accounting system required by Title 5 or the mandated initial notice of truancy mandated by the California Education Code. The nature of the independent study course delivery and student evaluation does not exclude those students from the attendance accounting system absent some legal reason which has not be cited by the draft audit report.

**FINDING 2- Non-reimbursable initial truancy notifications**

The draft audit report concludes that the District claimed costs for non-reimbursable initial truancy notifications in the amount of \$68,410 for Fiscal Years 2007-08, 2008-09, and 2009-10. This represents about 8.5% of the total claimed amount of \$806,110 for the three fiscal years.

This Finding is based on statistical sampling. The draft audit report has cited no statutory or regulatory authority to allow the Controller to reduce claimed reimbursement based on an extrapolation of a statistical sample. The Controller does not assert that the claimed costs were excessive or unreasonable, which is the only mandated cost audit standard in statute (California Government Code Section 17561(d) (2)). It would, therefore, appear that the findings are based upon the wrong standard for review.

Statistical sampling was used for the two previous Controller audits of this mandate program at this District and at about twenty other districts. This District and other districts have filed incorrect reduction claims with the Commission on State Mandates to appeal the Controller's use of sampling for this mandate program. Those appeals are still pending Commission action. The District's objections to the statistical sampling were stated in its two incorrect reduction claims and those objections apply to this third audit.

<u>DISALLOWANCE REASON</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>TOTAL</u>
<u>Daily Attendance</u>				
Underage (less than 6 years)	22	20	8	50
Less than 3 Absences	<u>6</u>	<u>5</u>	<u>1</u>	<u>12</u>
Total Disallowed	28	25	9	62
Sample Size	147	147	146	
Percentage Disallowance	19.05%	17.01%	6.16%	

Period Attendance

Overage (18 years plus)	8	9	17
Less than 3 Absences			
Total Disallowed	8	9	17
Sample Size	148	148	
Percentage Disallowance	5.41%	6.08%	

## A. AGE OF STUDENT

A total of 67 (50+17) of the notices sampled were disallowed because of the student's age at the time of the unexcused absences. That is, the student was younger than 6 years and older than 17 years at the time some or all of the absences were accrued which is outside the compulsory attendance law (California Education Code Section 48200). However, the District has statutory duties to enroll some children who are five-years old at the beginning of the school year and 18 years old at the end of the school year, as well as continue to enroll special education students through age 21. To the extent that these particular circumstances occur for any of the sampled students, the disallowance is without legal authority and the sampled student is statistically not representative of the universe. The adjustments that result from the statistical sampling should be withdrawn as unrepresentative and unsupported by law. The District's objections to disallowance were stated in its two incorrect reduction claims and those objections apply to this third audit.

## B. INSUFFICIENT NUMBER OF ABSENCES

These 12 sampled notices were disallowed for lack of documentation to support the three required unexcused absences or tardies required by California Education Code Section 48260. The District does not dispute the documentation issue at this time. The District has not located the additional supporting documentation requested by the auditor after an extensive search.

**FINDING 3- Noncompliant initial truancy notifications**

The draft audit report disallows \$31,160 (12.5%) of the FY 2007-08 claimed notices as noncompliant with California Education Code Section 48260.5 since item six (the reference to Section 48264 arrest of minors) of the eight notice elements was not included. In the previous (second) audit, the draft and final audit report disallowed 100% of the FY 2006-07 claimed notices as noncompliant with Section 48260.5 because the sixth element was missing. The second audit was later revised to reduce the adjustment to 12.5%, as it is for FY 2007-08. The District's initial notification of truancy was updated to include the missing sixth item in FY 2008-09.

The District's FY 2006-07 and FY 2007-08 initial notifications of truancy more than substantially complied with California Education Code Section 48260.5. The notice provided a summary of the code section, but does not specifically cite Section 48264. Section 48264, which states that truants are subject to arrest, has been state law in some form since 1903. It permits discretionary *noncriminal* custody arrests during school hours of students away from home and not in school. A Section 48264 detention does not depend on the occurrence or documentation of either three or more absences or tardies and thus a Section 48260.5 notice is not a condition precedent to the enforcement of Section 48264. The student is subject to this penalty at any time, before and after the Section 48260.5 notice,

Mr. Jim Spano, State Controller's Office

January 18, 2013

so the lack of citation of Section 48264 in the initial notification of truancy was substantively insignificant.

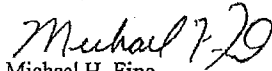
However, the reduction of the adjustment to 12.5% appears to be one solution to the imprecision of the California Education Code language, and the District does not dispute this adjustment at this time.

**Public Records Request**

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period relevant to the findings, and specifically, the Controller's legal authority to use statistical sampling to adjust claims and to disallow notices sent to students whose attendance is otherwise required by law.

Government Code section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District please state the estimated date and time when the records will be made available.

Sincerely,



Michael H. Fine  
Deputy Superintendent  
Business Services & Governmental Relations

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**





# The CPA Journal<sup>Online</sup>

A Publication of the New York State Society of CPAs

Search

CONTENTS

Home

Perspectives

In Focus

Accounting & Auditing

Taxation

Finance

Management

Responsibilities & Leadership

Technology

BUSINESS

Advertising

Classifieds

Media Kit

Contact Info

Masthead

INTERACT

Contact the Editors

Reader Services

Subscribe


Mission

Submission Guidelines

## Statistical Sampling Revisited

By Neal B. Hitzig

Auditing standards are undergoing revision in the wake of recent, massive audit failures. Legislative and regulatory bodies are focusing more critically on auditors than ever before. Yet, contemplated revisions to auditing standards leave untouched ambiguities and unresolved issues that have reduced the effectiveness of the authoritative literature for decades. One of the longest-standing issues concerns the role and appropriateness of statistical sampling as a substantive audit testing procedure.

 E-mail Story

 Print Story

### Background

Throughout the 1960s and '70s, the largest accounting firms devoted extensive resources to the development and implementation of statistical sampling procedures. The firms wrote new policies and guidance, developed time-sharing and batch computer programs, and trained specialized staff. Monetary unit sampling was developed and became a widespread audit tool. The AICPA issued Statement on Auditing Procedure (SAP) 54 and published *Statistical Auditing*, by Donald M. Roberts.

Then, in 1980, the Auditing Standards Board (ASB) issued SAS 39, *Audit Sampling* (AU 350). Members of the Statistical Sampling Subcommittee that wrote SAS 39, which included this author, expected that the imposition of risk, materiality, and selection requirements would further establish statistical sampling as a principal audit testing procedure. In fact, the opposite has occurred, largely because the ASB gave nonstatistical sampling equal evidentiary weight.

### Substantive Tests

May 2004 Issue

The CPA Journal



Enlarge Cover

### Features

[Regulation of Professions: Interstate Compact](#)

[20 Questions on Trust, Medicaid, Insurance, and Transfers](#)

[Accounting for Stock Op](#)

[Government Procurement Basics](#)

[More This Issue | Past Issues](#)

Substantive tests are intended to detect and estimate misstatement in accounts and classes of transactions. The authoritative literature recognizes two types of substantive tests: tests of details, and analytical procedures. Except in those cases where complete enumeration of an accounting population is feasible (as in certain computer-assisted auditing techniques), the audit sample is a principal approach to performing the test of details.

Many auditors apply sampling to test controls, despite concerns that such applications may not reveal the information that an auditor seeks. For example, the initialing of documents does not mean that the documents are correct (if that is what initialing purports to signify); it means only that the documents were initialed. Similarly, the fact that an invoice is correctly priced does not mean that a price-checking control functioned properly, because the invoice may have been properly priced in the first place. These examples demonstrate why testing preventive controls with tests of details may not inform the auditor that the subject controls are functioning as intended.

On the other hand, evidence of monetary misstatement in a transaction or account is clear-cut evidence of the absence or malfunction of a control. This is why many auditors view tests of details as being most useful when performed as substantive tests.

### **Nonstatistical Sampling**

AU 350 does not provide a definition of nonstatistical sampling. It states only that “[t]here are two approaches to audit sampling: nonstatistical and statistical” (AU 350.03). The AICPA’s Audit Guide, *Audit Sampling*, provides the following definition:

Any sampling procedure that does not measure the risk is a nonstatistical sampling procedure. Even though the auditor rigorously selects a random sample, the sampling procedure is a nonstatistical sampling application if the auditor does not make a statistical evaluation of the sample results. (AAG-SAM 2.18)

This statement establishes that an auditor may label a sampling technique “nonstatistical” without regard to the manner of sample selection. Thus, even though the Audit

Guide acknowledges the well-known ability of statistical sampling to measure sampling risk, it nevertheless sanctions an auditor's decision to ignore available statistical theory and rely instead on judgment or intuition in interpreting the results of a sampling procedure. In short, the guide gives guesswork equal status with measurability. Such a view is potentially hazardous, because the auditor is permitted to ignore facts that are readily discernable to any practitioner, or legal adversary, who is knowledgeable in the application of statistical methodology.

Why would an auditor prefer nonstatistical sampling, knowing of the availability of objective statistical procedures? Various reasons, restated in the 2001 edition of the Audit Guide, have been cited as the impediments: the cost of training, the cost of sample selection, the cost of sample evaluation. With the passage of time, these reasons have become progressively weaker. Mandatory continuing professional education is now a reality, so there should be little reason for auditors not to advance their skills in sampling techniques. As to the implementation costs associated with the selection and evaluation of random samples, the ready availability of computers and off-the-shelf software has greatly mitigated, if not eliminated, these factors as relevant considerations.

In short, a nonstatistical sample is selected by the exercise of judgment, and not by chance. Haphazard, judgmental, and purposive sampling are some of the terms that describe a nonstatistical sample.

### **Statistical Sampling**

AU 350 and the Audit Guide approach statistical sampling in a roundabout way. The Audit Guide states:

Statistical sampling helps the auditor (1) design an efficient sample, (2) measure the sufficiency of the evidential matter obtained, and (3) quantitatively evaluate the sample results.

Statistical sampling uses the laws of probability to measure sampling risk. (AAG-SAM 2.17)

Although the foregoing statements are correct, they do not define statistical sampling per se.

Statistical sampling is probability sampling. In probability sampling, every item in the population under audit has a known chance of selection. The decision as to which items in the population are to be selected is left to the laws of chance, not to judgment. The most common probability sampling methods in auditing are equal probability (such as simple random and systematic sampling) and sampling with probability proportional to size (such as monetary unit sampling).

The prominent feature of statistical sampling is its ability to measure risk. The measurement instrument is the confidence interval, which gives a calculated range of values for the estimated amount of misstatement in a population. The measurability of statistical sampling distinguishes it from so-called judgment sampling, where the decision as to the items selected for examination is left to the judgment of the auditor. Statistical sampling is a measurement tool. When applied in a substantive test of details, it measures misstatement in an account or class of transactions. Its ability to measure arises from the selection method used, which is probability sampling. Lawyers, judges, and statisticians have explicitly recognized these features of statistical sampling. The Special Committee on Empirical Data in Decision Making, Recommendation on Pretrial Proceeding in Cases with Voluminous Data, made the following statement (see Appendix F, in Fienberg, S.E., ed., *The Evolving Role of Statistical Assessments as Evidence in the Courts*, 1989):

[W]hen a survey is based on probability sampling, the probabilities or risks of sampling misstatements of various sizes can be calculated. This requires the application of *appropriate* statistical formulas. Assessments of sampling misstatement are very often expressed in terms of a standard misstatement. This is a *universally* accepted measure of the margin of error in a survey result that is attributable to sampling.

This illuminating report should serve to alert auditors to the growing use of statistically based evidence in litigation and, by implication, to the risks they face should they ignore the information contained in samples.

The implication is clear: Ignore the formulas applicable to the results of a probability sample and rely instead on intuition at your own risk.

Some auditors believe that they must calculate a sample size beforehand for an audit sample to be statistical. This is incorrect. Any probability sample can be subjected to evaluation by application of the laws of probability, however arbitrary the choice of sample size. Failure to calculate beforehand usually results in samples that are either too large or too small for the auditor's objectives. They are, nevertheless, statistical.

Statistical and nonstatistical sampling methods are defined in terms of the method by which a sample is selected, not in terms of a decision by the auditor not to apply statistical methods, even to a random sample.

### **When Is Statistical Sampling Appropriate?**

Statistical sampling is appropriate whenever an auditor wishes to draw a conclusion about a population without performing an examination of all the items composing that population. Moreover, statistical sampling is appropriate when the auditor has no prior knowledge as to which specific items in a population are misstated.

An important concern that affects the sampling decision is the practicability of selecting a probability sample. If files are computerized and 100% verification cannot be performed by computer-assisted audit techniques, then probability sampling is most likely to be the practical approach. If files are not computerized and the population is large (as a rough rule of thumb, a large population has more than 500 items), then probability sampling may still be practicable. If a population of manual records is maintained in numerical order, a computer application may be used to select random numbers that identify the items to be selected, even items at multiple locations. The items are then located by hand. If the population is not maintained in numerical order, then systematic selection (select every  $k$ th item after a random start) may be performed. Systematic selection is one of the easiest procedures to apply, although proper application requires counting through the population. Although many caution that systematic selection is subject to bias because a key characteristic of the population under examination may coincide with the selection interval, in more than 30 years of practice, the author has never observed this to be even a remote practical concern.

Statistical sampling is appropriate for both routine and nonroutine accounting processes. In a test of purchase

transactions, for example, the auditor may employ statistical sampling to test for misstatement in account distribution. An auditor may also apply statistical sampling to a population of securities positions for a large broker-dealer with thousands of positions, to test valuation and existence assertions.

### Sampling Risk

AU 350 states “[s]ampling risk arises from the possibility that, when a test ... is restricted to a sample, the auditor’s conclusions may be different from the conclusions he would reach if the test were applied in the same way to all items in the [population].” (AU 350.10) AU 350 also identified two aspects of sampling risk:

*The risk of incorrect acceptance* is the risk that the sample supports the conclusion that the recorded account balance is not materially misstated when it is materially misstated.

*The risk of incorrect rejection* is the risk that the sample supports the conclusion that the recorded balance is materially misstated when it is not materially misstated. (AU 350.12)

In practice, it is convenient to think of the foregoing in terms of detection risk and estimation risk, respectively.

Detection risk is the chance that a sample will fail to detect misstatement that actually exceeds the auditor’s specified maximum tolerable amount. “Detection” refers to the decision rule that an auditor applies to decide whether a misstatement is tolerable under the circumstances. A commonly employed rule is the comparison of the calculated upper confidence limit of misstatement with the specified maximum tolerable amount. In SAS 39 terms, the upper confidence limit is the projected misstatement plus the allowance for sampling risk. If the calculated limit is greater than the maximum tolerable amount, the auditor decides that misstatement may exceed the tolerable amount. Otherwise, the auditor decides that misstatement, if it exists, is tolerable. If a properly designed sample discloses no misstatements, the auditor may then decide that misstatement in the population under audit does not exceed the maximum tolerable amount.

Detection risk is principally a planning concept. The auditor specifies it beforehand and uses it as one of the factors that determines the appropriate extent of testing reflected in the sample size.

If misstatements are detected, on the other hand, the estimation risk becomes the key risk under consideration. Estimation risk is the chance that the actual amount of misstatement will not be within the calculated confidence interval. SAS 39 is dismissive of this risk, which it labels the risk of incorrect rejection, as being merely an efficiency issue. AU 350.12 states:

[I]f the auditor's evaluation leads him to the initial erroneous conclusion that a balance is materially misstated when it is not, the application of additional audit procedures and consideration of other audit evidence would ordinarily lead the auditor to the correct conclusion.

This is misleading. An auditor does not know that his conclusion is incorrect; only that the evidence suggests that the population may be materially misstated. Frequently, this is sufficient for action, and no further audit evidence is needed, even if it were practicable to extend testing or to apply alternate procedures. More seriously, AU 350.12 invites the auditor to disregard the results of an unfavorable sample outcome and subordinate it to other, contradictory evidence whose reliability may be less than that of the sample.

Moreover, if the results of an audit sample are sufficiently precise, they may provide the basis for the proposal of an adjusting journal entry by the auditor. In such a case, the appropriate risk consideration is that the adjustment is materially correct. The calculated confidence interval provides the basis for that assessment. Estimation risk is the complement of the confidence level.

### **Statistical Sampling and Audit Decisions**

The auditor uses a sample to decide whether misstatement exists and whether it may exceed the tolerable misstatement. This is the essence of the detection objective of a substantive test of details. While it is possible to design a sample to control for both the detection and estimation risk, audit samples often are designed only with the detection objective in mind.

Nonetheless, if a properly selected random sample has disclosed misstatement, that sample can always be used to obtain a confidence interval on the amount of misstatement, regardless of the planning decisions and the consequent sample size.

For convenience, interval estimates may be classified into six basic categories, each of which is informative in its own way as to the extent of misstatement in the population. The possibilities are discussed below in terms of tolerable misstatement (TM), which is \$600,000 in the examples, the lower confidence limit (LCL) on the estimated misstatement, and the upper confidence limit (UCL) on the estimated misstatement. The projected misstatement (that is, point estimate) is not needed, as the following examples will show. More importantly, the projected misstatement could be misleading. A projection (or point estimate) is merely one outcome in a sample space. Its principal function is to be locator for the confidence interval. It provides no information as to its margin of error. For example, 10 misstatements of \$100 each will yield the same point estimate as one \$1,000 misstatement, but the latter's margin of error is greater.

**Example 1.** If neither confidence limit exceeds the tolerable misstatement and \$0 is included within the confidence interval, then the auditor would decide that misstatement, if present, is no greater than tolerable misstatement. This case suggests that the amount of misstatement might also be trivial. (See the Exhibit, Figure 1.)

This is the most favorable outcome. This outcome can arise even if misstatements are detected. For example, many misstatements of very small magnitude might yield such a confidence interval. The auditor would conclude that net misstatement, if it exists, does not exceed \$200,000 of understatement or \$400,000 of overstatement. Because neither amount exceeds \$600,000, the auditor may conclude that misstatement is tolerable. Because \$0 is within the confidence interval, it is possible that net misstatement may be \$0.

Except for situations where the sample discloses no misstatement, this case does not apply when the auditor is performing tests of overstatement, such as for the existence or the lower of cost or market.

**Example 2.** If neither confidence limit exceeds the



tolerable misstatement and \$0 is outside the confidence interval, then the auditor would decide that the population is misstated, but the amount of misstatement is no greater than the tolerable misstatement. (See the Exhibit, Figure 2.)

This is similar to Example 1, except that the sample evidence indicates some misstatement. That is, the auditor may be confident that the population is overstated by at least \$150,000, but not by more than \$400,000.

*Example 3.* This case is the same as above, except that one of the confidence limits exceeds the tolerable misstatement. The auditor would conclude that the population is misstated and that the total misstatement may be greater than the tolerable misstatement, but it also may be less. The auditor cannot accept the population as being fairly stated on the sample evidence provided. (See the Exhibit, Figure 3.)

This situation arises when the disclosed misstatements exceed the auditor's expectation. This can occur in a sample even though the actual population misstatement is as expected. In fact, if the actual population misstatement is equal to the amount expected by the auditor and used to determine sample size, then there is roughly a 50% chance that the sample's projected misstatement will be greater than the expected misstatement. In the context of AU 350's approach to interpretation of results, this outcome would imply that the risk of intolerable misstatement is greater than the level specified by the auditor as the risk of incorrect acceptance.

This is a common outcome of audit samples. It is the outcome to be expected if the difference between the actual (but unknown) misstatement and tolerable misstatement is less than the precision of the sample estimate.

Extending the audit sample in such a circumstance often only confirms the initial finding, albeit more precisely, because the range of the confidence interval decreases as the sample size increases. In this case, an adjusting journal entry might be proposed. Whether a possible adjustment would be passed over is a question that would await the completion of the audit.

*Example 4.* In this case, just one of the confidence limits

exceeds the tolerable misstatement, but the lower limit is negative and the upper limit is positive. The results indicate that the population may be overstated by as much as \$800,000 (greater than the tolerable misstatement) or it may be understated by as much as \$300,000 (less than the tolerable misstatement). The net misstatement could also be \$0. Nevertheless, because one of the limits exceeds tolerable misstatement, the auditor may not conclude that the population is fairly stated. (See the Exhibit, Figure 4.)

This outcome can be the result of either the projected misstatement exceeding expectation or the variability of the misstatements in the sample being larger than planned. This situation is common to inventory valuation tests, such as price tests, where large, offsetting misstatements are disclosed. The result strongly suggests significant weakness in controls.

**Example 5.** In this case, the confidence limits are positive and negative and both exceed the tolerable misstatement. The interval ranges from \$800,000 of understatement to \$800,000 of overstatement. The misstatement may exceed the tolerable amount or it may be trivial. In this case, the sample results are too imprecise for an audit decision at the specified confidence level. (See the Exhibit, Figure 5.)

As in Example 4, of which Example 5 is a more extreme example, this result is not uncommon to tests of inventory valuation, where misstatements are more numerous than anticipated and vary greatly as to magnitude and can be both under- and overstated. While the results are not sufficiently precise for an audit adjustment (in fact, no adjustment may be needed), results such as these demonstrate that accounting controls, if they exist, are ineffective. In addition, the result questions whether sufficient evidence has been obtained.

**Example 6.** If both confidence limits are positive (or both negative) and both exceed the tolerable misstatement, then the auditor would decide that misstatement indeed exceeds the tolerable amount. In this case, where the overstatement may range from \$800,000 to \$1,600,000, an adjusting journal entry would be likely. (See the Exhibit, Figure 6.)

### **Statistical Sampling and Audit Actions**

The auditor has three courses of action when a misstatement is discovered:

- Waive the misstatement
- Do more work
- Propose an adjusting journal entry.

The question of whether the sample evidence is sufficient for an audit conclusion about the population depends upon the size of the confidence interval and the amount of tolerable misstatement. If the length of the interval (from LCL to UCL) is less than twice the tolerable misstatement, then there is some materially correct value within the interval. The auditor's objective is not to estimate the amount of misstatement with pinpoint precision. If an adjustment is to be made, the auditor should be able to propose an amount that will reduce any remaining misstatement to an amount that is no greater than the tolerable misstatement.

Given the risk level specified by the auditor when evaluating the sample, an adjusting journal entry (AJE) can be proposed that reduces the misstatement in the population to an amount that is no greater than the tolerable misstatement. Suppose that a 90% confidence interval yields a lower limit of \$800,000 and an upper limit of \$1,600,000, and that the tolerable misstatement is \$600,000. The range of the interval (\$800,000) is less than two times the tolerable misstatement. Exhibit Figure 7 shows that a materially correct AJE can be booked within a range of values from \$1 million to \$1,400,000. In other words, any value within the confidence interval would be a tolerably correct AJE if both confidence limits are within the tolerable misstatement of the proposed adjustment. The risk would be no greater than the specified estimation risk.

Examination of Figure 7 should make it evident why two-sided interval estimation is important in cases where adjusting journal entries are being considered. Auditing literature has, in recent years, focused exclusively on the upper confidence limit of misstatement (that is, the confidence limit further from zero). Such a focus does not provide adequate basis for proposing sufficiently correct adjustments. By looking at only the upper limit, the auditor could inadvertently propose too large an adjustment, turning a case that was intolerably overstated into one that is intolerably understated. Only by reference to the lower confidence limit can the auditor avoid such an outcome. The Audit Guide is not clear

regarding the foregoing, providing only a one-sentence approach to audit adjustments (AAG-SAM 7.36).

### **Does Statistical Sampling Undermine Auditor Judgment?**

Many auditors continue to resist applying statistical sampling. In addition to objections to the cost of training, the cost of sample selection, and the cost of sample evaluation, some auditors have expressed concern that statistical sampling impedes auditor judgment. This assertion is no truer than the assertion that laboratory biopsy is an impediment to a physician's exercise of judgment. Auditor judgment is essential in several key respects: in deciding tolerable misstatement, in choosing the method for selecting the sample, in analyzing and assessing the population's characteristics (such as the expected misstatement and variability of misstatement amounts), in deciding the appropriate risk level, and in deciding the method of estimation. If the auditor suspects that some population categories are more likely to contain misstatement, a sampling plan to accommodate such judgments can be devised.

Judgment is not applied in the random selection process, which is left to the operation of the laws of chance, and in the construction of the confidence interval after the sample results are available.

The ASB and the Public Company Accounting Oversight Board should provide explicit recognition of the superiority of statistical sampling in situations where the auditor has no specific knowledge as to the location and amounts of individual misstatements in an accounting population. The recently published Audit Guide, which "includes increased coverage of nonstatistical audit sampling," is a step in the wrong direction. It is time for the profession to acknowledge that audit sampling is a decision tool that calls for the application of objective, defensible techniques, not guesswork.

---

*Neal B. Hitzig, PhD, CPA, is professor of accounting and information systems at Queens College (CUNY). He is a member of the Auditing Standards and Procedures Committee of the NYSSCPA and a retired partner of Ernst & Young.*

---

---

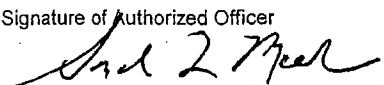
[Home](#) | [Contact](#) | [Subscribe](#) | [Advertise](#) | [Archives](#) | NYSSCPA

---

*The CPA Journal* is broadly recognized as an outstanding, technical-refereed publication aimed at public practitioners, managers, and other accounting professionals. It is edited by CPAs for CPAs. Our goal is to provide CPAs and other accounting professionals with information and news to enable them to be successful accountants, managers, and executives in today's practice environment.

©2006 *The CPA Journal*. Legal Notices



CLAIM FOR PAYMENT Pursuant to Government Code Section 17561 NOTIFICATION OF TRUANCY			For State Controller Use Only		Program <b>048</b>	
S33120 RIVERSIDE UNIFIED SCHOOL DIST RIVERSIDE COUNTY 6050 INDUSTRIAL AVE. RIVERSIDE CA 92504			(19) Program Number 00048			
			(20) Date Filed ____/____/____			
			(21) LRS Input ____/____/____			
			Reimbursement Claim Data			
			(22) FORM-1, (03)		16,718	
		(23)				
		(24)				
		(25)				
		(26)				
Type of Claim	Estimated Claim	Reimbursement Claim				
	(03) Estimated <input type="checkbox"/>	(09) Reimbursement <input checked="" 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)			
Fiscal Year of Cost	(06) 20__ / 20__	(12) 2007 / 2008	(30)			
Total Claimed Amount	(07)	(13) 288,887.00	(31)			
Less: 10% Late Penalty, (refer to claim instructions)		(14) 10,000.00	(32)			
Less: Prior Claim Payment Received		(15)	(33)			
Net Claimed Amount		(16) 278,887.00	(34)			
Due from State	(08)	(17) 278,887.00	(35)			
Due to State		(18) 0	(36)			
<b>(37) CERTIFICATION OF CLAIM</b> In accordance with the provisions of Government Code 17561, I certify that I am the officer authorized by the school district to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Government Code Sections 1090 to 1098, inclusive.  I further certify that there was no application other than from the claimant, nor any grant(s) or payment(s) received, for reimbursement of costs claimed herein; and such costs are for a new program or increase level of services of an existing program. All offsetting savings and reimbursements set forth in the Parameters and Guidelines are identified, and all costs claimed are supported by documentation currently maintained by the claimant.  The amounts for this Reimbursement Claim is hereby claimed from the State for payment of actual costs set forth on the attached statements. I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.						
Signature of Authorized Officer 			Date Signed <u>2-16-10</u>			
Sandra L Meekins-Director -Business Services			Telephone Number <u>1-951-352-6729 ext 82002</u>			
Type or Print Name and Title of Authorized Signatory			E-Mail Address <u>smeekins@rusd.k12.ca.us</u>			
(38) Name of Agency Contact Person for Claim <u>Annette Alvarez</u>		Telephone Number <u>(951) 352-6729</u> EXT 82201				
Name of Consulting Firm/Claim Preparer:		E-mail Address <u>aalvarez@rusd.k12.ca.us</u>				
		Telephone Number _____				
		E-mail Address _____				

Program <b>048</b>	MANDATED COSTS NOTIFICATION OF TRUANCY CLAIM SUMMARY		FORM <b>1</b>
(01) Claimant  RIVERSIDE UNIFIED SCHOOL DISTRICT		(02) Type of Claim  Fiscal Year  2007-2008	
Claim Statistics			
(03) Number of truant notifications			16,718
Cost			
(04) Unit Cost per an initial truancy notification (\$17.28 the 2007-2008 fiscal year)			17.28
(05) Total Direct Costs [Line (03) x line (04)]			288,887.04
Cost Reduction			
(06) Less: Offsetting Savings, if applicable			0
(07) Less: Other Reimbursements, if applicable			0
(08) Total Claimed Amount [Line (05) - {Line (06) + Line (07)}]			288,887.04

Revised 9/08



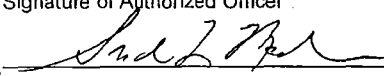
8-9

<b>CLAIM FOR PAYMENT</b> Pursuant to Government Code Section 17561 <b>NOTIFICATION OF TRUANCY</b>			<b>For State Controller Use Only</b> (19) Program Number 00048 (20) Date Filed ____/____/____ (21) LRS Input ____/____/____		<b>Program</b> <div style="font-size: 2em; font-weight: bold;">048</div>
S33120 RIVERSIDE UNIFIED SCHOOL DIST RIVERSIDE COUNTY 6050 INDUSTRIAL AVE. RIVERSIDE CA 92504			Reimbursement Claim Data		
			(22)FORM-1, (03)		16,130
			(23)FORM-1, (04)		17.74
			(24)FORM-1, (06)		0
			(25)FORM-1, (07)		0
	(3)	(09) Reimbursement <input checked="" type="checkbox"/>	(26)		
	(4)	(10) Combined <input type="checkbox"/>	(27)		
	(5)	(11) Amended <input type="checkbox"/>	(28)		
			(29)		
Fiscal Year of Cost	(6)	(12) 2008 / 2009	(30)		
Total Claimed Amount	(7)	(13) 286,146.00	(31)		
Less: 10% Late Penalty, (refer to claim instructions)		(14) 0.00	(32)		
Less: Prior Claim Payment Received		(15)	(33)		
Net Claimed Amount		(16) 286,146.00	(34)		
Due from State	(8)	(17) 286,146.00	(35)		
Due to State		(18) 0	(36)		
<b>(37) CERTIFICATION OF CLAIM</b>  <p>In accordance with the provisions of Government Code 17561, I certify that I am the officer authorized by the school district or county office of education to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Article 4, Chapter 1 of Division 4 of Title 1 of the Government Code.</p> <p>I further certify that there was no application other than from the claimant, nor any grant or payment received, for reimbursement of costs claimed herein, claimed costs are for a new program or increased level of services of an existing program; and claimed amounts do not include charter school costs, either directly or through a third party. All offsetting savings and reimbursements set forth in the parameters and guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.</p> <p>The amounts for this reimbursement is hereby claimed from the State for payment of actual costs set forth on the attached statements.</p> <p>I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.</p> <div style="display: flex; justify-content: space-between;"> <div>           Signature of Authorized Officer              Sandra L Meekins, Director-Business Services            Type or Print Name and Title of Authorized Signatory         </div> <div>           Date <u>2-16-10</u>            Telephone Number <u>1-951-352-6729 Ext 82002</u>            E-Mail Address : <u>smeekins@rusd.k12.ca.us</u> </div> </div>					
(38) Name of Agency Contact Person for Claim		Telephone Number	<u>1-951-352-6729 Ext. 82201</u>		
<u>Annette Alvarez</u>		E-mail Address	<u>aalvarez@rusd.k12.ca.us</u>		
Name of Consulting Firm/Claim Preparer		Telephone Number	_____		
		E-mail Address	_____		

Program <b>048</b>	MANDATED COSTS NOTIFICATION OF TRUANCY CLAIM SUMMARY		FORM <b>1</b>
(01) Claimant  RIVERSIDE UNIFIED SCHOOL DISTRICT		(2)  Fiscal Year  2008/2009	
Claim Statistics			
(03) Number of truant notifications			16,130
<b>Cost</b>			
(04) Unit Cost		(\$17.74 for fiscal year 2008=2009)	17.74
(05) Total Direct Costs		[Line (03) x line (04)]	286,146.20
<b>Cost Reduction</b>			
(06) Less: Offsetting Savings, if applicable			0
(07) Less: Other Reimbursements, if applicable			0
(08) Total Claimed Amount		[Line (05) - {(Line (06) + Line (07))}]	286,146.20

Revised 7/09

9-10

CLAIM FOR PAYMENT Pursuant to Government Code Section 17561 NOTIFICATION OF TRUANCY			For State Controller Use Only		Program <b>048</b>
S33120 RIVERSIDE UNIFIED SCHOOL DIST RIVERSIDE COUNTY 6050 INDUSTRIAL AVE. RIVERSIDE CA 92504			(19) Program Number 00048		
			(20) Date Filed ____/____/____		
			(21) LRS Input ____/____/____		
			Reimbursement Claim Data		
			(22) FORM-1, (03)	12,931	
(23) FORM-1, (04)	17.87				
(24) FORM-1, (06)	0				
(25) FORM-1, (07)	0				
	(3)	Type of Claim	(26)		
	(4)	(09) Reimbursement <input checked="checked" type="checkbox"/>	(27)		
	(5)	(10) Combined <input type="checkbox"/>	(28)		
		(11) Amended <input type="checkbox"/>	(29)		
Fiscal Year of Cost	(6)	(12) 2009-2010	(30)		
Total Claimed Amount	(7)	(13) 231,077.00	(31)		
Less: 10% Late Penalty, (refer to claim instructions)		(14) 0.00	(32)		
Less: Prior Claim Payment Received		(15)	(33)		
Net Claimed Amount		(16) 231,077.00	(34)		
Due from State	(8)	(17) 231,077.00	(35)		
Due to State		(18) 0	(36)		
<b>(37) CERTIFICATION OF CLAIM</b>					
<p>In accordance with the provisions of Government Code 17560 and 17561, I certify that I am the officer authorized by the school district or county office of education to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Article 4, Chapter 1 of Division 4 of Title 1 of the Government Code.</p> <p>I further certify that there was no application other than from the claimant, nor any grant or payment received, for reimbursement of costs claimed herein, claimed costs are for a new program or increased level of services of an existing program; and claimed amounts do not include charter school costs, either directly or through a third party. All offsetting savings and reimbursements set forth in the parameters and guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.</p> <p>The amounts for this reimbursement is hereby claimed from the State for payment of actual costs set forth on the attached statements.</p> <p>I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.</p>					
Signature of Authorized Officer 			Date <u>2-15-11</u>		
Sandra L Meekins, Director-Business Services Type or Print Name and Title of Authorized Signatory			Telephone Number <u>1-951-352-6729 Ext 82002</u> E-Mail Address : <u>smeekins@rusd.k12.ca.us</u>		
(38) Name of Agency Contact Person for Claim <u>Annette Alvarez</u>			Telephone Number <u>1-951-352-6729 Ext. 82201</u> E-mail Address <u>aalvarez@rusd.k12.ca.us</u>		
Name of Consulting Firm/Claim Preparer			Telephone Number _____ E-mail Address _____		
Form FAM-27 (Revised 10/10)					

Program <b>048</b>	MANDATED COSTS NOTIFICATION OF TRUANCY CLAIM SUMMARY		FORM <b>1</b>
(01) Claimant  RIVERSIDE UNIFIED SCHOOL DISTRICT		(2)  Fiscal Year  2009-2010	
Claim Statistics			
(03) Number of truant notifications			12,931
<b>Cost</b>			
(04) Unit Cost		(\$17.87 for fiscal year 2009-2010)	17.87
(05) Total Direct Costs  [Line (03) x line (04)]			231,076.97
<b>Cost Reduction</b>			
(06) Less: Offsetting Savings, if applicable			0
(07) Less: Other Reimbursements, if applicable			0
(08) Total Claimed Amount [Line (05) - {(Line (06) + Line (07))}]			231,076.97

Revised 2/11

**DECLARATION OF SERVICE BY EMAIL**

I, the undersigned, declare as follows:

I am a resident of the County of Solano 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 December 18, 2013, I served the:

**Incorrect Reduction Claim Filing; and  
Notice of Complete Filing and Schedule for Comments**

Incorrect Reduction Claim

*Notification of Truancy*, 13-904133-I-13

Education Code Sections 48260 and 48260.5

Statutes 1983, Chapter 498

Fiscal Years: 2007-2008, 2008-2009, and 2009-2010

Riverside Unified School District, Claimant

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

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on December 18, 2013 at Sacramento, California.



---

Heidi J. Palchik  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814  
(916) 323-3562

# COMMISSION ON STATE MANDATES

## Mailing List

**Last Updated:** 12/18/13

**Claim Number:** 13-904133-I-13

**Matter:** Notification of Truancy

**Claimant(s):** Riverside Unified School District

### 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, § 1181.2.)

**Socorro Aquino, State Controller's Office**

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

Phone: (916) 322-7522

SAquino@sco.ca.gov

**Marieta Delfin, State Controller's Office**

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

Phone: (916) 323-0706

mdelfin@sco.ca.gov

**Chris Ferguson, Department of Finance**

Education Systems Unit, 915 L Street, 7th Floor, 915 L Street, 7th Floor, Sacramento, CA 95814

Phone: (916) 445-3274

Chris.Ferguson@dof.ca.gov

**Michael Fine, Riverside Unified School District**

Business Services & Government Relations, 3380 Fourteenth Street, Riverside, CA 92501

Phone: (951) 778-7135

mfine@rusd.k12.ca.us

**Susan Geanacou, Department of Finance**

915 L Street, Suite 1280, Sacramento, CA 95814

Phone: (916) 445-3274

susan.geanacou@dof.ca.gov

**Ed Hanson, Department of Finance**

Education Systems Unit, 915 L Street, 7th Floor, 915 L Street, 7th Floor, Sacramento, CA 95814

Phone: (916) 445-0328  
ed.hanson@dof.ca.gov

**Jill Kanemasu**, *State Controller's Office*

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

Phone: (916) 322-9891  
jkanemasu@sco.ca.gov

**Jay Lal**, *State Controller's Office (B-08)*

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

Phone: (916) 324-0256  
JLal@sco.ca.gov

**Kathleen Lynch**, *Department of Finance (A-15)*

915 L Street, Suite 1280, 17th Floor, Sacramento, CA 95814

Phone: (916) 445-3274  
kathleen.lynch@dof.ca.gov

**Yazmin Meza**, *Department of Finance*

915 L Street, Sacramento, CA 95814

Phone: (916) 445-0328  
Yazmin.meza@dof.ca.gov

**Keith Nezaam**, *Department of Finance*

915 L Street, 8th Floor, Sacramento, CA 95814

Phone: (916) 445-8913  
Keith.Nezaam@dof.ca.gov

**Andy Nichols**, *Nichols Consulting*

1857 44th Street, Sacramento, CA 95819

Phone: (916) 455-3939  
andy@nichols-consulting.com

**Christian Osmena**, *Department of Finance*

915 L Street, Sacramento, CA 95814

Phone: (916) 445-0328  
christian.osmena@dof.ca.gov

**Keith Petersen**, *SixTen & Associates*

**Claimant Representative**

P.O. Box 340430, Sacramento, CA 95834-0430

Phone: (916) 419-7093  
kbsixten@aol.com

**Sandra Reynolds**, *Reynolds Consulting Group, Inc.*

P.O. Box 894059, Temecula, CA 92589

Phone: (951) 303-3034  
sandrareynolds\_30@msn.com

**Nicolas Schweizer**, *Department of Finance*

Education Systems Unit, 915 L Street, 7th Floor, 915 L Street, 7th Floor, Sacramento, CA 95814

Phone: (916) 445-0328  
nicolas.schweizer@dof.ca.gov

**David Scribner**, *Max8550*

2200 Sunrise Boulevard, Suite 240, Gold River, CA 95670

Phone: (916) 852-8970

[dscribner@max8550.com](mailto:dscribner@max8550.com)

**Jim Spano**, Chief, Mandated Cost Audits Bureau, *State Controller's Office*

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

Phone: (916) 323-5849

[jspano@sco.ca.gov](mailto:jspano@sco.ca.gov)

**Dennis Speciale**, *State Controller's Office*

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

Phone: (916) 324-0254

[DSpeciale@sco.ca.gov](mailto:DSpeciale@sco.ca.gov)





**JOHN CHIANG**  
California State Controller

October 3, 2014

**RECEIVED**  
October 03, 2014  
*Commission on  
State Mandates*

**LATE FILING**

Heather Halsey  
Executive Director  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814

Re: **Notice of Complete Filing**  
Incorrect Reduction Claim (IRC)  
*Notification of Truancy, 13-904133-I-13*  
Education Code Sections 48260 and 48260.5  
Statutes 1983, Chapter 498  
Fiscal Years: 2007-2008, 2008-2009, and 2009-2010  
Riverside Unified School District, Claimant

Dear Ms. Halsey:

The State Controller's Office is transmitting our response to the above-entitled IRC.

If you have any questions, please contact me by telephone at (916) 323-5849.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim L. Spano".

JIM L. SPANO, Chief  
Mandated Cost Audits Bureau  
Division of Audits

**RESPONSE BY THE STATE CONTROLLER'S OFFICE  
TO THE INCORRECT REDUCTION CLAIM (IRC) BY  
RIVERSIDE UNIFIED SCHOOL DISTRICT  
Notification of Truancy Program**

**Table of Contents**

**Description**

**SCO's Response to District's Comments**

Declaration (Affidavit of Bureau Chief) .....	Tab 1
State Controller's Office Analysis and Response .....	Tab 2
Commission on State Mandates' Parameters and Guidelines, Notification of Truancy Program – July 22, 1993. ....	Tab 3
Analysis of Statistical Sample Results and Calculation of Audit Adjustment Range.....	Tab 4
State Controller's Office Payment Offset and Adjustment Letter, FY 2007-08 – March 3, 2013 .....	Tab 5
State Controller's Office Adjustment Letter, FY 2008-09 – March 3, 2013.....	Tab 6
State Controller's Office Adjustment Letter, FY 2009-10 – March 3, 2013.....	Tab 7

Note: References to Exhibits relate to the district's IRC filed on November 15, 2013, as follows:

- Exhibit A – PDF page 26
- Exhibit B – PDF page 30
- Exhibit C – PDF page 36
- Exhibit D – PDF page 43
- Exhibit E – PDF page 230
- Exhibit F – PDF page 254
- Exhibit G – PDF page 268

## **Tab 1**

1 **OFFICE OF THE STATE CONTROLLER**

2 300 Capitol Mall, Suite 1850

3 Sacramento, CA 94250

4 Telephone No.: (916) 445-6854

5  
6 BEFORE THE

7 COMMISSION ON STATE MANDATES

8 STATE OF CALIFORNIA

9  
10 INCORRECT REDUCTION CLAIM ON:

11 *Notification of Truancy Program*

12 Chapter 498, Statutes of 1983; Chapter 1023,  
13 Statutes of 1994; Chapter 19, Statutes of 1995;  
14 and Chapter 69, Statutes of 2007

15 RIVERSIDE UNIFIED SCHOOL DISTRICT,  
Claimant

No.: CSM 13-904133-I-13

AFFIDAVIT OF BUREAU CHIEF

16 I, Jim L. Spano, make the following declarations:

- 17 1) I am an employee of the State Controller's Office and am over the age of 18 years.
- 18 2) I am currently employed as a Bureau Chief, and have been so since April 21, 2000.  
19 Before that, I was employed as an audit manager for two years and three months.
- 20 3) I am a California Certified Public Accountant (CPA).
- 21 4) I reviewed the work performed by the State Controller's Office (SCO) auditor.
- 22 5) Any attached copies of records are true copies of records, as provided by the Riverside  
23 Unified School District or retained at our place of business.
- 24 6) The records include claims for reimbursement, along with any attached supporting  
25 documentation, explanatory letters, or other documents relating to the above-entitled  
Incorrect Reduction Claim.

1 7) A field audit of the claims for fiscal year (FY) 2007-08, FY 2008-09, FY 2009-10  
2 commenced on June 20, 2011, and ended on February 22, 2013.

3 I do declare that the above declarations are made under penalty of perjury and are true and  
4 correct to the best of my knowledge, and that such knowledge is based on personal  
5 observation, information, or belief.

6 Date: March 4, 2014

7 OFFICE OF THE STATE CONTROLLER

8  
9 By: 

10 Jim L. Spano, Chief  
11 Mandated Cost Audits Bureau  
12 Division of Audits  
13 State Controller's Office  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

## **Tab 2**

**STATE CONTROLLER'S OFFICE ANALYSIS AND RESPONSE  
TO THE INCORRECT REDUCTION CLAIM BY  
RIVERSIDE UNIFIED SCHOOL DISTRICT  
For Fiscal Year (FY) 2007-08, FY 2008-09, and FY 2009-10**

**Notification of Truancy Program  
Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994;  
Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007**

**SUMMARY**

The following is the State Controller's Office's (SCO) response to the Incorrect Reduction Claim that the Riverside Unified School District filed on November 15, 2013. The SCO audited the district's claims for costs of the legislatively mandated Notification of Truancy Program for the period of July 1, 2007, through June 30, 2010. The SCO issued its final report on February 22, 2013 (**Exhibit E**).

The district submitted reimbursement claims totaling \$796,110 (\$803,110 less a \$10,000 penalty for filing a late claim)—\$278,887 for FY 2007-08 (\$287,887 less a \$10,000 penalty for filing a late claim), \$286,146 for FY 2008-09, and \$231,077 for FY 2009-10 (**Exhibit G**). Subsequently, the SCO performed an audit for the period of July 1, 2007, through June 30, 2010, and determined that \$111,552 is unallowable. The costs are unallowable because the district claimed unsupported, unallowable, and non-reimbursable initial truancy notifications. The district disagrees with the audit results for FY 2007-08, FY 2008-09, and FY 2009-10, as shown in Schedule 1 of our final audit report issued February 22, 2013 (**Exhibit E**). The following table summarizes the audit results:

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>
<u>July 1, 2007, through June 30, 2008</u>			
Number of initial truancy notifications	16,718	14,426	(2,292)
Uniform cost allowance	× \$17.28	× \$17.28	× \$17.28
Subtotal	\$ 288,887	\$ 249,280	\$ (39,607)
Noncompliant initial truancy notifications	—	(31,160)	(31,160)
Less late filing penalty	(10,000)	(10,000)	—
Total program costs <sup>1</sup>	<u>\$ 278,887</u>	208,120	<u>\$ (70,767)</u>
Less amount paid by the State <sup>2</sup>		(8)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 208,112</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Number of truancy notifications	16,130	14,243	(1,887)
Uniform cost allowance	× \$17.74	× \$17.74	× \$17.74
Total program costs <sup>1</sup>	<u>\$ 286,146</u>	252,670	<u>\$ (33,476)</u>
Less amount paid by the State <sup>2</sup>		(64,836)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 187,834</u>	

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>
<u>July 1, 2009, through June 30, 2010</u>			
Number of truancy notifications	12,931	12,522	(409)
Unit cost per initial notifications	× \$17.87	× \$17.87	× \$17.87
Total program costs	<u>\$ 231,077</u>	<u>\$ 223,768</u>	<u>\$ (7,309)</u>
Less amount paid by the State <sup>2</sup>		(45,387)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 178,381</u>	
<u>Summary: July 1, 2007, through June 30, 2010</u>			
Total costs	\$ 806,110	\$ 694,558	\$ (111,552)
Less late claim penalty	(10,000)	(10,000)	—
Total program costs	<u>\$ 796,110</u>	<u>684,558</u>	<u>\$ (111,552)</u>
Less amount paid by the State <sup>2</sup>		(110,231)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 574,327</u>	

<sup>1</sup> Calculation differences due to rounding.

<sup>2</sup> Payment information current as of February 10, 2014.

## **I. NOTIFICATION OF TRUANCY PROGRAM CRITERIA**

### **Parameters and Guidelines – July 22, 1993**

On August 27, 1987, the Commission on State Mandates (CSM) adopted the parameters and guidelines for Chapter 498, Statutes of 1983. The CSM amended the parameters and guidelines on July 22, 1993 (Tab 3).

Section I summarizes the mandated program as follows:

#### **I. SUMMARY OF MANDATE**

Chapter 498, Statutes of 1983 . . . requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution . . . .

Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district, and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

A truancy occurs when a student is absent from school without valid excuse more than three (3) days or is tardy in excess of thirty (30) minutes on each of more than three (3) days in one school year. . . .

A student shall be initially classified as truant upon the fourth unexcused absence, and the school must at that time perform the requirements mandated in Education Code Section 48260.5. . . .



Section V.A identifies the mandated program's scope as follows:

V. REIMBURSABLE COSTS

A. Scope of Mandate

The eligible claimant shall be reimbursed for only those costs incurred for planning the notification process, revising district procedures, the printing and distribution of notification forms, *and associated record keeping* [emphasis added].

Section V.B.2 specifies the ongoing reimbursable activity:

V. REIMBURSABLE COSTS

B. Reimbursable Activities

2. Notification process – On-going

Identifying the truant pupils to receive the notification, preparing and distributing by mail or other method the forms to parents/guardians, *and associated recordkeeping* [emphasis added].

Section V.C identifies the uniform cost allowance applicable to the mandated program:

V. REIMBURSABLE COSTS

C. Uniform Cost Allowance

Pursuant to Government Code section 17557, the Commission on State Mandates has adopted a uniform cost allowance . . . *The uniform cost allowance is based on the number of initial notifications of truancy distributed* [emphasis added]. . . .

Section VI specifies the following claim preparation requirements:

VI. CLAIM PREPARATION

Each claim for reimbursement . . . must be timely filed *and provide documentation in support of the reimbursement claimed for this mandated program* [emphasis added].

**Parameters and Guidelines – May 27, 2010**

On January 31, 2008, and May 27, 2010, the CSM amended the parameters and guidelines, effective July 1, 2006 (**Exhibits B and C**). In relevant part, the CSM amended the parameters and guidelines on January 31, 2008, "to modify the definition of truant and the required elements to be included in the initial truancy notifications to conform reimbursable activities to Statutes 1994, Chapter 1023, and Statutes 1995, Chapter 19. . . ." The CSM amended the parameters and guidelines on May 27, 2010, to clarify mandated program documentation requirements.

## **II. DISTRICT CLAIMED OVERSTATED, UNDERSTATED, AND UNALLOWABLE INITIAL TRUANCY NOTIFICATIONS**

### **Issue (Finding 1)**

The district does not dispute this adjustment.

## **III. DISTRICT CLAIMED NON-REIMBURSABLE INITIAL TRUANCY NOTIFICATIONS**

### **Issue (Finding 2)**

The district claimed non-reimbursable initial truancy notifications totaling \$68,410. The district disagrees with the audit methodology and the results derived therefrom.

#### **SCO Analysis:**

The district claimed initial truancy notifications for students who did not accumulate the required number of unexcused absences or tardiness occurrences to qualify as truant under the mandated program.

For each fiscal year, we selected a statistical sample of initial truancy notifications based on a 95% confidence level, a precision rate of +/-8%, and an expected error rate of 50%. We chose our statistical sample from the population of initial truancy notifications that the district documented. We used a statistical sample so that we could project the sample results to the population. The district accounts for elementary and secondary school attendance differently; therefore, we stratified the population into two groups and selected separate samples for each group.

The district claimed unallowable initial truancy notifications for students who accumulated fewer than three unexcused absences or tardiness occurrences during the fiscal year.

### **District's Response**

#### **THE ISSUE OF STATISTICAL SAMPLING AND EXTRAPOLATION**

Reimbursement for this mandate is based on the actual number of notifications distributed multiplied by a uniform cost allowance for reimbursement . . . The audit report states that this finding is based on a statistical sample of 736 truancy notifications (440 for daily attendance and 296 for period attendance. . .

#### **A. Legal Basis for Reimbursement Based on Statistical Sampling**

The essential legal issue for this finding is whether the Controller can adjust claims utilizing an extrapolation of findings from an audit sample. The propriety of a mandate audit adjustment based on the statistical sampling technique is a threshold issue in that if the methodology used is rejected, as it should be, the extrapolation is void and the audit findings can only pertain to documentation actually reviewed, that is, the 736 notifications examined for the criteria of whether there were a sufficient number of absences or tardies to justify the initial notification of truancy and the age of the student.

The audit report has cited no statutory or regulatory authority to allow the Controller to reduce claimed reimbursement based on extrapolation of a statistical sample. Instead, the audit report states that:

- "We do assert that the claimed costs were excessive." That conclusion is not responsive to the sampling issue presented. The conclusion is also unavailing since the Notification of Truancy mandate is reimbursed based on a unit-cost rate allowance which is determined by the Commission on State Mandates to be a reasonable representation of actual costs incurred by districts.
- "Government Code section 17561, subdivision (d)(2) (A)(I) states that the SCO may audit the records of any school district 'to verify the actual amount of mandated costs' and that Government Code Section 12410 required the Controller to "audit all claims against the state." The District concurs that the Controller has authority to audit mandate claims, but asserts that is must be done legally and logically. The District does not dispute the Controller's authority to audit claims for mandated costs and to reduce those costs that are excessive or unreasonable . . . However, Section 12410 . . . is not specific to the audit of mandate reimbursement claims. The only applicable audit standard for mandate reimbursement claims is found in Government Code Section 17561 (d)(2). The fact that Section 17561(d)(2) specifies its own audit standard (excessive or unreasonable) implies that the general Controller audit standard (correctness, legality, and sufficient provisions of law) does not control here. Therefore, the Controller may only reduce a mandate reimbursement claim if it specifically finds that the amounts claimed are unreasonable or excessive under Section 17561(d)(2). Further, the Controller has not asserted or demonstrated that, if Section 12410 was the applicable standard, the audit adjustments were made in accordance with this standard. The District's claim was correct, in that it reported the number of notices distributed. There is also no allegation in the audit report that the claim was in any way illegal . . . Thus, even if the standards of Section 12410 were applicable to mandate reimbursement audits, the Controller has failed to put forth any evidence that these standards are not met or even relevant. There is no indication that the Controller is *actually* relying on the audit standards set forth in Section 12410 for the adjustments to the District's reimbursement claims.
- "We conducted our audit according to generally accepted government auditing standards [GAGAS] (*Government Auditing Standards*, issued by the U.S. Government Accountability Office, July 2007) [GAO]." The audit report asserts that the "standards recognize statistical sampling as an acceptable method to provide sufficient, appropriate evidence" but does not cite specific GAO or GAGAS language in support of that assertion. The audit report does not explain how a statistical sample that provides "appropriate evidence" of the scope and reliability of source documentation is therefore a source of findings of actual cost or pervasive compliance with the mandate program requirements. Notwithstanding, the GAO auditing guide referenced specifically pertains to audits of federal funds and state mandate reimbursement does not utilize federal funds. Further, the GAO audit guide has not been adopted pursuant to any state agency rulemaking nor is it included as a standard in the parameters and guidelines, so claimants could not be on legal notice of its requirements, assuming its requirements were relevant to mandate audits, nor could the District have actual notice of the GAO guide since the Controller does not publish its audit standards. Adjust of the claimed costs based on an extrapolation from a statistical sample is utilizing a standard of general application without the benefit of compliance with the Administrative Procedure Act. Thus, the application of the method is prohibited by the Government Code.

### SCO's Comment

The district incorrectly states the statistical sample population size for period attendance. We selected and tested 148 period attendance initial truancy notifications for FY 2007-08 and FY 2008-09, and 147 period attendance initial truancy notifications for FY 2009-10, totaling 443 for the audit period. The district incorrectly states that the period attendance sampled population was 296.

### **Government Code Section 12410**

The district states that Government Code section 12410 is not applicable to mandated cost claims. We disagree. Government Code section 12410 is quite specific in stating, "The Controller shall audit *all claims* against the state and may audit the disbursement of *any* state money, for correctness, legality, and for sufficient provisions of law for payment [emphasis added]."

The district states:

Further, the Controller has not asserted or demonstrated that, if Section 12410 was the applicable standard, the audit adjustments were made in accordance with this standard. The District's claim was correct, in that it reported the number of notices distributed. . . .

The district believes that only one "standard" is applicable to mandated cost claims. We disagree. All cited statutory audit standards are relevant. Pursuant to Government Code section 12410, we concluded that the district's claims were neither correct nor legal. Correct is defined as "conforming to an approved or conventional standard."<sup>3</sup> Legal is defined as "conforming to or permitted by law or established rules."<sup>4</sup> The district submitted claims for non-reimbursable initial truancy notifications.

### **Statistical Sampling**

The district states, "The audit report has cited no statutory or regulatory authority to allow the Controller to reduce claimed reimbursement based on extrapolation of a statistical sample." We disagree. Government Code section 17561, subdivision (d)(2)(B), states, "The Controller may reduce any claim that the Controller determines is excessive or unreasonable." Excessive is defined as "exceeding what is usual, *proper, necessary*, [emphasis added] or normal."<sup>5</sup> The district's claims were improper because the district claimed non-reimbursable initial truancy notifications. The district states that it "does not dispute the Controller's authority to audit claims for mandated costs and to reduce those costs that are excessive or unreasonable."

The district also contests the applicability of generally accepted government auditing standards (GAGAS) (*Government Auditing Standards*, issued by the U.S. Government Accountability Office [GAO], July 2007). The district states, ". . . the GAO auditing guide referenced specifically pertains to audits of federal funds. . . ." The district failed to cite language from *Government Auditing Standards* that supports its assertion. *Government Auditing Standards*, section 1.03, "Purpose and Applicability of GAGAS," states:

The professional standards and guidance contained in this document . . . provide a framework for conducting high quality government audits and attestation engagements with competence, integrity, objectivity, and independence. *These standards are for use by auditors of government entities* [emphasis added]. . . .

In addition, the district contests the appropriateness of statistical sampling. The district states that the

audit report does not cite specific GAGAS language that recognizes statistical sampling as an acceptable method to provide sufficient, appropriate evidence. *Government Auditing Standards*, section 7.55, states "Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions." Section 7.56 states, "Appropriateness is the measure of the quality of evidence. . . ." In further discussing appropriateness, section 7.63 states, "When a representative sample is needed, the use of statistical sampling approaches generally results in stronger evidence. . . ."

The district states, ". . . the GAO audit guide has not been adopted pursuant to any state agency rulemaking . . . so the claimants could not be on legal notice of its requirements. . . ." *Government Auditing Standards* provides a framework to conduct audits. Its "requirements" are applicable to auditors, not claimants; therefore, state agency rulemaking is irrelevant. Similarly, it has no bearing on how claimants perform mandate-related activities or submit reimbursement claims.

<sup>3</sup> Merriam-Webster's Collegiate Dictionary, Tenth Edition © 2001.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

### District's Response

#### B. Utility of the Sampling Methodology

A statistically valid sample methodology is a recognized audit tool for some purposes. See Exhibit "F" ("Statistical Sampling Revisited"). The sampling process was misapplied here. The purpose of sampling is to determine the results of transactions or whether procedures were properly applied to the reported transactions . . . What the Controller purports to be testing is whether the notices are reimbursable based on the number of prerequisite absences or content of the notice. . . .

Instead, the auditor was actually conducting a review for documentation rather than mandate compliance. Testing for procedural compliance usually involves establishing tolerance parameters, but in the case of this audit, the tolerance factor was zero, that is, based on the auditor's perception of adequate documentation, which is a separate issue. Testing to detect the rate of error within tolerances is the purpose of sampling, but it is not a tool to assign an exact dollar amount to the amount of the error, which the Controller has inappropriately done so here. . . .

### SCO's Comment

The district states that the sampling process was "misapplied." The district includes an exhibit but makes no specific reference to that exhibit to support its position. We disagree with the district's statement. We properly used estimation sampling to establish the frequency of occurrence of non-reimbursable initial truancy notifications. We conclude that the sampling methodology is appropriate based on the following:

*Estimation sampling* is the most widely used approach to audit tests. It provides the answer to the question of how many or how much. When this method is used, a random sample of a special size is obtained, and either the number of some specified type of item or event (such as errors) appearing in the sample is counted and the proportion of these items determined. . . .

If the sample is used as a means of establishing the frequency of occurrence of some kind of event or type of item, the process is referred to as *attributes sampling*. The result of such a sampling operation is commonly expressed as the *percent* of the type of event specified.

In statistical terminology, any measurement obtained by counting the number of items falling in a given category is called an *attribute measurement* . . . Examples of attribute categories include errors versus nonerrors. . . .<sup>6</sup>

The district continues by stating:

What the Controller purports to be testing is whether the notices are reimbursable based on the number of prerequisite absences or content of the notice. . . .

Instead, the auditor was actually conducting a review for documentation rather than mandate compliance.

We agree that we tested initial truancy notifications to determine if those notifications are reimbursable based on the number of unexcused absences or tardiness occurrences specified in the parameters and guidelines. We did not use statistical samples to test "content of the notice." The district's reference to "conducting a review for documentation" is unclear. We properly examined the district's supporting documentation to identify the number of unexcused absences or tardiness occurrences that occurred while the student was between ages 6 and 18, thereby classifying the initial truancy notification as reimbursable or non-reimbursable.

The district states, "Testing for procedural compliance usually involves establishing tolerance parameters, but in the case of this audit, the tolerance factor was zero, that is, based on the auditor's perception of adequate documentation. . . ." We disagree. A "tolerance factor" is not applicable, because we conducted estimation sampling as noted above. For each initial truancy notification, the notification is either an "error" or a "non-error," depending on the number of valid unexcused absences or tardiness occurrences that support the notification. There was no "auditor's perception of adequate documentation;" the district's records either did or did not identify the minimum number of unexcused absences or tardiness occurrences.

<sup>6</sup> Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, Third Edition, Prentice Hall, New Jersey, 1984, p.13-14.

### District's Response

#### C. Sample Risk

The ultimate risk from extrapolating findings from a sample is that the conclusions obtained from the sample may not be representative of the universe. That is, the errors perceived from the sample do not occur at the same rate in the universe. That is what has occurred in this audit. For example, kindergarten students present in the sample are more likely to be excluded because of the under-age issue, which makes these samples nonrepresentative of the universe. Also, if any of the notices excluded for being under-age or over-age are for students who are special education students, these samples would also not be representative of the universe since the possibility of a special education student being under-age or over-age is greater than the entire student body. . . .

### SCO's Comment

The district states:

The ultimate risk from extrapolating findings from a sample is that . . . the errors perceived from the sample do not occur at the same rate in the universe. *That is what has occurred in this audit* [emphasis added].

Title 5, *California Code of Regulations*, section 1185, subdivision (f)(3), states:

If the narrative describing the alleged incorrect reduction(s) involves more than discussion of statutes or regulations or legal argument and *utilizes assertions or representations of fact* [emphasis added], such assertions or representations shall be supported by testimonial or documentary evidence and shall be submitted with the claim.

The district provided no documentary evidence to support its assertion.

The district alleges that the samples are non-representative of the population because kindergarten students and special education students are more likely to be "excluded for being under-age or over-age." The fact that a particular student's initial truancy notification might more likely be identified as non-reimbursable is irrelevant to the composition of the audit sample itself. It has no bearing on evaluating whether the sample selection is representative of the population. To that point, Arkin states:

Since the [statistical] sample is objective and unbiased, it is not subject to questions that might be raised relative to a judgment sample. Certainly a complaint that the auditor had looked only at the worst items and therefore biased the results would have no standing. This results from the fact that an important feature of this method of sampling is that all entries or documents have an equal opportunity for inclusion in the sample.<sup>7</sup>

<sup>7</sup> Ibid, p. 9.

#### District's Response

##### D. Sample Error

	2007-08	2008-09	2009-10	Total
<u>Elementary Schools</u>				
Audited notifications claimed	6,724	6,996	5,995	19,715
Total notices in entire sample	147	147	146	440
Percentage of the sample to total	2.19%	2.10%	2.44%	2.23%
<u>Audit Results:</u>				
Alleged "noncompliant" notices	28	25	9	62
Percentage "noncompliant"	19.05%	17.01%	6.16%	14.09%
<u>Secondary Schools</u>				
Audited notifications claimed *	9,496	8,983		18,479
Total notices in entire sample	148	148		296
Percentage of the sample to total	1.56%	1.65%		1.60%
<u>Audit Results:</u>				
Alleged "noncompliant" notices	8	9		17
Percentage "noncompliant"	5.41%	6.08%		5.74%

\* Net of unsupported trancies disallowed in Finding 1.

In addition to the qualitative concerns discussed, quantitative extrapolation of the sample to the universe depends on a statistically valid sample methodology. Extrapolation does not ascertain actual cost. It ascertains probable costs within an interval. The sampling technique used by the Controller is quantitatively non-representative. For the three fiscal years, the Controller determined that there were 38,194 (19,715 and 18,479) notices in the distributed notices universe. The total sample size for all three years was 736 (440 and 296) which is 1.93% of the universe. The stated precision rate was plus or minus 8%, even though the sample size is essentially identical for all three fiscal years (either 146, 147, or 148), and even though the audited number of notices claimed for daily accounting (elementary schools) in FY 2008-09 (6,996) is 17% larger than the size of FY 2009-10 (5,995). The expected error rate is stated to be 50%, which means the total amount adjusted of \$68,410 is really just a number exactly between \$34,205 (50%) and \$102,615 (150%). An interval of possible outcomes cannot be used as a finding of absolute actual cost.

The Controller does not assert that the unit cost allowance is excessive or unreasonable, which is the only mandated cost audit standard in statute (Government Code Section 17561(d)(2)). The cost to be reimbursed by the state for each notice is stipulated by the parameters and guidelines. It would therefore appear that the entire findings are based upon the wrong standard for review. If the Controller wishes to enforce other audit standards for mandated cost reimbursement, the Controller should comply with the Administrative Procedure Act.

#### SCO's Comment

The district, again, incorrectly identifies the total sample size for the audit period, and the calculations derived therefrom are also inaccurate. The district did not identify the FY 2009-10 "Secondary Schools" statistical sample, i.e. period attendance population. We selected, and tested, 147 period attendance initial truancy notifications in FY 2009-10. Our audit found no instances of non-compliance from the FY 2009-10 period attendance testing.

The district states that the sampling technique is "quantitatively non-representative." We disagree. It appears that the district reached this conclusion because the sample sizes were essentially consistent while the applicable population size varied. Basic statistical sampling principles dismiss the district's contention. To that point, Arkin states:

It is apparent that it is the absolute size of the sample that is of primary consideration and *not* its relative size.<sup>8</sup>

Arkin also states that when the sample constitutes an appreciable portion of the population (more than 1%), the attributes sampling sample size is calculated as follows:<sup>9</sup>

$$n = \frac{p(1 - p)}{(SE/t)^2 + p(1 - p)/N}$$

Where:

n = sample size

p = percent of occurrence in population (expected error rate)

SE = desired sample precision

t = confidence level factor (distance from arithmetic mean in terms of standard deviation)

N = population size

Our report states that we calculated the sample size based on a 95% confidence level, which results in a confidence level factor of 1.96.<sup>10</sup>



The district states, "The expected error rate is stated to be 50%, which means the total amount adjusted of \$68,410 is really just a number exactly between \$34,205 (50%) and \$102,615 (150%)." The district's conclusion is erroneous. The expected error rate is used to calculate the appropriate sample size. To that point, Arkin states:

In the event that the auditor has no idea whatsoever of what to expect as the maximum rate of occurrence or does not care to make an estimate, he may use the table headed "Rate of Occurrence 50%" [an expected error rate of 50%]. In this case he will be supplied with the most conservative possible sample size estimate and will in no case find he has a poorer sample precision than desired. . . .<sup>11</sup>

The district has identified an incorrect range for the audit adjustment. Based on the sampling parameters identified in the report and the individual sample results, our analysis shows that the audit adjustment range is \$37,420 to \$99,396 (Tab 4). While a statistical sample evaluation identifies a range for the population's true error rate, the point estimate provides the best, and thus *reasonable*, single estimate of the population's error rate. The audit report identifies a \$68,410 audit adjustment, which is a cumulative total of the unallowable costs based on point estimates from each audit sample's results.

As the district states in multiple instances, Government Code section 17561, subdivision (d)(2)(B), specifies that the SCO may reduce any claim that it determines is excessive or unreasonable. The SCO conducted appropriate statistical samples that identified a *reasonable* estimate of the non-reimbursable initial truancy notifications, thus properly reducing the claims for the *unreasonable* claimed costs. Therefore, the Administrative Procedures Act is not applicable.

---

<sup>8</sup> Ibid, p. 90.

<sup>9</sup> Ibid, p. 85.

<sup>10</sup> Ibid, p. 56.

<sup>11</sup> Ibid, p. 89.

### District's Response

#### THE ISSUES OF COMPLIANCE WITH THE MANDATE

Since the statistical sampling performed by the auditor fails for legal, qualitative, and quantitative reasons, the remaining audit findings are limited to the 736 notices actually investigated. The Controller cannot disallow costs for noncompliance for notices which were never audited.

The audit report disallows 79 (62+17) of the 736 notifications evaluated for two reasons:

<u>DISALLOWANCE REASON</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Total</u>
<u>Daily Attendance</u>				
Underage (less than 6 years)	22	20	8	50
Less than 3 Absences	<u>6</u>	<u>5</u>	<u>1</u>	<u>12</u>
Total Disallowed	28	25	9	62
Sample Size	147	147	146	440
Percentage Disallowance	19.05%	17.01%	6.16%	14.09%
<u>Period Attendance</u>				
Overage (18 years plus)	8	9		17
Less than 3 Absences	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Disallowed	8	9	-	17
Sample Size	148	148		296
Percentage Disallowance	5.41%	6.08%		5.74%

#### SCO's Comment

The district, again, incorrectly identifies the total sample size for the audit period, and the calculations derived therefrom are also inaccurate. The district did not identify the FY 2009-10 "Period Attendance" statistical sample. We selected, and tested, 147 period attendance initial truancy notifications in FY 2009-10. Our audit found no instances of non-compliance from the FY 2009-10 period attendance testing.

#### District's Response

##### F. Age of Student

The audit report disallows 50 notices in the audit sample for the elementary school (daily attendance accounting) for students that were less than 6 years of age and disallows 17 notices in the audit sample for the secondary schools (period attendance accounting) for students that were older than eighteen years of age, citing the compulsory attendance law, Education Code Section 48200 [footnote excluded]. Section 48200 and Section 48400 [footnote excluded] establish the legal *requirement* for attendance for persons of the ages 6 through 18 years of age, and is an offense enforceable against parents who fail to send their children to school. However, younger persons have the statutory entitlement to attend kindergarten pursuant to Section 48000 [footnote excluded], and first-grade pursuant to Section 48010 [footnote excluded] and Section 48011 [footnote excluded], that cannot be denied by a school district. In addition, special education students are statutorily entitled to educational services from ages 3 to 22 years pursuant to Section 56026 [footnote excluded].

The District is required by Section 46000 [footnote excluded] to record and keep attendance and report absences of *all students* according to the regulations of the State Board of Education for purposes of apportionment and general compliance with the compulsory education law (Title 5, CCR, Section 400 [footnote excluded], et seq.). The initial notification of truancy is a product of the attendance accounting process and promotes compliance of the compulsory education law and *every pupil's* duty to attend school regularly (Title 5, CCR, Section 300 [footnote excluded]).

### SCO's Comment

The district states that the audit report disallowed 50 notices for elementary school students that were less than six years of age and disallowed 17 notices for secondary school students that were older than eighteen years of age. The statement is incorrect. The audit report identified 50 unallowable elementary school initial truancy notifications and 17 secondary school initial truancy notifications because those students did not accumulate the required number of unexcused absences or tardiness occurrences while between ages 6 and 18.

The district confuses students' statutory *requirement* to attend school between ages 6 and 18 with students' *entitlement* to attend outside of that age range. Education Code section 48260, subdivision (a), as amended in 1994 states:

Any pupil *subject to compulsory full-time education or to compulsory continuation education* [emphasis added] who is absent from school without valid excuse three full days in one school year or tardy or absent for more than any 30-minute period during the schoolday [sic] without a valid excuse on three occasions in one school year, or any combination thereof, is a truant. . . .

Education Code 48200 states:

Each person *between the ages of 6 and 18* [emphasis added] not exempted . . . is subject to compulsory full-time education.

Student absences that occur before the student's 6<sup>th</sup> birthday or after the student's 18<sup>th</sup> birthday are irrelevant when determining whether a student is a truant.

## **IV. DISTRICT CLAIMED NONCOMPLIANT INITIAL TRUANCY NOTIFICATIONS**

### **Issue (Finding 3)**

The district does not dispute this adjustment.

## **V. AMOUNT PAID BY THE STATE**

### **Issue**

For each fiscal year, the audit report identifies the amount previously paid by the State. The district requested that the SCO support the amount paid by the State.

### **SCO Analysis:**

At the time that the SCO issued the final audit report, the State had paid the district \$8 for FY 2007-08, \$64,836 for FY 2008-09, and \$45,387 for FY 2009-10. This payment information is current of February 10, 2014. The amounts paid as of February 10, 2014, include cash payments and outstanding account receivables applied.

### District's Response

This issue was not an audit finding. The amount of payments received from the state is an integral part of the reimbursement calculation. The Controller changed some of the claimed payment amounts received without a finding in the audit report.

Amount Paid by the State	Fiscal Year of Claim		
	2007-08	2008-09	2009-10
As Claimed	\$ -	\$ -	\$ -
Audit Report	\$ 8	\$ 64,836	\$ 45,387

The propriety of these adjustments cannot be determined until the Controller supports the reason for each change.

### SCO's Comment

The final audit report correctly identified the amounts paid by the State as of the report issuance date. Audit findings address issues of noncompliance with mandated program requirements. The State payments are not "a finding in the audit report" because they are not relevant to noncompliance issues.

The following table identifies the actions and dates relevant to the district's claims:

<u>Action</u>	<u>Amount</u>	<u>Date</u>	<u>Reference</u>
<b><u>FY 2007-08</u></b>			
District files FY 2007-08 claim	\$ 244,101	February 16, 2010	
SCO payment on FY 2007-08 claim:			
Payment offset from Notification of Truancy Program, FY 2003-04	(8)	June 14, 2010	Tab 5
Net paid per audit report <sup>1</sup>	\$ (8)		
<b><u>FY 2008-09</u></b>			
District files FY 2008-09 claim	\$ 286,146	February 16, 2010	
SCO cash payment	(58,746)	December 6, 2010	Tab 6
SCO cash payment	(6,090)	January 25, 2011	Tab 6
Net paid per audit report <sup>1</sup>	\$ (64,836)		
<b><u>FY 2009-10</u></b>			
District files FY 2009-10 claim	\$ 231,077	February 21, 2011	
SCO cash payment	(45,387)	September 27, 2011	Tab 7
Net paid per audit report <sup>1</sup>	\$ (45,387)		

<sup>1</sup> Payments current as of February 10, 2014

The district was paid \$8 for FY 2007-08, \$64,836 for FY 2008-09, and \$45,387 for FY 2009-10 claims. The payments consist of the following:

- For the FY 2007-08 claim, the district received a payment offset of \$8 from a previous payment made on its FY 2003-04 Notification of Truancy Program claim (Tab 5).

- For the FY 2008-09 claim, the district received two separate cash payments totaling \$58,746 and \$6,090 (Tab 6).
- For the FY 2009-10 claim, the district received a cash payment of \$45,387 (Tab 7).

The district did not contest the payment amounts in its January 18, 2013 response to our draft audit report (Exhibit E).

Title 2, *California Code of Regulations*, Section 1185, allows the district to file an incorrect reduction claim "[t]o obtain a determination that the Office of the State Controller incorrectly reduced a reimbursement claim." The State payment information has no relevance to reducing a reimbursement claim. The district is misusing the incorrect reduction claim process to perform its internal revenue accounting. Neither the CSM nor the SCO is responsible for the district's proper accounting of its current mandated cost program revenues.

## VI. CONCLUSION

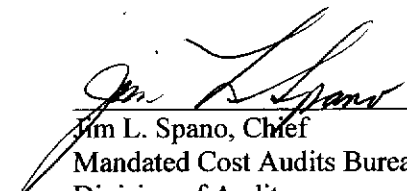
The State Controller's Office audited Riverside Unified School District's claims for costs of the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007) for the period of July 1, 2007, through June 30, 2010. The district claimed unallowable costs totaling \$111,231. The costs are unallowable because the district claimed unsupported, non-reimbursable, and noncompliant initial truancy notifications.

In conclusion, the CSM should find that: (1) the SCO correctly reduced the district's FY 2007-08 claim by \$70,767; (2) the SCO correctly reduced the district's FY 2008-09 claim by \$33,476; and (3) the SCO correctly reduced the district's FY 2009-10 claim by \$7,309.

## VII. CERTIFICATION

I hereby certify by my signature below that the statements made in this document are true and correct of my own knowledge, or, as to all other matters, I believe them to be true and correct based upon information and belief.

Executed on March 4, 2014, at Sacramento, California, by:

  
 Jim L. Spano, Chief  
 Mandated Cost Audits Bureau  
 Division of Audits  
 State Controller's Office

### **Tab 3**

G:\PG\NOT1.PG  
Adopted: 8/27/87  
Amended: 7/28/88  
Amended: 7/22/93

PARAMETERS AND GUIDELINES  
Chapter 498, Statutes of 1983  
Education Code Section 48260.5  
Notification of Truancy

I. SUMMARY OF MANDATE

Chapter 498, Statutes of 1983, added Education Code Section 48260.5 which requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with section 48290) of Chapter 2 of Part 27.

Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district, and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

A truancy occurs when a student is absent from school without valid excuse more than three (3) days or is tardy in excess of thirty (30) minutes on each of more than three (3) days in one school year. (Definition from Education Code Section 48260.)

A student shall be initially classified as truant upon the fourth unexcused absence, and the school must at that time perform the requirements mandated in Education Code Section 48260.5 as enacted by Chapter 498, Statutes of 1983.

II. BOARD OF CONTROL DECISION

On November 29, 1984, the State Board of Control determined that Education Code Section 48260.5, as added by Chapter 498, Statutes of 1983, constitutes a state mandated program because it requires an increased level of service by requiring specified notifications be sent to the parents or guardians of pupils upon initial classification of truancy.

### III. ELIGIBLE CLAIMANTS

The claimants are all school districts and county offices of education of the state of California, except a community college district, as defined by Government Code Section 17519 (formerly Revenue and Taxation Code 2208.5), that incur increased costs as a result of implementing the program activities of Education Code Section 48260.5, Chapter 498, Statutes of 1983.

### IV. PERIOD OF REIMBURSEMENT

Chapter 498, Statutes of 1983, became effective July 28, 1983. Section 17557 of the Government Code provides that a test claim must be submitted on or before December 31 following a given fiscal year to establish eligibility for that fiscal year. The test claim for Education Code Section 48260.5, Chapter 498, Statutes of 1983, was initially filed on August 25, 1984, therefore the reimbursable costs to the school districts are all such permitted costs incurred on or after July 28, 1983.

### V. REIMBURSABLE COSTS

#### A. Scope of Mandate

The eligible claimant shall be reimbursed for only those costs incurred for planning the notification process, revising district procedures, the printing and distribution of notification forms, and associated record keeping.

#### B. Reimbursable Activities

For each eligible school district the direct and indirect costs of labor, supplies, and services incurred for the following mandated program activities are reimbursable:

##### 1. Planning and Preparation -- One-time

Planning the method of implementation, revising school district policies, and designing and printing the forms.

##### 2. Notification process -- On-going

Identifying the truant pupils to receive the notification, preparing and distributing by mail or other method the forms to parents/guardians, and associated recordkeeping.



### C. Uniform Cost Allowance

Pursuant to Government Code section 17557, the Commission on State Mandates has adopted a uniform cost allowance for reimbursement in lieu of payment of total actual costs incurred. The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983.

For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator.

### D. Unique Costs

School districts incurring unique costs within the scope of the reimbursable mandated activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement. Pursuant to Section 1185.3, Title 2, California Code of Regulations, such requests must be made by November 30 immediately following the fiscal year of the reimbursement claim in which reimbursement for the costs is requested.

## VI. CLAIM PREPARATION

Each claim for reimbursement pursuant to Education Code Section 48260.5, Chapter 498, Statutes of 1983, must be timely filed and provide documentation in support of the reimbursement claimed for this mandated program.

### A. Uniform Cost Allowance Reimbursement

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial notification to the parent or guardian.

### B. Recognized Unique Costs

As of fiscal year 1992-93, the Commission has not identified any circumstances which would cause a school district to incur additional costs to implement this mandate which have not already been incorporated in the uniform cost allowance.

If and when the Commission recognizes any unique circumstances which can cause the school district to incur additional reasonable costs to implement this mandated

program, these unique implementation costs will be reimbursed for specified fiscal years in addition to the uniform cost allowance.

School districts which incur these recognized unique costs will be required to support those actual costs in the following manner:

1. Narrative Statement of Unique Costs Incurred

Provide a detailed written explanation of the costs associated with the unique circumstances recognized by the Commission.

2. Employee Salaries and Benefits

Identify the employee(s) and their job classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The staff time claimed must be supported by source documentation, such as time reports, however, the average number of hours devoted to each function may be claimed if supported by a documented time study.

3. Services and Supplies

Only expenditures which can be identified as a direct cost as a result of the mandated program can be claimed. List cost of materials which have been consumed or expended specifically for the purposes of this mandated program.

4. Allowable Overhead Costs

School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education. County offices of education must use the J-73A (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the State Department of Education.

VII. SUPPORTING DATA

For auditing purposes, documents must be kept on file for a period of 3 years from the date of final payment by the State Controller, unless otherwise specified by statute and be made available at the request of the State Controller or his agent.

A. Uniform Allowance Reimbursement

Documentation which indicates the total number of initial notifications of truancy distributed.

B. Reimbursement of Unique Costs

In addition to maintaining the same documentation as required for uniform cost allowance reimbursement, all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

VII. OFFSETTING SAVINGS AND OTHER REIMBURSEMENT

Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the uniform cost allowance and actual cost reimbursement for unique circumstances claimed. In addition, reimbursement for this mandated program received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

VIII. REQUIRED CERTIFICATION

An authorized representative of the claimant will be required to provide a certification of claim, as specified in the State Controller's claiming instructions, for those costs mandated by the state contained herein.

## **Tab 4**

**RIVERSIDE UNIFIED SCHOOL DISTRICT  
NOTIFICATION OF TRUANCY PROGRAM  
JULY 1, 2007, THROUGH JUNE 30, 2010**

**ANALYSIS OF STATISTICAL SAMPLE RESULTS**

	Fiscal Year		
	2007-08	2008-09	2009-10
Non-reimbursable initial truancy notifications (A):			
Elementary Schools	28	25	9
Secondary Schools	8	9	-
Sample size (B):			
Elementary Schools	147	147	146
Secondary Schools	148	148	147
Error rate ((C) = (A) ÷ (B)):			
Elementary Schools	19.05%	17.01%	6.16%
Secondary Schools	5.41%	6.08%	0.00%
Population (D):			
Elementary Schools	6,724	6,996	5,995
Secondary Schools	9,496	8,983	6,897
Point estimate ((E) = (C) ÷ (D)):			
Elementary Schools	1,281	1,190	369
Secondary Schools	514	546	-
Confidence level factor (F) (95% confidence level)	1.96	1.96	1.96
Universe standard error (G): <sup>1</sup>			
Elementary Schools	216	215	118
Secondary Schools	176	176	-
Upper limit (H) = (E) + ((F) x (G)):			
Elementary Schools (overstated)/understated	(1,704)	(1,611)	(600)
Secondary Schools (overstated)/understated	(859)	(891)	-
Lower limit (J) = (E) - ((F) x (G)):			
Elementary Schools (overstated)/understated	(858)	(769)	(138)
Secondary Schools (overstated)/understated	(169)	(201)	-

Source for formulas: <http://www.slideshare.net/mblakley/sampling-2599829>

$$^1 (G) = (D) \times \sqrt{\frac{(C) \times (1 - C)}{((B)-1) \times (1 - ((B) \div (D)))}}$$

**RIVERSIDE UNIFIED SCHOOL DISTRICT  
NOTIFICATION OF TRUANCY PROGRAM  
JULY 1, 2007, THROUGH JUNE 30, 2010**

**CALCULATION OF AUDIT ADJUSTMENT RANGE**

	Fiscal Year			
	2007-08	2008-09	2009-10	Total
<u>Elementary Schools</u>				
Number of unallowable initial truancy notifications - upper limit (H)	(1,704)	(1,611)	(600)	
Uniform cost allowance	x <u>\$17.28</u>	x <u>\$17.74</u>	x <u>\$17.87</u>	
Subtotal	<u>\$ (29,445)</u>	<u>\$ (28,579)</u>	<u>\$ (10,722)</u>	\$ (68,746)
<u>Secondary schools</u>				
Number of unallowable initial truancy notifications - upper limit (H)	(859)	(891)	0	
Uniform cost allowance	x <u>\$17.28</u>	x <u>\$17.74</u>	x <u>\$17.87</u>	
Subtotal	<u>\$ (14,844)</u>	<u>\$ (15,806)</u>	<u>\$ -</u>	(30,650)
Audit adjustment, upper limit	<u>\$ (44,289)</u>	<u>\$ (44,385)</u>	<u>\$ (10,722)</u>	<u>\$ (99,396)</u>
<u>Elementary Schools</u>				
Number of unallowable initial truancy notifications - lower limit (J)	(858)	(769)	(138)	
Uniform cost allowance	x <u>\$17.28</u>	x <u>\$17.74</u>	x <u>\$17.87</u>	
Subtotal	<u>\$ (14,826)</u>	<u>\$ (13,642)</u>	<u>\$ (2,466)</u>	\$ (30,934)
<u>Secondary schools</u>				
Number of unallowable initial truancy notifications - lower limit (J)	(169)	(201)	0	
Uniform cost allowance	x <u>\$17.28</u>	x <u>\$17.74</u>	x <u>\$17.87</u>	
Subtotal	<u>\$ (2,920)</u>	<u>\$ (3,566)</u>	<u>\$ -</u>	(6,486)
Audit adjustment, lower limit	<u>\$ (17,746)</u>	<u>\$ (17,208)</u>	<u>\$ (2,466)</u>	<u>\$ (37,420)</u>

## **Tab 5**

S33120  
00048  
2013/03/03

MARCH 3, 2013  
BOARD OF TRUSTEES  
RIVERSIDE UNIFIED SCHOOL DIST  
RIVERSIDE COUNTY  
6050 INDUSTRIAL AVENUE  
RIVERSIDE CA 92504

DEAR CLAIMANT:

RE: NOTICE OF TRUANCY : 498/83-S

WE HAVE REVIEWED YOUR 2007/2008 FISCAL YEAR REIMBURSEMENT CLAIM FOR  
THE MANDATED COST PROGRAM REFERENCED ABOVE. THE RESULTS OF OUR  
REVIEW ARE AS FOLLOWS:

AMOUNT CLAIMED		288,887.00
TOTAL ADJUSTMENTS (DETAILS BELOW)	-	80,767.00
TOTAL PRIOR PAYMENTS (DETAILS BELOW)		-8.00
		-----
AMOUNT DUE CLAIMANT	\$	208,112.00
		=====

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT TIN BUI

AT (916) 323-8137 OR IN WRITING AT THE STATE CONTROLLER'S OFFICE,  
DIVISION OF ACCOUNTING AND REPORTING, P.O. BOX 942850, SACRAMENTO,  
CA 94250-5875. DUE TO INSUFFICIENT APPROPRIATION, THE BALANCE DUE  
WILL BE FORTHCOMING WHEN ADDITIONAL FUNDS ARE MADE AVAILABLE.

ADJUSTMENT TO CLAIM:

LATE CLAIM PENALTY	-	10,000.00	
FIELD AUDIT FINDINGS	-	70,767.00	
TOTAL ADJUSTMENTS	-		80,767.00
PRIOR PAYMENTS:			
SCHEDULE NO. MA94424A			
PAID 06-14-2010		-8.00	
TOTAL PRIOR PAYMENTS			-8.00



CONTROLLER OF CALIFORNIA

S33120

P.O. BOX 942850, SACRAMENTO, CALIFORNIA 94250

THIS NOTICE IS FOR INFORMATION PURPOSE ONLY.

NO WARRANT WILL BE MAILED.

THE NET PAYMENT AMOUNT WAS ZERO.

BOARD OF TRUSTEES

\*\*\*\*\*.00

RIVERSIDE UNIFIED SCHOOL DIST

RIVERSIDE COUNTY

6050 INDUSTRIAL AVENUE

RIVERSIDE CA 92504

PAYEE: TREASURER, RIVERSIDE UNIFIED SCHOOL DIST

FUND NAME: GENERAL FUND

PGM NBR: 00048

ISSUE DATE: 06/14/2010

CLAIM SCHEDULE NBR: MA94424A

REIMBURSEMENT OF STATE MANDATED COSTS

ANY QUESTIONS PLS CONTACT ELLEN SOLIS (916) 323-0698

ACL : 498/83

PROG : NOTICE OF TRUANCY CH 498/83

2007/2008 ACTUAL PAYMENT

CLAIMED AMT: 288,887.00

TOTAL ADJUSTMENTS: (SEE BELOW)

10,000.00

TOTAL APPROVED CLAIMED AMT:

278,887.00

LESS PRIOR PAYMENTS:

.00

PRORATA PERCENT:

.005663

PRORATA BALANCE DUE:

278,879.00-

APPROVED PAYMENT AMOUNT:

8.00

PAYMENT OFFSETS (ACL NBR, NAME, FY, AMT.):

498/83

NOTICE OF TRUANCY CH 498 03/04

8-

NET PAYMENT AMOUNT:

.00

ADJUSTMENTS ITEMIZED:

=====

LATE CLAIM PENALTY

10,000.00-

## **Tab 6**

1

S33120  
00048  
2013/03/03

MARCH 3, 2013  
BOARD OF TRUSTEES  
RIVERSIDE UNIFIED SCHOOL DIST  
RIVERSIDE COUNTY  
6050 INDUSTRIAL AVENUE  
RIVERSIDE CA 92504

DEAR CLAIMANT:

RE: NOTICE OF TRUANCY : 498/83-S

WE HAVE REVIEWED YOUR 2008/2009 FISCAL YEAR REIMBURSEMENT CLAIM FOR  
THE MANDATED COST PROGRAM REFERENCED ABOVE. THE RESULTS OF OUR  
REVIEW ARE AS FOLLOWS:

AMOUNT CLAIMED		286,146.00
TOTAL ADJUSTMENTS (DETAILS BELOW)	-	33,476.00
TOTAL PRIOR PAYMENTS (DETAILS BELOW)		-64,836.00

AMOUNT DUE CLAIMANT	\$	187,834.00
---------------------	----	------------

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT TIN BUI

AT (916) 323-8137 OR IN WRITING AT THE STATE CONTROLLER'S OFFICE,  
DIVISION OF ACCOUNTING AND REPORTING, P.O. BOX 942850, SACRAMENTO,  
CA 94250-5875. DUE TO INSUFFICIENT APPROPRIATION, THE BALANCE DUE  
WILL BE FORTHCOMING WHEN ADDITIONAL FUNDS ARE MADE AVAILABLE.

ADJUSTMENT TO CLAIM:

FIELD AUDIT FINDINGS	-	33,476.00	
TOTAL ADJUSTMENTS			- 33,476.00
PRIOR PAYMENTS:			
SCHEDULE NO. MA03312A			
PAID 01-25-2011		-6,090.00	
SCHEDULE NO. MA03307A			
PAID 12-06-2010		-58,746.00	
TOTAL PRIOR PAYMENTS			-64,836.00

**Tab 7**

LRSP572 20130301 200017  
1

P 14 R 1 C

S33120  
00048  
2013/03/03

MARCH 3, 2013  
BOARD OF TRUSTEES  
RIVERSIDE UNIFIED SCHOOL DIST  
RIVERSIDE COUNTY  
6050 INDUSTRIAL AVENUE  
RIVERSIDE CA 92504

DEAR CLAIMANT:

RE: NOTICE OF TRUANCY : 498/83-S

WE HAVE REVIEWED YOUR 2009/2010 FISCAL YEAR REIMBURSEMENT CLAIM FOR  
THE MANDATED COST PROGRAM REFERENCED ABOVE. THE RESULTS OF OUR  
REVIEW ARE AS FOLLOWS:

AMOUNT CLAIMED 231,077.00

ADJUSTMENT TO CLAIM:

FIELD AUDIT FINDINGS - 7,309.00

TOTAL ADJUSTMENTS - 7,309.00

LESS PRIOR PAYMENT: SCHEDULE NO. MA14004A  
PAID 09-27-2011

45,387.00

AMOUNT DUE CLAIMANT

\$ 178,381.00

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT TIN BUI  
AT (916) 323-8137 OR IN WRITING AT THE STATE CONTROLLER'S OFFICE,  
DIVISION OF ACCOUNTING AND REPORTING, P.O. BOX 942850, SACRAMENTO,  
CA 94250-5875. DUE TO INSUFFICIENT APPROPRIATION, THE BALANCE DUE  
WILL BE FORTHCOMING WHEN ADDITIONAL FUNDS ARE MADE AVAILABLE.

## **DECLARATION OF SERVICE BY EMAIL**

I, the undersigned, declare as follows:

I am a resident of the County of Solano 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 October 6, 2014, I served the:

**SCO Comments**

Incorrect Reduction Claim

*Notification of Truancy*, 13-904133-I-13

Education Code Sections 48260 and 48260.5

Statutes 1983, Chapter 498

Fiscal Years: 2007-2008, 2008-2009, and 2009-2010

Riverside Unified School District, Claimant

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

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on October 3, 2014 at Sacramento, California.



---

Heidi J. Palchik  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814  
(916) 323-3562

# COMMISSION ON STATE MANDATES

## Mailing List

**Last Updated:** 8/13/14

**Claim Number:** 13-904133-I-13

**Matter:** Notification of Truancy

**Claimant:** Riverside Unified School District

### TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

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

**Socorro Aquino**, *State Controller's Office*

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

Phone: (916) 322-7522

SAquino@sco.ca.gov

**Marieta Delfin**, *State Controller's Office*

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

Phone: (916) 322-4320

mdelfin@sco.ca.gov

**Donna Ferebee**, *Department of Finance*

915 L Street, Suite 1280, Sacramento, CA 95814

Phone: (916) 445-3274

donna.ferebee@dof.ca.gov

**Chris Ferguson**, *Department of Finance*

Education Systems Unit, 915 L Street, 7th Floor, 915 L Street, 7th Floor, Sacramento, CA 95814

Phone: (916) 445-3274

Chris.Ferguson@dof.ca.gov

**Michael Fine**, *Riverside Unified School District*

Business Services & Government Relations, 3380 Fourteenth Street, Riverside, CA 92501

Phone: (951) 778-7135

mfine@rusd.k12.ca.us

**Susan Geanacou**, *Department of Finance*

915 L Street, Suite 1280, Sacramento, CA 95814

Phone: (916) 445-3274  
susan.geanacou@dof.ca.gov

**Ed Hanson, Department of Finance**

Education Systems Unit, 915 L Street, 7th Floor, 915 L Street, 7th Floor, Sacramento, CA 95814

Phone: (916) 445-0328  
ed.hanson@dof.ca.gov

**Jill Kanemasu, State Controller's Office**

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

Phone: (916) 322-9891  
jkanemasu@sco.ca.gov

**Jay Lal, State Controller's Office (B-08)**

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

Phone: (916) 324-0256  
JLal@sco.ca.gov

**Kathleen Lynch, Department of Finance (A-15)**

915 L Street, Suite 1280, 17th Floor, Sacramento, CA 95814

Phone: (916) 445-3274  
kathleen.lynch@dof.ca.gov

**Yazmin Meza, Department of Finance**

915 L Street, Sacramento, CA 95814

Phone: (916) 445-0328  
Yazmin.meza@dof.ca.gov

**Robert Miyashiro, Education Mandated Cost Network**

1121 L Street, Suite 1060, Sacramento, CA 95814

Phone: (916) 446-7517  
robertm@sscal.com

**Keith Nezaam, Department of Finance**

915 L Street, 8th Floor, Sacramento, CA 95814

Phone: (916) 445-8913  
Keith.Nezaam@dof.ca.gov

**Andy Nichols, Nichols Consulting**

1857 44th Street, Sacramento, CA 95819

Phone: (916) 455-3939  
andy@nichols-consulting.com

**Christian Osmena, Department of Finance**

915 L Street, Sacramento, CA 95814

Phone: (916) 445-0328  
christian.osmena@dof.ca.gov

**Keith Petersen, SixTen & Associates**

**Claimant Representative**

P.O. Box 340430, Sacramento, CA 95834-0430

Phone: (916) 419-7093  
kbpsixten@aol.com



**Sandra Reynolds**, *Reynolds Consulting Group, Inc.*

P.O. Box 894059, Temecula, CA 92589

Phone: (951) 303-3034

sandrareynolds\_30@msn.com

**Kathy Rios**, *State Controller's Office*

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

Phone: (916) 324-5919

krios@sco.ca.gov

**Nicolas Schweizer**, *Department of Finance*

Education Systems Unit, 915 L Street, 7th Floor, 915 L Street, 7th Floor, Sacramento, CA 95814

Phone: (916) 445-0328

nicolas.schweizer@dof.ca.gov

**David Scribner**, *Max8550*

2200 Sunrise Boulevard, Suite 240, Gold River, CA 95670

Phone: (916) 852-8970

dscribner@max8550.com

**Jim Spano**, Chief, Mandated Cost Audits Bureau, *State Controller's Office*

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

Phone: (916) 323-5849

jspano@sco.ca.gov

**Dennis Speciale**, *State Controller's Office*

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

Phone: (916) 324-0254

DSpeciale@sco.ca.gov

## COMMISSION ON STATE MANDATES

980 NINTH STREET, SUITE 300  
SACRAMENTO, CA 95814  
PHONE: (916) 323-3562  
FAX: (916) 445-0278  
E-mail: csminfo@csm.ca.gov



October 28, 2015

Mr. Keith B. Petersen  
SixTen and Associates  
P.O. Box 340430  
Sacramento, CA 95834-0430

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

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

Re: **Draft Proposed Decision, Schedule for Comments, and Notice of Hearing**  
*Notification of Truancy*, 13-904133-I-13  
Education Code Section 48260.5  
Statutes 1983, Chapter 498  
Fiscal Years 2007-2008, 2008-2009, and 2009-2010  
Riverside Unified School District, Claimant

Dear Mr. Petersen and Ms. Kanemasu:

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

**Written Comments**

Written comments may be filed on the draft proposed decision by **November 18, 2015**. You are advised that comments filed with the Commission on State Mandates (Commission) are required to be simultaneously served on the other interested parties on the mailing list, and to be accompanied by a proof of service. However, this requirement may also be satisfied by electronically filing your documents. Please see <http://www.csm.ca.gov/dropbox.shtml> on the Commission's website for instructions on electronic filing. (Cal. Code Regs., tit. 2, § 1181.3.)

If you would like to request an extension of time to file comments, please refer to section 1187.9(a) of the Commission's regulations.

**Hearing**

This matter is set for hearing on **Friday, January 22, 2016**, at 10:00 a.m., State Capitol, Room 447, Sacramento, California. The proposed decision will be issued on or about January 8, 2016. Please let us know in advance if you or a representative of your agency will testify at the hearing, and if other witnesses will appear. If you would like to request postponement of the hearing, please refer to section 1187.9(b) of the Commission's regulations.

Sincerely,

A handwritten signature in black ink, appearing to read 'Heather Halsey'.

Heather Halsey  
Executive Director

**ITEM \_**  
**INCORRECT REDUCTION CLAIM**  
**DRAFT PROPOSED DECISION**

Education Code Section 48260.5

Statutes 1983, Chapter 498

*Notification of Truancy*

Fiscal Years 2007-2008, 2008-2009, and 2009-2010

13-904133-I-13

Riverside Unified School District, Claimant

---

**EXECUTIVE SUMMARY**

**Overview**

This incorrect reduction claim (IRC) challenges reductions made by the State Controller's Office (Controller) to reimbursement claims filed by the Riverside Unified School District (claimant) for fiscal years 2007-2008, 2008-2009, and 2009-2010 under the *Notification of Truancy* program. The issues in this IRC are whether the Controller may reduce the costs claimed (under audit finding 2) based on:

- Notifications sent for pupils with fewer than three unexcused absences while between the age of six and 18 because they were subject to the compulsory education requirements for only a portion of the school year.
- Notifications sent for pupils who accumulated fewer than three unexcused absences or tardiness occurrences during the school year, and;
- The use of statistical sampling and extrapolation.

For the reasons discussed in this analysis, staff finds that the Controller's reductions are correct.

**The Notification of Truancy Program**

Under California's compulsory education laws, children between the ages of six and 18 are required to attend school full-time, with a limited number of specified exceptions.<sup>1</sup> A pupil who accumulates a certain number of unexcused absences or instances of tardiness is deemed to be in violation of the compulsory education requirement, and is a truant.<sup>2</sup> Statutes 1983, chapter 498 added Education Code Section 48260.5, which specified as follows:

<sup>1</sup> Education Code section 48200.

<sup>2</sup> Education Code section 48260.

(a) Upon a pupil's initial classification as a truant, the school district shall notify the pupil's parent or guardian, by first-class mail or other reasonable means, of the following:

(1) That the pupil is truant.

(2) That the parent or guardian is obligated to compel the attendance of the pupil at school.

(3) That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48290) of Chapter 2 of Part 27.

(b) The district also shall inform parents or guardians of the following:

(1) Alternative educational programs available in the district.

(2) The right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

On November 29, 1984, the Board of Control, the predecessor to the Commission on State Mandates (Commission), determined that Education Code Section 48260.5, as added by Statutes 1983, chapter 498, imposed a reimbursable state-mandated program to develop notification forms and provide written notice to the parents or guardians of the truancy.<sup>3</sup>

Accordingly, the Board of Control's test claim decision and the parameters and guidelines adopted by the Commission found that section 48260.5 imposed a state-mandated program requiring that upon a student's classification as a truant, the school must notify the pupil's parent or guardian. At the time of the test claim decision and adoption of the parameters and guidelines, section 48260, as enacted in 1976, which was found not to impose any mandated activities, provided that a truancy occurs when a student is "absent from school without valid excuse *more than three days* or tardy in excess of 30 minutes on each of *more than three days* in one school year..."<sup>4</sup>

The original parameters and guidelines were adopted by the Commission on August 27, 1987, and authorized reimbursement for the one-time activities of planning implementation, revising school district policies and procedures, and designing and printing the notification forms. Reimbursement was also authorized for ongoing activities to identify pupils to receive the initial notification and prepare and distribute the notification by first class mail or other reasonable means.

The Commission amended the parameters and guidelines on July 22, 1993, effective beginning July 1, 1992, to add a unit cost of \$10.21, adjusted annually by the Implicit Price Deflator, for each initial notification of truancy distributed, in lieu of requiring the claimant to provide documentation of actual costs to the Controller. The parameters and guidelines further provide that "school districts incurring unique costs within the scope of the reimbursable mandated

<sup>3</sup> Exhibit X, Board of Control, Brief Written Statement for Adopted Mandate on the *Notification of Truancy* test claim (SB 90-4133).

<sup>4</sup> Education Code section 48260 (Stats. 1976, ch. 1010).

activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement.”<sup>5</sup>

As later amended by Statutes 1994, chapter 1023 (SB 1728) and Statutes 1995, chapter 19 (SB 102), section 48260 provided that a pupil would be classified a truant “who is absent from school without valid excuse *three full days* in one school year, or tardy or absent for more than any 30-minute period during the school day without a valid excuse on *three occasions* in one school year, or any combination thereof...”<sup>6</sup> At the same time, the Legislature amended section 48260.5 to require the school to also notify parents that a pupil may be subject to prosecution under section 48264; that a pupil may be subject to suspension or restriction of driving privileges under section 13202.7 of the Vehicle Code; and that it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.<sup>7</sup> Those amendments were incorporated into the parameters and guidelines on January 31, 2008, effective July 1, 2006, at the Legislature’s direction.<sup>8</sup> However, reimbursement for the program under the amended parameters and guidelines remained fixed at a unit cost of \$10.21, adjusted annually by the Implicit Price Deflator (\$19.63 for fiscal year 2013-14). These are the parameters and guidelines applicable to this claim.

### **Procedural History**

Claimant signed its 2007-2008 reimbursement form on February 16, 2010,<sup>9</sup> its 2008-2009 reimbursement form on February 16, 2010,<sup>10</sup> and its 2009-2010 reimbursement form on February 15, 2011.<sup>11</sup> The Controller issued a draft audit report on December 19, 2012.<sup>12</sup> Claimant submitted comments on the draft audit report on January 18, 2013.<sup>13</sup> The Controller issued the final audit report on February 22, 2013.<sup>14</sup> Claimant filed this IRC on November 15, 2013.<sup>15</sup> The Controller filed late comments on the IRC on October 3, 2014.<sup>16</sup> On October 28, 2015, Commission staff issued the draft proposed decision.

<sup>5</sup> Exhibit A, Incorrect Reduction Claim, page 69.

<sup>6</sup> Education Code section 48260, as amended by Statutes 1994, chapter 1023 and Statutes 1995, chapter 19.

<sup>7</sup> Education Code section 48260.5, as amended by Statutes 1994, chapter 1023.

<sup>8</sup> Statutes 2007, chapter 69 (AB 1698).

<sup>9</sup> Exhibit A, Incorrect Reduction Claim, page 269.

<sup>10</sup> Exhibit A, Incorrect Reduction Claim, page 271.

<sup>11</sup> Exhibit A, Incorrect Reduction Claim, page 273.

<sup>12</sup> Exhibit A, Incorrect Reduction Claim, page 31.

<sup>13</sup> Exhibit A, Incorrect Reduction Claim, pages 39-40.

<sup>14</sup> Exhibit A, Incorrect Reduction Claim, pages 232-247.

<sup>15</sup> Exhibit A, Incorrect Reduction Claim.

<sup>16</sup> Exhibit B, Controller’s Late Comments on the IRC. Note that pursuant to Government Code section 17553(d) “the Controller shall have no more than 90 days after the claim is delivered or mailed to file any rebuttal to an incorrect reduction claim. The failure of the Controller to file a

## **Commission Responsibilities**

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

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

The Commission must review questions of law, including interpretation of parameters and guidelines, de novo, without consideration of legal conclusions made by the Controller in the context of an audit. The Commission is vested with exclusive authority to adjudicate disputes over the existence of state-mandated programs within the meaning of article XIII B, section 6.<sup>17</sup> 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."<sup>18</sup>

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.<sup>19</sup>

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.<sup>20</sup> In addition, sections 1185.1(f)(3) and 1185.2(c) of the Commission's regulations require that any assertions of fact by the parties to an IRC must be supported by documentary evidence. The Commission's ultimate findings of fact must be supported by substantial evidence in the record.<sup>21</sup>

rebuttal to an incorrect reduction claim shall not serve to delay the consideration of the claim by the Commission." However, in this instance, due to the backlog of IRCs, these late comments have not delayed consideration of this item and so have been included in the analysis and proposed decision.

<sup>17</sup> *Kinlaw v. State of California* (1991) 54 Cal.3d 326, 331-334; Government Code sections 17551, 17552.

<sup>18</sup> *County of Sonoma*, supra, 84 Cal.App.4th 1264, 1281, citing *City of San Jose v. State of California* (1996) 45 Cal.App.4th 1802, 1817.

<sup>19</sup> *Johnston v. Sonoma County Agricultural* (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.

<sup>20</sup> *Gilbert v. City of Sunnyvale* (2005) 130 Cal.App.4th 1264, 1274-1275.

<sup>21</sup> 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

## Claims

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

Issue	Description	Staff Recommendation
Reductions in finding 2 based on notifications of truancy issued for pupils with fewer than three unexcused absences while between the ages of six and 18 because they were subject to the compulsory education requirements for only a portion of the school year.	<p>The Controller found that 67 of the initial notices of truancy distributed during the audit period were for pupils in the audit sample that had accumulated fewer than three unexcused absences or tardy occurrences while between the ages of six and 18.</p> <p>The claimant contends that the notices for pupils which were in part based on unexcused absences when the pupil was younger than six or older than 18 are eligible for reimbursement because of the legal requirements to educate some pupils from age three to 22.</p>	<i>Correct</i> –The mandate to distribute initial notices of truancy applies to “any pupil subject to compulsory full-time education.” <sup>22</sup> Pupils subject to compulsory full-time education are between the ages of six and 18. <sup>23</sup> Issuing initial notices for pupils who did not accumulate three absences while subject to compulsory education is beyond the scope of the mandate and not reimbursable. Therefore, these reductions are correct as a matter of law.
Reductions in finding 2 based on notifications of truancy issued for pupils with fewer than three total unexcused absences or occurrences of tardiness during the school year.	<p>The Controller found that 12 of the sampled initial notices of truancy were for pupils who had accumulated fewer than three total unexcused absences or tardiness occurrences during the school year.</p> <p>Claimant did not address this finding in the IRC.</p>	<i>Correct</i> - In addition, issuing truancy notices for pupils with fewer than three unexcused absences or tardiness occurrences during the school year is beyond the scope of the mandate and is not reimbursable. Therefore, these reductions are correct as a matter of law.
Reductions in finding 2 based on statistical sampling and extrapolation methodology used by the Controller.	For the audit period, 45,091 initial truancy notifications were claimed based on the annual unit cost for a total of \$796,110 claimed. The Controller examined a random sample of initial truancy notices distributed by the claimant (883	<i>Correct</i> – The use of statistical sampling and extrapolation is not an underground regulation because there is no evidence that the audit method applies generally to decide a class of cases. The Commission is

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.

<sup>22</sup> Education Code section 48260.

<sup>23</sup> Education Code section 48200.

	<p>distributed by elementary and secondary schools) during the audit period, with the calculation of the “sample size based on a 95% confidence level,” and determined that 79 of the notices were claimed beyond the scope of the mandate, as described above. The unallowable notifications within the sample for each fiscal year was then calculated as an error percentage and extrapolated to the total number of notices issued during the audit period (45,091) to approximate the number of unallowable notifications (3,900), which is less than 10 percent of the notices claimed. The number of unallowable notices was multiplied by the unit cost for each fiscal year to calculate the total reduction at \$68,410.</p> <p>Claimant argues that the use of statistical sampling and extrapolation methodology is an underground regulation and that the reductions should be upheld only for documentation for the notices that were actually reviewed and disallowed because they were beyond the scope of the mandate.</p>	<p>required to uphold the Controller’s audit conclusions absent evidence that the reductions are arbitrary, capricious or entirely lacking in evidentiary support. Moreover, there is no evidence that the Controller’s findings using sampling and statistical extrapolation are not representative of all notices claimed during the audit period.</p>
--	---	--

### **Staff Analysis**

#### **A. The Audit Reductions in Finding 2 for the 79 Notifications Included in the Sample Are Correct as a Matter of Law.**

In the audit of fiscal years 2007-2008, 2008-2009, and 2009-2010, the Controller found that the claimant sent initial truancy notices for 67 pupils with fewer than three unexcused absences or



tardiness occurrences while between the ages of six and 18,<sup>24</sup> and for 12 pupils who had fewer than three total unexcused absences or tardiness occurrences during the school year.<sup>25</sup>

Staff finds that the claimant's request for reimbursement to provide truancy notices for pupils who because of their age are not subject to compulsory education, or who have fewer than three unexcused absences or tardiness occurrences during the school year, is beyond the scope of the mandate and not reimbursable, so the Controller's reductions are correct as a matter of law.

1. Reimbursement is not required for truancy notices resulting from unexcused absences or tardies accumulated by pupils while under age six and over age 18, because they are not subject to compulsory education.

The Controller found that during the audit period, 67 of the pupils in the audit sample had accumulated fewer than three unexcused absence or tardy occurrences while between the ages of six and 18.<sup>26</sup>

The claimant asserts that notifications of truancy sent to pupils under age six and over age 18 should be reimbursable because the Education Code provides that those students are statutorily entitled to attend school and that school districts are required by Education Code section 46000 to record, keep attendance, and report absences of all pupils.

Staff finds that providing initial truancy notices to pupils based on unexcused absences or tardiness occurrences accrued while under the age of six and over the age of 18 goes beyond the scope of the mandate so that the reduction is correct as a matter of law. Education Code section 48260(a) defines a truant as a pupil subject to compulsory full-time education. "Compulsory full-time education" is defined in Education Code section 48200 as "each person between the ages of 6 and 18 years." Even though schools are required by state law to report the attendance of all enrolled pupils, the truancy laws, including absences that trigger the notice of initial truancy required by this mandated program, apply only to pupils between the ages of six and 18.

Therefore, the Controller's reduction of costs for 67 initial truancy notices within the audit sample for pupils who did not accumulate three absences while subject to compulsory education is correct as a matter of law.

2. Reimbursement is not required for truancy notices for pupils with fewer than three unexcused absences or tardiness occurrences.

The Controller found that, during the audit period, 12 of the sampled notifications were distributed for pupils who accumulated fewer than three unexcused absences or tardiness occurrences during the school year and that reimbursement for these notifications is beyond the

<sup>24</sup> Exhibit A, Incorrect Reduction Claim, pages 242-243. For daily attendance accounting during the audit period, 50 notifications were sent for truant pupils not between the ages of six and 18. For period attendance accounting during the audit period, 17 notifications were sent for truant pupils not between the ages of six and 18, for a total of 67 notifications under both accounting methods.

<sup>25</sup> Exhibit A, Incorrect Reduction Claim, pages 242-243. All 12 absences were under daily attendance accounting: six in 2007-2008, five in 2008-2009, and one in 2009-2010.

<sup>26</sup> *Ibid.*

scope of the mandate.<sup>27</sup> The claimant has not rebutted these findings, and does not address these 12 notifications in the IRC.

Education Code section 48260<sup>28</sup> provides that a pupil who is absent or tardy from school without valid excuse “*on three occasions* in one school year” is a truant. The Commission amended the parameters and guidelines effective for costs incurred beginning July 1, 2006, to reflect that the mandate to provide a truancy notification is triggered by a pupil who is absent or tardy from school without valid excuse on three occasions in one school year and these parameters and guidelines apply to this IRC.

The claimant’s request for reimbursement to provide initial truancy notices for pupils with less than three unexcused absences or tardiness occurrences during the school year is beyond the scope of the mandate and is not reimbursable. Accordingly, staff finds that the Controller’s reduction of costs for the 12 notices provided for these pupils is correct as a matter of law.

**B. The Audit Reductions in Finding 2 Based on Statistical Sampling and Extrapolation of Findings to All Notices Claimed Are Not Arbitrary, Capricious or Entirely Lacking in Evidentiary Support**

In its audit, the Controller examined a random sample of 883 initial truancy notices distributed by the claimant for each year, out of a total of 45,091 claimed during the audit period, to determine the proportion of notifications that were unallowable for the Controller’s asserted legal reasons. The number of unallowable notifications within the sample for each fiscal year was then calculated as an error percentage, and extrapolated to the total number of notifications issued and identified by the claimant for each fiscal year to approximate the total number of unallowable notifications for elementary and secondary schools. The number of unallowable notices was then multiplied by the unit cost for each fiscal year to calculate the total reduction for the three fiscal years at \$68,410.<sup>29</sup> The methodology results in an estimate, based on statistical probabilities, of the amount of claimed costs that the Controller has determined to be excessive or unreasonable.

Claimant argues that the Controller cannot adjust claims by using a statistical extrapolation from an audit sample because: (1) the Controller’s use of this method constitutes an underground regulation; and (2) the sampling process was misapplied to this IRC, the conclusions may not be representative of the universe, and there is a possibility of sample error.

The Controller counters that sampling and extrapolation is an audit tool commonly used to identify error rates, that there is no law or regulation prohibiting that method, and that claimant misstates and misunderstands the meaning of an expected error rate and confidence interval. The Controller argues that its method is reasonable, and “the Administrative Procedures [*sic*] Act is not applicable.”<sup>30</sup>

<sup>27</sup> Exhibit A, IRC, page 242. Exhibit B, Controller’s Late Comments on the IRC, page 18.

<sup>28</sup> As amended by Statutes 1994, chapter 1023 (SB 1728) and Statutes 1995, chapter 19 (SB 102).

<sup>29</sup> Exhibit A, IRC, final audit report, pages 242-243.

<sup>30</sup> Exhibit B, Controller’s Late Comments on the IRC, pages 12 - 19.

Staff finds that using sampling and extrapolation as a methodology in this case is not an underground regulation, and there is no evidence that the reduction is arbitrary, capricious, or entirely lacking in evidentiary support.

1. There is no evidence to support claimant's argument that the statistical sampling and extrapolation method used in the audit constitutes an underground regulation.

Government Code section 11340.5 prohibits any state agency from issuing, utilizing, enforcing, or attempting to enforce any guideline or rule that fits within the definition of "regulation" unless it has been adopted pursuant to the Administrative Procedure Act (APA). Section 11342.600 provides a definition of "regulation," including "...every rule, regulation, order, or standard of general application or the amendment, supplement, or revision of any rule, regulation, order, or standard adopted by any state agency to implement, interpret, or make specific the law enforced or administered by it, or to govern its procedure."<sup>31</sup> Therefore, if the Controller's challenged audit methods constitute a regulation not adopted pursuant to the APA, the Commission cannot uphold the reductions.

Interpreting section 11342.600, the California Supreme Court in *Tidewater Marine Western v. Bradshaw* found that a regulation has two principal characteristics:

First, the agency must intend its rule to apply generally, rather than in a specific case. The rule need not, however, apply universally; a rule applies generally so long as it declares how a *certain class of cases* will be decided. Second, the rule must "implement, interpret, or make specific the law enforced or administered by [the agency], or ... govern [the agency's] procedure."<sup>32</sup>

The question, then, is whether the challenged audit policy or practice is applied "generally," and used to decide a class of cases; and whether the rule "implement[s], interpret[s], or make[s] specific" the law administered by the Controller. Here, that presents a close question, which turns on the issue of general applicability.<sup>33</sup>

In *Clovis Unified*, the court held that the Controller's contemporaneous source document rule, which was contained solely in the Controller's claiming instructions and not adopted in the regulatory parameters and guidelines, was applied *generally* to audits of all reimbursement claims for certain programs, in that individual auditors had no discretion to judge on a case-by-case basis whether to apply the rule.<sup>34</sup> In the Medi-Cal audit cases, the courts found a sampling and extrapolation methodology was invalid solely because of the failure of the Department of

<sup>31</sup> Government Code section 11342.600 (Stats. 2000, ch. 1060).

<sup>32</sup> *Tidewater Marine Western v. Bradshaw* (1996) 14 Cal.4th 557, 571 (emphasis added) [Citing *Roth v. Department of Veteran Affairs* (1980) 110 Cal.App.3d 622, 630; Gov. Code § 11342(g)].

<sup>33</sup> See *Taye v. Coye* (1994) 29 Cal.App.4th 1339, 1345 [Finding that an auditor's decision was not an underground regulation where it was "designed to fit the particular conditions that were encountered upon arrival at the audit site."].

<sup>34</sup> *Clovis Unified School District v. Chiang* (2010) 188 Cal.App.4th 794, 803.

Health Services to adopt its methodology in accordance with the APA. However, the methodology was upheld after compliance with the APA.<sup>35</sup>

Unlike *Clovis Unified* however, the sampling and extrapolation method is not published in the claiming instructions for this mandate; nor is it alleged that auditors were *required* to use the statistical methods at issue. Of the 42 completed audit reports for this mandated program currently available on the Controller's website, some do not apply a statistical sampling and extrapolation methodology to calculate a reduction.<sup>36</sup> Others apply a sampling and extrapolation method to determine whether the notifications issued complied with the eight required elements under section 48260.5;<sup>37</sup> and others use sampling and extrapolation methods to determine the proportion of notifications issued that were supported by documentation, including attendance records, rather than the proportion unallowable based on absences, as here.<sup>38</sup>

Therefore, based on the case law discussed and the evidence in the record, staff finds that the Controller's sampling and extrapolation method, as applied in this case, is not a regulation within the meaning of the APA.

2. The Controller's audit findings must be upheld absent evidence that the reductions are arbitrary, capricious, or entirely lacking in evidentiary support.

The claimant argues that there is no statutory or regulatory authority for the Controller to reduce claimed costs based on extrapolation from a statistical sample.<sup>39</sup> The Controller counters that the law does not prohibit the audit methods used, and relies on Government Code section 12410, which requires the Controller to audit all claims against the state and authorizes the Controller to "audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment."<sup>40</sup> The Controller also relies on Government Code section 17561, which permits the Controller to reduce any claim that is determined to be excessive or unreasonable. The Controller also cites to "*Government Auditing Standards*, as issued by the Comptroller General of the United States..." in support of its audit methods. Although the standards cited do not provide *expressly* for statistical sampling and extrapolation to be applied

<sup>35</sup> *Grier v. Kizer* (1990) 219 Cal.App.3d 422. *Union of American Physicians and Dentists v. Kizer* (1990) 223 Cal.App.3d 490.

<sup>36</sup> See, e.g., Audit of Sweetwater Union High School District, *Notification of Truancy*, fiscal years 2006-2007 through 2009-2010. [In this audit report the Controller reduced based on the claimant's failure to comply with the notification requirements of section 48260.5, rather than performing a sampling and estimation audit to determine whether notifications were issued in compliance with section 48260.]

<sup>37</sup> See, e.g., Exhibit X, Audit of Colton Joint Unified School District, *Notification of Truancy*, fiscal years 1999-2000 through 2001-2002, issued November 26, 2003.

<sup>38</sup> See, e.g., Exhibit X, Audit of Bakersfield City School District, *Notification of Truancy*, fiscal years 2007-2008 through 2009-2010, issued October 25, 2012.

<sup>39</sup> Exhibit A, IRC, page 11.

<sup>40</sup> Government Code section 12410 (Stats. 1968, ch. 449).

to mandate reimbursement, they do provide that "When a representative sample is needed, the use of statistical sampling approaches generally results in stronger evidence. ... "<sup>41</sup>

In accordance with the Controller's audit authority and duties under the Constitution and the Government Code,<sup>42</sup> the Commission's determination is limited to whether the Controller's reduction of costs based on audit decisions (as opposed to questions of law) is arbitrary, capricious, or entirely lacking in evidentiary support.<sup>43</sup> Based on the standards and texts cited by the Controller, statistical methods are an appropriate and commonly-used tool in auditing. The claimant concedes that "[a] statistically valid sample methodology is a recognized audit tool for some purposes."<sup>44</sup>

In fact, statistical sampling methods such as those employed here are used in a number of other contexts, including Medi-Cal reimbursement to health care providers, and have not been held, in themselves, to be arbitrary and capricious, or incorrect as a matter of law.<sup>45</sup>

On that basis, and giving due consideration to the Controller's discretion to audit the fiscal affairs of the state,<sup>46</sup> staff finds that it must uphold the Controller's auditing decisions absent evidence that the audit reductions are arbitrary, capricious, or entirely lacking in evidentiary support.

3. There is no evidence in the record that the Controller's findings using the sampling and extrapolation methodology are not representative of all notices claimed during the audit period or that the findings are arbitrary, capricious, or entirely lacking in evidentiary support.

The claimant also challenges the qualitative and quantitative reliability and fairness of using statistical sampling and extrapolation to evaluate reimbursement, arguing that the risk of extrapolating findings from a sample is that the conclusions obtained from the sample may not represent the universe.<sup>47</sup> The claimant further contends that the sampling technique used by the Controller is quantitatively non-representative because less than two percent of the total number of notices were audited, the stated precision rate was plus or minus eight percent even though the sample size (ranging from 146 to 148) is essentially identical for all four fiscal years, and that the audited number of notices claimed for daily accounting (elementary schools) in fiscal year 2008-2009 (6,996) is 17 percent larger than the size in fiscal year 2009-2010 (5,995). According to the

<sup>41</sup> Exhibit B, Controller's Late Comments on the IRC, page 13.

<sup>42</sup> California Constitution, article XVI, section 7. Government Code sections 12410 and 17561.

<sup>43</sup> *American Bd. of Cosmetic Surgery, Inc. v. Medical Bd. of California*, *supra*, 162 Cal.App.4th 534, 547-548.

<sup>44</sup> Exhibit A, Incorrect Reduction Claim, page 12.

<sup>45</sup> See *Grier v. Kizer*, *supra*, 219 Cal.App.3d 422. *Union of American Physicians and Dentists v. Kizer*, *supra*, 223 Cal.App.3d 490. The courts held that the sampling and extrapolation methodology was invalid solely because of the failure to adopt the methodology in accordance with the APA, although the methodology was upheld after compliance with the APA.

<sup>46</sup> Government Code section 12410 (Stats. 1968, ch. 449).

<sup>47</sup> Exhibit A, Incorrect Reduction Claim, page 15.

claimant, “[t]he expected error rate is stated to be 50%, which means the total amount adjusted \$68,410 [for the 3-year audit period] is really just a number exactly between \$34,205 (50%) and \$102,615 (150%).”<sup>48</sup>

Staff finds, based on this record, that the extrapolation of the audit findings to all notifications is not arbitrary, capricious, or entirely lacking in evidentiary support. As discussed in the draft proposed decision, claimant’s concerns about the proportional size of the sample are unfounded, and the claimant’s conclusions about the “expected error rate” are mistaken. The Controller demonstrates that the absolute size of the sample is more important than the relative size under basic statistical sampling principles. Moreover, there is no evidence in the record that the results are biased or unrepresentative as asserted by claimant. There is no dispute that the samples were randomly obtained and reviewed by the Controller. According to the *Handbook of Sampling for Auditing and Accounting*, all notices randomly sampled have an equal opportunity for inclusion in the sample so the result is statistically objective and unbiased.<sup>49</sup> Moreover, absent evidence in the record to the contrary, the Commission must presume that schools in the claimant’s district complied with the mandate in the same way.

Based on the analysis, staff finds that there is no evidence that the Controller’s reduction of costs claimed, based on the statistical sampling method in this case, is unrepresentative of all notices claimed or that the Controller’s findings are arbitrary, capricious, or entirely lacking in evidentiary support.

### **Conclusion**

Staff finds that the reduction of \$68,410 during the audit period, based on the Controller’s sampling and extrapolation methodology for initial notices of truancy distributed for pupils who had fewer than three unexcused absences or tardiness occurrences during the school year and for pupils who accumulated fewer than three absences while between the ages of six and 18 and so were not subject to the compulsory education laws, is correct as a matter of law, and is not arbitrary, capricious, or entirely lacking in evidentiary support.

### **Staff Recommendation**

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

<sup>48</sup> Exhibit A, Incorrect Reduction Claim, page 16.

<sup>49</sup> Exhibit X, Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, Third Edition, Prentice Hall, New Jersey, 1984, page 9.

BEFORE THE  
COMMISSION ON STATE MANDATES  
STATE OF CALIFORNIA

IN RE INCORRECT REDUCTION CLAIM  
ON:

Education Code Section 48260.5

Statutes 1983, Chapter 498

Fiscal Years 2007-2008, 2008-2009, and  
2009-2010

Riverside Unified School District, Claimant

Case No.: 13-904133-I-13

*Notification of Truancy*

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

*(Adopted January 22, 2016)*

**DECISION**

The Commission on State Mandates (Commission) heard and decided this incorrect reduction claim (IRC) during a regularly scheduled hearing on January 22, 2016. [Witness list will be included in the adopted decision.]

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

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

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

**Summary of the Findings**

This IRC challenges reductions of \$68,410 made by the State Controller's Office (Controller) to reimbursement claims filed by the Riverside Unified School District (claimant) for fiscal years 2007-2008, 2008-2009, and 2009-2010 under the *Notification of Truancy* program.

At issue in this IRC is whether the Controller may:

- Reduce costs claimed for truancy notifications distributed for pupils who accumulated fewer than three unexcused absences or tardiness occurrences while between ages six and 18 because they were subject to the compulsory education requirements for only a portion of the school year.
- Reduce costs claimed for truancy notifications distributed for pupils who accumulated fewer than three total unexcused absences or tardiness occurrences during the school year; and,
- Use statistical sampling and extrapolation to reduce the costs claimed for truancy notices not included in the audit sample.

The Commission finds that the reduction totaling \$68,410, based on the Controller's sampling and extrapolation methodology, for initial notifications of truancy distributed for pupils who had fewer than three unexcused absences or tardiness occurrences during the school year and for pupils who accumulated fewer than three absences while between the ages of six and 18 and so were not subject to the compulsory education laws, is correct as a matter of law, and is not arbitrary, capricious, or entirely lacking in evidentiary support.

## COMMISSION FINDINGS

### I. Chronology

02/16/10	Claimant signed the reimbursement claim for fiscal year 2007-2008. <sup>50</sup>
02/16/10	Claimant signed the reimbursement claim for fiscal year 2008-2009. <sup>51</sup>
02/15/11	Claimant signed the reimbursement claim for fiscal year 2009-2010. <sup>52</sup>
12/19/12	Controller issued the draft audit report. <sup>53</sup>
01/18/13	Claimant submitted comments on the draft audit report. <sup>54</sup>
02/22/13	Controller issued the final audit report. <sup>55</sup>
11/15/13	Claimant filed this IRC. <sup>56</sup>
10/03/14	Controller filed late comments on the IRC. <sup>57</sup>

<sup>50</sup> Exhibit A, Incorrect Reduction Claim, page 269.

<sup>51</sup> Exhibit A, Incorrect Reduction Claim, page 271.

<sup>52</sup> Exhibit A, Incorrect Reduction Claim, page 273.

<sup>53</sup> Exhibit A, Incorrect Reduction Claim, page 31. The draft audit report is not part of the record.

<sup>54</sup> Exhibit A, Incorrect Reduction Claim, pages 39-40.

<sup>55</sup> Exhibit A, Incorrect Reduction Claim, pages 232-247.

<sup>56</sup> Exhibit A, Incorrect Reduction Claim.

<sup>57</sup> Exhibit B, Controller's Late Comments on the IRC. Note that pursuant to Government Code section 17553(d) "the Controller shall have no more than 90 days after the claim is delivered or mailed to file any rebuttal to an incorrect reduction claim. The failure of the Controller to file a



10/28/15 Commission staff issued the draft proposed decision.<sup>58</sup>

## **II. Background**

### The Notification of Truancy Program

Under California's compulsory education laws, children between the ages of six and 18 are required to attend school full-time, with a limited number of specified exceptions.<sup>59</sup> Once a pupil is initially designated a truant, as defined, state law requires schools, districts, counties, and the courts to take progressive intervention measures to ensure that parents and pupils receive services to assist them in complying with the compulsory attendance laws.

The first intervention is required by Education Code section 48260.5, as added by the test claim statute.<sup>60</sup> As originally enacted, section 48260.5 specified:

(a) Upon a pupil's initial classification as a truant, the school district shall notify the pupil's parent or guardian, by first-class mail or other reasonable means, of the following:

(1) That the pupil is truant.

(2) That the parent or guardian is obligated to compel the attendance of the pupil at school.

(3) That parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Section 48290) of Chapter 2 of Part 27.

(b) The district also shall inform parents or guardians of the following:

(1) Alternative educational programs available in the district.

(2) The right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

On November 29, 1984, the Board of Control, the predecessor to the Commission, determined that Education Code section 48260.5, as added by Statutes 1983, chapter 498, imposed a reimbursable state-mandated program to develop notification forms and provide written notice to the parents or guardians of the truancy. The decision was summarized as follows:

The Board determined that the statute imposes costs by requiring school districts to develop a notification form, and provide written notice to the parents or guardians of students identified as truants of this fact. It requires that notification contain other specified information and, also, to advise the parent or guardian of

rebuttal to an incorrect reduction claim shall not serve to delay the consideration of the claim by the Commission.” However, in this instance, due to the backlog of IRCs, these late comments have not delayed consideration of this item and so have been included in the analysis and proposed decision.

<sup>58</sup> Exhibit C, Draft Proposed Decision.

<sup>59</sup> Education Code section 48200.

<sup>60</sup> Education Code section 48260.5, Statutes 1983, chapter 498.

their right to meet with school personnel regarding the truant pupil. The Board found these requirements to be new and not previously required of the claimant.<sup>61</sup>

The original parameters and guidelines were adopted on August 27, 1987, and authorized reimbursement for the one-time activities of planning implementation, revising school district policies and procedures, and designing and printing the notification forms. Reimbursement was also authorized for ongoing activities to identify pupils to receive the initial notification and prepare and distribute the notification by first class mail or other reasonable means.

The Commission amended the parameters and guidelines on July 22, 1993, effective for reimbursement claims filed beginning in fiscal year 1992-1993, to add a unit cost of \$10.21, adjusted annually by the Implicit Price Deflator, for each initial notification of truancy distributed in lieu of requiring the claimant to provide documentation of actual costs to the Controller. The parameters and guidelines further provide that “school districts incurring unique costs within the scope of the reimbursable mandated activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement.”<sup>62</sup>

The Legislature enacted Statutes 2007, chapter 69, effective January 1, 2008, which was sponsored by the Controller’s Office to require the Commission to amend the parameters and guidelines, effective July 1, 2006, to modify the definition of a truant and the required elements to be included in the initial truancy notifications in accordance with Statutes 1994, chapter 1023, and Statutes 1995, chapter 19.<sup>63</sup> These statutes required school districts to add the following information to the truancy notification: that the pupil may be subject to prosecution under Section 48264, that the pupil may be subject to suspension, restriction, or delay of the pupil’s driving privilege pursuant to Section 13202.7 of the Vehicle Code, and that it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day. The definition of truant was also changed from a pupil absent for “more than three days” to a pupil absent for “three days.” In 2008, the Commission amended the parameters and guidelines, for costs incurred beginning July 1, 2006, as directed by the Legislature.<sup>64</sup> However, reimbursement for the program under the amended parameters and guidelines remained fixed at a unit cost of \$10.21, adjusted annually by the Implicit Price Deflator (\$19.63 for fiscal year 2013-14). These are the parameters and guidelines applicable to this claim.

#### The Controller’s Audit and Summary of the Issues

The final audit report of February 22, 2013, determined that \$684,558 claimed costs for fiscal years 2007-2008 through 2009-2010 was allowable, and \$111,552 was unallowable for various reasons. The claimant only disputes the \$68,410 reduction in finding 2 of the audit report. With respect to that reduction, the Controller reviewed a sample of 883 notices issued by the district’s

<sup>61</sup> Exhibit X, Brief Written Statement for Adopted Mandate issued by the Board of Control on the *Notification of Truancy* test claim (SB 90-4133).

<sup>62</sup> Exhibit A, Incorrect Reduction Claim, page 69.

<sup>63</sup> Exhibit X, Controller’s Letter dated July 17, 2007 on AB 1698.

<sup>64</sup> Statutes 2007, chapter 69 (AB 1698).

elementary and secondary schools out of the 45,091 notices claimed for the audit period,<sup>65</sup> finding that 79 notices included in the sample were not reimbursable because the district claimed:

- 67 notifications sent for pupils with fewer than three unexcused absences while between the age of six and 18, because they were subject to the compulsory education requirements for only a portion of the school year.
- 12 notifications sent for pupils who accumulated fewer than three total unexcused absences or tardiness occurrences during the school year.<sup>66</sup>

The Controller reached the total dollar amount reduced (\$68,410) by using an audit methodology known as “statistical sampling.” The Controller examined a random sample of initial truancy notices distributed by the claimant, calculating the “sample size based on a 95% confidence level,” and determined that 79 of those notices claimed were beyond the scope of the mandate, as described above.<sup>67</sup> The number of unallowable notifications within the sample for each fiscal year was then calculated as an error percentage and extrapolated to the number of notifications issued and identified by the claimant in those fiscal years, to approximate the total number of unallowable notifications claimed. The number of unallowable notices was then multiplied by the unit cost for each fiscal year to calculate the total reduction for the audit period.<sup>68</sup>

### **III. Positions of the Parties**

#### **A. Riverside Unified School District**

The claimant argues that the statistical sampling technique used by the Controller should be rejected and that the audit finding should only pertain to the documentation actually reviewed. The claimant states that the audit report cited no statutory or regulatory authority to allow reduction of costs claimed based on extrapolation of a statistical sample.

The claimant asserts that the standard in Government Code section 17561(d)(2) controls the audit (excessive or unreasonable) because it is specific to mandates claims, and that the standard in Government Code section 12410 (correctness, legality, and sufficient provisions of law) does not control the audit. Also, the audit report states that the audit was conducted according to generally accepted government accounting standards (GAGAS) that “recognize statistical sampling as an acceptable method to provide sufficient, appropriate evidence” but claimant states that the audit does not cite specific GAO or GAGAS language in support of the assertion.

Claimant also argues that the GAO auditing guide pertains to audits of federal funds that do not apply to state mandate reimbursement. And the district has no notice of the GAO guide because

<sup>65</sup> Exhibit A, Incorrect Reduction Claim, final audit report, pages 242-243; Exhibit B, Controller’s Late Comments on IRC, page 16.

<sup>66</sup> Exhibit A, Incorrect Reduction Claim, final audit report, page 242; Exhibit B, Controller’s Comments on the IRC, page 19.

<sup>67</sup> Exhibit B, Controller’s Late Comments on IRC, page 10.

<sup>68</sup> Exhibit A, Incorrect Reduction Claim, pages 242-243.

the Controller does not publish its audit standards. Nor has the GAO guide been adopted pursuant to the Administrative Procedure Act (APA).<sup>69</sup>

Claimant further argues that the sampling process was misapplied in this IRC because the audit actually conducted a review for documentation rather than mandate compliance. According to the claimant, “testing to detect the rate of error within tolerances is the purpose of sampling, but it is not a tool to assign an exact dollar amount to the amount of the error which the Controller has inappropriately done . . . here.”<sup>70</sup>

Claimant also states that the sample may not be representative of the universe because, for example, kindergarten students in the sample are more likely to be excluded because of the under-age issue, and the possibility of a special education student being under age or over age is greater than the entire student body.<sup>71</sup>

And according to claimant, the sampling technique used in the audit is non-representative because the sample size for the audit period is 1.93% of the universe. As the claimant states: “The expected error rate is stated to be 50%, which means the total amount adjusted of \$68,410 is really just a number exactly between \$34,205 (50%) and \$102,615 (150%). An interval of possible outcomes cannot be used as a finding of absolute actual cost.”<sup>72</sup>

Claimant states that because the statistical sampling and extrapolation fails for legal, quantitative, and qualitative reasons, the audit findings should be limited to the 736 notices actually investigated. Claimant also cites statutory entitlements for pupils under age six or older than 18 to attend school and argues that truancy notifications for them should be reimbursed as “a product of the attendance accounting process and promotes compliance of the compulsory education law and *every pupil’s* duty to attend school regularly.”<sup>73</sup>

## **B. State Controller’s Office**

The Controller maintains that the audit is correct and that the IRC should be rejected. The Controller first states that the sample size for secondary schools within the claimant’s district was 443 for period attendance,<sup>74</sup> so its total sample size for both elementary and secondary schools was larger than the 736 cited by claimant. The Controller also states that both Government Code sections 17561(d) and 12410 (correctness, legality, and sufficient provisions of law) control the audit, and section 12410 applies to all claims against the state. And the district’s reimbursement claims were neither correct nor legal because costs were claimed for non-reimbursable notices issued. The Controller cites GAGAS section 7.55 that states, “When a representative sample is needed, the use of statistical sampling approaches generally results in

<sup>69</sup> Exhibit A, Incorrect Reduction Claim, pages 11-13.

<sup>70</sup> Exhibit A, Incorrect Reduction Claim, page 14.

<sup>71</sup> Exhibit A, Incorrect Reduction Claim, page 15.

<sup>72</sup> Exhibit A, Incorrect Reduction Claim, page 16.

<sup>73</sup> Exhibit A, Incorrect Reduction Claim, pages 22-23. Italics in original.

<sup>74</sup> Exhibit B, Controller’s Late Comments on the IRC, page 12. The 147 period-attendance initial truancy notifications sampled for 2009-2010 was not listed in the audit report, however. See Exhibit A, IRC, page 243.

stronger evidence. . . .” In response to claimant’s observation that the *Government Auditing Standards* have not been adopted pursuant to any state agency rulemaking, the Controller states that its “requirements” are applicable to auditors, not claimants, so state agency rulemaking is irrelevant and has no bearing on how mandate-related activities are performed or reimbursement claims are submitted.<sup>75</sup>

The Controller also argues that its sampling and extrapolation methodology is appropriate and cites the *Handbook of Sampling for Auditing and Accounting*<sup>76</sup> to support its sampling of errors versus non-errors. According to the Controller, a tolerance factor advocated by the claimant is not applicable because estimation sampling was used in the audit. As to the claimant’s allegation that the sample is not representative of the universe, the Controller cites section 1185.1(f)(3) of the Commission’s regulations that requires assertions or representations of fact to be supported by testimonial or documentary evidence, and states that claimant has provided no such evidence. The Controller also states: “The fact that a particular student’s initial truancy notification might more likely be identified as non-reimbursable is irrelevant to the composition of the audit sample itself. It has no bearing on evaluating whether the sample selection is representative of the population.”<sup>77</sup> The Controller also defends its selection of a sample size as consistent with basic statistical sampling principles, citing the *Handbook* again for support. As the Controller argues: “While a statistical sample evaluation identifies a range for the population’s true error rate, the point estimate provides the best, and thus *reasonable*, single estimate of the population’s error rate.”<sup>78</sup>

The Controller also points out that the test claim statute applies to pupils “subject to compulsory full-time education or to compulsory continuing education” and that Education Code section 48200 defines those pupils as “each person between the ages of 6 and 18 not exempted.” The Controller concludes that absences before age six or after age 18 are not relevant to determining whether a pupil is a truant.

#### **IV. Discussion**

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

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

<sup>75</sup> Exhibit B, Controller’s Late Comments on the IRC, page 13.

<sup>76</sup> Exhibit X, Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, Third Edition, Prentice Hall, New Jersey, 1984 (selected pages).

<sup>77</sup> Exhibit B, Controller’s Late Comments on the IRC, page 15.

<sup>78</sup> Exhibit B, Controller’s Late Comments on the IRC, page 17.

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.<sup>79</sup> 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.”<sup>80</sup>

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.<sup>81</sup> Under this standard, the courts have found that:

When reviewing the exercise of discretion, “[t]he scope of review is limited, out of deference to the agency’s authority and presumed expertise: ‘The court may not reweigh the evidence or substitute its judgment for that of the agency. [Citation.]’” ... “In general ... the inquiry is limited to whether the decision was arbitrary, capricious, or entirely lacking in evidentiary support. . . .” [Citations.] When making that inquiry, the “ ‘court must ensure that an agency has adequately considered all relevant factors, and has demonstrated a rational connection between those factors, the choice made, and the purposes of the enabling statute.’” [Citation.]’ ”<sup>82</sup>

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.<sup>83</sup> In addition, sections 1185.1(f)(3) and 1185.2(c) of the Commission’s regulations require that any assertions of fact by the parties to an IRC must be supported by documentary evidence. The Commission’s ultimate findings of fact must be supported by substantial evidence in the record.<sup>84</sup>

<sup>79</sup> *Kinlaw v. State of California* (1991) 54 Cal.3d 326, 331-334; Government Code sections 17551, 17552.

<sup>80</sup> *County of Sonoma, supra*, 84 Cal.App.4th 1264, 1281, citing *City of San Jose v. State of California* (1996) 45 Cal.App.4th 1802, 1817.

<sup>81</sup> *Johnston v. Sonoma County Agricultural* (2002) 100 Cal.App.4th 973, 983-984. See also *American Bd. of Cosmetic Surgery, Inc. v. Medical Bd. of California* (*supra*.) 162 Cal.App.4th 534, 547.

<sup>82</sup> *American Bd. of Cosmetic Surgery, Inc. v. Medical Bd. of California* (2008) 162 Cal.App.4th 534, 547-548.

<sup>83</sup> *Gilbert v. City of Sunnyvale* (2005) 130 Cal.App.4th 1264, 1274-1275.

<sup>84</sup> 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.

**A. The Audit Reductions in Finding 2 for the 79 Notifications Included in the Sample Are Correct as a Matter of Law.**

In the audit of the fiscal year 2007-2008, 2008-2009, and 2009-2010 reimbursement claims, the Controller found that the claimant sent 67 initial truancy notices for pupils with fewer than three unexcused absences while between the age of six and 18, because they were subject to the compulsory education requirements for only a portion of the school year (i.e. they accrued one of more of the requisite absences while under age six or over age 18),<sup>85</sup> and sent truancy notices for 12 pupils who had fewer than three unexcused absences or tardiness occurrences during the school year.<sup>86</sup> The Controller reduced costs claimed for these notices within the audit sample because the costs for these notices go beyond the scope of the mandate and are not eligible for reimbursement. For the reasons below, the Commission finds that the Controller's reductions are correct as a matter of law.

**1. Reimbursement is not required for truancy notices for pupils who are under age six or over age 18.**

The Controller found that the district claimed 67 notifications that it distributed for pupils who had "accumulated fewer than three unexcused absences or tardiness occurrences while between ages 6 and 18" during the school year. The Controller made reductions for these 67 notifications because it found that distributing initial notices for pupils not subject to compulsory education is beyond the scope of the mandate.<sup>87</sup>

In both its response to the audit and in the IRC, claimant maintains that the notification of truancy requirement applies to pupils younger than age six and older than age 18 because school districts are required to enroll pupils who are five years old at the beginning of the school year, as well as special education pupils through age 21.<sup>88</sup> Specifically, claimant argues that although Education Code sections 48200 and 48400 establish the legal attendance requirements for pupils aged six through 18, there is a statutory entitlement to attend kindergarten pursuant to section 48000, and to attend first grade pursuant to sections 48010 and 48011. Attendance cannot be denied by a school district. And special education pupils are statutorily entitled to education services from ages 3 to 22 pursuant to section 56026.<sup>89</sup> Section 46000 requires the district to keep attendance and record absences for all pupils for purposes of apportionment and compliance with the compulsory education law, subject to regulations by the State Board of

<sup>85</sup> Exhibit A, Incorrect Reduction Claim, pages 242-243. For daily attendance accounting during the audit period, 50 notifications were sent for truant pupils not between the ages of six and 18. For period attendance accounting during the audit period, 17 notifications were sent for truant pupils not between the ages of six and 18, for a total of 67 notifications under both accounting methods.

<sup>86</sup> Exhibit A, Incorrect Reduction Claim, pages 242-243. All 12 absences were under daily attendance accounting: six in 2007-2008, five in 2008-2009, and one in 2009-2010.

<sup>87</sup> *Ibid.*

<sup>88</sup> Exhibit A, Incorrect Reduction Claim, page 251.

<sup>89</sup> Exhibit A, Incorrect Reduction Claim, pages 18-20. Education Code section 56040 requires special education for pupils defined according to section 56026.

Education. Claimant states: “the initial notification of truancy is a product of the attendance accounting process and promotes compliance of the compulsory education law and *every pupil’s* duty to attend school regularly.”<sup>90</sup>

The Commission finds that providing initial truancy notices for pupils who accumulated fewer than three unexcused absences or tardiness occurrences while between ages six and 18, who by definition were not subject to the compulsory education law when they accrued one or more of the requisite absences or tardiness occurrences, is beyond the scope of the mandate and is not eligible for reimbursement.

The claimant is correct that at the time these reimbursement claims were filed, school districts were required by state law to admit a child to kindergarten if his or her fifth birthday were on or before December 2 of that school year.<sup>91</sup> School districts are also required by state and federal law to provide special education services to “individuals with exceptional needs” until the age of 21 if required by a pupil’s individualized education plan.<sup>92</sup> And schools are required by state law to record the attendance of every pupil enrolled in school for apportionment of state funds and “to ensure the *general* compliance with the compulsory education law, and performance by a pupil of his duty to attend school regularly as provided in [California Code of Regulations, title 5] section 300.”<sup>93</sup>

However, the truancy laws apply only to pupils who are subject to compulsory full-time education. Education Code section 48260(a) defines a truant as:

*A pupil subject to compulsory full-time education or to compulsory continuation education [emphasis added] who is absent from school without a valid excuse three full days in one school year or tardy or absent for more than a 30-minute period during the schoolday [sic] without a valid excuse on three occasions in one school year, or any combination thereof, shall be classified as a truant. ...*

Education Code section 48200 states: “Each person *between the ages of 6 and 18 years* [emphasis added] not exempted ... is subject to compulsory full-time education.”

Education Code 48260(b) further states that “[n]otwithstanding subdivision (a) [which defines a truant as a pupil subject to compulsory full-time education], it is the intent of the Legislature that school districts shall not change the method of attendance accounting provided for in existing law.” Therefore, even though schools are required by state law to report the attendance of all enrolled pupils, the truancy laws, including the notice of initial truancy required by this mandated program, apply only to pupils between the ages of six and 18.

<sup>90</sup> Exhibit A, Incorrect Reduction Claim, pages 22-23. Emphasis in original. Claimant cites California Code of Regulations, title 5, section 300.

<sup>91</sup> Education Code section 48000(a), as last amended by Statutes 1991, chapter 381.

<sup>92</sup> Title 20, United States Code, section 1401; Education Code section 56026.

<sup>93</sup> Education Code section 46000; California Code of Regulations, title 5, section 400. Section 300 of the regulations state in relevant part that “every pupil shall attend school punctually and regularly.”



Accordingly, the Controller's reduction of costs claimed for 67 truancy notices within the audit sample for pupils who accumulated fewer than three unexcused absences or tardiness occurrences while between ages six and 18, is correct as a matter of law.

2. Reimbursement is not required for truancy notices for pupils with fewer than three unexcused absences or tardiness occurrences.

Education Code Section 48260<sup>94</sup> defines a truant as a pupil who is absent from or tardy to school without valid excuse "on three occasions in one school year." The Commission amended the parameters and guidelines effective for costs incurred beginning July 1, 2006, to reflect that the mandate to provide a truancy notification is triggered by a pupil who is absent from or tardy to school without valid excuse on three occasions in one school year and these parameters and guidelines apply to this IRC.<sup>95</sup> If a pupil cannot be initially classified as a truant, as defined in section 48260, a notification is not required, and any notification sent to that pupil's parent or guardian, is not eligible for reimbursement.

The Controller found that, during the audit period, 12 of the sampled notifications were distributed for pupils who accumulated fewer than three unexcused absences or tardiness occurrences during the school year.<sup>96</sup> The claimant has not rebutted these findings, and does not address the 12 notifications in the IRC.

The claimant's request for reimbursement to provide truancy notices for pupils with fewer than three unexcused absences or tardiness occurrences goes beyond the scope of the mandate and is not reimbursable.

Accordingly, the Controller's reduction of costs claimed for the 12 truancy notifications provided for pupils with fewer than three unexcused absences or tardiness occurrences is correct as a matter of law.

**B. The Audit Reductions in Finding 2 Based on Statistical Sampling and Extrapolation of Findings to All Notices Claimed Are Not Arbitrary, Capricious, or Entirely Lacking in Evidentiary Support.**

In its audit, the Controller examined a random sample of initial truancy notices distributed by the claimant for each year to determine the proportion of notifications that were unallowable for the Controller's asserted legal reasons. The sample for all fiscal years totaled 883 notifications distributed by elementary and secondary schools, out of a total of 45,091 claimed for the audit period. The Controller selected its sample "based on a 95% confidence level, a precision rate of  $\pm 8\%$ , and an expected error rate of 50%."<sup>97</sup> The number of unallowable notifications within the sample for each fiscal year was then calculated as an error percentage, and extrapolated to the total number of notifications issued and identified by the claimant in each fiscal year to

<sup>94</sup> As amended by Statutes 1994, chapter 1023 (SB 1728) and Statutes 1995, chapter 19 (SB 102).

<sup>95</sup> Exhibit A, Incorrect Reduction Claim, pages 31-35.

<sup>96</sup> Exhibit A, Incorrect Reduction Claim, page 242. Exhibit B, Controller's Late Comments on the IRC, page 18. All 12 absences were under daily attendance accounting: six in 2007-2008, five in 2008-2009, and one in 2009-2010.

<sup>97</sup> Exhibit A, Incorrect Reduction Claim, page 241.

approximate the total number of unallowable notifications for elementary and secondary schools. The number of unallowable notices was then multiplied by the unit cost for each fiscal year to calculate the total reduction for the audit period at \$68,410.<sup>98</sup>

Since the Controller has not reviewed all 45,091 notifications and the records associated with those notices during these fiscal years, the Controller's methodology is an estimate based on statistical probabilities of the amount of costs claimed beyond the scope of the mandate and that the Controller has determined to be excessive or unreasonable. The Controller states that the estimated reduction of costs has an "adjustment range" with a 95 percent confidence level for all three fiscal years between \$37,420 and \$99,396, and the total reduction (\$68,410) for all three years falls within that range and best represents the point estimate from each audit sample's results.<sup>99</sup>

Claimant argues that statistical sampling is misapplied in this IRC and that the audit findings should be limited to the notifications sampled. Claimant continues that the sampling process was misapplied in this IRC because the audit actually conducted a review for documentation rather than mandate compliance. According to the claimant, "testing to detect the rate of error within tolerances is the purpose of sampling, but it is not a tool to assign an exact dollar amount to the amount of the error which the Controller has inappropriately done . . . here."<sup>100</sup>

Claimant also states that the sample may not be representative of the universe because, for example, kindergarten students in the sample are more likely to be excluded because of the under-age issue, and the possibility of a special education student being under age or over age is greater than the entire student body.<sup>101</sup>

And, according to claimant, the sampling technique used in the audit is non-representative because the sample size for the audit period (736 truancy notifications sampled; 440 notifications sampled for daily attendance (elementary schools) and 296 notifications for period attendance (secondary schools) is 1.93 percent of the universe. As the claimant states: "The expected error rate is stated to be 50%, which means the total amount adjusted of \$68,410 is really just a number exactly between \$34,205 (50%) and \$102,615 (150%). An interval of possible outcomes cannot be used as a finding of absolute actual cost."<sup>102</sup>

The Controller explains, in response, that the district incorrectly identifies the population sample size for secondary schools as 296 truancy notifications, thus incorrectly identifying the total sample size at 736 truancy notifications for elementary and secondary schools. The correct number of period attendance truancy notifications sampled by the Controller for secondary schools was 443, rather than 296 as alleged by the claimant, bringing the total notifications sampled to 883.<sup>103</sup> The Controller explains that:

<sup>98</sup> Exhibit A, Incorrect Reduction Claim, final audit report, pages 242-243.

<sup>99</sup> Exhibit B, Controller's Late Comments on the IRC, pages 17 and 29-30.

<sup>100</sup> Exhibit A, Incorrect Reduction Claim, page 14.

<sup>101</sup> Exhibit A, Incorrect Reduction Claim, page 15.

<sup>102</sup> Exhibit A, Incorrect Reduction Claim, page 16.

<sup>103</sup> Exhibit B, Controller's Late Comments on the IRC, page 12.

The district did not identify the FY 2009-10 "Secondary Schools" statistical sample, i.e. period attendance population. We selected, and tested, 147 period attendance initial truancy notifications in FY 2009-10. Our audit found no instances of non-compliance from the FY 2009-10 period attendance testing.”<sup>104</sup>

The Controller also states as follows:

Based on the sampling parameters identified in the report and the individual sample results, our analysis shows that the audit adjustment range is \$37,420 to \$99,396 (**Tab 4**). While a statistical sample evaluation identifies a range for the population's true error rate, the point estimate provides the best, and thus *reasonable*, single estimate of the population's error rate. The audit report identifies a \$68,410 audit adjustment, which is a cumulative total of the unallowable costs based on point estimates from each audit sample's results.<sup>105</sup>

The Controller further counters that sampling and extrapolation is an audit tool commonly used to identify error rates, and that there is no law or regulation prohibiting that method. The Controller also argues that claimant misstates and misunderstands the meaning of an expected error rate and confidence interval. The Controller argues that its method is reasonable, and “the Administrative Procedures [*sic*] Act is not applicable.”<sup>106</sup>

Based on the analysis herein, the Commission finds that the reductions in this case, determined based on the sampling method used and lack of any evidence to the contrary, are not arbitrary, capricious, or entirely lacking in evidentiary support.

1. There is no evidence to support claimant’s argument that the statistical sampling and extrapolation method used in the audit constitutes an underground regulation.

The claimant challenges the statistical sampling and extrapolation methodology used by the Controller as an underground regulation not adopted pursuant to the APA, and argues that any findings and reductions extrapolated from the sample reviewed by the Controller should therefore be void.<sup>107</sup>

Section 11340.5 of the APA states in pertinent part:

No state agency shall issue, utilize, enforce, or attempt to enforce any guideline, criterion, bulletin, manual, instruction, order, standard of general application, or other rule, which is a regulation as defined in Section 11342.600, unless [the rule] has been adopted as a regulation and filed with the Secretary of State pursuant to this chapter.<sup>108</sup>

Therefore, if the Controller’s challenged audit methods constitute a regulation not adopted pursuant to the APA, the Commission cannot enforce the methods by upholding the reductions.

<sup>104</sup> Exhibit B, Controller’s Late Comments on the IRC, pages 12 and 16.

<sup>105</sup> Exhibit B, Controller’s Late Comments on the IRC, pages 17, 29-30.

<sup>106</sup> Exhibit B, Controller’s Late Comments on the IRC, pages 12 - 17.

<sup>107</sup> Exhibit A, Incorrect Reduction Claim, page 13-14.

<sup>108</sup> Government Code section 11340.5 (Stats. 2000, ch. 1060).

Section 11342.600 of the APA defines a regulation to mean “...every rule, regulation, order, or standard of general application or the amendment, supplement, or revision of any rule, regulation, order, or standard adopted by any state agency to implement, interpret, or make specific the law enforced or administered by it, or to govern its procedure.”<sup>109</sup> Interpreting this section, the California Supreme Court in *Tidewater Marine Western v. Bradshaw* found that a regulation has two principal characteristics:

First, the agency must intend its rule to apply generally, rather than in a specific case. The rule need not, however, apply universally; a rule applies generally so long as it declares how a *certain class of cases* will be decided. Second, the rule must “implement, interpret, or make specific the law enforced or administered by [the agency], or ... govern [the agency's] procedure.”<sup>110</sup>

The necessary inquiry, then, is whether the challenged audit policy or practice is applied “generally,” and used to decide a class of cases; and whether the rule “implement[s], interpret[s], or make[s] specific” the law administered by the Controller. Here, that is a close question that turns on the issue of general applicability: if it is the Controller’s policy that *all audits* of the *Notification of Truancy* program be conducted using the statistical sampling and extrapolation methods that claimant challenges, then that may meet the standard of a rule applied “generally, rather than in a specific case.”<sup>111</sup> On the other hand, if statistical sampling and extrapolation is only one of an auditor’s tools, and happens to be the most practical method for auditing claims involving a unit cost and many thousands of units claimed, and it is within the discretion of each auditor to use the challenged methods, then the APA does not bar the exercise of that discretion.<sup>112</sup>

In *Clovis Unified School District v. Chiang*, the court held that the Controller’s contemporaneous source document rule (CSDR), which was contained solely in the Controller’s claiming instructions and not adopted in the regulatory parameters and guidelines, was applied *generally* to audits of all reimbursement claims for certain programs, in that individual auditors had no discretion to judge on a case-by-case basis whether to apply the rule.<sup>113</sup> As to the second criterion, the court found that the CSDR was more specific, and in some ways inconsistent with the parameters and guidelines for the subject mandated programs. Specifically, the court found that the CSDR defined “source documents” differently and more specifically than the parameters and guidelines, including relegating employee declarations to “corroborating documents, not source documents...”, and failing to recognize the appropriate use of a time study.<sup>114</sup> The court

<sup>109</sup> Government Code section 11342.600 (Stats. 2000, ch. 1060).

<sup>110</sup> *Tidewater Marine Western v. Bradshaw* (1996) 14 Cal.4th 557, 571 (emphasis added) [Citing *Roth v. Department of Veteran Affairs* (1980) 110 Cal.App.3d 622, 630; Gov. Code § 11342(g)].

<sup>111</sup> *Tidewater Marine Western v. Bradshaw* (1996) 14 Cal.4th 557, 571.

<sup>112</sup> See *Taye v. Coye* (1994) 29 Cal.App.4th 1339, 1345. The court found that an auditor’s decision was not an underground regulation where it was “designed to fit the particular conditions that were encountered upon arrival at the audit site.”

<sup>113</sup> *Clovis Unified School District v. Chiang* (2010) 188 Cal.App.4th 794, 803.

<sup>114</sup> *Id.*, pages 803-805.

therefore held, “[g]iven these substantive differences...we conclude that the CSDR implemented, interpreted, or made specific...” the parameters and guidelines and the Controller’s statutory audit authority and was, therefore, an underground regulation.<sup>115</sup>

In the Medi-Cal audit context, the courts held the Department of Health Services’ statistical sampling and extrapolation methods used to determine the amount of over- or under-payment in reimbursement to health care providers to be an underground regulation, absent compliance with the APA. In *Grier v. Kizer*<sup>116</sup> and *Union of American Physicians and Dentists v. Kizer*,<sup>117</sup> (UAPD) “the Department conducted audits of Medi-Cal providers by taking a small random sample [to determine the frequency and extent of over- or under-claiming for services provided], then extrapolating that error rate over the total amount received by the provider during the period covered by the audit.”<sup>118</sup> The courts found the sampling and extrapolation methodology in that case invalid, solely because of the failure of the Department of Health Services to adopt its methodology in accordance with the APA. The court in *Grier* concurred with an Office of Administrative Law (OAL) determination, made in a parallel administrative proceeding, that the challenged method constituted a regulation, and should have been duly adopted. The court observed that “the definition of a regulation is broad, as contrasted with the scope of the internal management exception, which is narrow.”<sup>119</sup> The court rejected the Department’s argument that sampling and extrapolation was the only legally tenable interpretation of its audit authority: “While sampling and extrapolation may be more feasible or cost-effective,...[a] line by line audit is an alternative tenable interpretation of the statutes.”<sup>120</sup> The court also noted that the Department “acquiesced” in that determination and soon after it adopted a regulation providing expressly for statistical sampling and extrapolation in the conduct of Medi-Cal audits.<sup>121</sup> Accordingly, the court in *Union of American Physicians and Dentists* assumed, without deciding, that having satisfied the APA, the statistical methodology could be validly applied to pending audits, or remanded audits.<sup>122</sup> With respect to Medi-Cal audits, a statistical sampling methodology is provided for in *both* the Welfare and Institutions Code and in the Department’s implementing regulations.<sup>123</sup>

<sup>115</sup> *Id.*, page 805.

<sup>116</sup> *Grier v. Kizer* (1990) 219 Cal.App.3d 422 overturned on other grounds in *Tidewater Marine Western v. Bradshaw*, *supra*, 14 Cal.4th 557.

<sup>117</sup> *Union of American Physicians and Dentists v. Kizer* (1990) 223 Cal.App.3d 490.

<sup>118</sup> *Id.*, page 495.

<sup>119</sup> *Id.*, page 435.

<sup>120</sup> *Id.*, pages 438-439.

<sup>121</sup> *Ibid.*

<sup>122</sup> *Union of American Physicians and Dentists*, *supra*, 223 Cal.App.3d 490, 504-505 [finding that the statistical audit methodology did not have retroactive effect because it did not alter the legal significance of past events (i.e., the amount of compensation to which a Medi-Cal provider was entitled)].

<sup>123</sup> See, e.g., Welfare and Institutions Code section 14170(b) (added by Stats. 1992, ch. 722 (SB 485); California Code of Regulations, title 22, section 51458.2 (Register 1988, No. 17).

In light of the *Clovis Unified*, *Grier* and *UAPD* cases, it is clear that an audit practice may be reasonable and otherwise permissible, yet still impose an illegal underground regulation. However, the Commission does not have substantial evidence in the record that the audit methodology complained of rises to the level of a rule of general application, and no clear “class of cases” to which it applies has been defined. In *Tidewater*, the Court held that a “rule need not, however, apply universally; a rule applies generally so long as it declares how a certain class of cases will be decided.”<sup>124</sup> And in the *Clovis Unified* case, the court explained that in the context of the Controller’s audits of mandate reimbursement claims:

As to the first criterion—whether the rule is intended to apply generally—substantial evidence supports the trial court’s finding that the CSDR was “applie[d] generally to the auditing of reimbursement claims ...; the Controller’s auditors ha[d] no discretion to judge on a case[-]by[-]case basis whether to apply the rule.”<sup>125</sup>

Here, unlike *Clovis Unified*, the sampling and extrapolation method is not part of the claiming instructions for this mandate. Nor is it alleged that auditors were *required* to use the statistical methods at issue. Of the 42 completed audit reports for this mandated program currently available on the Controller’s website, some do not apply a statistical sampling and extrapolation methodology to calculate a reduction;<sup>126</sup> others apply a sampling and extrapolation method to determine whether the notifications issued complied with the eight required elements under section 48260.5;<sup>127</sup> and some use sampling and extrapolation methods to determine the proportion of notifications issued that were supported by documentation, including attendance records, rather than the proportion unallowable based on absences, as here.<sup>128</sup>

Therefore, in light of applicable case law and the evidence in the record, the Commission finds that the Controller’s sampling and extrapolation method, as applied in this case, is not an underground regulation within the meaning of the APA.

<sup>124</sup> *Tidewater Marine Western v. Bradshaw*, *supra*, 14 Cal.4th 557, 571.

<sup>125</sup> *Clovis Unified School District v. Chiang*, *supra*, 188 Cal.App.4th 794, 803.

<sup>126</sup> Exhibit X. See, e.g., Office of the State Controller, Audit of Sweetwater Union High School District, *Notification of Truancy*, fiscal years 2006-2007 through 2009-2010 [In this audit report the Controller reduced based on the claimant’s failure to comply with the notification requirements of section 48260.5, rather than performing a sampling and estimation audit to determine whether notifications were issued in compliance with section 48260.]

<sup>127</sup> Exhibit X. See, e.g., Office of the State Controller, Audit of Colton Joint Unified School District, *Notification of Truancy*, fiscal years 1999-2000 through 2001-2002, issued November 26, 2003.

<sup>128</sup> Exhibit X. See, e.g., Office of the State Controller, Audit of Bakersfield City School District, *Notification of Truancy*, fiscal years 2007-2008 through 2009-2010, issued October 25, 2012.

2. The Controller's audit findings must be upheld absent evidence that the reductions are arbitrary, capricious, or entirely lacking in evidentiary support.

The claimant argues that there is no statutory or regulatory authority for the Controller to reduce claimed costs based on extrapolation from a statistical sample.<sup>129</sup> The Controller counters that the law does not prohibit the audit methods used. The Controller relies on Government Code section 12410, which requires the Controller to audit all claims against the state and “may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment.”<sup>130</sup> The Controller also relies on Government Code section 17561, which permits the Controller to reduce any claim that is determined to be excessive or unreasonable: “The SCO conducted appropriate statistical samples that identified a *reasonable* estimate of the non-reimbursable initial truancy notifications, thus properly reducing the claims for the *unreasonable* claimed costs.”<sup>131</sup>

The Controller correctly states that there is no express prohibition in law or regulation of statistical sampling and extrapolation methods being used in an audit. However, the Controller's authority to audit is described in the broadest terms: article XVI, section 7 states that “Money may be drawn from the Treasury only through an appropriation made by law and upon a Controller's duly drawn warrant.”<sup>132</sup> Government Code section 12410 provides that the Controller “shall superintend the fiscal concerns of the state...” and “shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment.”<sup>133</sup>

The Controller's audit authority for mandates is more specifically articulated. Article XIII B, section 6 provides that “the State shall provide a subvention of funds to reimburse...local government for the costs of the program or increased level of service...” whenever the Legislature or a state agency mandates a new program or higher level of service.<sup>134</sup> Government Code section 17561, accordingly, provides that the state “shall reimburse each local agency and school district for *all* ‘costs mandated by the state,’ as defined in Section 17514...” At the time the audit of the subject claims began in 2012, section 17561 stated:

In subsequent fiscal years each local agency or school district shall submit its claims as specified in Section 17560. The Controller shall pay these claims from funds appropriated therefor except as follows: (A) The Controller may audit any of the following: (i) Records of any local agency or school district to verify the actual amount of the mandated costs. (ii) The application of a reasonable reimbursement methodology. (iii) The application of a legislatively enacted reimbursement methodology under Section 17573. (B) The Controller may

<sup>129</sup> Exhibit A, Incorrect Reduction Claim, page 11.

<sup>130</sup> Government Code section 12410 (Stats. 1968, ch. 449).

<sup>131</sup> Exhibit B, Controller's Late Comments on the IRC, page 17 [emphasis in original].

<sup>132</sup> California Constitution, article XVI, section 7 (added November 5, 1974, by Proposition 8).

<sup>133</sup> Statutes 1968, chapter 449.

<sup>134</sup> California Constitution, article XIII B, section 6, Statutes 2004, chapter 133, SCA 4; Proposition 1A, November 2, 2004.

reduce any claim that the Controller determines is excessive or unreasonable. (C) The Controller shall adjust the payment to correct for any underpayments or overpayments that occurred in previous fiscal years.<sup>135</sup>

The parameters and guidelines for the *Notification of Truancy* mandate predate the statutory authorization for a “reasonable reimbursement methodology,” as defined in sections 17518.5 and 17557. However, a unit cost, which was adopted for this program, is included within the definition of a “reasonable reimbursement methodology.”<sup>136</sup> Thus the Controller’s audit authority pursuant to section 17561 expressly authorizes an audit of a claim based on unit cost reimbursement. The statutes, however, do not address how the Controller is to audit and verify the costs mandated by the state.

Additionally, the Controller argues that the audit was properly conducted according to *Government Auditing Standards*, as issued by the Comptroller General of the United States. The Controller cites section 7.55 of the *Generally Accepted Government Auditing Standards* (GAGAS): “[a]uditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions,” in support of the use of statistical sampling.<sup>137</sup> Further the Controller cites section 7.56 of the GAGAS: “[a]ppropriateness is the measure of the quality of evidence...” and section 7.62: “[w]hen a representative sample is needed, the use of statistical sampling approaches generally results in stronger evidence....”<sup>138</sup>

While the standards cited do not *expressly* provide for statistical sampling and extrapolation to be applied to mandate reimbursement, they do provide for statistical methods to be used to establish the sufficiency, or validity of evidence.<sup>139</sup> The Controller also cites the “Handbook of Sampling for Auditing and Accounting,” by Herbert Arkin, to support its contention that a sampling methodology to determine the frequency of errors in the population (i.e., notifications that were not reimbursable for an asserted legal reason) is a widely used approach to auditing.<sup>140</sup>

In accordance with the Controller’s audit authority and duties under the Government Code, the Commission’s determination is limited to whether the Controller’s audit decisions and reduction of costs is arbitrary, capricious, or entirely lacking in evidentiary support.<sup>141</sup> Based on the standards and texts cited by the Controller, the Commission finds that statistical methods are a commonly-used tool in auditing.

<sup>135</sup> Government Code section 17561, Statutes 2009, chapter 4.

<sup>136</sup> Government Code section 17518.5 added Stats. 2004, ch. 890); Government Code section 17557 (as amended, Stats. 2004, ch. 890; Stats. 2007, ch. 329).

<sup>137</sup> Exhibit A, Incorrect Reduction Claim, page 245. The Controller cites to: U.S. Government Accountability Office, *Government Auditing Standards*, July 2007.

<sup>138</sup> *Id.*

<sup>139</sup> Exhibit X, Excerpt from Government Auditing Standards, 2003, page 13.

<sup>140</sup> Exhibit B, Controller’s Late Comments on the IRC, pages 16-17. The handbook cited is: Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, Third Edition, Prentice Hall, New Jersey, 1984.

<sup>141</sup> *American Bd. of Cosmetic Surgery, Inc.*, *supra*, 162 Cal.App.4th 534, 547-548.



In fact, statistical sampling methods such as those employed here are used in a number of other contexts and have not been held, in themselves, to be arbitrary and capricious, or incorrect as a matter of law. As discussed above, the Department of Health Services has used statistical sampling and extrapolation to determine the amount of over- or under-payment in the context of Medi-Cal reimbursement to health care providers. In *Grier v. Kizer*<sup>142</sup> and *UAPD*,<sup>143</sup> “the Department conducted audits of Medi-Cal providers by taking a small random sample [to determine the frequency and extent of over- or under-claiming for services provided], then extrapolating that error rate over the total amount received by the provider during the period covered by the audit.”<sup>144</sup> The methods used by the Department of Health Services were disapproved by the courts in *Grier* and *UAPD* only on the ground that they constituted a regulation not adopted in accordance with the APA (as discussed above), rather than on the substantive question whether statistical sampling and extrapolation was a permissible methodology for auditing.<sup>145</sup> Once the Department adopted a regulation in accordance with the APA – a reaction to the proceedings in *Grier* – the court in *UAPD* had no objection to the statistical methodology on its merits.<sup>146</sup> After *Grier*, the Department has both regulatory and statutory authority for its sampling and extrapolation audit process.<sup>147</sup>

In addition to the Medi-Cal reimbursement context, the courts have declined to reject the use of statistical sampling and extrapolation to calculate plaintiffs’ damages in a class action or other mass tort action.<sup>148</sup> In a case addressing audits of county welfare agencies, the court declined to consider whether the sampling and extrapolation procedures were legally proper, instead finding that counties were not required to be solely responsible for errors “which seem to be inherent in public welfare administration.”<sup>149</sup>

On that basis, and giving due consideration to the discretion of the Controller to audit the fiscal affairs of the state,<sup>150</sup> the Commission finds it must uphold the Controller’s auditing decisions absent evidence that the audit reductions are arbitrary, capricious, or entirely lacking in evidentiary support.

<sup>142</sup> *Grier v. Kizer*, (1990) 219 Cal.App.3d 422, overturned on other grounds in *Tidewater Marine Western v. Bradshaw*, *supra*, 14 Cal.4th 557.

<sup>143</sup> *Union of American Physicians and Dentists v. Kizer*, (1990) 223 Cal.App.3d 490.

<sup>144</sup> *Id.*, page 495.

<sup>145</sup> E.g., *Grier v. Kizer*, *supra*, 219 Cal.App.3d 422, 439-440.

<sup>146</sup> *Union of American Physicians and Dentists v. Kizer*, (1990), 223 Cal.App.3d 490, 504-505 [finding that the statistical audit methodology did not have retroactive effect because it did not alter the legal significance of past events (i.e., the amount of compensation to which a Medi-Cal provider was entitled)].

<sup>147</sup> See, e.g., Welfare and Institutions Code section 14170(b) as added by Statutes 1992, chapter 722 (SB 485). California Code of Regulations, title 22, section 51458.2 (Register 1988, No. 17).

<sup>148</sup> See, e.g., *Bell v. Farmers Insurance Exchange* (2004) 115 Cal.App.4th 715.

<sup>149</sup> *County of Marin v. Martin* (1974) 43 Cal.App.3d 1, 7.

<sup>150</sup> Government Code section 12410.

3. There is no evidence in the record that the Controller's findings using the sampling and extrapolation methodology are not representative of all notices claimed during the audit period or that the findings are arbitrary, capricious, or entirely lacking in evidentiary support.

In addition to challenging the legal sufficiency of the Controller's sampling and extrapolation methodology, the claimant also challenges the qualitative and quantitative reliability and fairness of using statistical sampling and extrapolation to evaluate reimbursement. The claimant states that the risk of extrapolating findings from a sample is that the conclusions obtained from the sample may not be representative of the universe. For example, the claimant asserts that a kindergarten pupil is more likely to be under-age and a special education pupil is more likely to be over-age so that the extrapolation from the samples would not be representative of the universe.<sup>151</sup> The claimant further contends that the sampling technique used by the Controller is also quantitatively non-representative because less than two percent of the total number of notices were audited, the stated precision rate was plus or minus eight percent even though the sample size (ranging from 146 to 148) is essentially identical for all four fiscal years, and that the audited number of notices claimed for daily accounting (elementary schools) in fiscal year 2008-2009 (6,996) is 17 percent larger than the size in fiscal year 2009-2010 (5,995). The claimant concludes by stating that "[t]he expected error rate is stated to be 50%, which means the total amount adjusted \$68,410 [for the 3-year audit period] is really just a number exactly between \$34,205 (50%) and \$102,615 (150%)."<sup>152</sup>

The Controller disagrees with the claimant's assertions that the sampling is non-representative of all notices claimed. The Controller states "that a particular student's initial truancy notification might more likely be identified as non-reimbursable is irrelevant to the composition of the audit sample itself. It has no bearing on evaluating whether the sample selection is representative of the population" because the sample was random.<sup>153</sup> Citing to the *Handbook of Sampling for Auditing and Accounting*, page 9, the Controller states:

Since the [statistical] sample is objective and unbiased, it is not subject to questions that might be raised relative to a judgment sample. Certainly a complaint that the auditor had looked only at the worst items and therefore biased the results would have not standing. This results from the fact that an important feature of this method of sampling is that all entries or documents have an equal opportunity for inclusion in the sample.<sup>154</sup>

The Controller further states that the district apparently reached the conclusion that the sampling was quantitatively non-representative because the sample sizes were essentially consistent, while the applicable population size varied. The Controller argues that the absolute size of the sample, not the relative size, is more important under "basic statistical sampling principles." The Controller explains that an "expected error rate" in this context is an assumption used to determine the appropriate sample size, rather than a measure of the ultimate accuracy of the

<sup>151</sup> Exhibit A, Incorrect Reduction Claim, page 15.

<sup>152</sup> Exhibit A, Incorrect Reduction Claim, page 16.

<sup>153</sup> Exhibit B, Controller's Late Comments on the IRC, page 15.

<sup>154</sup> *Ibid.*

result. In other words, when “the auditor has no idea whatsoever of what to expect as the maximum rate of occurrence or does not care to make an estimate...” an expected error rate of 50 percent as the beginning assumption will provide “the most conservative possible sample size estimate” in order to achieve the precision desired.<sup>155</sup> In addition, the desired accuracy of the result, which might be called a “margin of error,” is determined by the auditor before calculating the sample size (shown below as “SE = desired sample precision”). Therefore, the “margin of error” of the Controller’s resulting percentage is a known value. The Controller relies on the following formula outlined in Arkin’s *Handbook of Sampling for Auditing and Accounting* to calculate the sample size:

$$n = \frac{p(1 - p)}{\left(\frac{SE}{t}\right)^2 + \left(\frac{p(1 - p)}{N}\right)}$$

n = sample size

p = percent of occurrence in population (expected error rate)

SE = desired sample precision

t = confidence level factor

N = population size<sup>156</sup>

Thus, applying the formula above to the population of elementary and secondary notices in this case, with a 50 percent expected error rate (the “most conservative sample size estimate” when an error rate is not known) and a desired eight percent margin of error, as stated in the audit report, shows that an appropriate sample size for each level of elementary and secondary schools is between 146 and 148 notices for populations ranging from 5,995 to 6,996 notifications issued annually by elementary schools, and 6,897 to 9,496 notifications issued annually by secondary schools during the audit period.<sup>157</sup>

Moreover, there is no evidence in the record that the results are biased or unrepresentative “because a kindergarten pupil is more likely to be under-age and a special education pupil is more likely to be over-age,” as asserted by claimant. There is no dispute that the samples were randomly obtained and reviewed by the Controller. According to the *Handbook of Sampling for Auditing and Accounting*, all notices randomly sampled have an equal opportunity for inclusion in the sample so the result is statistically objective and unbiased.<sup>158</sup> Moreover, absent evidence, the Commission must presume that the schools within the claimant’s district complied with the mandate in the same way.

<sup>155</sup> Exhibit B, Controller’s Late Comments on the IRC, pages 16-17, Citing to Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, Third Edition, Prentice Hall, New Jersey, 1984, page 89.

<sup>156</sup> *Id.*, page 16. [Citing to Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, Third Edition, Prentice Hall, New Jersey, 1984, page 56].

<sup>157</sup> Exhibit B, Controller’s Comments on the IRC, page 29.

<sup>158</sup> Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, Third Edition, Prentice Hall, New Jersey, 1984, page 9.

In addition, the adjustment range for the population's true error rate within the 95 percent confidence interval is between \$30,986 to \$30,990, added or subtracted from the point estimate of \$68,410.<sup>159</sup> And, the adjustment range of \$30,986 to \$30,990 for the costs reduced represents less than four percent (3.8%) plus or minus of the total amount claimed in fiscal years 2007-2008, 2008-2009, and 2009-2010 (\$796,110).<sup>160</sup> Although there is a possibility that the \$68,410 reduction may result in more or less reimbursement to the claimant than the actual costs correctly claimed, the Commission finds that the application of statistical sampling and extrapolation in this instance is not arbitrary, capricious, or entirely lacking in evidentiary support.

Therefore, the Commission finds no evidence that the Controller's reduction of costs claimed, based on the statistical sampling method as applied in this case, is unrepresentative of all notices claimed or that the Controller's findings are arbitrary, capricious, or entirely lacking in evidentiary support.

## **V. Conclusion**

The Commission finds that the reduction of \$68,410 for the audit period, based on the Controller's sampling and extrapolation methodology for initial notices of truancy distributed for pupils who had fewer than three unexcused absences or tardiness occurrences during the school year and for pupils who accumulated fewer than three absences while between the ages of six and 18 and so were not subject to the compulsory education laws, is correct as a matter of law, and is not arbitrary, capricious, or entirely lacking in evidentiary support.

Accordingly, the Commission denies this IRC.

<sup>159</sup> Exhibit B, Controller's Late Comments on the IRC, page 17. "Based on the sampling parameters identified in the report and the individual sample results, our analysis shows that the audit adjustment range is \$37,420 to \$99,396."

<sup>160</sup> Exhibit A, Incorrect Reduction Claim, page 236.

**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 October 28, 2015, I served the:

**Draft Proposed Decision, Schedule for Comments, and Notice of Hearing**

*Notification of Truancy*, 13-904133-I-13

Education Code Sections 48260.5

Statutes 1983, Chapter 498

Fiscal Years: 2007-2008, 2008-2009, and 2009-2010

Riverside Unified School District, Claimant

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

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on October 28, 2015 at Sacramento, California.

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

# COMMISSION ON STATE MANDATES

## Mailing List

**Last Updated:** 10/19/15

**Claim Number:** 13-904133-I-13

**Matter:** Notification of Truancy

**Claimant:** Riverside Unified School District

### TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

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

**Socorro Aquino**, *State Controller's Office*

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

Phone: (916) 322-7522

SAquino@sco.ca.gov

**Marieta Delfin**, *State Controller's Office*

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

Phone: (916) 322-4320

mdelfin@sco.ca.gov

**Eric Feller**, *Commission on State Mandates*

980 9th Street, Suite 300, Sacramento, CA 95814

Phone: (916) 323-3562

eric.feller@csm.ca.gov

**Donna Ferebee**, *Department of Finance*

915 L Street, Suite 1280, Sacramento, CA 95814

Phone: (916) 445-3274

donna.ferebee@dof.ca.gov

**Chris Ferguson**, *Department of Finance*

Education Systems Unit, 915 L Street, 7th Floor, 915 L Street, 7th Floor, Sacramento, CA 95814

Phone: (916) 445-3274

Chris.Ferguson@dof.ca.gov

**Susan Geanacou**, *Department of Finance*

915 L Street, Suite 1280, Sacramento, CA 95814

Phone: (916) 445-3274  
susan.geanacou@dof.ca.gov

**Paul Golaszewski**, *Legislative Analyst's Office*  
925 L Street, Suite 1000, Sacramento, CA 95814  
Phone: (916) 319-8341  
Paul.Golaszewski@lao.ca.gov

**Ed Hanson**, *Department of Finance*  
Education Systems Unit, 915 L Street, 7th Floor, Sacramento, CA 95814  
Phone: (916) 445-0328  
ed.hanson@dof.ca.gov

**Mays Kakish**, Chief Business Officer and Governmental Relations, *Riverside Unified School District*  
3380 14th Street, Riverside, CA 92501  
Phone: (951) 788-7135  
mkakish@rusd.k12.ca.us

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

**Dan Kaplan**, Fiscal & Policy Analyst, *Legislative Analyst's Office*  
925 L Street, Suite 1000, Sacramento, CA 95814  
Phone: (916) 319-8353  
Dan.Kaplan@lao.ca.gov

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

**Yazmin Meza**, *Department of Finance*  
915 L Street, Sacramento, CA 95814  
Phone: (916) 445-0328  
Yazmin.meza@dof.ca.gov

**Robert Miyashiro**, *Education Mandated Cost Network*  
1121 L Street, Suite 1060, Sacramento, CA 95814  
Phone: (916) 446-7517  
robertm@sscal.com

**Keith Nezaam**, *Department of Finance*  
915 L Street, 8th Floor, Sacramento, CA 95814  
Phone: (916) 445-8913  
Keith.Nezaam@dof.ca.gov

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

**Christian Osmena**, *Department of Finance*

915 L Street, Sacramento, CA 95814

Phone: (916) 445-0328

christian.osmena@dof.ca.gov

**Arthur Palkowitz**, *Stutz Artiano Shinoff & Holtz*

2488 Historic Decatur Road, Suite 200, San Diego, CA 92106

Phone: (619) 232-3122

apalkowitz@sashlaw.com

**Keith Petersen**, *SixTen & Associates*

**Claimant Representative**

P.O. Box 340430, Sacramento, CA 95834-0430

Phone: (916) 419-7093

kbpstixten@aol.com

**Sandra Reynolds**, *Reynolds Consulting Group, Inc.*

P.O. Box 894059, Temecula, CA 92589

Phone: (951) 303-3034

sandrareynolds\_30@msn.com

**David Scribner**, *The Law Office of David E. Scribner, Esq*

11347 Folsom Blvd, Suite D, Rancho Cordova, CA 95742

Phone: (916) 207-2848

david@deslawoffice.com

**Jim Spano**, Chief, Mandated Cost Audits Bureau, *State Controller's Office*

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

Phone: (916) 323-5849

jspano@sco.ca.gov

**Dennis Speciale**, *State Controller's Office*

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

Phone: (916) 324-0254

DSpeciale@sco.ca.gov





RECEIVED  
October 30, 2015  
Commission on  
State Mandates

BETTY T. YEE  
California State Controller

October 30, 2015

Heather Halsey, Executive Director  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814

Re: **Draft Proposed Decision**  
Incorrect Reduction Claim  
*Notification of Truancy*, 13-904133-I-13  
Education Code Section 48260.5  
Statutes 1983, Chapter 498  
Fiscal Years 2007-08, 2008-2009, and 2009-10  
Riverside Unified School District, Claimant

Dear Ms. Halsey:

The State Controller's Office (SCO) has reviewed the Commission on State Mandates' (Commission) Draft Staff Analysis (DSA) dated October 28, 2015, for the above incorrect reduction claim (IRC) filed by Riverside Unified School District. This letter constitutes the SCO's response to the DSA.

We support the Commission staff decision related to the following:

- Reductions based on notifications of truancy issued for pupils who were under the age of six and over the age of eighteen are correct as a matter of law.
- Reductions based on notifications issued for pupils with fewer than three absences or tardiness occurrences are correct as a matter of law.
- The statistical sampling and extrapolation methodology used by the SCO to determine the amounts to be reduced is not an underground regulation.

If you have any questions, please contact me by telephone at (916) 323-5849.

Sincerely,

JIM L. SPANO, Chief  
Mandated Cost Audits Bureau  
Division of Audits

P.O. Box 942850, Sacramento, CA 94250 ♦ (916) 445-2636  
3301 C Street, Suite 700, Sacramento, CA 95816 ♦ (916) 324-8907  
901 Corporate Center Drive, Suite 200, Monterey Park, CA 91754 ♦ (323) 981-6802

Heather Halsey, Executive Director  
October 29, 2015  
Page 2

JLS/lb

16189

## **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 November 2, 2015, I served the:

**SCO Comments**

*Notification of Truancy*, 13-904133-I-13

Education Code Sections 48260.5

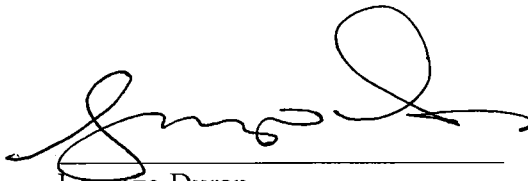
Statutes 1983, Chapter 498

Fiscal Years: 2007-2008, 2008-2009, and 2009-2010

Riverside Unified School District, Claimant

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

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on November 2, 2015 at Sacramento, California.



Lorenzo Duran

Commission on State Mandates

980 Ninth Street, Suite 300

Sacramento, CA 95814

(916) 323-3562

# COMMISSION ON STATE MANDATES

## Mailing List

**Last Updated:** 10/29/15

**Claim Number:** 13-904133-I-13

**Matter:** Notification of Truancy

**Claimant:** Riverside Unified School District

### TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

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

**Socorro Aquino**, *State Controller's Office*

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

Phone: (916) 322-7522

SAquino@sco.ca.gov

**Marieta Delfin**, *State Controller's Office*

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

Phone: (916) 322-4320

mdelfin@sco.ca.gov

**Eric Feller**, *Commission on State Mandates*

980 9th Street, Suite 300, Sacramento, CA 95814

Phone: (916) 323-3562

eric.feller@csm.ca.gov

**Donna Ferebee**, *Department of Finance*

915 L Street, Suite 1280, Sacramento, CA 95814

Phone: (916) 445-3274

donna.ferebee@dof.ca.gov

**Chris Ferguson**, *Department of Finance*

Education Systems Unit, 915 L Street, 7th Floor, 915 L Street, 7th Floor, Sacramento, CA 95814

Phone: (916) 445-3274

Chris.Ferguson@dof.ca.gov

**Susan Geanacou**, *Department of Finance*

915 L Street, Suite 1280, Sacramento, CA 95814

Phone: (916) 445-3274  
susan.geanacou@dof.ca.gov

**Paul Golaszewski**, *Legislative Analyst's Office*  
925 L Street, Suite 1000, Sacramento, CA 95814  
Phone: (916) 319-8341  
Paul.Golaszewski@lao.ca.gov

**Rebecca Hamilton**, *Department of Finance*  
Education Systems Unit, 915 L Street, 7th Floor, Sacramento, CA 95814  
Phone: (916) 445-0328  
Rebecca.Hamilton@dof.ca.gov

**Ed Hanson**, *Department of Finance*  
Education Systems Unit, 915 L Street, 7th Floor, Sacramento, CA 95814  
Phone: (916) 445-0328  
ed.hanson@dof.ca.gov

**Mays Kakish**, Chief Business Officer and Governmental Relations, *Riverside Unified School District*  
3380 14th Street, Riverside, CA 92501  
Phone: (951) 788-7135  
mkakish@rusd.k12.ca.us

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

**Dan Kaplan**, Fiscal & Policy Analyst, *Legislative Analyst's Office*  
925 L Street, Suite 1000, Sacramento, CA 95814  
Phone: (916) 319-8353  
Dan.Kaplan@lao.ca.gov

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

**Yazmin Meza**, *Department of Finance*  
915 L Street, Sacramento, CA 95814  
Phone: (916) 445-0328  
Yazmin.meza@dof.ca.gov

**Robert Miyashiro**, *Education Mandated Cost Network*  
1121 L Street, Suite 1060, Sacramento, CA 95814  
Phone: (916) 446-7517  
robertm@sscal.com

**Keith Nezaam**, *Department of Finance*  
915 L Street, 8th Floor, Sacramento, CA 95814  
Phone: (916) 445-8913  
Keith.Nezaam@dof.ca.gov

**Andy Nichols**, *Nichols Consulting*

1857 44th Street, Sacramento, CA 95819

Phone: (916) 455-3939

andy@nichols-consulting.com

**Christian Osmena**, *Department of Finance*

915 L Street, Sacramento, CA 95814

Phone: (916) 445-0328

christian.osmena@dof.ca.gov

**Arthur Palkowitz**, *Stutz Artiano Shinoff & Holtz*

2488 Historic Decatur Road, Suite 200, San Diego, CA 92106

Phone: (619) 232-3122

apalkowitz@sashlaw.com

**Keith Petersen**, *SixTen & Associates*

**Claimant Representative**

P.O. Box 340430, Sacramento, CA 95834-0430

Phone: (916) 419-7093

kbpstixten@aol.com

**Sandra Reynolds**, *Reynolds Consulting Group, Inc.*

P.O. Box 894059, Temecula, CA 92589

Phone: (951) 303-3034

sandrareynolds\_30@msn.com

**David Scribner**, *The Law Office of David E. Scribner, Esq*

11347 Folsom Blvd, Suite D, Rancho Cordova, CA 95742

Phone: (916) 207-2848

david@deslawoffice.com

**Jim Spano**, Chief, Mandated Cost Audits Bureau, *State Controller's Office*

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

Phone: (916) 323-5849

jspano@sco.ca.gov

**Dennis Speciale**, *State Controller's Office*

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

Phone: (916) 324-0254

DSpeciale@sco.ca.gov

# SixTen and Associates

## Mandate Reimbursement Services

**RECEIVED**  
November 03, 2015  
*Commission on  
State Mandates*

KEITH B. PETERSEN, President

San Diego  
5252 Balboa Avenue, Suite 900  
San Diego, CA 92117  
Telephone: (858) 514-8605  
Fax: (858) 514-8645  
www.sixtenandassociates.com

Sacramento  
P.O. Box 340430  
Sacramento, CA 95834-0430  
Telephone: (916) 419-7093  
Fax: (916) 263-9701  
E-Mail: kbpsixten@aol.com

November 3, 2015

Heather Halsey, Executive Director  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814

Dear Ms. Halsey:

RE: CSM 13-904133-I-13  
**Riverside Unified School District**  
498/83 Notification of Truancy - **Audit #3**  
Fiscal Years: 2007-08, 2008-09, and 2009-10  
Incorrect Reduction Claim

I have received the Commission Draft Proposed Decision (DPD) dated October 28, 2015, for the above-referenced incorrect reduction claim, to which I respond on behalf of the District.

### PART A. SAMPLED NOTIFICATIONS

In Finding 2, the audit report disallowed \$68,410 of the claimed costs for the audit period "for [sampled] students who did not accumulate the required number of unexcused absences or tardiness occurrences to be classified as truant under the mandated program." The audit report disallows 79 of the 736 notifications (440 for daily attendance and 296 for period attendance) evaluated for two reasons: 67 as outside the ages of 6 through 18 with less than three absences/tardies, and 12 for accruing less than three absences/tardies.

<u>DISALLOWANCE REASON</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>TOTAL</u>
<u>Daily Attendance</u>				
Underage (less than 6 years)	22	20	8	50
Less than 3 Absences	<u>6</u>	<u>5</u>	<u>1</u>	<u>12</u>
Total Disallowed	28	25	9	62
Sample Size	147	147	146	440
Percentage Disallowance	19.05%	17.01%	6.16%	14.09%

Period Attendance

Overage (18 years plus)	8	9	17
Less than 3 Absences			
Total Disallowed	8	9	17
Sample Size	148	148	296
Percentage Disallowance	5.41%	6.08%	5.74%

1. Compulsory Attendance

The audit report disallowed 50 notices in the audit sample for the elementary schools (daily attendance accounting) for students that were younger than 6 years of age and disallowed 17 notices in the audit sample for secondary schools (period attendance accounting) for students that were older than 18 years of age at the time the notification was sent, citing the compulsory attendance law, Education Code Section 48200, which provides each person 6 through 18 years not otherwise exempted is subject to compulsory full-time education.

In the incorrect reduction claim the District asserted that school districts are required by Section 46000 to record and keep attendance and report the absences of *all students* according to the regulations of the State Board of Education for purposes of apportionment and general compliance with the compulsory education law (Title 5, CCR, Section 400, et seq.), and that the initial notification of truancy is a product of the attendance accounting process that promotes compliance of the compulsory education law and every pupil's duty to attend school regularly (Title 5, CCR, Section 300).

The Commission (DPD, 22) determined:

Education Code 48260(b) further states that '[n]otwithstanding subdivision (a) [which defines a truant as a pupil subject to compulsory full-time education], it is the intent of the Legislature that school districts shall not change the method of attendance accounting provided for in existing law.' Therefore, even though schools are required by state law to report the attendance of all enrolled pupils, the truancy laws, including the notice of initial truancy required by this mandated program, apply only to pupils between the ages of six and 18.

The District no longer disputes this issue.

2. Definition of Initial Truancy

The audit report disallowed 12 notices in the audit sample for those students sampled who had less than three unexcused absences/tardies in total regardless of their age. The disallowed samples resulted because the District was either unable to provide documentation at the time of audit of the three incidences at the time the notification letters were sent, or some of the incidences were retroactively cleared after the



notification was sent. There being no additional documentation available at the time of audit or now, the District no longer disputes this issue.

The District's agreement with these two Commission findings is limited to the extent of the actual number of sampled notices involved, but not as to the extrapolation of these sampled notices.

## **PART B. STATISTICAL SAMPLING AND EXTRAPOLATION OF FINDINGS**

For all three fiscal years of the audit period the Controller examined a random sample of initial truancy notices to determine which notifications were unallowable for the reasons stated above. The audit sampled 883 notifications out of a total universe of 45,091 allowed notices. The universe was reduced by 6,897 notices and 147 sampled notices because the period attendance for FY 2009-10 was not extrapolated. The extrapolation of the 79 disallowed sampled notifications is 3,900 in the amount of \$68,410 for the three years.

The incorrect reduction claim asserts that the Controller cited no statutory or regulatory authority to allow the Controller to reduce claimed reimbursement based on extrapolation of a statistical sample, that the entire findings are based upon the wrong standard for review and that there is no published audit manual for mandate reimbursement or the audit of mandate claims in general for this or any other mandate program which allows this method of audit or allows adjustment of amounts claimed in this manner. The Commission concludes otherwise based on factually unrelated case law, broad legislative grants of authority, and unadopted audit standards intended for other purposes.

### **1. Underground Regulation**

The incorrect reduction claim asserts that the sampling and extrapolation process is a standard of general application without appropriate state agency rulemaking and is therefore unenforceable (Government Code Section 11340.5). The formula is not an exempt audit guideline (Government Code Section 11340.9 (e)). State agencies are prohibited from enforcing underground regulations. If a state agency issues, enforces, or attempts to enforce a rule without following the Administrative Procedure Act, when it is required to, the rule is called an "underground regulation." Further, the audit adjustment is a financial penalty against the District, and since the adjustment is based on an underground regulation, the formula cannot be used for the audit adjustment (Government Code Section 11425.50 (c)). The Commission concludes (DPD, 28) that the Controller's sampling and extrapolation method is not an underground regulation within the meaning of the Administrative Procedure Act.

The Commission cites (DPD, 26) *Tidewater Marine Western v. Bradshaw* for two standards of review:

First, the agency must intend its rule to apply generally, rather than in a specific case. The rule need not, however, apply universally; a rule applies generally so long as it declares how a *certain class of cases* will be decided. Second, the rule must 'implement, interpret, or make specific the law enforced or administered by [the agency], or . . . govern [the agency's] procedure.' 110

a. "Generality" of application (Government Code Section 11340.5)

*Tidewater* states that the rule need not be applied universally, but only to a certain class of cases. Notwithstanding, the Commission (DPD, 28) erroneously asserts as a matter of law that the Controller would have to apply the sampling process to all audits of the Notification of Truancy mandate, relevant or not, because the auditor has discretion to select among audit methods. That is the wrong standard. It is not that every audit must be a *Tidewater* "case" to support the concept of generality as the Commission concludes, but more logically it is that if the factual circumstances are present that are conducive to the use of sampling and whether sampling was used, rather than another audit method (such as 100% review of the records).

The Commission (DPD, 28) notes that 42 audits of the Notification of Truancy mandate program have been posted to the Controller's website, but that some do not apply statistical sampling and extrapolation to calculate the audit reduction. The exceptions identified by the Commission are:

- Sweetwater Union High School District, where the auditor disallowed in Finding 2 (noted by the Commission at Footnote 126), a portion of the costs based on the content of the notification. One of the eight notification items was missing, so 12.5% of the claimed cost was disallowed for all notices. (The same adjustment was made in Finding 3 of the Riverside audit.) The content of the notice is a compliance issue and not a documentation issue, so statistical sampling is not relevant to this Finding. It appears that the documentation issue was addressed in Finding 1 (not cited by the Commission) where the auditor identified the unallowable notices without the need for sampling. In addition, this Finding increased the number of reimbursable notifications. Therefore, this audit does not qualify as a "case." Note that the Controller did use sampling techniques on the previous Sweetwater audit for FY 2000-01 and 2001-02, issued October 7, 2005, which does qualify as a "case."
- Colton Joint Unified School District (Footnote 127), where the auditor disallowed 100% of the claimed costs. The auditor did use the sampling technique, contrary to the Commission conclusion. The auditor commenced the sampling process, but then disallowed all of the claimed notices because documentation could not be found for most of the samples, site staff stated they did not actually distribute notices in most cases, and the form of notice did not include the five components. This audit qualifies as a "case" because sampling was used, it is

just that extrapolation was not necessary.

- Bakersfield City School District (Footnote 128), where the auditor allowed all of the cost claimed based on the District's manual documentation process. That is, apparently sufficient and appropriate documentation was available for all claimed notifications. It appears that there was no need to sample for defective documentation and this appears to be a situation of a 100% review. Therefore, this audit is not a "case," and is not relevant as an exception.

Of the three exceptions cited by the Commission, two are not factually relevant exceptions and one did utilize statistical sampling. Therefore, all of the *relevant* "cases" used the statistical sampling process and the matter of generality is no longer an issue.

The second *Tidewater* standard is that the rule must "implement, interpret, or make specific the law enforced or administered by [the agency], or . . . govern [the agency's] procedure." That is not contested here by any of the parties or the Commission.

The Commission (DPD, 26) relies upon *Clovis* to establish another standard that an auditor must be without discretion in applying the sampling process. *Clovis* is inapplicable here because the contemporaneous source document rule (CSDR) was published in the Controller's claiming instructions, whereas the parameters and guidelines and claiming instructions for Notification of Truancy are silent on the subject of statistical sampling and extrapolation. The perceived lack of auditor discretion for using the CSDR derives from the claiming instructions and thus *Clovis* is not a standard available for the sampling and extrapolation method since that process was not published. Regardless, as a factual matter, sampling and extrapolation was used in all relevant audit circumstances, so discretion is no longer an issue.

The Commission (DPD, 27) cites the Medi-Cal cases decided in 1990 for the assertion that a statistical sampling methodology could be applied to Medi-Cal cost audits. This is not entirely useful since the ultimate court finding applied only after the state had performed the missing rulemaking. But, the lesson is clear from the Medi-Cal cases. State agencies need to perform the necessary rulemaking rather than cobble together a post-facto defense to avoid this level of public scrutiny. The Controller, whose particular responsibility has been the payment and audit of the mandate annual claims for more than thirty years, has had ample time for rulemaking for this audit method.

b. Exempt audit guideline (Government Code Section 11340.9 (e))

This issue was not addressed by the Commission. The Controller has not asserted that the sampling and extrapolation is a confidential audit criterion or guideline. Indeed, the process is disclosed in the audit report.

c. Financial penalty (Government Code Section 11425.50 (c))

This issue was not addressed by the Commission. However, the statistical sampling and extrapolation generate audit findings that result in a loss of reimbursement for the districts and is therefore a financial penalty.

**2. Authority to Utilize Sampling and Extrapolation Methods**

The incorrect reduction claim asserts that the Controller cited no relevant statutory or regulatory authority to allow the Controller to reduce claimed reimbursement based on extrapolation of a statistical sample for audits of state mandate programs. The Commission (DPD, 29-31) proposes several theories to support the Controller's claim to such authority.

a. No express prohibition

There is no cited express prohibition in law or regulation against statistical sampling and extrapolation methods being used in an audit. However, governmental authority is not unlimited and must always be properly exercised. One example pertinent to these incorrect reduction claims is that the Administrative Procedure Act prohibits underground rulemaking.

b. Broad Constitutional authority

The Commission cites Article XVI, section 7, which states that "(m)oney may be drawn from the Treasury only through an appropriation made by law and upon a Controller's duly drawn warrant." The Commission has not cited a case that applies this to mandate reimbursement, nor has anyone asserted that a claim has been paid without a legal appropriation or without a legal warrant.

c. Government Code section 12410

The Commission cites Government Code Section 12410 which states that the Controller "shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment." However, Section 12410 is found in the part of the Government Code that provides a general description of the duties of the Controller and dates back to 1945. It is not specific to the audit of mandate reimbursement claims. The only applicable audit standard for mandate reimbursement claims is found in Government Code Section 17561(d). It is the case of more specific language circumscribing the general language.

Further, it has not been demonstrated that, if Section 12410 was somehow the applicable standard, the audit adjustments were made in accordance with this standard. There is no allegation in the audit report that the claim was in any way illegal. The

Section 12410 phrase “sufficient provisions of law for payment” refers to the requirement that there be adequate appropriations prior to the disbursement of any funds. There is no indication that any funds were disbursed for these claims without sufficient appropriations. Thus, even if the standards of Section 12410 were applicable to mandate reimbursement audits, there is no evidence that these standards are not met or even relevant. There is no indication that the Controller is actually relying on the audit standards set forth in Section 12410 for the adjustments to the District’s reimbursement claims.

d. Government Code section 17561

Government Code Section 17561 (d), authorizes the Controller to audit annual reimbursement claims and to “verify the actual amount of the mandated costs” and “reduce any claim that the Controller determines is excessive or unreasonable.” This is a distinct statement of audit scope. Adjustments based on lack of documentation are not adjustments based on excessive or unreasonable costs. There is no assertion that the unit cost rate for the notifications is excessive or unreasonable. Nor could a unit cost rate (or reasonable reimbursement methodology as defined by Section 17518.5) be audited to “verify” the actual cost of the mandate since a unit cost is a statewide average not applicable to the actual cost at any one district.

e. Generally Accepted Government Auditing Standards

In support of the Controller’s authority, the Commission cites to the federal Generally Accepted Government Auditing Standards (GAGAS), commonly referred to as the “Yellow Book,”<sup>1</sup> while at the same time acknowledging that dollar amount extrapolation of sampled findings method is not specifically included in that publication. The Yellow Book is for use by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits. These standards apply when required by law, regulation, agreement, contract, or policy. Neither the audit report nor Commission cite any law or agreement or policy that makes the Yellow Book applicable to audits of state mandated costs. *However, if the Controller has adopted the Yellow Book as a matter of policy, that decision would have to survive the test for underground rulemaking and it does not.*

Regardless, the audit reports state that the audit was a “performance audit.” The

---

<sup>1</sup> Generally Accepted Government Auditing Standards

The Generally Accepted Government Auditing Standards (GAGAS), commonly referred to as the “Yellow Book,” are published by the United States Government Accountability Office (GAO): <http://www.gao.gov/govaud/ybook.pdf>.

Yellow Book standards for performance audits are:

2.6 A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

2.7 Performance audits include economy and efficiency and program audits.

- a. Economy and efficiency audits include determining (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, (2) the causes of inefficiencies or uneconomical practices, and (3) whether the entity has complied with laws and regulations on matters of economy and efficiency.
- b. Program audits include determining (1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, (2) the effectiveness of organizations, programs, activities, or functions, and (3) whether the entity has complied with significant laws and regulations applicable to the program.

The audit report and Commission made no findings based on the above qualitative performance criteria. A performance audit was not conducted. The audit was a documentation audit.

f. Government Code section 17558.5

In the audit report the Controller cites, but the Commission does not consider in the draft proposed decision, Government Code Section 17558.5 which describes the time to commence and finish an audit. This Section is not an audit content or process standard and is not relevant.

### **3. Use of Sampling Methodology**

The District has already agreed that statistical sampling is a recognized audit tool for some purposes, regardless of whether any of the Commission cited sources support that conclusion as a matter of law for a state audit of mandated cost annual claims. The question becomes whether the method, if it is not an underground rule, was properly applied. The Commission concludes that the District's assertion that the sample is not representative of the universe is unfounded and that the Controller's showing that the method is statistically significant and mathematically valid is sufficient.

The Commission (DPD, 31) cites the Medi-Cal cases for the assertion that a statistical

sampling methodology could be applied to Medi-Cal cost audits. The District does not agree that the sampling method as used in the Medi-Cal audits is the same as the method as used in the Controller's audit. In the Medi-Cal audits, different fee amounts for numerous types of services were audited for documentation and necessity of service. For Notification of Truancy, where the dollar amount is fixed, the auditor's purpose for the sampling is to determine whether a sufficient number of absences/tardies were incurred and if the student is subject to the notification process. What the Controller is testing is whether the notices are reimbursable based on the number of prerequisite absences, which is testing for procedural compliance, not the dollar amount of dissimilar services. Testing to detect the rate of error within tolerances is the purpose of sampling, but it is not a tool to assign an exact dollar amount to the amount of the error, which the Controller has inappropriately done so here. This is a failure of auditor judgment both in the purpose of the sampling and the use of the findings. The cited *Bell* case, as well as the Commission decision, does not conclusively address this issue.

#### **4. Representativeness of the Sampling**

The Commission (DPD, 33) concludes:

Moreover, there is no evidence in the record that the results are biased or unrepresentative 'because a kindergarten pupil is more likely to be under-age and a special education pupil is more likely to be over-age,' as asserted by claimant. There is no dispute that the samples were randomly obtained and reviewed by the Controller. According to the *Handbook of Sampling for Auditing and Accounting* (Arkin), all notices randomly sampled have an equal opportunity for inclusion in the sample and, thus, the result is statistically objective and unbiased.<sup>158</sup> Moreover, absent evidence, the Commission and the Controller must presume that the schools within the claimant's district complied with the mandate in the same way.

##### **a. Age of student**

In the incorrect reduction claim, the District asserts that the errors perceived from the sample do not occur at the same rate in the universe even when the samples are randomly selected, which was discounted by the Commission due to lack of evidence. Kindergarten students present in the sample are more likely to be excluded because of the under-age issue, which makes these samples nonrepresentative of the universe. The Commission can take notice that there are more five-year old children in kindergarten than there are in the other grades 1-12. Also, if any of the notices excluded for being over-age are for students who are special education students, these samples would also not be representative of the universe since the possibility of a special education student being over-age is greater than the entire student body since school districts must provide services to these persons through age 21 years. The

Commission can take notice that a 19-21 year-old student is more likely to be a special education student than the pupils in the other grade levels. *These notifications should have been excluded from the universe sampled as were the notices for the charter schools and independent study students in Finding 1.*

b. Random sample

The Commission asserts that all randomly sampled notices have an equal opportunity for inclusion in the sample and, thus, the result is statistically objective and unbiased. The District does not assert that the incidence of truancy for kindergarten students or special education students is either proportionate or disproportionate, rather that a kindergarten pupil is more likely to be under-age and a special education pupil is more likely to be over-age than other students sampled, and thus not representative.

c. Presumption of uniform compliance

The Commission establishment of a rebuttable presumption that the District staff uniformly complied with the mandate may derive from its finding in Notification of Truancy, 05-904133-I-02, Los Angeles Unified School District (September 9, 2015, Proposed Decision, 27):

However, the Controller's extrapolation of its findings from the 67 sampled school sites to the remaining 53 school sites that were not included in the Controller's audit sample is not supported by any evidence in the record. There is no showing in the record that the audit results from the sampled schools accurately reflects and is representative of the schools not sampled. There is evidence that school sites in the claimant's district complied with the mandate in different ways. As indicated above, some school sites sampled provided truancy notification letters to support the costs claimed and some did not. The audit report further states the attendance counselors at some school sites were not aware of the mandate or the proper guidelines for reporting initial truancy notifications, some records could not be located, some records were destroyed, and some counselors at school sites were not on duty daily requiring other administrative staff to provide the truancy notifications.<sup>87</sup> Because the record indicates variation in school compliance, the Controller's use of data from the sampled schools in the district to calculate the percentage of compliance for all schools does not provide any evidence of the validity of the costs claimed by the schools that were not sampled. Thus, the Controller's finding that the costs claimed by the 53 school sites that were not sampled were not supported by documentation, is not supported by any evidence in the record.

For Riverside, the Commission states that there is no evidence that the schools complied with the mandate in different ways. The opposite is also true. However, uniform compliance is a non-issue for the sampling extrapolation. If a notification letter



was not sent, it is not included in the total universe of letters. If attendance records are missing, then the sample was disallowed. If an insufficient number of incidences of truancy occurred, then the sample was disallowed. The Commission's rebuttable presumption is irrelevant, not stated in the parameters and guidelines, not stated in the claiming instructions, and without possibility of factual rebuttal this many years after the audit.

The Los Angeles findings also raise a factual issue not addressed by the Riverside audit report, that is, whether the sample included students from all school sites. If not, this would reduce the universe for extrapolation according to the Commission's Los Angeles criteria.

## 5. Certainty of Dollar Amount Adjusted

<u>Elementary Schools</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Total</u>
Audited notifications claimed	6,724	6,996	5,995	19,715
Total notices in entire sample	147	147	146	440
Percentage of the sample to total	2.19%	2.10%	2.44%	2.23%

### Audit Results:

Alleged "noncompliant" notices	28	25	9	62
Percentage "noncompliant"	19.05%	17.01%	6.16%	14.09%

### Secondary Schools

Audited notifications claimed	9,496	8,983	6,897	25,376
Total notices in entire sample	148	148	147	443
Percentage of the sample to total	1.56%	1.65%	2.13%	1.75%

### Audit Results:

Alleged "noncompliant" notices	8	9	n/a	17
Percentage "noncompliant"	5.41%	6.08%	n/a	5.74%

The Commission accepts the Controller's 50% error rate as reasonable and cites (DPD, 32, 33) the Controller's precision assumptions:

The Controller explains that an 'expected error rate' in this context is an assumption used to determine the appropriate sample size, rather than a measure of the ultimate accuracy of the result. In other words, when 'the auditor has no idea whatsoever of what to expect as the maximum rate of occurrence or does not care to make an estimate...' an expected error rate of 50 percent as the beginning assumption will provide 'the most conservative possible sample size estimate' in order to achieve the precision desired. 155

The error rate of 50% should not to be championed by anyone when it results in a fiscal penalty. The Commission findings note that the sample size 146 to 148 ( less than 1% difference) is essentially the same for populations which range from 5,995 to 9,496 (a 37% difference). The stated precision rate was plus or minus 8% even though the audited number of notices allowed for FY 2009-10 of 12,892 (5,995+6,897) is 21% smaller than audited number of notices in FY 2007-08 of 16,220 (6,724+9,496). The matter of precision is not proved. The Controller was not compelled to restrict the sample size or precision.

As an evidentiary matter, because the expected error rate is an assumption and acknowledged by the state as not being a measure of the ultimate accuracy of the result, it would be arbitrary to just use the midrange of the predicted results. Because it is equally likely that the extrapolation results will be either the highest or lowest amount, or any amount in between, the only evidentiary certainty that does not penalize the District is the lowest adjustment amount. The uncertainty should be mitigated against the method and the agency using the method. If the Commission insists on allowing the extrapolation, it must accept the finding with the least penalty to the District.

#### CERTIFICATION

By my signature below, I hereby declare, under penalty of perjury under the laws of the State of California, that the information in this submission is true and complete to the best of my own knowledge or information or belief, and that any attached documents are true and correct copies of documents received from or sent by the District or state agency which originated the document.

Executed on November 3, 2015, at Sacramento, California, by



Keith B. Petersen, President  
SixTen & Associates  
Service by Commission Electronic Drop Box

**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 November 4, 2015, I served the:

**Claimant Comments**

*Notification of Truancy*, 13-904133-I-13

Education Code Sections 48260.5

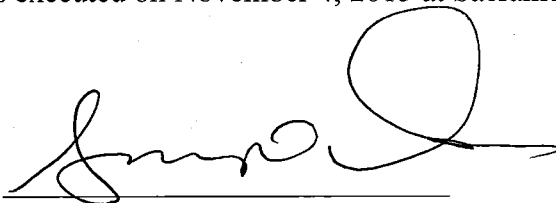
Statutes 1983, Chapter 498

Fiscal Years: 2007-2008, 2008-2009, and 2009-2010

Riverside Unified School District, Claimant

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

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on November 4, 2015 at Sacramento, California.

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

Lorenzo Duran  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814  
(916) 323-3562

# COMMISSION ON STATE MANDATES

## Mailing List

**Last Updated:** 10/29/15

**Claim Number:** 13-904133-I-13

**Matter:** Notification of Truancy

**Claimant:** Riverside Unified School District

### TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

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

**Socorro Aquino**, *State Controller's Office*

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

Phone: (916) 322-7522

SAquino@sco.ca.gov

**Marieta Delfin**, *State Controller's Office*

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

Phone: (916) 322-4320

mdelfin@sco.ca.gov

**Eric Feller**, *Commission on State Mandates*

980 9th Street, Suite 300, Sacramento, CA 95814

Phone: (916) 323-3562

eric.feller@csm.ca.gov

**Donna Ferebee**, *Department of Finance*

915 L Street, Suite 1280, Sacramento, CA 95814

Phone: (916) 445-3274

donna.ferebee@dof.ca.gov

**Chris Ferguson**, *Department of Finance*

Education Systems Unit, 915 L Street, 7th Floor, 915 L Street, 7th Floor, Sacramento, CA 95814

Phone: (916) 445-3274

Chris.Ferguson@dof.ca.gov

**Susan Geanacou**, *Department of Finance*

915 L Street, Suite 1280, Sacramento, CA 95814

Phone: (916) 445-3274  
susan.geanacou@dof.ca.gov

**Paul Golaszewski**, *Legislative Analyst's Office*  
925 L Street, Suite 1000, Sacramento, CA 95814  
Phone: (916) 319-8341  
Paul.Golaszewski@lao.ca.gov

**Rebecca Hamilton**, *Department of Finance*  
Education Systems Unit, 915 L Street, 7th Floor, Sacramento, CA 95814  
Phone: (916) 445-0328  
Rebecca.Hamilton@dof.ca.gov

**Ed Hanson**, *Department of Finance*  
Education Systems Unit, 915 L Street, 7th Floor, Sacramento, CA 95814  
Phone: (916) 445-0328  
ed.hanson@dof.ca.gov

**Mays Kakish**, Chief Business Officer and Governmental Relations, *Riverside Unified School District*  
3380 14th Street, Riverside, CA 92501  
Phone: (951) 788-7135  
mkakish@rusd.k12.ca.us

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

**Dan Kaplan**, Fiscal & Policy Analyst, *Legislative Analyst's Office*  
925 L Street, Suite 1000, Sacramento, CA 95814  
Phone: (916) 319-8353  
Dan.Kaplan@lao.ca.gov

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

**Yazmin Meza**, *Department of Finance*  
915 L Street, Sacramento, CA 95814  
Phone: (916) 445-0328  
Yazmin.meza@dof.ca.gov

**Robert Miyashiro**, *Education Mandated Cost Network*  
1121 L Street, Suite 1060, Sacramento, CA 95814  
Phone: (916) 446-7517  
robertm@sscal.com

**Keith Nezaam**, *Department of Finance*  
915 L Street, 8th Floor, Sacramento, CA 95814  
Phone: (916) 445-8913  
Keith.Nezaam@dof.ca.gov

**Andy Nichols**, *Nichols Consulting*

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

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

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

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

**Sandra Reynolds**, *Reynolds Consulting Group, Inc.*  
P.O. Box 894059, Temecula, CA 92589  
Phone: (951) 303-3034  
sandrareynolds\_30@msn.com

**David Scribner**, *The Law Office of David E. Scribner, Esq*  
11347 Folsom Blvd, Suite D, Rancho Cordova, CA 95742  
Phone: (916) 207-2848  
david@deslawoffice.com

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

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

**Exhibit F**

June 2003

**Government  
Auditing Standards**  
2003 Revision

**June 2003**

---

# **Government Auditing Standards**

## **2003 Revision**

This revision of the standards supersedes the 1994 revision, including amendments 1 through 3. Its provisions are effective for financial audits and attestation engagements of periods ending on or after January 1, 2004, and for performance audits beginning on or after January 1, 2004. Early application is permissible.



---

# Contents

<hr/>	
Letter	1
<hr/>	
Chapter 1	5
Introduction	
Purpose	5
Applicability	6
Relationship between GAGAS and Other Professional Standards	8
Accountability	9
Roles and Responsibilities	12
<hr/>	
Chapter 2	17
Types of Government Audits and Attestation Engagements	
Introduction	17
Financial Audits	18
Attestation Engagements	19
Performance Audits	21
Nonaudit Services Provided by Audit Organizations	25
<hr/>	
Chapter 3	27
General Standards	
Introduction	27
Independence	27
Professional Judgment	50
Competence	52
Quality Control and Assurance	56
<hr/>	
Chapter 4	62
Field Work Standards for Financial Audits	
Introduction	62
AICPA Field Work Standards	63
Additional GAGAS Standards	64
Auditor Communication	65
Considering the Results of Previous Audits and Attestation Engagements	69

Detecting Material Misstatements Resulting from Violations of Contract Provisions or Grant Agreements, or from Abuse	70
Developing Elements of a Finding	73
Audit Documentation	74

## Chapter 5 Reporting Standards for Financial Audits

Introduction	77
AICPA Reporting Standards	77
Additional GAGAS Reporting Standards for Financial Audits	78
Reporting Auditors' Compliance with GAGAS	79
Reporting on Internal Control and on Compliance with Laws, Regulations, and Provisions of Contracts or Grant Agreements	80
Reporting Deficiencies in Internal Control, Fraud, Illegal Acts, Violations of Provisions of Contracts or Grant Agreements, and Abuse	82
Reporting Views of Responsible Officials	90
Reporting Privileged and Confidential Information	92
Report Issuance and Distribution	93

## Chapter 6 General, Field Work, and Reporting Standards for Attestation Engagements

Introduction	96
AICPA General and Field Work Standards for Attestation Engagements	97
Additional GAGAS Field Work Standards for Attestation Engagements	98
Auditor Communication	98
Considering the Results of Previous Audits and Attestation Engagements	101
Internal Control	102
Detecting Fraud, Illegal Acts, Violations of Provisions of Contracts or Grant Agreements, and Abuse That Could Have a Material Effect on the Subject Matter	104
Developing Elements of Findings for Attestation Engagements	107
Attest Documentation	108

	AICPA Reporting Standards for Attestation Engagements	111
	Additional GAGAS Reporting Standards for Attestation Engagements	112
	Reporting Auditors' Compliance with GAGAS	112
	Reporting Deficiencies in Internal Control, Fraud, Illegal Acts, Violations of Provisions of Contracts or Grant Agreements, and Abuse	114
	Reporting Views of Responsible Officials	119
	Reporting Privileged and Confidential Information	121
	Report Issuance and Distribution	122
<hr/>		
<b>Chapter 7</b>		125
<b>Field Work</b>	Introduction	125
	Planning	125
	Supervision	148
	Evidence	148
	Audit Documentation	156
<b>Standards for Performance Audits</b>		
<hr/>		
<b>Chapter 8</b>		159
<b>Reporting</b>	Introduction	159
	Form	159
	Report Contents	160
	Report Quality Elements	173
	Report Issuance and Distribution	177
<b>Standards for Performance Audits</b>		
<hr/>		
<b>Appendix</b>		
Appendix I:	Advisory Council on Government Auditing Standards	180
	GAO Project Team	185
<hr/>		
<b>Index</b>		186

---

## Abbreviations

AICPA	American Institute of Certified Public Accountants
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPA	certified public accountant
CPE	continuing professional education
GAAP	generally accepted accounting principles
GAAS	generally accepted auditing standards
GAGAS	generally accepted government auditing standards
GAO	U.S. General Accounting Office
MD&A	Management's Discussion and Analysis
OMB	U.S. Office of Management and Budget
SAS	AICPA Statements on Auditing Standards
SSAE	AICPA Statements on Standards for Attestation Engagements

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

The concept of accountability for public resources is key in our nation's governing process and a critical element for a healthy democracy. Legislators, government officials, and the public want to know whether government services are being provided efficiently, effectively, economically, and in compliance with laws and regulations. They also want to know whether government programs are achieving their objectives and desired outcomes, and at what cost. Government managers are accountable to legislative bodies and the public for their activities and related results. Government auditing is a key element in fulfilling the government's duty to be accountable to the people. Auditing allows those parties and other stakeholders to have confidence in the reported information on the results of programs or operations, as well as in the related systems of internal control. Government auditing standards provide a framework to auditors so that their work can lead to improved government management, decision making, oversight and accountability.

These standards are broad statements of auditors' responsibilities. They provide an overall framework for ensuring that auditors have the competence, integrity, objectivity, and independence in planning, conducting, and reporting on their work. Auditors will face many situations in which they could best serve the public by doing work exceeding the standards' minimum requirements. As performance and accountability professionals, we should not strive just to comply with minimum standards, which represent the floor of acceptable behavior, but we need to do the right thing according to the facts and circumstances of each audit situation. I encourage auditors to seek opportunities to do additional work when and where it is appropriate, particularly in connection with testing and reporting on internal control.

---

This is the fourth revision of the overall standards since they were first issued in 1972. This revision of the standards supersedes the 1994 revision, including amendments 1 through 3. This revision makes changes to these standards in the following 3 areas:

- redefining the types of audits and services covered by the standards, including an expansion of the definition of performance auditing to incorporate prospective analyses and other studies and adding attestation as a separate type of audit,
- providing consistency in the field work and reporting requirements among all types of audits defined under the standards, and
- strengthening the standards and clarifying the language in areas that, by themselves, do not warrant a separate amendment to the standards.

These standards contain requirements for auditor reporting on internal control, but they do not require the auditor to render an opinion on internal control. Nevertheless, I encourage auditors to evaluate those situations where they are reporting on internal control to determine whether providing an opinion on internal control would add value and be cost beneficial based on related risks. The Sarbanes-Oxley Act requires private sector auditors to attest to and report on the assessment made by management of each publicly traded company on the effectiveness of internal control over financial reporting. GAO strongly believes that auditor reporting on internal control is a critical component of monitoring the effectiveness of an organization's risk management and accountability systems. Auditors can better serve their clients and other financial statement users and better protect the public interest by having a greater role in providing assurances over the effectiveness of internal control in deterring fraudulent financial reporting, protecting assets, and providing an early

---

warning of emerging problems. We believe auditor reporting on internal control is appropriate and necessary for publicly traded companies and major public entities. We also believe that such reporting is appropriate in other cases where management assessment and auditor examination and reporting on the effectiveness of internal control add value and mitigate risk in a cost beneficial manner. In this regard, GAO seeks to lead by example in establishing the appropriate level of auditor reporting on internal control for federal agencies, programs, and entities receiving significant amounts of federal funding. In fact, we already provide opinions on internal control for all our major federal audit clients, including the consolidated financial statements of the U.S. Government.

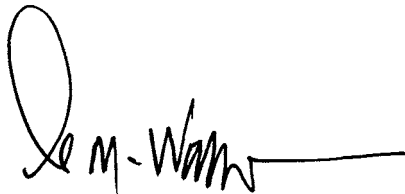
Because of the breadth of the fourth revision to the overall standards, any new standards are applicable for financial audits and attestation engagements of periods ending on or after January 1, 2004, and for performance audits beginning on or after January 1, 2004. Early application is permissible and encouraged. An electronic version of these standards can be accessed on the Web at [www.gao.gov/govaud/ybk01.htm](http://www.gao.gov/govaud/ybk01.htm). We have also posted a listing of the major changes from the 1994 Revision to this Web site. Printed copies can be obtained from the U.S. Government Printing Office.

This revision of the standards currently incorporates the field work and the reporting standards issued by the American Institute of Certified Public Accountants (AICPA). The Sarbanes-Oxley Act gives the Public Company Accounting Oversight Board (PCAOB) the authority to set auditing standards to be used by registered public accounting firms in the preparation and issuance of audit reports for publicly traded companies. As the PCAOB promulgates auditing standards for audits of these entities, GAO will continue to closely monitor the actions of both standard setting bodies and will issue clarifying guidance as necessary on

---

the incorporation of future standards set by either standard setting body.

This revision has gone through an extensive deliberative process including extensive public comments and input from the Comptroller General's Advisory Council on Government Auditing Standards, which includes 21 experts in financial and performance auditing and reporting drawn from all levels of government, academia, private enterprise, and public accounting. The views of all parties were thoroughly considered in finalizing the standards. I thank those who commented and suggested improvements to the standards. I especially commend the Advisory Council on Government Auditing Standards and the GAO project team for important contributions to this revision.

A handwritten signature in black ink, appearing to read "D. M. Walker", followed by a long horizontal line.

David M. Walker  
Comptroller General  
of the United States

June 2003



**Sufficient, competent, and relevant evidence is to be obtained to provide a reasonable basis for the auditors' findings and conclusions.**

**7.49** A large part of auditors' work on an audit concerns obtaining and evaluating evidence that ultimately supports their judgments and conclusions pertaining to the audit objectives. In evaluating evidence, auditors consider whether they have obtained the evidence necessary to achieve specific audit objectives. When internal control or compliance requirements are significant to the audit objectives, auditors should also collect and evaluate evidence relating to controls or compliance.

**7.50** Evidence may be categorized as physical, documentary, testimonial, and analytical. Physical evidence is obtained by auditors' direct inspection or observation of people, property, or events. Such evidence may be documented in memoranda, photographs, drawings, charts, maps, or physical samples. Documentary evidence consists of created information such as letters, contracts, accounting records, invoices, and management information on performance. Testimonial evidence is obtained through inquiries, interviews, or questionnaires. Analytical evidence includes computations, comparisons, separation of information into components, and rational arguments.

**7.51** The guidance in the following paragraphs is intended to help auditors judge the quality and quantity of evidence needed to satisfy audit objectives. Paragraphs 7.52 through 7.61 are intended to help auditors determine what constitutes sufficient, competent, and relevant evidence to support their findings and conclusions. Paragraphs 7.62 through 7.65 describe the elements of an audit finding.

---

## Tests of Evidence

**7.52** Evidence should be sufficient, competent, and relevant to support a sound basis for audit findings, conclusions, and recommendations:

**a.** Evidence should be sufficient to support the auditors' findings. In determining the sufficiency of evidence, auditors should ensure that enough evidence exists to persuade a knowledgeable person of the validity of the findings. When appropriate, statistical methods may be used to establish sufficiency.

**b.** Evidence is competent if it is valid, reliable, and consistent with fact. In assessing the competence of evidence, auditors should consider such factors as whether the evidence is accurate, authoritative, timely, and authentic. When appropriate, auditors may use statistical methods to derive competent evidence.

**c.** Evidence is relevant if it has a logical relationship with, and importance to, the issue being addressed.

**7.53** The following presumptions are useful in judging the competence of evidence. However, these presumptions are not to be considered sufficient in themselves to determine competence. The amount and kinds of evidence required to support auditors' conclusions should be based on auditors' professional judgment.

**a.** Evidence obtained when internal controls are effective is more competent than evidence obtained when controls are weak or nonexistent. Auditors should be particularly careful in cases where controls are weak or nonexistent and should, therefore, plan alternative audit procedures to corroborate such evidence.

**b.** Evidence obtained through the auditors' direct physical examination, observation, computation, and

THIRD EDITION  
**HANDBOOK  
OF  
SAMPLING  
FOR  
AUDITING  
AND  
ACCOUNTING**

**HERBERT ARKIN**

**544 pages, 23 illustrations**

Since the first edition was published in 1963, the *Handbook* has become recognized by many as the standard work in the field, and is often attributed with having popularized the use of statistical sampling methods in auditing. In the years since, auditors and accountants have become more adept at applying these methods, and therefore this new edition includes some sophisticated techniques not covered in earlier editions.

This reference work contains the latest developments and newest methods to make your work easier, more efficient, and more economical.

While it retains the basic and necessary data from prior editions, the updated *Handbook* now includes:

- ★ Post-stratification methods
- ★ Sampling unequal clusters
- ★ Ratio estimates of a ratio such as the LIFO index
- ★ Additional allocation methods for stratified samples
- ★ Combinations of sampling plans
- ★ The impact of computers and electronic calculators

# ***Handbook of Sampling for Auditing and Accounting***

**HERBERT ARKIN**

*Professor Emeritus  
Bernard M. Baruch College  
City University of New York*

*Pages: 1-17  
50-74 (only)*

***Third Edition***

**McGRAW-HILL BOOK COMPANY**

*New York St. Louis San Francisco Auckland Bogotá  
Hamburg Johannesburg London Madrid Mexico  
Montreal New Delhi Panama Paris São Paulo  
Singapore Sydney Tokyo Toronto*

Library of Congress Cataloging in Publication Data

Arkin, Herbert, 1906-  
Handbook of sampling for auditing and accounting.

Includes index.

1. Accounting. 2. Auditing. 3. Sampling (Statistics)

I. Title.

HF5657.A73 1984 519.5'2'024657 83-9830

ISBN 0-07-002245-3

Copyright © 1984, 1974, 1963 by McGraw-Hill, Inc. All rights reserved.  
Printed in the United States of America. Except as permitted  
under the United States Copyright Act of 1976, no part of this publication  
may be reproduced or distributed in any form or by any means,  
or stored in a data base or retrieval system, without the  
prior written permission of the publisher.

1234567890 KGP/KGP 8976543

ISBN 0-07-002245-3

*The editors for this book were Bonnie Binkert and Lynne Lackenbach,  
the designer was Naomi Auerbach, and the production  
supervisor was Thomas G. Kowalczyk.  
It was set in Bodoni by University Graphics, Inc.  
It was printed and bound by The Kingsport Press.*

*In the interests of succinctness, the masculine pronoun is used  
quite frequently in this volume in a generic sense;  
no offense to the many professional women in this field is intended.*

## Contents

PREFACE TO THE THIRD EDITION  
PREFACE TO THE SECOND EDITION

xi  
xiii

### 1. The Place of Sampling in Auditing..... 1

Sampling in Accounting  
Sampling and the Auditor  
The Auditor's Test  
Test Objectives and Sampling  
Objective Sampling  
The Statistical Sample  
The Advantages of the Statistical Sample  
Types of Statistical Samples  
The Sampling Plan  
Estimation Sampling  
Acceptance Sampling  
Discovery (Exploratory) Sampling  
Test Objectives and the Sampling Plan  
When to Use Statistical Sampling

### 2. Selecting the Sample ..... 18

Sampling Problems  
What Is to Be Sampled?  
The Field or Universe  
Nonsampling Errors  
Multiple Purpose Samples

**3. The Mechanics of Sampling ..... 25**

The Probability Sample  
 Methods of Obtaining a Probability Sample  
 Random Number Sampling  
 Random Number Tables  
 Mechanics of Random Number Sampling  
 Computer Random Number Generation  
 Special Problems in Random Number Sampling  
 Sampling Unnumbered Documents  
 Systematic Sampling  
 The Mechanics of Systematic Sampling  
 Special Sampling Methods  
   Stratified Random Samples  
   Cluster Samples  
   Multistage Samples  
 Sampling Selection and Costs

**4. Elementary Statistical Concepts ..... 50**

Statistical Theory and the Auditor  
 Basic Statistical Measures  
   1. Averages  
   2. Measures of Dispersion  
   3. The Standard Deviation  
 Sampling Concepts  
 Attributes Sampling  
 Variables Sampling  
 General

**5. Determining Sample Size (Estimation Sampling) ..... 75**

Selection of Sample Size  
 Sample Precision  
 The Confidence Level  
 Attributes Sampling—Sample Size  
   Concepts  
   Tables for Attribute Sample Size  
 Steps in Determining Sample Size—Attributes  
 General Sample Size Considerations—Attributes Sampling  
   General Considerations  
 Variables Sampling—Sample Size  
   Concepts  
   Tables for Variables Sample Size  
 Steps in Determining Sample Sizes—Estimation Sampling—Variables  
 General Sample Size Considerations—Variables  
 Sample Size Estimation for Multipurpose Tests  
 Other Sampling Methods—Estimation Sampling

**6. Appraisal of Sample Results (Attributes) ..... 100**

The Need for Post-sampling Appraisal  
 Principles of Sample Appraisal  
 The Tables (Sample Precision for Relative Frequencies)  
 Values Not Covered by Tables  
   Missing Field Sizes  
   Missing Percentages in Sample  
   Missing Sample Sizes  
 One-sided Confidence Limits  
 Interim Appraisals  
 Another Approach to Sample Size Estimation

**7. Appraisal of Sample Results (Variables) ..... 116**

The Need for Post-sampling Appraisal  
 Estimating Variability  
 The Tables  
 Values Not Covered by Tables  
 One-sided Confidence Limits  
 General Considerations  
 Estimating Total Values When Population Size Is Unknown

**8. Discovery Sampling ..... 132**

The Place of Discovery Sampling in Auditing  
 Principles of Discovery Sampling  
 Tables for Discovery Sampling  
 General Considerations  
 Discovery Sampling and Estimation Sampling

**9. Acceptance Sampling ..... 141**

Objectives  
 Advantages and Limitations  
 Statistical Principles  
 Selection of a Plan  
   1. Rejection of Bad Fields  
   2. Acceptance of Good Fields  
 Use of the Tables  
 Average Error Rates  
 Multiple Sampling Plans  
 Other Tables  
 Applications

**10. Stratified Sampling..... 158**

The Reasons for Special Sampling Plans  
 Stratified Random Sampling  
 Sampling Efficiency—Stratified Samples  
 Sample Appraisal—Stratified Sampling—Variables  
 Allocation of Sample Items to Strata—Variables Sampling—Arbitrary Sample Size  
 Other Allocation Methods  
 Proportional Allocation (Stratum Population Sizes)  
 Proportional Allocation (Stratum Dollar Totals)  
 Sample Size Determination—Stratified Samples—Variables  
 Stratified Sampling—Attributes  
 General Considerations

**11. Cluster Sampling ..... 182**

The Reason for Cluster Sampling  
 The Cluster Sample  
 Drawing a Cluster Sample  
 Appraising the Determination—A Cluster Sample—Variables  
 Sample Size Determination—Cluster Samples—Variables  
 Appraising the Precision of Cluster Samples—Attributes  
 Sample Size Determination—Cluster Samples—Attributes  
 General Comment on Cluster Sampling

**12. Difference and Ratio Estimates..... 195**

The Reason for Difference and Ratio Estimates  
 Difference Estimates  
 Ratio Estimates  
 General Comments on Difference and Ratio Estimates

**13. Multistage Sampling ..... 210**

The Reason for Multistage Sampling  
 Limitations  
 Sample Precision  
 An Illustration  
 General

**14. Other Sampling Plans..... 218**

Post Stratification (Stratification after Sample Selection)  
 Ratio Estimate of a Ratio  
 Sampling with Unequal Size Clusters  
 The Replicated Sample  
 Combinations of Sampling Plans

**APPENDIXES**

<b>A</b>	Table of Random Numbers 235	<b>A</b>
<b>B</b>	Table of Random Letters of the Alphabet 296	<b>B</b>
<b>C</b>	Table of Random Months 298	<b>C</b>
<b>D</b>	Tables for Estimating Sample Size—Attributes 310	<b>D</b>
<b>E</b>	Tables for Estimating Sample Size—Variables 376	<b>E</b>
<b>F</b>	Tables for Sample Precision for Relative Frequencies 388	<b>F</b>
<b>G</b>	Tables for Sample Precision for Average Values for Random Samples Only 470	<b>G</b>
<b>H</b>	Table for Sample Precision for Average Values for Random Samples Only When Field Size Is Infinite 475	<b>H</b>
<b>I</b>	Table for Finite Population Correction Factor 481	<b>I</b>
<b>J</b>	Tables for Probabilities of Including at Least One Occurrence in a Sample (Discovery Sampling) 485	<b>J</b>
<b>K</b>	Tables of Acceptance Sampling Plans 489	<b>K</b>
<b>L</b>	Table for Cluster Sampling 504	<b>L</b>

## TECHNICAL APPENDIXES

- I An Alternative Method for Computation of Standard Deviation 507
- II Standard Error of Arithmetic Mean 509
- III Cluster Sampling 511
- IV Multistage Sampling 514
- V Basis of Computation of Tables for Estimating Sample Size for Variables 516
- VI Basis of Computation of Tables for Estimating Sample Size for Attributes (Appendix D) 518
- VII Basis of Computation of Tables for Appraising the Sample of Relative Frequencies (Appendix F) 519
- VIII Post Stratification 521
- INDEX 523

## *Preface to the Third Edition*

Since the publication of the second edition of this volume, the use of statistical sampling in auditing has increased greatly, especially in government audits. This development, plus the use of such samples to obtain reimbursement for improperly expended funds or improperly claimed amounts, has attracted considerable attention to the method. The U.S. Internal Revenue Service has made extensive use of these techniques in the audits of business tax returns, with the resulting collection of many millions of dollars of disallowances based on sample projections.

In consequence of the increased use of sampling methods, techniques have become more sophisticated. In recognition of this trend, several new topics have been included in this new edition. Among these new sampling plans are included post-stratification methods, sampling of unequal clusters, and ratio estimates of a ratio (such as the LIFO index), as well as additional methods of sample allocation in stratified samples and combinations of sampling plans.

The development of inexpensive but powerful pocket electronic calculators as well as small-scale and personal computers have reduced the burden of calculations imposed by statistical sampling methods of the more complex types. Although the tables included in this book have long encouraged the use of the basic methods, use of the more efficient sampling plans has been limited by the complexity of the calculations involved. In recognition of this development, discussions of the uses of these devices have been included at appropriate points. A brief section on random number generators for computers is included to acquaint the reader with the impact of the technique upon sampling requirements. To further this trend, the author has in preparation a software package of programs for small personal computers, which will be published by McGraw-Hill Book Company, to encourage further the use of the more complex plans as well as to facilitate computations in the basic methods.

## ONE

# *The Place of Sampling in Auditing*

### SAMPLING IN ACCOUNTING

Although the primary objective of this book is to discuss the application of statistical sampling techniques in auditing, by either independent or internal auditors, it must be recognized that statistical sampling methods are used for a variety of purposes in the field of accounting in general.

These applications include:

1. The audit test
2. Direct estimates of values in accounting operations in place of 100 per cent detailing, as in establishing dollar values of inventories and aging of accounts receivable by sampling
3. Transaction accounting by sampling, such as settlement of intercompany balances
4. Control of bookkeeping and clerical errors
5. Cost accounting operations
6. Establishment of appropriate values for reserves by sampling, such as reserves for bad debts, reserves for obsolescence of inventory items, and reserves for unexpended subscriptions
7. Establishing total amounts of improper or illegal payments or payments made not in accordance with prescribed regulations, especially in governmental accounting, e.g., welfare payments to ineligible

Thus, although this discussion is directed primarily toward the auditor, it is necessary to note these other accounting applications since, to an increasing degree, they



comprise part of the material examined by the auditor when these methods are used by his client and may even become part of the internal control system he relies upon.

The principles upon which these sampling techniques are based when used for purposes other than the test are the same as those for the test sample. The discussions relating to test samples serve the purpose of providing the background. Some nonaudit applications are given in this volume. However, the sampling techniques discussed here cover the needs of the accountant in any area of sampling accounting data.

## SAMPLING AND THE AUDITOR

In the early stages of the development of the independent audit, which culminated in its widespread acceptance in our modern economy, it was not uncommon practice for an auditor to perform a 100 per cent examination of the entries and records of the company audited. As our economy grew and large-scale enterprise put in its appearance, however, it quickly became apparent that a 100 per cent examination of the tremendous volume of entries was unwarranted and uneconomical. The auditor's only recourse, which would provide him with reasonable assurance as to the validity of the entries in the books of account, was to examine a portion of the entries or records—in effect a spot check. This developed into the *test* or *test check approach*, which is both widely accepted and widely used in auditing.

It is quite obvious that such a method, involving the examination of a portion of a larger mass of entries in order to draw conclusions about that larger group, is a sampling operation, even though the word "sample" is not generally used in connection with a test.

## THE AUDITOR'S TEST

The American Institute of Certified Public Accountants defines the auditor's objective by stating, "The objective of the ordinary examination of financial statements by the independent auditor is the expression of an opinion on the fairness with which they present financial position and results of operations."<sup>1</sup>

Alden C. Smith<sup>2</sup> notes that "the larger enterprise has made it possible to establish internal accounting controls, so it is no longer necessary to employ outside auditors to balance the books and check all detail postings."

Thus, heavy reliance is commonly placed on the determined adequacy of the client's internal control system. In fact, as defined in *Auditing Standards and Procedures*,<sup>3</sup> the auditing process, from the viewpoint of the independent auditor, calls

<sup>1</sup>*Codification of Statements on Auditing Standards, Numbers 1 to 39*, American Institute of Certified Public Accountants, Commerce Clearing House, Chicago, 1982, p. 5.

<sup>2</sup>Alden C. Smith, "The Accounting Profession's Growing Interest in Statistical Methods," *The New York Certified Public Accountant*, vol. 27, p. 451, July 1957.

<sup>3</sup>*Codification of Statements on Auditing Standards, op. cit.*, p. 47, ¶320.01. This refers to the second standard of field work.

for a study of and evaluation of the existing internal control system as a basis for the determination of the extent of testing, followed by the examination of evidential matter in support of the opinion.

The existence of an internal control system subjectively evaluated to be satisfactory does lend considerable confidence to the auditor, whether he is an independent auditor or an internal auditor, but there still remains the basic concern that although such a system exists, it may exist on paper only.

It is necessary that the auditor guard against the possibility that although an adequate protective system is prescribed, it may not actually be executed fully, either by design, accident, or carelessness. The auditor must assure himself that, in fact, the internal control system is effectively operative.

Further, although the internal control system may give every appearance of effectively protecting the records of the business, experience has indicated that there are always those who manage to evade the restrictions of even the best of systems.

To gain a confidence that the system does provide the desired protection and that the records are reasonably accurate, the auditor must examine the records and entries that constitute the evidence of the effectiveness of the control system.

However, the auditor is frequently confronted by tremendous masses of documentation or, in many instances, smaller numbers of entries but still too many for him to perform a 100 per cent detailed examination in the available time or at reasonable cost. He must then examine a portion of the documentation in such a situation and base his decision as to whether there is evidence of effective operation of the system on conclusions drawn from this portion of the data.

The examination of a portion of the documentation by the auditor as a means of judging the whole is known as a *selective test* or *test check* or simply a "test."

The publication *Auditing Standards and Procedures* states that "the well established practice of the independent auditor of evaluating the adequacy and effectiveness of the system of internal control by testing the accounting records and related data . . . has generally proved sufficient for making an adequate examination."<sup>4</sup>

It is apparent that the examination of evidential matter through such tests is concerned with the validity of the conclusion drawn from the study of the internal control system as well as the desire to create a reasonable basis for an opinion regarding the financial statements under question.

Evidence of numerous clerical errors, widespread carelessness, frequent violations of accepted accounting principles, or evidence of manipulation or fraud will render the previously drawn conclusions as to the effectiveness of the prescribed internal control system of little value in assessing the financial statements.

Tests designed to accomplish this purpose are called *tests of compliance*. The AICPA publication *Statements on Auditing Standards* states that "the purpose of

<sup>4</sup>*Auditing Standards and Procedures, Statements on Auditing Procedures*, no. 33, American Institute of Certified Public Accountants, New York, 1963, p. 11.

tests of compliance is to provide reasonable assurance that the accounting controls are being applied as prescribed."<sup>5</sup>

In addition, the auditor is directly concerned with the reasonableness of the account balances indicated in the financial statements. The reasonableness of these account balances can be confirmed by projections of sampled (and audited) entries or records comprising the values constituting such account balances.

While direct projections of sample results to validate stated account balances could not be accomplished with the judgment (selective samples) of the past, the advent of statistical sampling with such an ability has resulted in the rapidly increasing use of such approaches. Such tests are referred to as *substantive tests*.<sup>6</sup>

To the extent that the auditor projects his test findings as a generalization about the state of affairs in the entire field of documents or entries examined, the test executed by the auditor is a *sampling* operation. If he is to generalize about the field from the test data, he is dealing with a sample. If he is interested only in discussing or observing any instances that he may accidentally encounter in a haphazard examination of some entries, without considering their impact on the books of record in terms of the frequency of their occurrence or their magnitude, he has no sampling problem. If he wishes to follow through one or two documents in order to observe whether an understanding of the system exists, he has no sampling problem. It matters little what documents he selects or how many he looks at, since one or two may well suffice for this purpose. However, as soon as he starts talking about the impact of his test findings or generalizes as a result of his findings as to the state of all of the documents, then a sampling problem will arise.

Scientific sampling techniques have long been widely used in business, industry, and science. It is only recently that the use of these techniques in auditing has attracted much interest.

The unique feature of the scientific or statistical sampling method is the ability to project sample results to state the condition of the field examined with a known reliability.

Thus, from the sample results (test data), statements may be made as to the frequency of clerical errors, evasions of internal control, etc., as well as their dollar-value impact on the financial statement. In addition, the method places new tools in the hands of the auditor. The ability to project from the sample makes possible the direct determination of the reasonableness of dollar values reflected in the financial statements, such as the dollar values of inventories and groups of accounts. This process is often referred to as the *validation of account balances*.

Further, other devices become possible, such as fixing sample sizes to assure the finding of certain events if they occur in the field examined with a certain minimum

<sup>5</sup>*Codification of Statements on Auditing Standards, op. cit.*, p. 62, ¶320.55.

<sup>6</sup>*Statements on Auditing Standards and Procedures, op. cit.* (p. 49), states that "the feature of audit interest in performing substantive tests is the monetary amount of errors. . . ."

frequency. In other words, in addition to providing the auditor with an objective approach to the test operation, certain new approaches which will be discussed in detail in later sections of this book become available.

However, in considering the use of statistical sampling approaches by the auditor, it must be remembered that he is in a somewhat different position from that of the sampler in most other fields. He normally does not place total reliance on the results of a single sample (test) in arriving at his decision but usually performs other examinations and a variety of other tests and analyses in evaluating the condition of the records and their impact on the accuracy of the financial statement.

The sampler in industry will often decide to accept or reject a lot on the basis of the results of one sample drawn from that lot. The market researcher or public opinion surveyer will base his conclusions on the outcome of a survey based on one large sample. The auditor, on the other hand, uses the sample (test) result as only one component of a variety of examinations and tests. Often the test result plays a relatively minor part in his considerations unless it discloses a very bad situation. Thus, the auditor must look at the sampling problem in a somewhat different way.

## TEST OBJECTIVES AND SAMPLING

As noted previously, the independent auditor's audit objective is to express an opinion as to the reasonableness of the financial statements and their compliance with generally accepted accounting principles.

To this end the auditor examines a variety of accounting evidence, possibly including data compiled by a variety of tests of specific areas selected to provide him the assurance he requires. He is primarily concerned with the impact of his findings on his decision as to the reasonableness of the financial statements.

The objective of the independent public accountant's use of the audit test relates to the prescription that he will, as part of his examination, evaluate the internal control system in use by his client. This evaluation includes a subjective evaluation of the protection afforded by the system followed by a test of the extent of compliance with the system. This test of compliance can be accomplished effectively by the use of statistical sampling, which also makes it possible to establish directly the reasonableness of the stated account balances.

The independent public auditor's objective in the use of an audit test, and thus statistical sampling, may be summarized to be

1. Tests of compliance with internal controls, sometimes referred to as a *test of transactions*.

2. Tests to validate the reasonableness of account balances (substantive tests).

The internal auditor's objective is somewhat different and has been defined as follows: "Internal auditing is an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis for service

to management."<sup>7</sup> This covers an area beyond the question of the accuracy of the records and includes "appraising the quality of performance in carrying out assigned responsibilities."<sup>8</sup> Thus, in addition to assuring himself as to the accuracy of the company's records and endeavoring to safeguard the company against losses of all kinds, he is charged with an audit of operations. This management audit activity is especially important to government auditors.

From either viewpoint, each test used as part of the approach toward meeting the overall objective has in turn a specific detailed objective all its own. It is designed to produce data related to some specific point of investigation which the auditor has in mind.

The emphasis on audit objectives arises from the impact that the specific goal in the test at hand has upon the sampling plan to be used. As will be seen, no single universal sampling method will achieve the objectives of all possible audit tests, and a particular method must therefore be chosen to meet a given set of needs.

In consideration of this fact, *it is essential that the objective of a particular test be fully and explicitly stated before a sampling plan is selected.* This is especially true when statistical sampling methods are used. Vague and nonpurposeful objectives do not permit the design of an effective test.

## OBJECTIVE SAMPLING

Auditors have been using the selective test approach to their problems for decades. The use of the test or sample has not been a matter of choice but one forced upon them by the increasing mass of documentation confronting them as business and government have grown in size and complexity.

However, unlike other fields, where sampling has long been recognized as a scientific problem, the choice of the sampling plan as well as the interpretation of the results has largely been one of judgment of the auditor.

The literature on this subject, including published standards of auditing, has dealt with it in a general fashion. For instance, an earlier publication of the American Institute of Certified Public Accountants, *Generally Accepted Auditing Standards*,<sup>9</sup> stated merely that "the appropriate degree of testing will be that which may reasonably be relied upon to bring to light errors in about the same proportion as that which would exist in the whole of the record being tested," and that "the testing technique thus rests for its justification upon its reasonableness, which in turn involves a variety of circumstances."

<sup>7</sup>Statement approved by Directors of Institute of Internal Auditors on May 30, 1957, as published in J. T. Johnson and J. H. Brasseaux, *Readings in Auditing*, South-Western Publishing Company, Cincinnati, 1960, p. 322.

<sup>8</sup>*Ibid.*

<sup>9</sup>*Generally Accepted Auditing Standards, Their Significance and Scope*, American Institute of Certified Public Accountants, New York, 1954, pp. 37 and 35.

Since it is recognized that the judgment of no individual is infallible and that ability in effective judgments varies widely from individual to individual and even for the same individual from time to time, it would seem that objective and scientific methods would be desirable in devising a test and evaluating its results. To be truly scientific, a sampling technique, once the test objective is definitely established, should lead to the same factual conclusions even if designed by different auditors and should not vary from time to time depending on the condition of mind of the auditor.

Yet in spite of the fact that the need for scientific sampling methods was recognized by other divisions of a business or governmental agency, it has not reached full acceptance by the auditor. For instance, the Department of Defense has for many years been using the principles of statistical sampling in accepting procured material (see Military Standard 105D, *Sampling Procedures and Tables for Inspection by Attributes*, Department of Defense, Washington, D.C., April 29, 1963).

It is only during the last two decades that interest in the application of statistical sampling to the problem of the auditor's test has developed and only very recently that any widespread interest or activity has become apparent. All major accounting societies, including the American Institute of Certified Public Accountants and the Federal Government Accountants Association, have now established committees to investigate this area. The large accounting firms have developed training programs, as have a goodly number of the accounting departments of commercial organizations in other fields.

More recently, the publications of the American Institute of Certified Public Accountants and its committees have recognized the place of statistical sampling in the audit test. In one of the publications of that organization, it is noted, "In determining the extent of a particular audit test and the method of selecting items to be examined, the auditor might consider using statistical sampling techniques which have been found to be advantageous in certain instances."<sup>10</sup>

Further evidence of such recognition can be found in the inclusion of questions on this subject in the CPA examinations, as well as the publication of a series of self-programmed lessons on this subject by the American Institute of Certified Public Accountants.<sup>11</sup> The Institute of Internal Auditors published a manual on statistical sampling entitled *Sampling Manual for Auditors* (Lockheed Aircraft Corporation, 1967).

There is no doubt that the qualified auditor of the future will be required to have a good grasp of the principles of statistical sampling for use in his tests, although this does *not* mean he will have to be a statistician.

<sup>10</sup>*Auditing Standards and Procedures*, op. cit., p. 37.

<sup>11</sup>*An Auditor's Approach to Statistical Sampling* (5 vols.), American Institute of Certified Public Accountants, New York, 1967-1972.

## THE STATISTICAL SAMPLE

Any sample for which the selection of the items to be included is independent of the sampler may be termed an "objective sample." However, an effective sampling method also requires a means of establishing the required sample size objectively and a means of appraising the sample results objectively. The only type of sample that accomplishes such objectives is the *statistical sample*, more properly called a *probability or random sample*.

The term "probability" sample arises from the fact that a sample drawn in this manner will have a behavior which is predictable in terms of the laws of the theory of probability. This type of sample must be obtained in a certain way.

It is emphasized that a haphazard sample or one obtained by any method other than those described in detail in the next chapter will not meet those requirements.

Samples obtained by other than the methods to be described later which result in a probability sample are considered together under the term "judgment" sample. This does not confine this type of sample to those in which the auditor actually exercised his judgment in the selection of items but broadly includes all samples which are obtained by nonprobability sample methods. For instance, drawing documents out of a file on a haphazard basis does not of necessity result in a probability sample.

Judgment samples, though not necessarily less accurate than probability samples as a description of a field of documents or entries from which they are drawn, do not have two important characteristics—estimation of the required sample size and of objective projection or evaluation of the sample results.

In other words, while the judgment sample may provide an excellent description of the field investigated, there is no way of establishing this fact objectively. The statistical sample result, on the other hand, may be evaluated as being no further away from the true result (which would have been obtained if *all* items in the field had been examined) than some given amount, based on widely accepted and mathematically provable statistical principles. Thus, the tables and methods outlined in this book to be used in fixing required sample sizes and in evaluating the results should be used *only* in conjunction with probability or random samples.

## THE ADVANTAGES OF THE STATISTICAL SAMPLE

As observed above, the statistical sample provides a means for an advance estimate of the sample size required for a given objective and an ability to appraise sample results. Further, when a sample is obtained by this method, it is possible to state, with any desired degree of confidence, that the sample result is no further away from the result obtainable from a similar complete examination of all items than some calculable amount. This provides a whole series of advantages:

### 1. The sample result is objective and defensible

Since the interpretation of the results is based on demonstrable statistical principles, the test is not only objective, but defensible, even before a court of law and certainly before one's superiors or, even more important, before one's own conscience.

Since the sample is objective and unbiased, it is not subject to the questions that might be raised relative to a judgment sample. Certainly a complaint that the auditor had looked only at the worst items and therefore has biased the results would have no standing. This results from the fact that an important feature of this method of sampling is that all entries or documents have an equal opportunity for inclusion in the sample.<sup>12</sup>

### 2. The method provides a means of advance estimation of sample size on the objective basis

The size of the sample used in a test need not depend upon the caprice of the moment, consideration of expediency, mere tradition, or guesswork if the statistical approach is used. This provides both a defense for the reasonableness of the sample size used and a justification for the expenditure involved. It lifts the burden of arbitrary sample size determination from the shoulders of the auditor. Nevertheless, sample size determination is not mechanical and will call for good judgment and decisions by the auditor.

Although the auditor certifies that his examination is "in accordance with generally accepted auditing standards," such standards do not exist with reference to the proper sample size for an audit test. In an earlier publication, *Audits by Certified Public Accountants*, the American Institute of Certified Public Accountants avoids the problem by stating that "the extent of testing in any audit is decided by the CPA in the light of his best independent judgment required to constitute a fair sampling of the records being tested."<sup>13</sup>

This general statement and those cited previously merely shift the responsibility to the individual auditor without providing any actual guidance or standards. The statistical sample approach provides the appropriate technique.

Nevertheless, as will be seen later (p. 101), any sample size, no matter how determined, as long as it is drawn in accordance with probability sampling principles, will provide a *valid* projected result, although perhaps not a *useful* projection because of the magnitude of the resulting sampling error.

<sup>12</sup>For stratified samples, this statement must be modified to indicate that the probability of inclusion of all entries or records *within each stratum* is equal.

There are other sampling techniques not discussed in this volume for which there is a known but unequal probability of selection for each sampling unit.

<sup>13</sup>*Audits by Certified Public Accountants*, American Institute of Certified Public Accountants, New York, 1950, p. 23.

**3. The method provides an estimate of the sampling error**

As noted above, when a probability sample is used, the results may be evaluated in terms of how far the sample projection might deviate from the value that could be obtained by a 100 per cent check.

The challenge of a judgment sample on the grounds that another sample might disclose an entire different result would not be valid for this type of sampling. For instance, if a sample of 300 items drawn from a population of 20,000 such items discloses that 3% of the sample items contained a certain type of error, then it may be said that there are 95 chances in 100 that the actual proportion of this kind of error obtainable by a complete check would have been between 1.5 and 5.5%. Further, there are 99 chances in 100, or almost certainty, that it would have been somewhere between 1.2 and 6.4%. There is no way of knowing how far wrong any other type of sample might be because of sampling variations.

**4. The statistical sampling approach may provide a more accurate method of drawing conclusions about a large mass of data than the examination of all the data**

The mountainous task of examining huge quantities of data may require large staffs and long periods of time. For instance, in evaluating the accuracy of inventory records, a complete count would require a large number of persons, some of whom might have doubtful qualifications for the task, resulting in errors in counting and identification. On the other hand, a relatively small sample carefully and accurately accomplished by a small group of selected qualified persons would be subject only to the computable sampling error rather than the indeterminable effect of numerous clerical errors.

Even when qualified personnel are available, tackling huge masses of documents results in boredom and loss of interest that may cause inaccuracies in the tabulations. The known sampling error is preferable to the unknown errors arising from this source.

In fact, some commercial organizations that have used statistical sampling to estimate the total inventory value claim that the sample result is actually more accurate when projected than a 100 per cent count and valuation.

**5. Statistical sampling may save time and money**

Owing to a popular, but *incorrect*, intuitive feeling that adequate and consistent protection will be provided by taking some fixed percentage (say 5 or 10 or some other per cent) of the field as a sample, *oversampling* is quite frequent in auditing when sampling from a large mass of data. This assumption will be demonstrated to be incorrect in later discussions.

Thus, the statistical sampling approach may then result in a smaller sample size than might be used on the basis of a "common sense" approach, with resultant

savings. However, it may, in other instances, demonstrate the inadequacy of the size of the sample taken in prior checks and result in a higher cost if adequate protection is desired.

Any decreased cost resulting from the use of statistical sampling, as contrasted with traditional test methods, can be established only by comparison with the cost of such past methods. It must be recognized that if past tests have relied on inadequate sample sizes, which have really served no useful purpose, the requirement of an adequate sample size in statistical samples may result in higher costs.

On the other hand, there have been many examples of unnecessarily large test samples being used in order to achieve a 5 or 10% sample or because the auditor otherwise felt it necessary, on an intuitional basis, to achieve the protection he desired.

**6. Statistical samples may be combined and evaluated, even though accomplished by different auditors**

That the entire test operation has an objective and scientific basis makes it possible for different auditors to participate independently in the same test and for the results to be combined as though accomplished by one auditor.<sup>14</sup>

For instance, in an audit covering a number of locations, the audit can be accomplished independently and separately at the different locations and the results combined for an overall evaluation of all localities if statistical sampling techniques have been applied.

When the statistical sampling method is used, an audit started by one auditor can be continued by another without difficulty and the results combined. Further, if an audit test is accomplished and it is decided to extend the sampling, this can be achieved without difficulty and with the assurance that the two audit results can be combined.

**7. Objective evaluation of test results is possible**

If an audit test discloses a certain percentage of error when a judgment sample has been used, there is no way of projecting the results to describe the situation in the whole field with any degree of assurance.

If the statistical method is used, the audit test result can be projected to be within not more than a known interval from the result that would have been obtained if the whole field had been subjected to a 100 per cent check with a stated probability confidence.

Thus, all auditors performing this test would be brought to the same conclusion about the numerical extent of error existing in the field. While the impact of these

<sup>14</sup>The techniques of stratified sampling described in Chapter 10 must be used to combine the results of such independent tests.

errors might be interpreted differently, there can be no question of the facts obtained here, since the method for the determination of their frequency in the field is objective.

## TYPES OF STATISTICAL SAMPLES

A broad distinction has been made above with reference to judgment and probability or random samples. However, this does *not* imply that a valid probability sample can be obtained in only one way, or that there is only one type of valid statistical sample.

Probability or random samples may be drawn in a variety of forms, depending on a number of conditions. These methods of drawing samples include:<sup>15</sup>

1. Unrestricted random samples
2. Stratified random samples
3. Cluster samples
4. Multistage samples

The *unrestricted random sample* is obtained by using the later-described method to draw individual items from the entire field (population or universe) without segregating or separating any portion of it and thus by drawing individual items (sampling units) with an equal probability that any unit will be included in the sample. This is the most common method of sampling but is sometimes less efficient than other methods.

In the *stratified random sample* the sampling units or values to be included in the sample are obtained by the random methods to be described later, but the items are drawn from separate sections of the field independently, perhaps not in proportion to the number of items in that section of the population. However, within that segment (or stratum) of the field, the probability that any one sampling unit is included in the sample will be the same as for any other in that stratum.

This technique is a very common and valid practice among auditors when it is desirable to separate and sample certain types of documents or entries separately, as, for instance, when all large-value items are examined or when a larger proportion of these items are covered than smaller-value items. Other instances of this type of sampling arise when special samplings are provided to check on sensitive items, entries especially susceptible to fraud, or suspicious types of entries.

It is characteristic of the stratified random sample that for each separate section or portion of the field tested, the sample is drawn by unrestricted random methods. The stratified random sample is often more efficient than the unrestricted random sample as well as providing special attention to portions of the field of particular interest.

<sup>15</sup> There are other methods of sample selection but these are not covered in this volume, since they are not especially relevant to the audit situation.

The *cluster sample* is a special form of either of the above two sample types in which, instead of drawing individual items or sampling units (such as documents or entries), *groups* of items are drawn at random points. For instance, in sampling a file it is possible to draw several records at a selected random point. This method obviously saves time in cumulating the sample, since many fewer points in the file are sought, but often this saving in time is a delusion since a loss in sampling efficiency may result and a larger sample size may be necessary. This point will be developed more completely in a later chapter.

*Multistage sampling* involves sampling on several levels. For instance, in determining some characteristics of data at various stores or branch offices, it may be possible to take a random sample of such stores or branch offices and then to take a random sample of the records at each of these points. The pros and cons of this type of sampling will be discussed in detail in a later chapter.

*Post stratification* is based on the simple or unrestricted method of selection of the sample, but the distribution of the sample results to a stratified approach. The method may be used when the auditor decides to stratify after drawing the sample as an unrestricted random sample and completing the audit examination of the sampling units. The advantages and disadvantages of the method are discussed later.

## THE SAMPLING PLAN

The approach to a test through a sampling plan is a function of the objective of the test itself or that which the auditor hopes to achieve. A variety of possible approaches may be classified as shown below:

1. Estimation sampling
2. Acceptance sampling
3. Discovery sampling

Because of the wide choice of plans which may be used to approach a given test, it is essential first that a very specific objective be formulated for each test proposed.

## ESTIMATION SAMPLING

*Estimation sampling* is the most widely used approach to audit tests. It provides the answer to the question of how many or how much. When this method is used, a random sample of a special size is obtained, and either the number of some specified type of item or event (such as errors) appearing in the sample is counted and the proportion of these items determined, or the average (or total) value of some characteristic (such as dollar value, etc.) is obtained.

If the sample is used as a means of establishing the frequency of occurrence of some kind of event or type of item, the process is referred to as *attributes sampling*. The

result of such a sampling operation is commonly expressed as the *per cent* of the type of event specified.

In statistical terminology, any measurement obtained by counting the number of items falling in a given category is called an *attribute measurement*. The categories established for this purpose must be mutually exclusive; that is, an observation is counted in one category only, and it cannot fall in another. Examples of attribute categories include errors versus nonerrors, missing documentation versus nonmissing documentation, improperly completed requisitions versus properly completed requisitions, etc.

When attributes measurement, or the answer to how many, is the proper approach to an audit test, the type of sampling calculations is different from the situation in which it is desired to know how much. For this reason, in all following discussions, for all types of sampling problems, a distinction will be made between attributes sampling (how many) and the other type of sampling, known as variables sampling (how much).

From the prior discussion, it will be noted that tests of compliance with internal controls (tests of transactions) are examples of attributes tests, since it is desired to establish the frequency of deviation from the requirements of the internal control system.

*Variables measurements* are designed to provide an estimate of an *average* or *total* value. Each observation, instead of being counted as falling in a given category, provides a value (say dollar amount, period of time, etc.) which is totaled or averaged for the sample. Examples of variables measurements include the dollar value of an inventory, the average length of time required to fill a requisition, the average or total dollar value of errors of a certain type, the total dollar amount of expenses of a certain kind, etc.

Tests to validate the reasonableness of account balances may be recognized as variable measurement tests and are sometimes termed "dollar-value" samples in the literature.

The estimation sampling approach provides the auditor with an estimate of the frequency of occurrence of an event in the field (such as errors) or an estimate of an average or total value. In addition, it provides an estimate of the sampling error which must be considered when relying on the sample result; this sampling error is a statement of how far from the value obtainable from a 100 per cent check the sample result might be.

Thus, the auditor is provided with a range (interval estimate) rather than a single value (point estimate). For instance, the result might be a statement, based on the test, that the field contained between 6 and 8% of errors or that the dollar value of an inventory is between \$1,650,000.00 and \$1,660,000.00. The interpretation of the audit impact or the audit finding then rests upon the auditor, who must, in light of other tests and information available to him, come to a determination of the importance of a rate of error in this range for this field or of a departure of the book record value of the inventory from the interval estimate.

## ACCEPTANCE SAMPLING

*Acceptance sampling* provides another possible approach for the auditor, although generally speaking it is more useful for the control of error than for the auditor's test purposes.

When acceptance sampling is used, a sampling of a given size is drawn by probability or random sampling methods, and if not more than a certain number of errors are found in the sample, the field examined is considered acceptable, and if more than that number are found, the field is rejected as unacceptable.

The sampling plan for acceptance sampling contains a statement of the field (lot) size, an indication of the sample size to be used, and an acceptance number or maximum number of errors which may be included in the sample for the field to be considered acceptable.

The particular sampling plan to be used in a given situation depends on the objectives of the plan. A later chapter will discuss the criteria for the selection of an acceptance sampling plan.

The acceptance sampling method provides only an accept-or-reject decision. In itself it provides no information as to how good or how bad the field is nor any estimate of the rate of occurrence of errors in the field. There still remains the problem of what to do about the situation when the test calls for rejection.

Further, it requires a precise advance decision as to the rate of error for which rejection is necessary. This type of advance decision is often difficult, if not impossible for the auditor, since the rate of error existent must be considered together with other tests and examinations perhaps not accomplished at the time the decision is to be made. The limitations of this method, together with its advantages and some examples of its uses, will be discussed fully in a later chapter.

There are several types of acceptance sampling plans, including *single*, *double*, *multiple*, and *sequential*. Each of these types will be described later.

## DISCOVERY (EXPLORATORY) SAMPLING

There are areas within which the auditor's objective may not be achieved by either estimation or acceptance sampling. He may not be interested in determining how many or how much or in a simple accept-or-reject decision.

When there is a possibility of fraud, avoidance of the internal control system, evasion of regulation, or other critical departures, it may be sufficient to disclose only one such example to precipitate further action or investigation.

It is recognized that no sampling method, and for that matter not even a 100 per cent check, is likely to disclose a "needle-in-the-haystack" type of situation, such as one instance of fraud in a million entries. If several are included in a field, it is possible to determine a sample size which will give any desired degree of assurance that *at least one* occurrence of this type would be included in the sample when it happens with at least that frequency in the field.

This type of sampling is known as *discovery* or *exploratory sampling*. This method will be fully discussed in a later section of this book and provides a new and very useful tool for the auditor.

### TEST OBJECTIVES AND THE SAMPLING PLAN

It is apparent now that there are several different approaches which may be used in developing a sampling plan to meet the needs of an audit test. It will be seen later that a number of other decisions are necessary in order to develop and execute the sample.

The particular approach to be used, as well as the other decisions which must be reached, will be determined by the objectives of the particular test at hand. However, to make these decisions possible, the objectives must be known in specific terms and not be vague, with fuzzy purposes.

For instance, if attributes sampling methods are to be used, it is necessary to define the categories very specifically. In the case of a count of errors, advance determination must be made as to what constitutes an error or, if desired, a significant error. If the errors are to be analyzed by type, the categories for the different types of errors must be carefully defined. Of course, if a new and unexpected type of error is encountered during the test, there is nothing to preclude the inclusion of a new category.

If a decision is to be made as to an estimation, acceptance, or discovery sampling type of plan, the auditor must have his test purpose firmly in mind in very explicit terms. This is one of the considerable advantages of the statistical sampling approach: it forces advance and specific determination of test purposes. On the other hand, the same sample can be used for several approaches, for instance, as will be seen later, for both discovery and estimation sampling. In addition, the same sample can be used for several different and independent test purposes. For instance, a sample of items counted at a warehouse can be used to estimate the frequency of errors in the warehouse records, the proportion of slow-moving items at the warehouse, the proportion of the items which are overstocked, the dollar value of the warehouse inventory, etc., by securing the necessary information about each item selected for inclusion in the sample.

### WHEN TO USE STATISTICAL SAMPLING

Statistical sampling is appropriate whenever it is desired to generalize about the field from which the sample was drawn on the basis of sample results. However, this does not mean that the sampling must be performed against the better judgment of the auditor as to the type of entry in which he is interested. For instance, in testing expense vouchers, many of these vouchers may represent very small sums of money. There is nothing in the statistical sampling approach that dictates that the

sampling must be of all items when only the larger dollar-value items are of interest. On the other hand, it must be remembered that the conclusions thus obtained can be projected then to describe only the field of higher-value items.

Further, nothing in statistical sampling restricts the auditor from making any additional examinations of items not included in the sample, which because of their susceptibility or for other reasons are of special interest. Of course, such items do not become part of the sample projection. Nevertheless, if he desires, he may sample only the suspicious type of item; however, he should use statistical sampling for these items.

A common fallacy in the thinking of many auditors relative to the use of statistical sampling is believing it applies only to large fields containing many records. It is to be recognized that whenever less than the totality of the records are examined, a sample has been taken. There is no way of projecting or otherwise generalizing the result obtained from a partial examination of a group of records (a sample) other than by the use of statistical (probability) sampling techniques *regardless of the field size*.

Thus, if it is desired to interpret the results of a test based on an examination of less than all of the records, this is the only method available.

Of course, it may develop that the sample size required for this purpose is very large and perhaps, from an audit viewpoint, prohibitive. If so, this is merely a recognition that such a test is useless if performed on a smaller scale. The use of a smaller and more expedient sample size is then a waste of time, money, and resources. It should be obvious that an inadequate test which does not meet its own objectives is useless.

Thus, the idea that one may avoid the larger sample size indicated as necessary in a statistical sample by reverting to judgment sampling is a delusion, and the attempt to do so is likely to do more harm than good.



## FOUR

# Elementary Statistical Concepts

## STATISTICAL THEORY AND THE AUDITOR

To the nonstatistician, at first glance the techniques of statistics seem quite formidable. Elaborate statistical formulas involving Greek letters may cause the auditor to hesitate to make use of these scientific techniques. Further, to the uninitiated, the literature of the field of statistical methods is difficult to comprehend, particularly in the area of statistical sampling, since these techniques are often treated as an advanced subject, and the discussion presupposes previous formal training.

However, it is not required that the auditor be a trained statistician in order to apply statistical sampling methods to his tests and other accounting evaluations. To accept this view would result in the assumption that only trained statisticians can use statistical sampling, thus limiting the use of these techniques to a select few. Actual experience, as in the field of industrial quality control, has demonstrated that this is not true. Statistical sampling may be used effectively by those who have an understanding of the principles in spite of a lack of formal or extensive training. Of course, the trained statistician can devise more efficient methods of sampling, and his services may be required in certain complex situations.

The auditor need not be alarmed when confronted by the statistician's complex formulas, since most of these formulas can be reduced to the form of tables from which the sampler can obtain his result without having to solve these formulas. Nevertheless, a basic understanding of his tools will provide the auditor not only with greater facility in using these techniques, but with an understanding of the methods which will enable him to avoid blunders.

For these reasons, this chapter will be devoted to the consideration of some elementary statistical concepts and tools.

## BASIC STATISTICAL MEASURES

Statistical techniques have their greatest value when the analyst is confronted by large masses of data. In such instances he is required to interpret the significance of a large number of observations or measurements, generally all differing from one another.

Consider, for instance, a list of 2,000 vouchers. A mere scanning of these data as to the amounts of the vouchers provides little information for the analyst because of the mass of numbers confronting him. An organized approach is essential if any information is to be gleaned from this extensive listing.

The first step in analyzing such data on a complete (nonsampling) basis would be to reduce the mass of the data by arranging the observations in magnitude groupings or size categories. This is accomplished by tallying or counting the number of observations which fall into each dollar-value category. The resulting table (technically called a *frequency distribution*) for the above-mentioned voucher data is shown in Table 4-1.

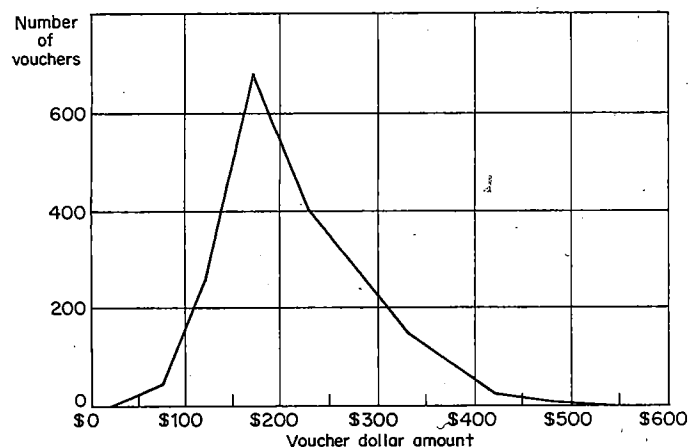
Now, instead of a listing of values covering many pages, the analyst need deal only with this one short table.

If desired, the data in Table 4-1 may be presented pictorially in a graph by preparing a dollar-value scale for the horizontal axis of the graph and a scale to represent the number of vouchers on the vertical axis. The resulting graph is shown in Figure 4-1.

The general appearance of this graph is typical of many frequency distributions. Note that the curve has a peak and tapers off in both directions.

TABLE 4-1. *Distribution of Dollar Amounts of Vouchers (From Appendix M)*

Dollar value of vouchers	Number of vouchers
0- 49.99	1
50- 99.99	49
100-149.99	252
150-199.99	681
200-249.99	399
250-299.99	301
300-349.99	184
350-399.99	93
400-449.99	28
450-499.99	9
500-549.99	3
Total.....	2,000

FIGURE 4-1 *Distribution of voucher dollar amounts.*

### 1. Averages

Thus, it appears that the values tend to cluster about the peak point in the distribution. The *location* of this *point of central tendency* about which the values cluster is often used to typify the entire mass of observations. The measure of the location of this point is called an *average*.

Although there are many types of averages, the most useful one for most accounting problems is the *arithmetic mean* or *arithmetic average*. Unless otherwise specified, the word "average" in this book will refer to the arithmetic average. The arithmetic mean is obtained by totaling all the values and then dividing by the number of observations included in the total. The symbol  $\bar{X}$  (say "X bar") will represent the arithmetic mean.

For the above list of vouchers the arithmetic mean may be computed to be \$220.04. Generally speaking, this indicates that the *typical* amount is \$220.04. However, this is a considerable oversimplification of the interpretation of the arithmetic mean.

It is noted that if the arithmetic mean is available, the grand total value of all items can be obtained by multiplying the mean by the number of observations comprising the average.<sup>1</sup>

<sup>1</sup>This is obvious, since the average was obtained by *dividing* the total by the number of observations comprising that total. Symbolically,

$$\bar{X} = \frac{\sum X}{n}$$

where  $\sum$  means the sum of  
 $X$  represents each observation  
 $n$  equals the number of observations

thus 
$$n\bar{X} = n \frac{\sum X}{n} = \sum X$$

### 2. Measures of dispersion

It is apparent that, since all the voucher values are not the same, the average alone will not supply complete information about the data, owing to the fact that many of the observations depart considerably from the average.

To provide complete information about the data, in addition to stating the "typical" value, it is necessary to indicate the extent to which the individual values depart from the average by means of some measure of *dispersion*. Thus, the understanding of the data provided by the statistical measures is considerably improved if it is noted that the average (arithmetic mean) voucher value is \$220.04 and that the *range* of the values is from \$13.48 to \$547.53.

### 3. The standard deviation

While this statement about the data is improved, the range is a poor measure of the *dispersion* of the values about the arithmetic mean, since it considers only the two most extreme or freakish values (the highest and the lowest) and does not give any indication as to the behavior or spread of the other items about the average.

A better measure of dispersion of the values would be one which would be dependent upon the spread of all observations about the average. The measure found most useful for this purpose is a peculiar kind of average of the distance of all values from the arithmetic mean called the *standard deviation*.

If the distance of a value from the average is each represented<sup>2</sup> by  $X - \bar{X}$ , then the standard deviation is obtained by squaring these deviations,  $(X - \bar{X})^2$ , dividing the sum of these squares by the number of observations,  $\sum(X - \bar{X})^2/n$ , thus obtaining the average square of the deviations from the arithmetic mean, and then taking the square root of the result.

Symbolically, if, as is customary, the Greek lowercase letter sigma,  $\sigma$ , is used to represent the standard deviation, its formula becomes

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

or, when computed from a sample,

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{n - 1}}$$

When the sample is of any considerable size, the difference in the results turns out to be negligible. As a result, the division by the value  $n$  rather than  $n - 1$  is common. When the sample is less than 40, however, the second version of the formula should be used.

<sup>2</sup>See explanation of symbols on page 52.

While the above calculation may look formidable, there are now available a number of models and makes of pocket electronic calculators with a standard deviation key which require only the entry of the individual values and the pressing of the standard deviation key to obtain the result of the above formulas.

In addition, the value of the standard deviation for a given group of data may be approximated by a method not requiring the solution of the formulas, as will be explained in a later chapter.

If the auditor should later find it desirable to calculate the measure precisely for a large number of observations, methods of facilitating and accomplishing the computations from frequency distributions are covered in elementary statistical texts.<sup>3</sup>

The computation of the standard deviation from a limited number of observations is illustrated below, given the following values:

\$191.10
251.53
205.10
196.86
192.66
Total \$1,037.25

The average is \$207.45 or \$1,037.25/5. The deviation or difference between each of the above values and the arithmetic average is secured and squared as shown in Table 4-2.

TABLE 4-2

Value ( $X$ )	Deviation from average of \$207.45 ( $X - \bar{X}$ )	Square of deviation ( $X - \bar{X}$ ) <sup>2</sup>
\$191.10	-16.35	267.3225
251.53	+44.08	1,943.0464
205.10	- 2.35	5.5225
196.86	-10.59	112.1481
192.66	-14.79	218.7441
Total.....		2,546.7836

The total of the squared deviations is divided by the number of items (in this case  $n = 5$ ) to give 509.3567. The square root of this figure<sup>4</sup> is the standard deviation, which is \$22.57 in this case.<sup>5</sup>

It is apparent that the greater the spread of the individual observations about the

<sup>3</sup>See, for instance, H. Arkin and R. R. Colton, *Statistical Methods*, 5th ed., Barnes & Noble, Inc., New York, 1970, chap. IV.

<sup>4</sup>The value obtained *before* taking the square root is called the *variance*. This is the square of the standard deviation.

<sup>5</sup>See Technical Appendix I for a less laborious method which may be used to calculate the standard deviation.

arithmetic mean, the greater will be the standard deviation. Thus, in comparing two sets of data, if one is found to have a larger standard deviation than the other, that set of data shows greater variability.

At this point, the reader may wonder why such a peculiar measure was resorted to, especially one which is so arduous to compute. There is sound reason for this choice of a measure of dispersion, but to understand this reason it is necessary to return to a general discussion of the nature of frequency distributions.

To facilitate the discussion, it will be assumed that an extremely large number of observations are included in the frequency distribution under discussion and that for this reason the irregularities arising from limited data will vanish in graphs of these distributions. A smooth curve will then be seen in a graph of the distribution. Curves of this type will be used in the discussion below.

A basic and most important type of distribution is pictured in Figure 4-2. It is seen that this graph looks like a cross section of a bell and, in fact, is often called a "bell-shaped" curve. It is properly known as a *normal* distribution.<sup>6</sup> Its origin will be explained later, but it may now be observed that it often arises as a result of random variations.

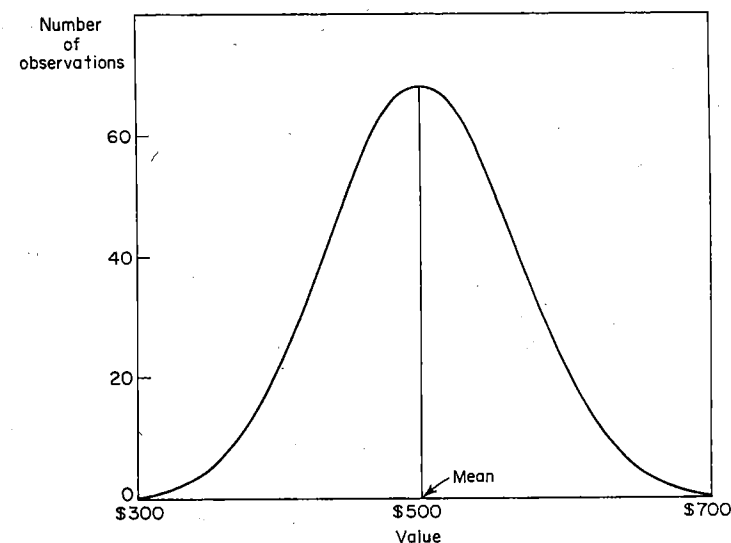


FIGURE 4-2

The formula for the curve is known.<sup>7</sup> The standard deviation is the only variable in this formula. Hence, by mathematical methods it is possible to determine the

<sup>6</sup>Also known as the Gaussian distribution.

<sup>7</sup>For the mathematically trained, the formula is

$$Y = \frac{1}{\sigma \sqrt{2\pi}} e^{-(x-\bar{x})^2/2\sigma^2}$$

where  $e$  and  $\pi$  are mathematical constants.

proportion of the area under the curve and thus the percentage of observations contained within any given distance measured from the arithmetic mean. Tables of such values have been compiled. A few of the more important of these values are shown in Table 4-3.

Thus if a set of observations is known to comprise a normal distribution and the distribution has an arithmetic mean of \$100 and a standard deviation of \$10.00, it may be said that 95% of the observations will fall in the range of \$80.40 to \$119.60 [ $\bar{X} \pm 1.96\sigma$ , or in this instance,  $\$100.00 \pm 1.96 (\$10.00)$ ]. This is illustrated in Figure 4-3.

Conversely, it may be said that if an observation is drawn at random from among those comprising a normal distribution, there are 95 chances in 100 or a 95% probability (confidence) that it will fall within the range established by the arithmetic mean  $\pm 1.96$  times the standard deviation. In Figure 4-3 there is a 95% probability that it will fall between \$80.40 and \$119.60. This point is basic to an understanding of sampling variability measurements and thus should be carefully studied and understood by the reader.

In similar fashion, various ranges can be established which will give any desired degree of probability (confidence) that a randomly selected observation, drawn from among those comprising a normal distribution with a given arithmetic mean and standard deviation, will fall in a specified range. The number of standard deviations required for such probabilities will be assigned the symbol  $t$ .

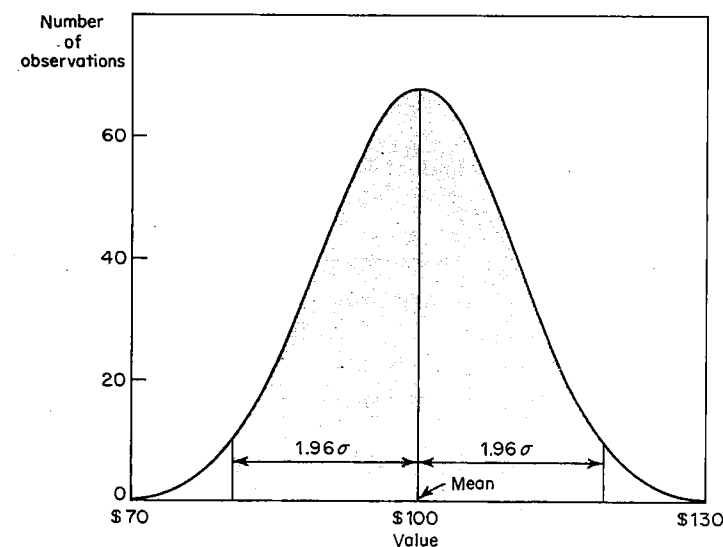
Thus, for instance, assuming a normal distribution with an arithmetic mean of \$100.00 and a standard deviation of \$10.00, the percentages within various ranges are given in Table 4-4, based on Table 4-3.

In the example cited above with a mean of \$100.00 and a standard deviation of \$10.00, it was established that 95% of the observations would be in the range of \$80.40 to \$119.60. Therefore, there is a 95% probability that an observation drawn at random would be contained within this range.

It is to be noted that since the normal distribution is symmetrical, or in other words the curve is the same on both sides of the average, if a given range, say of  $1.65\sigma$  on both sides of the average, includes 90% of the observations, the proportion included on one side, say from the average to the upper end of the range, will be half of that or 45%.

**TABLE 4-3. Table of  $t$  Values**

Distance from arithmetic mean in terms of standard deviation on both sides of the mean ( $\pm t\sigma$ )	Percentage of observations included
$\pm 1.00\sigma$	68.26%
$\pm 1.65$	90.00
$\pm 1.96$	95.00
$\pm 2.33$	98.00
$\pm 2.58$	99.00
$\pm 3.00$	99.73
$\pm 3.30$	99.90



**FIGURE 4-3**

Likewise, it may now be seen that *below* the upper limit (without reference to a lower range limit) there will be included one-half of the given percentage (in this case  $90\%/2 = 45\%$ ) from that point to the average *plus* the 50% below the average or 95%. A similar calculation may be performed for the percentage above the lower end of the range. For instance, if the mean is \$100.00 and the standard deviation is \$10.00, the range of  $\$100.00 \pm 1.96 (\$10.00)$  or from \$80.40 to \$119.60 will include 95% of the observations. On the other hand, above \$80.40, there will be 97.5% of the observations or  $95\%/2 + 50\%$ . In similar manner, 97.5% of the observations will be less than \$119.60. This is illustrated graphically in Figures 4-4a and 4-4b.

An examination of the normal distribution pictured in Figure 4-2 discloses that it is symmetrical. The two halves of the distribution on the opposite sides of the arithmetic mean are exactly alike. However, many distributions are not normal nor may they be assumed to be normal. This is especially true of numerous types of accounting data.

When the data contain extreme or unusual values, as when a large group of accounts receivable cluster about some level but relatively few customers have very

**TABLE 4-4**

Probability	Range (limits)
68.26%	\$90.00 to \$110.00 ( $\bar{X} \pm 1\sigma$ )
90.00	\$83.50 to \$116.50 ( $\bar{X} \pm 1.65\sigma$ )
95.00	\$80.40 to \$119.60 ( $\bar{X} \pm 1.96\sigma$ )
99.00	\$74.20 to \$125.80 ( $\bar{X} \pm 2.58\sigma$ )

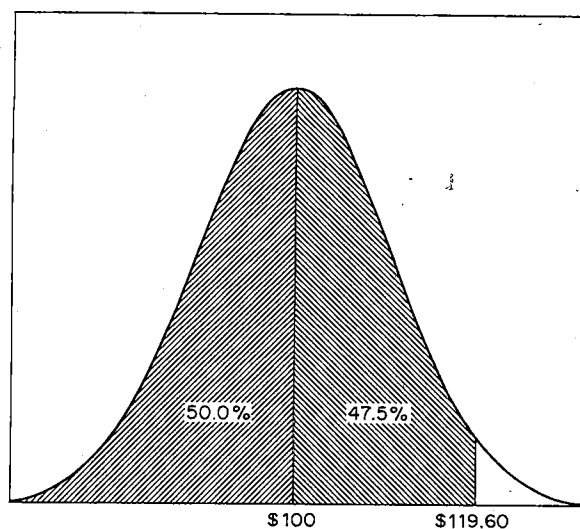


FIGURE 4-4a

large accounts, the basic distribution is no longer symmetrical but may look more like the distribution picture in Figure 4-5a.

A distribution which is not symmetrical is called a *skewed* distribution. The distribution in Figure 4-5a has the extreme values on the high side and is called the *right skewed* distribution. Figure 4-5b pictures a distribution with the extremes on the low side and is called a *left skewed* distribution.

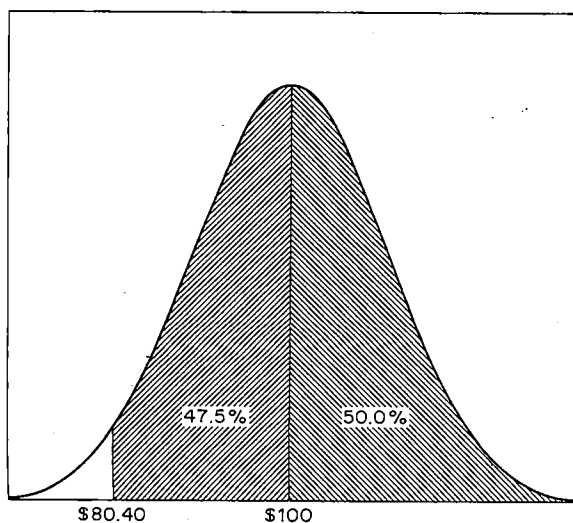


FIGURE 4-4b

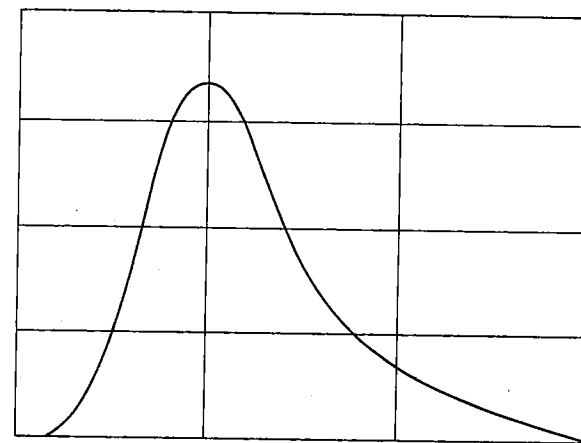


FIGURE 4-5a

Most distributions of the values on accounting records constitute right skewed frequency distributions, characterized by many small or moderate values accompanied by a few very large values.

The table of percentages (Table 4-3) given as being included within a given number of standard deviations from the arithmetic mean (on both sides) applies exactly only to normal distributions.

For distributions which depart only slightly from normality, these values are still good approximations. For badly skewed distributions, the values in the table cannot be used. This is considered in later discussions where special measures are taken to cope with such situations.

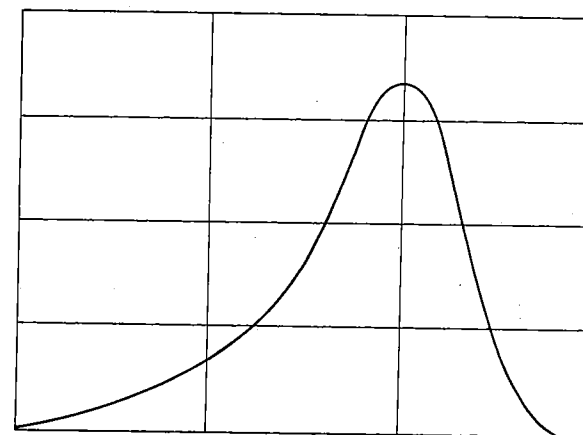


FIGURE 4-5b

**SAMPLING CONCEPTS**

The object in obtaining a sample is to make possible an estimate of some characteristic of the larger mass of data from which the sample was drawn by use of the value of that characteristic derived from the sample.

The use of probability sampling, as has been seen previously, makes possible the elimination of personal bias and judgment in the selection of the units to be included in the sample as well as providing an estimate of possible sampling errors. This sampling error gives an estimate of how far the sample-derived values might deviate from that which would have been obtained from a 100 per cent sample for any selected probability level.

The observations drawn from the entire group are referred to as constituting a *sample*. The totality of observations from which the sample was drawn is called a *universe* or *population* (or in more familiar terms, a field). The value of the characteristic (average, proportion of some specified type, etc.) derived from the sample is called a *statistic*. The same type of value which might be obtained by a 100 per cent census of the population (100 per cent sample) is called a *parameter*.

Basically, to be able to determine how far a statistic computed from a sample might differ from the population parameter, at a given probability level, the auditor must have some knowledge of the behavior of all the possible sample results that might be drawn from such a population. This is possible if probability sampling methods have been used to select the sampling units.

In Chapter 1 (see pages 13-14) a distinction was made between measurements in terms of variables as contrasted with observations expressed as attributes.

Recall that an attributes observation relates to the occurrence of some event, such as an error, a particular type of voucher, etc., or a categorization of the items examined. A variable observation is a measurement obtained from the sampling unit, such as the dollar amount, the number of days an account is overdue, etc.

The theory of sampling as it relates to attributes will be discussed first. The objective of this type of sampling is to answer the question, "How many?" Since the sampling error determination methods are different for these two types of measurements, they will be examined separately below.

**ATTRIBUTES SAMPLING**

As noted above, in order to estimate how far a statistic might (with reasonable probability) depart from the parameter, it is necessary to have some knowledge of the behavior of all possible results for all samples that might possibly be drawn from the universe.

If probability (or random) sampling methods have been used, each sampling unit has an equal probability of being included in the sample, and therefore all possible groupings of the sampling units (for a sample of a given size) are equally probable.

**TABLE 4-5**

Coin tossing		Ball drawing	
Coin #1	Coin #2	Ball #1	Ball #2
Tail	Tail	White	White
Head	Tail	Black	White
Tail	Head	White	Black
Head	Head	Black	Black

A very simple example may be developed to illustrate this point. Assume that two coins are tossed and the number of heads resulting are counted. An alternative similar example would be the drawing of two balls from a very large number of such balls, when 50 per cent of the balls from which the drawing is made are black, and the other half white. In this latter case, the number of black balls in the sample are counted.

In either example, the measurement is an attribute (head versus tail, black versus white). Since all possible groupings are equally likely, it would be desirable to list all these groupings. They are shown in Table 4-5 for both examples (for 2 coins and 2 balls).

Since all groupings are equally likely, it is evident that the probability of no heads at all in 2 tosses is only one in four (or  $\frac{1}{4}$  or 25 per cent), since only one of the four groupings (tail-tail) provides this result with the same figure for no black balls. In similar manner, there are 2 out of 4 equally likely ways of obtaining one head (head-tail or tail-head), and thus the probability of one head in tosses of 2 coins is two out of four ( $\frac{2}{4}$  or 50 per cent). The same calculation applies to the probability of 1 black ball in a sample of 2.

Finally, since there is only one way of obtaining 2 heads (head-head) out of four equally likely groupings, the probability of 2 heads in tosses of 2 coins (or 2 black balls in drawings of 2 balls) is one in four (or  $\frac{1}{4}$  or 25 per cent).

Thus, it is now possible to tabulate the various possible sample measurements

**TABLE 4-6. Outcome of Tosses of 2 Coins (or Drawings of 2 Balls\*)**

Number of heads (or black balls)	Probability
0	25%
1	50
2	25

\* When the ball population contains 50% black balls.

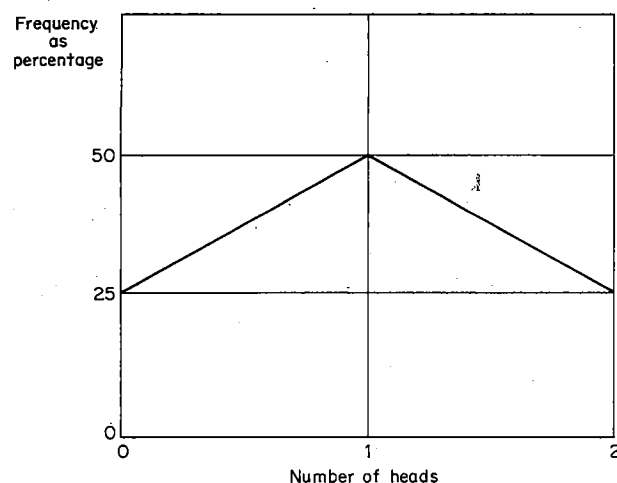


FIGURE 4-6a

(in this case the attribute-number of heads or number of black balls) for all possible sample outcomes together with their probabilities (see Table 4-6).

Table 4-6 is presented graphically as a frequency distribution in Figure 4-6a. This type of distribution, which indicates all possible sample outcomes together with their relative frequencies, is called a *sampling distribution*.

It is apparent from the above data that if 2 coins are tossed, there is a considerable probability of *any* of these outcomes (no heads, 1 head, or 2 heads). If a similar procedure is followed for tosses of 3 coins (or drawings of 3 balls), the probabilities shown in Table 4-7 will result.<sup>8</sup> Figure 4-6b is a graphical representation of the information in Table 4-7.

**TABLE 4-7. Outcome of Tosses of 3 Coins  
(or Drawings of 3 Balls\*)**

Number of heads (or black balls)	Probability
0	12.5%
1	37.5
2	37.5
3	12.5

\* When the population contains 50% black balls. These data are graphed in Figure 4-6b.

<sup>8</sup>The reader can confirm this by listing all the possible sample groupings as was done above for 2 coins.

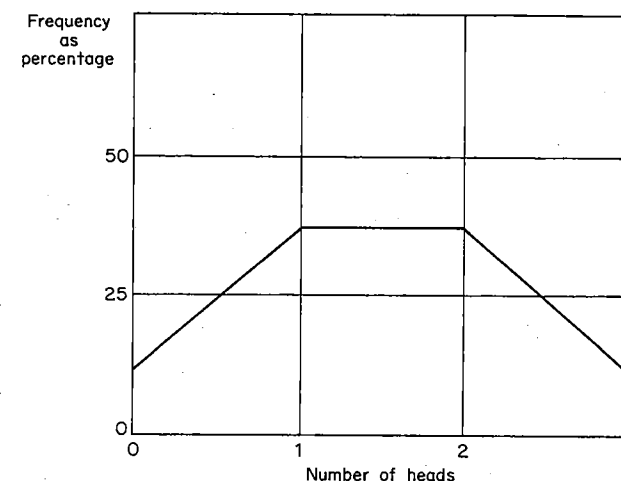


FIGURE 4-6b

There is still an appreciable probability of the occurrence of any number of heads (or black balls). A frequency distribution generated in this manner for attributes is called a *binomial distribution*.

When a much larger number of coins are tossed (or balls drawn), the method used above, the enumeration of all possible sample groupings, becomes arduous. However, the values can be found through mathematics.<sup>9</sup>

For tosses of 10 coins (or drawings of 10 balls) the probability of each possible number of heads in 10 tosses is shown in Table 4-8. This is shown graphically in Figure 4-7a.

From Table 4-8 it may be seen that if 10 coins are tossed (or 10 balls drawn), it is most unlikely that there will be no heads (or no black balls), since the probability of such an event is less than 1 in 1,000.

Further, the probability of either no heads or all heads is also very small (less than 2 in 1,000 or 0.19%, which equals  $2 \times 0.0977\%$ ). Thus, while it is possible for such an event to take place, the probability is very small, and it may be said with a high degree of *confidence* that it will *not* happen in a single sample of 10 coins.

<sup>9</sup>For the mathematically trained, the formula is

$$\frac{n!}{r!(n-r)!} p^r q^{n-r}$$

where ! = factorial

$r$  = specified number of head

$n$  = number of coins tossed

$p$  = percent of characteristic in population ( $\frac{1}{2}$  for heads)

$q = 1 - p$

TABLE 4-8. Outcome of Tosses of 10 Coins (or Drawings of 10 Balls\*)

Number of heads (or black balls)	Probability
0	0.0977%
1	0.977
2	4.395
3	11.719
4	20.508
5	24.609
6	20.508
7	11.719
8	4.395
9	0.977
10	0.0977

\* When the population contains 50% black balls.

On the other hand, this statement can be reversed, and it can be said, with a high degree of confidence, 99.8046% [or  $100\% - (0.0977\% + 0.0977\%)$ ], that if 10 coins are tossed (or 10 balls drawn), the outcome will be something between 1 and 9 heads (or black balls). Similarly, there is a 97.8506% [or  $100\% - (0.0977\% + 0.0977\% + 0.977\% + 0.977\%)$ ] probability that the outcome will be between 2 and 8 heads (or black balls).

Expressing this a little differently, if a sample of 10 balls is drawn from a large population of balls of which 50% are black, there is a 97.8506% confidence level that the sample will reveal a number of black balls between the confidence limits of 2 and 8 balls or 20 to 80% of black balls. It may also be said that the confidence

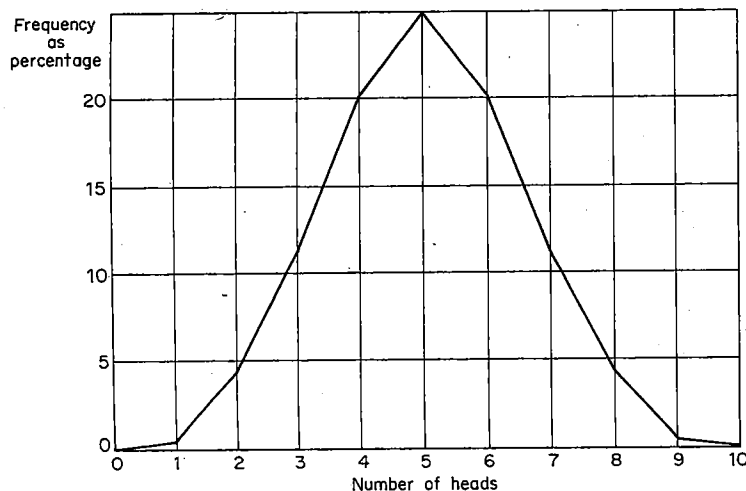


FIGURE 4-7a

interval is 6 (that is, from 2 to 8). Since the spread of these limits on both sides of the expected 50% of black balls is 30% or  $(50\% - 20\%$  and  $80\% - 50\%)$ , the precision of the sample is  $\pm 30\%$ . Thus, the result is a sample with a  $\pm 30\%$  sampling precision and a confidence level of 97.8506%.

To illustrate more practically, assume that an auditor is confronted with a large number of shipment records and that 50% of the shipments required more than a certain number of days to be completed.<sup>10</sup> If the auditor obtains a random sample of 10 of these shipments, he can have a confidence level of 97.8506% that his sample will contain between 20 and 80% of such shipments or that his sampling precision will be  $\pm 30\%$ .

Conversely, if he should find no such shipments or 1, 9, or 10 in his sample (less than 20% or more than 80%), there is a very high probability that the universe does not contain 50% of these late shipments but some other proportion.

This conclusion can be reached since the probability that such a sample would contain no such shipments under these circumstances is so small (0.0977% or less than 1 chance in 1,000) that its occurrence would challenge the assumption that 50% of these shipments were of this type.

Obviously, the wide spread possible within such a limited sample will render it useless. The precision is not good enough. This arises, as will be seen later, from the use of too small a sample.

Of course, the above illustration is not realistic because it assumes that the proportion in the population was known in advance. This is rarely the case. In fact, if it were known, there would be no point to sampling.

However, by inverse reasoning, it is possible, when a sample is at hand containing a given proportion of the studied characteristic, to determine the minimum and maximum proportion that a population would have to contain in order to generate such a sample (with a specified probability), and these values become the sampling limits.

Figure 4-7b illustrates the binomial distribution or expected relative frequencies of heads when 1,000 coins are used. It will be noted that this curve is almost identical with that of the normal distribution shown in Figure 4-2. In fact, the normal distribution is a special case of the binomial when  $n$  (the number of sampling units—coins or balls—in the example) is equal to infinity.

If the proportion in the population is 50% or fairly close to it or if the sample contains a large number of sampling units, the normal curve is a good approximation of the binomial.

If the standard deviation of the binomial distribution were known, it would then be possible to approach the determination of confidence limits through Table 4-3 (table of  $t$  values), which indicates the proportion of the observations that are included within any given number of standard deviations on both sides of the arithmetic mean for a normal distribution.

<sup>10</sup>The reader may think of the shipment records as balls, with half of these balls black to represent the shipments which required more than the indicated number of days.



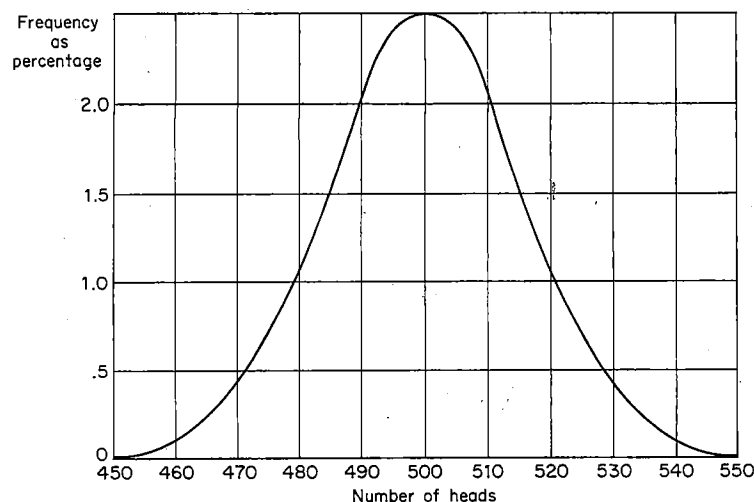


FIGURE 4-7b

The standard deviation of the binomial distribution has been derived mathematically and is known to be<sup>11</sup>

$$\sigma \% = \sqrt{\frac{p(1-p)}{n}}$$

where  $p$  = proportion of characteristic in population

$n$  = sample size

Thus, for fairly large sample sizes, the sampling distribution of a proportion (all possible occurrences in samples) which occurs in a population containing exactly 50% of a characteristic or close to 50% is normally or approximately normally distributed with the standard deviation given above. The average or expected value will be the overall proportion occurring in the population or

$$\bar{X} = p$$

Given the arithmetic mean and standard deviation of a proportion and the knowledge that this sampling distribution is at least approximately normal, together with the information in Table 4-3, it is now possible to make statements as to the prob-

<sup>11</sup>In absolute form, rather than percentage, the standard deviation of the binomial becomes

$$\sigma = \sqrt{np(1-p)}$$

For proof of these formulas see E. E. Croxton, D. J. Cowden, and S. Klein, eds., *Applied General Statistics*, Prentice-Hall, Inc., Englewood Cliffs, N.J., 1967, app. S25.1.

ability of occurrences of various sample results if the population contains a given proportion of some characteristic.

An illustration of the use of this knowledge is given below. If 100 balls are drawn from a population of balls which are 50% black (representing any given characteristic of the sampling units), this sample will comprise one of the many possible samples of 100 that might be drawn. It is thus one of the samples comprising the sampling distribution.

Since it is now known that all the possible samples of 100 balls that might be drawn constitute a sampling distribution which is the binomial distribution which in turn may be considered at least approximately normal, prior knowledge of the normal distribution may be applied here.

The arithmetic mean of such a distribution has been defined as  $p$ . In this situation  $p = .50$  or 50% by assumption.

The standard deviation of the sampling distribution may now be computed by

$$\sigma \% = \sqrt{\frac{p(1-p)}{n}}$$

which in this case is

$$\sigma \% = \sqrt{\frac{(.50)(.50)}{100}} = .05 \text{ or } 5\%$$

By referring to Table 4-3 (page 56), it is seen that 99% of the area under the normal curve will be included in a range of the average  $\pm 2.58$  standard deviations. Thus, it may be said that there is a 99% probability (confidence level) that this sample will be one of those in the sampling distribution within the range of samples containing between 37.10 and 62.90% of black balls or, since a fraction of a sampling unit is not possible, 38 to 62 black balls, which represents the *confidence limits*  $[\bar{X} \pm 2.58\sigma\% \text{ or } .50 \pm 2.58(.05)]$ . This gives a sample *precision*  $\pm 12.90\%$  [or  $2.58(.05)$ ].

This calculation is an approximation of the results that would have been obtained if the actual probabilities of zero black balls, 1 black ball, 2 black balls, 3 black balls, etc., had been calculated precisely on the basis of the binomial distribution. Thus, this technique makes unnecessary the complex computations involved in solving the binomial distribution, although it does not give precisely the same results.

If the confidence limits had been desired for other confidence levels, other multipliers ( $t$  values) from Table 4-3 could have been used as desired to achieve the specified confidence level.

By inverse reasoning, it can be shown that if a random sample of 100 contains 50% black balls, the universe from which it was drawn probably (99% probability) would not have contained less than about 37.1% or more than 62.9% black balls (the measured characteristic).

If the above sample precision is not adequate, the spread of the confidence limits can be reduced by taking a larger sample. This follows from the fact that the sampling precision is obtained from

$$t\sigma\% = t \sqrt{\frac{p(1-p)}{n}}$$

where  $t$  is a factor from Table 4-3 (page 56) required for a given confidence level, as for instance 2.58 for a 99% confidence level. It is evident that the larger the value of the divisor  $n$ , the smaller the sampling error will be.

The solution to the question of the size of the sample required to accomplish this end can be obtained by the inverse solution of the formula which gave rise to the sampling limits.

$$\bar{X} \pm 2.58\sigma$$

or

$$p \pm 2.58\sigma\%$$

Thus, assume it is desired, in sampling from this large universe of balls containing 50% black balls, to have a 99% probability (confidence level) that the sample would contain between 45 and 55% black balls (sample reliability or precision of  $\pm 5\%$ ).

The solution is

$$\text{Confidence limits} = p \pm 2.58\sigma\%$$

or

$$\text{Sample precision} = 2.58\sigma\% = \pm 5\%$$

Therefore

$$.05 = 2.58 \sqrt{\frac{(.5)(.5)}{n}}$$

and

$$n = 666$$

However, the solution of these formulas will not be required of the auditor since tables will be given which will make possible the determination of the sample size required to achieve a given sample precision at various confidence levels for attributes sampling *without calculations*.

Another set of tables will provide the confidence limits at selected confidence levels for samples containing various proportions of an attribute, again without calculation. Nevertheless, full use of these tables will be achieved only when the auditor has an adequate understanding of the principles outlined above.

A note of caution may be inserted here. In the examples above two assumptions have been made repeatedly, namely, that the universe contained 50% of the characteristic studied (50% heads or 50% black balls) and that the universe was very large. If the universe does not contain 50% of the characteristic, two different effects will be felt. The first of these arises out of the impact of this departure from 50% on the standard deviation (or more properly the *standard error*) of the sampling distribution of percentages.

Since the formula for the standard error is

$$\sigma\% = \sqrt{\frac{p(1-p)}{n}}$$

it is possible to analyze the effect of various proportions  $p$  on the standard error  $\sigma\%$  at a fixed sample size. This is shown in Table 4-9 for various values of  $p$ , assuming a sample size of 100.

TABLE 4-9

Value of $p$	$p(1-p)$	$\sigma\% = \sqrt{\frac{p(1-p)}{n}}$ (where $n = 100$ )	Sample precision at 99% confidence level ( $2.58\sigma\%$ )
.10	.09	.030	$\pm 7.74\%$
.20	.16	.040	$\pm 10.32$
.30	.21	.046	$\pm 11.87$
.40	.24	.049	$\pm 12.64$
.50	.25	.050	$\pm 12.90$
.60	.24	.049	$\pm 12.64$
.70	.21	.046	$\pm 11.87$
.80	.16	.040	$\pm 10.32$
.90	.09	.030	$\pm 7.74$

It is to be emphasized that the  $p$  value listed in Table 4-9 is the  $p$  of the *population*.

From Table 4-9, it may be seen that the greater the departure of  $p$  from 50% (in either direction), the better the sample precision (smaller the sampling error) for a sample of a given size and at a given confidence level. Conversely, the sample size required to achieve a given reliability at a specified confidence level will become smaller as  $p$  departs from 50%. The effect of this fact on establishing required sample sizes will be studied in detail in the next chapter.

The second effect of the departure of the population  $p$  from 50% is felt most severely when the sample size is small. In such an instance, the binomial or sampling distribution becomes skewed (right skewed for values of  $p$  of less than 50% and left skewed for values of  $p$  over 50%—see Figures 4-5a and 4-5b).

As was previously observed, the table used in establishing the confidence limits (see Table 4-3) applies exactly only to normal distributions. Thus, the confidence limits established in this way become more and more approximate as  $p$  departs from 50% and  $n$  grows smaller ( $np$  grows smaller). The method for handling this situation will be examined in detail in a later chapter.

Finally, when the second assumption of a very large (actually infinite) population is violated, a further effect is felt. It is apparent that a sample of 100 out of a population of 101 will give a better sample reliability than a sample of 100 out of a

population of one million. However, the relationship is not simple. It can be shown mathematically that the reduction in the sample reliability percentage will be equivalent to multiplying that sample reliability by the following finite population correction factor:<sup>12</sup>

$$\sqrt{\frac{N-n}{N-1}} \quad \text{or approximately} \quad \sqrt{1 - \frac{n}{N}}$$

where  $N$  = population size  
 $n$  = sample size

The impact of this factor may be illustrated by the example used before in which a sample of 100 was drawn from a very large population of balls containing 50% black balls. It was found that the sampling precision was  $\pm 12.9\%$  at the 99% confidence level. Table 4-10 illustrates the effect of the finite correction factor.

Table 4-10 indicates that the precision of a sample of 100 will give a reliability that is virtually the same when drawn from a field (universe) of 10,000 as it will when drawn from a field containing a million sampling units.

This explodes the often believed intuitive feeling that a fixed proportion of the field (say 5 to 10%) will be required to give identical sample precision. This belief is simply not true.

TABLE 4-10

Population or field size	$n$ (sample size)	Finite correction factor	Sample precision ( $n = 100; p = .50$ ) at 99% confidence level
500	100	.8953	$\pm 11.55\%$
1,000	100	.9492	$\pm 12.24$
2,000	100	.9749	$\pm 12.58$
5,000	100	.9901	$\pm 12.77$
10,000	100	.9950	$\pm 12.84$
100,000	100	.9995	$\pm 12.89$
1,000,000	100	.99995	$\pm 12.8993$
Infinity . . .	100	1.000	$\pm 12.900$

In summary, in sampling for attributes, the sample (of a given size) drawn will be one of those contained within the sampling distribution, and there is a given probability (confidence level) that the sample will be contained within a range.

<sup>12</sup>The complete formula for the reliability of a proportion from a sample from a finite population then becomes

$$SE = \pm t \sqrt{\frac{p(1-p)}{n} \sqrt{1 - \frac{n}{N}}}$$

(confidence limits) defined by the arithmetic mean of the population  $p$  plus and minus a given factor (determined by the confidence level—Table 4-3) times the standard deviation (standard error) of the sampling distribution, where that standard error is adjusted by the finite correction factor where necessary.

## VARIABLES SAMPLING

In variables sampling, the selected sampling units are measured or evaluated (in terms of dollars, pounds, days, etc.), and some statistical measure (statistic) is computed from these measurements to estimate the universe parameter.

The measure most frequently used by the auditor for this purpose is the arithmetic mean. It will be recalled that the total of a group of values can be obtained by multiplying the arithmetic mean by the number of items. The arithmetic mean of a sample may be multiplied by the number of items  $N$  in the universe to give an estimate of the universe total.

Once again the approach to evaluating the reliability of a sample mean or average is through study of the behavior of all possible sample results or the sampling distribution of the arithmetic mean.

Assume that a large universe consists of slips of paper on which there are written a wide variety of values (say account balances). A random sample of specified size  $n$  is drawn, and the arithmetic mean of the values on the slips selected for the sample is obtained. This process of drawing the sample and computing the arithmetic mean is repeated a very great number of times (say a billion). The resulting arithmetic means are arranged in a frequency distribution. This will be the sampling distribution of the arithmetic mean.

Of course, in an ordinary situation only one sample will be drawn, but that sample will be one of the great many (actually infinite number) contained in the sampling distribution. Alternatively, the same result could have been obtained by determining every possible combination of values for sample size  $n$  and by obtaining the average for each combination.

If the universe from which the sample was drawn was "normally" distributed, the sampling distribution of the mean will constitute a normal distribution also. However, if the universe from which the sample was drawn was not normal (for instance, if it was skewed), the sampling distribution of the means will nevertheless approach the normal form as the sample size is increased.

Except for the most extremely skewed universes, the sampling distribution of the mean may then be accepted as being of the normal form or close to it for samples of the size usually used in auditing and for purposes of computation of sample reliability.

However, some accounting data will be extremely skewed, and special methods must be used. This problem and methods for coping with it will be discussed in detail later.

If the sampling distribution of the arithmetic mean of samples drawn by random methods is of the normal form, the sample under consideration is one of the numerous

possible samples of the given size that might be drawn from that population, and its arithmetic mean will be contained in this normal sampling distribution.

In previous discussions, it has been shown that if the standard deviation of a normal distribution is known, a great deal can be said about how the observations are distributed about the mean of that distribution (see Table 4-3).

The formula for the standard deviation of the sampling distribution of arithmetic means (standard error of the mean) has been developed mathematically. It is<sup>13</sup>

$$\sigma_{\bar{X}} = \frac{\sigma}{\sqrt{n}}$$

where  $\sigma_{\bar{X}}$  = standard deviation of sampling distribution of means or standard error of the mean

$\sigma$  = standard deviation of universe from which sample was drawn

$n$  = sample size (number of sampling units in sample)

Assume, for instance, that a sample of 100 observations is drawn from a very large normal or near normal universe of which the arithmetic mean is \$200.00 and the standard deviation is \$50.00. The standard deviation of the arithmetic means of all possible samples of 100 that might be drawn from that universe may then be computed as follows:

$$\sigma_{\bar{X}} = \frac{\sigma}{\sqrt{n}} = \frac{\$50.00}{\sqrt{100}} = \$5$$

The resulting sampling distribution may then be seen in Figure 4-8.

It is to be recalled that the single sample of 100 under examination is one of the many possible samples which might be drawn and is one of those comprising the sampling distribution.

By referring to Table 4-3 (page 56), it is seen that there is a 95% probability that if one observation from among those comprising a normal distribution is drawn at random, it will fall within  $1.96\sigma$  on either side of the arithmetic mean of that distribution. Thus, there is a 95% probability that the sample being studied will be within  $1.96\sigma_{\bar{X}}$  or \$9.80 of the mean of the sampling distribution.

It can be shown that the average of the sampling distribution of the mean (average of all possible averages) will be equal to the arithmetic mean of the universe.

It may be then said that if a sample of 100 is drawn by random methods from this large universe of values, with a mean of \$200.00 and a standard deviation of \$50.00, there is a 95% probability (confidence level) that the mean of that sample will be between \$190.20 and \$209.80 (confidence limits). The sample mean will not depart from the universe mean by more than  $\pm\$9.80$  (sample precision) at the 95% confidence level.

<sup>13</sup>See Technical Appendix II for proof.

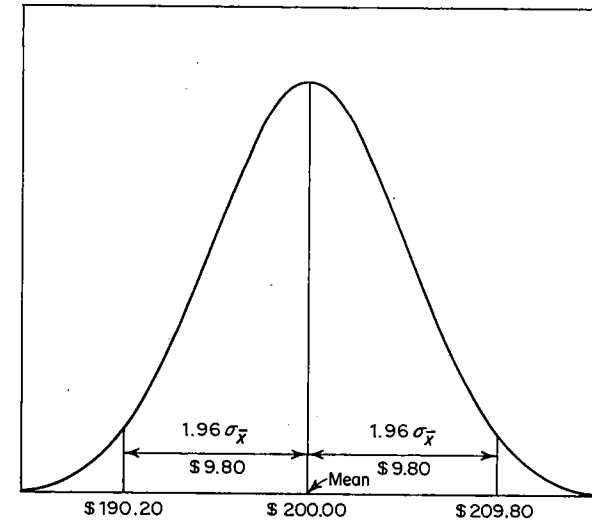


FIGURE 4-8

It is observed that this sample precision is dependent solely upon the standard deviation of the universe and the sample size and is independent of the universe average. Thus the sample precision estimate may be made even when the population mean is unknown, as is usually the case.

In the above example, then, there is a 95% probability that the sample mean will fall within  $\pm\$9.80$  of the true population mean which might be obtained by 100% enumeration of all observations in the universe. Similarly (using Table 4-3), at the 99% confidence level, the precision of the sample mean will be  $\pm\$12.90$  (or  $2.58\sigma_{\bar{X}}$ ).

An examination of the formula for the standard error of the mean, through which the sample precision is established, discloses some interesting points. A knowledge of standard deviation of the *population* is necessary for its solution. Since this is commonly unknown, the standard deviation of the *sample* is used as an estimate of the population standard deviation for this purpose. The relative stability of the standard deviation computed from a sample, for samples of a reasonable size, makes this possible without too severe a disturbance to the calculation. Methods of arriving at the standard deviation without complex calculations are discussed in a later chapter.

Since the sample precision of the arithmetic mean of a sample is obtained by multiplying its standard error by a factor  $t$  (such as  $1.96\sigma_{\bar{X}}$  or  $1.96\sigma/\sqrt{n}$ ), it is apparent that this sampling variability will increase as the standard deviation (variability) of the universe increases.

Further, as the sample size  $n$  increases, the sampling spread is reduced, since  $n$  is a divisor. However, because of the square root radical in the divisor, doubling the sample size will not cut the sampling variability in half.

For instance, in the above example (universe standard deviation \$50.00 and sample size 100), the sample precision was  $\pm \$9.80$  at the 95% confidence level. If the sample size is doubled (becomes 200), the sample reliability becomes  $\pm \$6.94$  [or  $1.96(\$50.00/\sqrt{200})$ ] at the 95% confidence level.

To cut the sampling variability in half to 4.90 (or 50% of \$9.80) at the 95% confidence level, it would be necessary to multiply the sample size by 4 (or  $n = 400$ ), since  $2\sqrt{100}$  equals  $\sqrt{400}$ . Thus, as the sample size is increased, the decrease in sampling variability is at a decreased rate.

As in the case of attributes, the assumption was made above that the sampling drawings were from a very large (infinite) universe. A correction is necessary when the universe is finite, especially when the sample comprises an appreciable portion of that universe. The finite correction factor is the same as that used in attributes sampling,

$$\sqrt{\frac{N-n}{N-1}} \quad \text{or approximately} \quad \sqrt{1 - \frac{n}{N}}$$

and is used as a multiplier for the standard error of the mean.

## GENERAL

It is noted that the actual solution of the formulas given for both attributes and variables will be unnecessary, since the answers will be found in extensive tables in later sections of this book. Nevertheless, the most effective use of these tables will be attained only if there is adequate understanding of the formulas and other concepts outlined in this chapter.

## FIVE

# Determining Sample Size

*(Estimation Sampling)*

## SELECTION OF SAMPLE SIZE

After establishing the objective of the audit test, defining the universe (field), and determining the sampling unit, the auditor is confronted with the basic problem of fixing the size of the sample necessary to accomplish the test objective.

While three basic sampling techniques are available to the auditor in performing his tests (see Chapter 1), including estimation sampling, acceptance sampling, and discovery sampling, the most widely used method, and generally the most useful to the auditor in his tests, is estimation sampling.<sup>1</sup> This chapter is devoted to the problem of sample size determination in estimation sampling for both attributes and variables involving unrestricted random sampling.<sup>2</sup> The problems of sample size determination when discovery sampling or acceptance sampling is appropriate will be discussed in detail in later chapters.

Statistical techniques provide the method by which the appropriate sample size can be estimated by using the proper statistical formulas or even more simply by resorting to statistical tables such as those included in this book. However, the process of determining sample size is not a mechanical operation. It requires considerable thought and judgment on the part of the auditor.

<sup>1</sup>"Of the available statistical techniques, 'statistical estimation' rather than 'acceptance sampling' has received the most favorable attention from accountants and auditors." R. G. Brown, "Statistical Sampling Tables for Auditors," *The Journal of Accountancy*, May 1961, p. 46.

<sup>2</sup>Unrestricted random sampling applies to sampling individual items from the entire field without any restrictions.

Brief Written Statement  
for Adopted Mandate

Mandate: Chapter 498, Statutes of 1983  
Notification of Truancy

Claimant: San Diego Unified School District

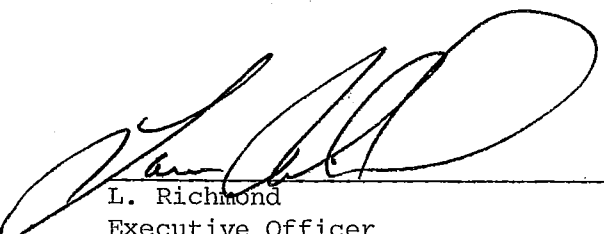
At its hearing of November 29, 1984, the State Board of Control, after receiving evidence submitted by the claimant and the Department of Finance determined that Chapter 498, Statutes of 1983 imposed reimbursable state mandated costs as defined by the Revenue and Taxation Code (RTC).

The claimant alleged that Chapter 498/83 created costs resulting from developing, preparing, and mailing truancy notification forms, and in providing newly required additional teacher/counselor time.

The claimant requested reimbursement under authority of RTC Section 2253(c). The claimant alleged a mandate as defined in RTC Section 2207(a).

The Board of Control determined that Chapter 498/83 constitutes a state mandate because it requires an increased level of service. The Board determined that the statute imposes costs by requiring school districts to develop a notification form, and provide written notice to the parents or guardians of students identified as truants of this fact. It requires that notification contain other specified information and, also, to advise the parent or guardian of their right to meet with school personnel regarding the truant pupil. The Board found these requirements to be new and not previously required of the claimant.

Adopted: 11/29/84



L. Richmond  
Executive Officer

# **BAKERSFIELD CITY SCHOOL DISTRICT**

Audit Report

## **NOTIFICATION OF TRUANCY PROGRAM**

Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994;  
Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007

*July 1, 2007, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

October 2012



**JOHN CHIANG**  
**California State Controller**

October 25, 2012

Bill McDougale, President  
Board of Education  
Bakersfield City School District  
1300 Baker Street  
Bakersfield, CA 93305

Dear Mr. McDougale:

The State Controller's Office audited the costs claimed by the Bakersfield City School District for the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007) for the period of July 1, 2007, through June 30, 2010.

The district claimed \$533,320 for the mandated program. Our audit disclosed that the entire amount is allowable. The State paid the district \$76,845. The State will pay allowable costs claimed that exceed the amount paid, totaling \$456,475, contingent upon available appropriations.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/vb



cc: Robert J. Arias, Ed.D., Superintendent  
Bakersfield City School District  
Steve McClain, Chief Business Official, Business Services  
Bakersfield City School District  
Sherry Gladin, Director, Fiscal Services  
Bakersfield City School District  
Mary Little, President, Board of Education  
Kern County Office of Education  
Scott Hannan, Director  
School Fiscal Services Division  
California Department of Education  
Carol Bingham, Director  
Fiscal Policy Division  
California Department of Education  
Thomas Todd, Assistant Program Budget Manager  
Education Systems Unit  
Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>2</b>
<b>Views of Responsible Official .....</b>	<b>2</b>
<b>Restricted Use .....</b>	<b>3</b>
<b>Schedule 1—Summary of Program Costs .....</b>	<b>4</b>
<b>Finding and Recommendation .....</b>	<b>5</b>
<b>Attachment—District’s Response to Draft Audit Report</b>	

# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the Bakersfield City School District for the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007) for the period of July 1, 2007, through June 30, 2010.

The district claimed \$533,320 for the mandated program. Our audit disclosed that the entire amount is allowable. The State paid the district \$76,845. The State will pay allowable costs claimed that exceed the amount paid, totaling \$456,475, contingent upon available appropriations.

## Background

Education Code section 48260.5 (added by Chapter 498, Statutes of 1983) originally required school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means that: (1) the pupil is truant; (2) parents or guardians are obligated to compel the pupil's attendance at school; (3) parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution; (4) alternative educational programs are available in the district; and (5) they have the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

Chapter 1023, Statutes of 1994, amended Education Code section 48260.5 to additionally require school districts to notify the pupil's parent or guardian that (1) the pupil may be subject to prosecution; (2) the pupil may be subject to suspension, restriction, or delay of the pupil's driving privilege; and (3) it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

Chapter 1023, Statutes of 1994, and Chapter 19, Statutes of 1995, amended Education Code section 48260 and renumbered it to section 48260, subdivision (a), stating that a pupil is truant when he or she is absent from school without valid excuse three full days in one school year or is tardy or absent for more than any 30-minute period during the school day without a valid excuse on three occasions in one school year, or any combination thereof.

On November 29, 1984, the State Board of Control (now the Commission on State Mandates [CSM]) determined that Chapter 498, Statutes of 1983, imposed a state mandate upon school districts reimbursable under Government Code section 17561.

The parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted parameters and guidelines on August 27, 1987. The CSM subsequently amended the parameters and guidelines four times, most recently on May 27, 2010. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and schools districts in claiming mandated program reimbursable costs.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Notification of Truancy Program for the period of July 1, 2007, through June 30, 2010.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit disclosed an instance of noncompliance with the requirements outlined above. This instance is described in the accompanying Finding and Recommendation section of this report.

For the audit period, the Bakersfield City School District claimed \$533,320 for costs of the Notification of Truancy Program. Our audit disclosed that the claimed costs are allowable. The State paid the district \$76,845. The State will pay allowable costs claimed that exceed the amount paid, totaling \$456,475, contingent upon available appropriations.

## **Views of Responsible Official**

We issued a draft audit report on September 28, 2012. Sherry Gladin, Director, Fiscal Services, responded by letter dated October 10, 2012 (Attachment), agreeing with the audit results. This final audit report includes the district's response.

## **Restricted Use**

This report is solely for the information and use of the Bakersfield City School District, the Kern County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

October 25, 2012

# Schedule 1— Summary of Program Costs July 1, 2007, through June 30, 2010

Cost Elements	Actual Costs Claimed and Allowable Per Audit
<u>July 1, 2007, through June 30, 2008</u>	
Number of initial truancy notifications	9,804
Uniform cost allowance	× \$ 17.28
Total program costs	\$ 169,413
Less amount paid by the State	(5)
Allowable costs claimed in excess of (less than) amount paid	<u>\$ 169,408</u>
<u>July 1, 2008, through June 30, 2009</u>	
Number of initial truancy notifications	10,019
Uniform cost allowance	× \$ 17.74
Total program costs	\$ 177,737
Less amount paid by the State	(40,273)
Allowable costs claimed in excess of (less than) amount paid	<u>\$ 137,464</u>
<u>July 1, 2009, through June 30, 2010</u>	
Number of initial truancy notifications	10,418
Uniform cost allowance	× \$ 17.87
Total program costs	\$ 186,170
Less amount paid by the State	(36,567)
Allowable costs claimed in excess of (less than) amount paid	<u>\$ 149,603</u>
<u>Summary: July 1, 2007, through June 30, 2010</u>	
Total program costs	\$ 533,320
Less amount paid by the State	(76,845)
Allowable costs claimed in excess of (less than) amount paid	<u>\$ 456,475</u>

# Finding and Recommendation

**FINDING—  
Noncompliance with  
initial truancy  
notification distribution  
procedures**

The district did not comply with its stated procedures for documenting and distributing initial truancy notifications. There are no unallowable costs associated with this finding.

During audit fieldwork, the district identified its initial truancy notification distribution procedures. The district used an attendance software system to track and summarize student attendance. Individual schools distributed initial truancy notifications to students' parents or guardians. The district stated that schools were required to manually update the attendance software system to identify the initial truancy notification date *before* notifications were actually mailed to the student's parent or guardian.

To support the number of initial truancy notifications claimed, the district provided summary reports from its attendance software system. The summary reports identified those students for whom the district distributed initial truancy notifications. However, the summary reports included notifications for which no distribution date was identified. The following table summarizes the number of undated notifications identified from the attendance software system for each fiscal year:

<u>Fiscal Year</u>	<u>Undated Notifications</u>
2007-08	1,870
2008-09	2,250
2009-10	2,450

We requested that the district provide corroborating documentation to validate that school sites actually distributed the undated notifications to students' parents or guardians. We selected a random sample of 40 undated notifications from FY 2009-10 and asked the district to provide copies of the notifications prepared and distributed. In response, the district provided copies for only 13 of the 40 notifications requested. The district stated that school sites did not provide documentation for 11 notifications. The district stated that it could not retrieve the remaining 16 notifications because the students had left the district and the students' files were forwarded to the students' new districts.

In comments dated May 31, 2012, the district attributed the undated notifications to a "clerical issue." The district stated that it is working with its school sites to correct the issue.

The parameters and guidelines state that districts may claim only actual costs. The parameters and guidelines state, "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." The parameters and guidelines also state that the district must "maintain documentation that indicates the total number of initial notifications of truancy distributed."

**Recommendation**

We recommend that the district ensure that individual school sites update the district's attendance software system by identifying the initial truancy notification date before the notification is mailed to the student's parent or guardian.

**District's Response**

The district agreed with the audit finding. The district identified various actions that it has taken in response to the audit finding. Please refer to the district's response (Attachment) for further information.



**Attachment—  
District's Response to  
Draft Audit Report**

---

BAKERSFIELD CITY SCHOOL DISTRICT

Fiscal Services  
1300 Baker Street  
Bakersfield, CA 93305-4326  
(661) 631-4697

Sherry Gladin, Director  
[gladin@bcsd.com](mailto:gladin@bcsd.com)

Natalie Sorhouet, Assistant Director  
[sorhouetn@bcsd.com](mailto:sorhouetn@bcsd.com)

EDUCATION CENTER, 1300 BAKER STREET  
BAKERSFIELD, CALIFORNIA 93305-4326  
(661) 631-4600  
FAX: (661) 322-1244



October 10, 2012

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

**Re: Audit of Notification of Truancy Program Mandated Costs Claims**

Dear Mr. Spano,

Bakersfield City School District has received the State Controller's Office's draft report for the audit of our mandated cost claims submitted for the Notification of Truancy Program during the period of July 1, 2007 – June 30, 2010.

The District agrees with the findings outlined within the report.

The District wishes to provide the following response for inclusion in the final audit report:

The District has taken the following actions to help staff implement the legislatively mandated Notification of Truancy Program: (1) two professional development sessions were provided for all District schools which included required documentation of truancy notifications; (2) written guidance was provided to all school site principals and site truancy coordinators summarizing the required truancy notification distribution procedures; (3) the District maintains a computer program which automatically generates truancy letters and allows school staff to enter in the dates when truancy letters were mailed and filed; (4) reports can be run from the electronic system showing the students who are truant and whether the notification has been sent; and (5) the immediate supervisor of each principal has been asked to check on the delivery and posting of the truancy program notifications.

The District will continue to provide training and guidance to the school sites on this subject on an annual basis.

If you have any questions, please contact me at (661) 631-4696.

Sincerely,

Sherry Gladin  
Director, Fiscal Services

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**

# **COLTON JOINT UNIFIED SCHOOL DISTRICT**

Audit Report

## **NOTIFICATION OF TRUANCY PROGRAM**

Chapter 498, Statutes of 1983

*July 1, 1999, through June 30, 2002*



**STEVE WESTLY**  
California State Controller

November 2003



STEVE WESTLY  
California State Controller

November 26, 2003

Dennis D. Byas, Superintendent  
Colton Joint Unified School District  
1212 Valencia Drive  
Colton, CA 92324

Dear Mr. Byas:

The State Controller's Office has completed an audit of the claims filed by Colton Joint Unified School District for costs of the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983) for the period of July 1, 1999, through June 30, 2002.

The district claimed \$438,174 for the mandated program. Our audit disclosed that none of the claimed costs is allowable. The unallowable costs occurred because the district was not able to support the claimed number of notification of truancy forms distributed to a pupil's parent or guardian. The district was paid \$357,568. The total amount paid should be returned to the State.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original Signed By:*

WALTER BARNES  
Chief Deputy Controller, Finance

WB:jj

cc: (See page 2)

cc: David Capelouto  
Assistant Superintendent of Business Services  
Colton Joint Unified School District  
Herbert R. Fischer, Ph.D., County Superintendent of Schools  
San Bernardino County Office of Education  
Scott Hannan, Director  
School Fiscal Services Division  
California Department of Education  
Arlene Matsuura, Educational Consultant  
School Fiscal Services Division  
California Department of Education  
Jeannie Oropeza, Program Budget Manager  
Education Systems Unit  
Department of Finance  
Charles Pillsbury  
School Apportionment Specialist  
Department of Finance

# Contents

## Audit Report

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>2</b>
<b>Views of Responsible Official .....</b>	<b>3</b>
<b>Restricted Use .....</b>	<b>3</b>
<b>Schedule 1—Summary of Program Costs .....</b>	<b>4</b>
<b>Findings and Recommendations .....</b>	<b>5</b>

# Audit Report

## Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by the Colton Joint Unified School District, for costs of the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983) for the period of July 1, 1999, through June 30, 2002. The last day of fieldwork was June 17, 2003.

The district claimed \$438,174 for the mandated program. The audit disclosed that none of the claimed costs is allowable. The unallowable costs occurred because the district was not able to support the claimed number of notification of truancy forms distributed to a pupil's parent or guardian. The district was paid \$357,568. The total amount paid should be returned to the State.

## Background

The State enacted Chapter 498, Statutes of 1983, requiring special notifications be sent to the parents or guardians of pupils upon initial classification of truancy.

The legislation requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means of: (1) the pupil's truancy; (2) the parent or guardian's obligation to compel the attendance of the pupil at school; and (3) parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution.

In addition, the legislation requires the district to inform parents and guardians of: (1) alternative educational programs available in the district; and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy. A truancy occurs when a student is absent from school without a valid excuse for more than three days or is tardy in excess of 30 minutes on each of more than three days in one school year.

On November 29, 1984, the State Board of Control (now the Commission on State Mandates) ruled that Chapter 498, Statutes of 1984, imposed a state mandate upon school districts and county offices of education reimbursable under *Government Code* Section 17561.

*Parameters and Guidelines*, adopted by the Commission on State Mandates, establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.



**Objective,  
Scope, and  
Methodology**

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983) for the period of July 1, 1999, through June 30, 2002.

The auditors performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's management controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

**Conclusion**

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are shown in the accompanying Summary of Program Costs (Schedule 1), and described in the Findings and Recommendations section of this report.

For the audit period, the Colton Joint Unified School District claimed \$438,174 for costs of the legislatively mandated Notification of Truancy Program. The audit disclosed that the entire amount is unallowable.

For fiscal year (FY) 1999-2000, the district was paid \$139,593 by the State. The audit disclosed that none of the costs claimed is allowable. The amount paid in excess of allowable costs claimed, totaling \$139,593, should be returned to the State.

For FY 2000-01, the district was paid \$111,755 by the State. The audit disclosed that none of the costs claimed is allowable. The amount paid in excess of allowable costs claimed, totaling \$111,755, should be returned to the State.

For FY 2001-02, the district was paid \$106,220 by the State. The audit disclosed that none of the costs claimed is allowable. The amount paid in excess of allowable costs claimed, totaling \$106,220, should be returned to the State.

**Views of  
Responsible  
Official**

The SCO issued a draft audit report on September 24, 2003. Janna Waller, Director of Fiscal Services and Risk Management, responded through a telephone conversation on November 3, 2003, agreeing with the audit results.

**Restricted Use**

This report is solely for the information and use of the Colton Joint Unified School District, the San Bernardino County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original Signed By:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

# Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2002

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference <sup>1</sup></u>
<u>July 1, 1999, through June 30, 2000</u>				
Number of initial notifications	\$ 11,414	\$ —	\$ (11,414)	Findings 1, 2
Uniform cost allowance	<u>12.23</u>	<u>12.23</u>	<u>12.23</u>	
Total costs	<u>\$ 139,593</u>	—	<u>\$(139,593)</u>	
Less amount paid by the State		<u>(139,593)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(139,593)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Number of initial notifications	\$ 11,415	\$ —	\$ (11,415)	Findings 1, 2
Uniform cost allowance	<u>12.73</u>	<u>12.73</u>	<u>12.73</u>	
Total costs	<u>\$ 145,313</u>	—	<u>\$(145,313)</u>	
Less amount paid by the State		<u>(111,755)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(111,755)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Number of initial notifications	\$ 11,872	\$ —	\$ (11,872)	Findings 1, 2
Uniform cost allowance	<u>12.91</u>	<u>12.91</u>	<u>12.91</u>	
Total costs	<u>\$ 153,268</u>	—	<u>\$(153,268)</u>	
Less amount paid by the State		<u>(106,220)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(106,220)</u>		
<u>Summary: July 1, 1999, through June 30, 2002</u>				
Total costs	<u>\$ 438,174</u>	—	<u>\$(438,174)</u>	
Less amount paid by the State		<u>(357,568)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(357,568)</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## FINDING 1— Overclaimed number of initial truancies

The district claimed 3,507 initial truancies, totaling \$44,094, that were not supported by its attendance records for the period of July 1, 1999, through June 30, 2002.

The auditors were not able to reconcile the total number of initial truancy notification forms claimed for each fiscal year of audit to students who were truant based on attendance records. Consequently, the auditors used the district's ATT 656 printouts to identify the population of the initial truancies. The district was unable to explain the differences between the notifications claimed and the totals of initial truancies identified in the ATT 656 printouts. The variances for these students are as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Truancies per the district's attendance records	9,889	10,606	10,699	31,194
Truancies claimed	<u>(11,414)</u>	<u>(11,415)</u>	<u>(11,872)</u>	<u>(34,701)</u>
Differences	<u>(1,525)</u>	<u>(809)</u>	<u>(1,173)</u>	<u>(3,507)</u>

Consequently, the unsupported number of initial truancies claimed, at the uniform cost allowance rate described in the *Parameters and Guidelines*, are as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Unsupported initial truancy notifications claimed	(1,525)	(809)	(1,173)	<u>(3,507)</u>
Uniform cost allowance	<u>\$ 12.23</u>	<u>\$ 12.73</u>	<u>\$ 12.91</u>	
Totals	<u>\$ 18,651</u>	<u>\$ 10,299</u>	<u>\$ 15,144</u>	<u>\$ 44,094</u>

*Parameters and Guidelines*, Section V.A., states, "The eligible claimant shall be reimbursed for only those costs incurred for . . . the printing and distribution of notification forms. . . ."

*Parameters and Guidelines*, Section V.C., states, "The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to *Education Code* Section 48260.5, Chapter 498, Statutes of 1983. For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator."

### Recommendation

The district should establish policies and procedures to ensure that all costs claimed are supported.

**FINDING 2—  
Unallowable costs  
relating to initial  
truancies**

The district claimed the costs for 31,194 truancies, according to the district's attendance records, that were not supported by the distribution of initial truancy notification forms, totaling \$394,080, for the period of July 1, 1999, through June 30, 2002.

From the total population of truancies each year from the district's attendance reports (see Finding 1), the auditors selected a statistical sample based on a 95% confidence level with a precision rate of 8% and an expected error rate of 50%. The auditors attempted to verify whether initial truancy notifications containing five required elements were distributed to the pupil's parent or guardian. The review of the letters provided by the district found that the letters were absence reports which identified the student's name, but did not contain any of the five required elements.

For FY 1999-2000, the auditor randomly selected 148 truancies from a population of 9,889 for verification. The district provided ten letters for review. Only six of the ten letters provided by the district were from the sample. The district did not provide documentation to support the existence of any of the remaining 142 notifications from the sample.

For FY 2000-01, the auditor randomly selected 148 truancies from a population of 10,606 for verification. The district provided 20 letters for review. Only 6 of the 20 letters provided by the district were from the sample. The district did not provide documentation to support the existence of any of the remaining 142 notifications from the sample.

For FY 2001-02, the auditor randomly selected 148 truancies from a population of 10,699. The district provided 28 letters for review. Only 8 of the 28 letters provided by the district were from the sample. The district did not provide documentation to support the existence of any of the remaining 140 notifications from the sample.

The current Assistant Superintendent of Business Services and the Director of Fiscal Services were unable to provide any documentation supporting the truancies claimed. Consequently, the unallowable number of initial truancies claimed, at the uniform cost allowance rate, described in the *Parameters and Guidelines* are as follows:

	Fiscal Year			
	1999-2000	2000-01	2001-02	Total
Unallowable initial truancy notifications claimed	(9,889)	(10,606)	(10,699)	<u>(31,194)</u>
Uniform cost allowance	\$ 12.23	\$ 12.73	\$ 12.91	
Totals	<u>\$120,942</u>	<u>\$135,014</u>	<u>\$138,124</u>	<u>\$394,080</u>

Twenty-one school sites were visited during the review of FY 1999-2000 and FY 2000-01 initial truancy notifications. Attendance clerks and administrators of the school sites visited identified various reasons for not distributing the initial truancy notification forms containing the five required elements identified in *Parameters and Guidelines*. The review disclosed the following:

- At all school sites visited, the attendance clerks were not aware of the existence of the mandate or proper guidelines for reporting initial truancy notifications;
- At 14 of the school sites, the persons interviewed were not the attendance clerks or administrators during the review periods and thus were not able to locate the records;
- At 17 of the school sites, the attendance clerks did not send letters or notifications to parents or guardians during FY 1999-2000 through FY 2001-02. However, they provided the sample letters that were sent out for various stages of absenteeism and tardiness.
- At two of the school sites, the attendance clerks stated that records for the review period were discarded.
- At two of the school sites, the attendance clerks stated that parents or guardians were contacted through other means such as telephone calls and home visits rather than notification letters sent to the parents or guardians. However, no documentation was provided to support this statement.

The auditor reviewed telephone logs and attendance records, though they are not support for reimbursable costs, to gain an understanding of the district's process of notifying a pupil's parent or guardian of the required five elements. These records did not support that the required elements were discussed with the pupil's parent or guardian. Furthermore, *Parameters and Guidelines* requires the district to document the five specified elements on the form that is distributed to the pupil's parent or guardian.

Subsequent to the audit period, the district developed a Child Welfare and Attendance manual that addresses the initial truancy notification requirements. However, the attendance clerks at the school sites visited indicated that they were not aware of the manual.

*Parameters and Guidelines*, adopted by the State Board of Control on November 29, 1984, allows the district to be reimbursed for claimed costs if the initial truancy notification forms distributed to the pupil's parent or guardian contain five specified elements. *Education Code* Section 48260.5 was amended by Chapter 1023, Statutes of 1994, (effective January 1, 1995) to require eight specified elements. However, since *Parameters and Guidelines* has not been amended, the claimant continues to be reimbursed if it complies with the five specified elements in the guidelines.

*Parameters and Guidelines*, Section I., requires, “. . . school districts, upon the pupil’s initial classification as a truant, to notify the pupil’s parent or guardian by first-class mail or other reasonable means, of (1) the pupil truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with section 48290) of Chapter 2 of Part 27.”

Furthermore, the guidelines state, “. . . district must inform parents and guardians of (1) alternative education programs available in the district; and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil’s truancy.”

*Parameters and Guidelines*, Section V.A., states, “The eligible claimant shall be reimbursed for only those costs incurred for . . . the printing and distribution of notification forms. . . .”

*Parameters and Guidelines*, Section V.B.1., states that the claimant shall be reimbursed for “Planning the method of implementation, revising school district policies, and designing and printing the forms.”

*Parameters and Guidelines*, Section V.B.2., states that the claimant shall be reimbursed for “Identifying the truant pupils to receive the notification, preparing and distributing by mail or other method the forms to parents/guardians. . . .”

*Parameters and Guidelines*, Section V.C., states, “The uniform cost allowance is based on the number of initial notifications of truancy distributed pursuant to *Education Code* Section 48260.5, Chapter 498, Statutes of 1983. For fiscal year 1992-93, the uniform cost allowance is \$10.21 per initial notification of truancy distributed. The cost allowance shall be adjusted each subsequent year by the Implicit Price Deflator.”

*Parameters and Guidelines*, Section VII., states, “For audit purpose, documents must be kept on file for a period of 3 years from the date of final payment by the State Controller. . . .”

### Recommendation

The district should establish policies and procedures to ensure that all costs claimed are supported. In addition, the district should ensure that its Child Welfare and Attendance manual is communicated to the attendance clerks and implemented.

Although *Parameters and Guidelines* requires only five specified elements to be subject to reimbursements, *Education Code* Section 48260.5 requires the form to contain eight specified elements.

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, California 94250-5874**

**<http://www.sco.ca.gov>**



# **SWEETWATER UNION HIGH SCHOOL DISTRICT**

Audit Report

## **NOTIFICATION OF TRUANCY PROGRAM**

Chapter 498, Statutes of 1983;  
Chapter 1023, Statutes of 1994;  
Chapter 19, Statutes of 1995;  
and Chapter 69, Statutes of 2007

*July 1, 2006, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

April 2012



**JOHN CHIANG**  
**California State Controller**

April 11, 2012

Pearl Quiñones, President  
Board of Trustees  
Sweetwater Union High School District  
1130 Fifth Ave  
Chula Vista, CA 91911-2896

Dear Ms. Quinoñes:

The State Controller's Office audited the costs claimed by the Sweetwater Union High School District for the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007) for the period of July 1, 2006, through June 30, 2010.

The district claimed \$1,423,308 (\$1,428,715 less a \$5,407 penalty for filing late claims) for the mandated program. Our audit disclosed that \$1,271,939 is allowable and \$151,369 is unallowable. The costs are unallowable because the district claimed unallowable and noncompliant initial truancy notifications. The State paid the district \$187,605. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,084,334, contingent upon available appropriations.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/bf

cc: Edward Brand, Ed.D., Interim Superintendent  
Sweetwater Union High School District  
Dianne Russo, Acting Deputy Superintendent  
Fiscal Services  
Sweetwater Union High School District  
Karen Michel, Director  
Fiscal Services  
Sweetwater Union High School District  
Sharon Moreno, Accounting Technician  
Fiscal Services  
Sweetwater Union High School District  
Randolph E. Ward, Ed.D., Superintendent of Schools  
San Diego County Office of Education  
Scott Hannan, Director  
School Fiscal Services Division  
California Department of Education  
Carol Bingham, Director  
Fiscal Policy Division  
California Department of Education  
Thomas Todd, Principal Program Budget Analyst  
Education Systems Unit  
Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>2</b>
<b>Views of Responsible Officials.....</b>	<b>2</b>
<b>Restricted Use .....</b>	<b>3</b>
<b>Schedule 1—Summary of Program Costs .....</b>	<b>4</b>
<b>Findings and Recommendations .....</b>	<b>6</b>

# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the Sweetwater Union High School District for the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007) for the period of July 1, 2006, through June 30, 2010.

The district claimed \$1,423,308 (\$1,428,715 less a \$5,407 penalty for filing late claims) for the mandated program. Our audit disclosed that \$1,271,939 is allowable and \$151,369 is unallowable. The costs are unallowable because the district claimed unallowable and noncompliant initial truancy notifications. The State paid the district \$187,605. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,084,334, contingent upon available appropriations.

## Background

Education Code section 48260.5 (added by Chapter 498, Statutes of 1983) originally required school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means that: (1) the pupil is truant; (2) parents or guardians are obligated to compel the pupil's attendance at school; (3) parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution; (4) alternative educational programs are available in the district; and (5) they have the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

Chapter 1023, Statutes of 1994, amended Education Code section 48260.5 to additionally require school districts to notify the pupil's parent or guardian that (1) the pupil may be subject to prosecution; (2) the pupil may be subject to suspension, restriction, or delay of the pupil's driving privilege; and (3) it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

Chapter 1023, Statutes of 1994, and Chapter 19, Statutes of 1995, amended Education Code section 48260 and renumbered it to section 48260, subdivision (a), stating that a pupil is truant when he or she is absent from school without valid excuse three full days in one school year or is tardy or absent for more than any 30-minute period during the school day without a valid excuse on three occasions in one school year, or any combination thereof.

On November 29, 1984, the State Board of Control (now the Commission on State Mandates [CSM]) determined that Chapter 498, Statutes of 1983, imposed a state mandate upon school districts reimbursable under Government Code section 17561.

The parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted parameters and guidelines on August 27, 1987. The CSM subsequently amended the parameters and guidelines four times, most recently on May 27, 2010. In compliance

with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and schools districts in claiming mandated program reimbursable costs.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Notification of Truancy Program for the period of July 1, 2006, through June 30, 2010.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Sweetwater Union High School District claimed \$1,423,308 (\$1,428,715 less a \$5,407 penalty for filing late claims) for costs of the Notification of Truancy Program. Our audit disclosed that \$1,271,939 is allowable and \$151,369 is unallowable.

The State paid the district \$187,605. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,084,334, contingent upon available appropriations.

## **Views of Responsible Officials**

We discussed our audit results with the district's representatives during an exit conference conducted on March 21, 2012. Karen Michel, Director, Fiscal Services; and Sharon Moreno, Accounting Technician, Fiscal Services, agreed with the audit results. Regarding Finding 1, the district stated that it has revised its truancy notification procedures to eliminate the possibility of issuing and claiming more than one initial truancy notification per student during a school year. Ms. Michel declined a draft audit report and agreed that we could issue the audit report as final.

## **Restricted Use**

This report is solely for the information and use of the Sweetwater Union High School District, the San Diego County Office of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

April 11, 2012

# Schedule 1— Summary of Program Costs July 1, 2006, through June 30, 2010

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2006, through June 30, 2007</u>				
Number of initial truancy notifications	22,315	23,358	1,043	Finding 1
Uniform cost allowance	x \$16.15	x \$16.15	x \$16.15	
Subtotal <sup>2</sup>	\$ 360,387	\$ 377,232	\$ 16,845	
Noncompliant initial truancy notifications	-	(47,154)	(47,154)	Finding 2
Total program costs	<u>\$ 360,387</u>	330,078	<u>\$ (30,309)</u>	
Less amount paid by the State		(58,418)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 271,660</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Number of initial truancy notifications	26,710	26,476	(234)	Finding 1
Uniform cost allowance	x \$17.28	x \$17.28	x \$17.28	
Subtotal <sup>2</sup>	\$ 461,549	\$ 457,505	\$ (4,044)	
Noncompliant initial truancy notifications	-	(57,188)	(57,188)	Finding 2
Total program costs	<u>\$ 461,549</u>	400,317	<u>\$ (61,232)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 400,317</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Number of initial truancy notifications	20,734	21,766	1,032	Finding 1
Uniform cost allowance	x \$17.74	x \$17.74	x \$17.74	
Subtotal <sup>2</sup>	\$ 367,821	\$ 386,129	\$ 18,308	
Noncompliant initial truancy notifications	-	(48,266)	(48,266)	Finding 2
Less late filing penalty	(954)	(954)	-	
Total program costs	<u>\$ 366,867</u>	336,909	<u>\$ (29,958)</u>	
Less amount paid by the State		(83,126)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 253,783</u>		



## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2009, through June 30, 2010</u>				
Number of initial truancy notifications	13,372	13,372	-	Finding 1
Uniform cost allowance	x \$17.87	x \$17.87	x \$17.87	
Subtotal <sup>2</sup>	\$ 238,958	\$ 238,958	\$ -	
Noncompliant initial truancy notifications	-	(29,870)	(29,870)	Finding 2
Less late filing penalty	(4,453)	(4,453)	-	
Total program costs	\$ 234,505	204,635	\$ (29,870)	
Less amount paid by the State		(46,061)		
Allowable costs claimed in excess of (less than) amount paid		\$ 158,574		
<u>Summary: July 1, 2006, through June 30, 2010</u>				
Total costs	\$ 1,428,715	\$ 1,277,346	\$ (151,369)	
Less late filing penalty	(5,407)	(5,407)	-	
Total program costs	\$ 1,423,308	1,271,939	\$ (151,369)	
Less amount paid by the State		(187,605)		
Allowable costs claimed in excess of (less than) amount paid		\$ 1,084,334		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> Calculation differences due to rounding.

# Findings and Recommendations

## **FINDING 1— Overstated and understated allowable initial truancy notifications**

The district overstated or understated the number of allowable initial truancy notifications distributed for each fiscal year. For the audit period, the district understated claimed costs by \$31,109.

For each fiscal year, the district provided a list of students for whom it distributed initial truancy notifications. The number of notifications documented did not agree with the number of notifications claimed. In addition, each list included unallowable notifications. We identified the following issues from the notifications documented:

- For some students, the district distributed more than one notification (duplicate notifications) to the students' parents/guardians during the school year. A student's *initial* truancy notification is the only notification eligible for mandated program reimbursement.
- The district distributed notifications for charter school students during fiscal year (FY) 2007-08 and FY 2008-09. Charter school activities are not eligible for mandated program reimbursement.

The following table details the audit adjustment:

	Fiscal Year			
	2006-07	2007-08	2008-09	Total
Number of notifications documented	23,467	26,781	22,294	
Less number of notifications claimed	(22,315)	(26,710)	(20,734)	
Understated number of notifications	1,152	71	1,560	
Uniform cost allowance	x \$16.15	x \$17.28	x \$17.74	
Audit adjustment	\$ 18,605	\$ 1,227	\$ 27,674	\$ 47,506
Duplicate notifications	(109)	(302)	(522)	
Uniform cost allowance	x \$16.15	x \$17.28	x \$17.74	
Audit adjustment	\$ (1,760)	\$ (5,219)	\$ (9,260)	(16,239)
Charter school student notifications	-	(3)	(6)	
Uniform cost allowance	x \$16.15	\$17.28	x \$17.74	
Audit adjustment	\$ -	\$ (52)	\$ (106)	(158)
Total audit adjustment <sup>1</sup>	\$ 16,845	\$ (4,044)	\$ 18,308	\$ 31,109

<sup>1</sup> Calculation differences due to rounding.

The program's parameters and guidelines instruct claimants to claim mandate-related costs as follows:

Report the number of initial notifications of truancy distributed during the year. Do not include in that count the number of notifications or other contacts which may result from the initial truancy notification to the parent or guardian.

The parameters and guidelines also require claimants to maintain documentation that supports the total number of initial truancy notifications distributed.

In addition, Government code section 17519 defines a “school district” as any school district, community college district, or county superintendent of schools. This definition does not include charter schools. As a result, charter school activities are not eligible for reimbursement under Government Code section 17560.

### Recommendation

We recommend that the district claim the number of allowable initial truancy notifications that its records support. We recommend that the district exclude from this count those notifications distributed for charter school students and multiple notifications distributed for the same student during the school year.

## **FINDING 2— Noncompliant initial truancy notifications**

The district claimed unallowable costs totaling \$182,478. The costs are unallowable because the district distributed initial truancy notifications that did not comply with the parameters and guidelines.

The parameters and guidelines require that districts distribute initial truancy notification forms that notify parents/guardians of the following eight items:

1. The pupil is truant.
2. The parent or guardian is obligated to compel the attendance of the pupil at school.
3. Parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Article 6 (commencing with Education Code section 48290) of Chapter 2 of Part 27.
4. Alternative educational programs are available in the district.
5. The parent or guardian has the right to meet with appropriate school personnel to discuss solutions to the pupil’s truancy.
6. The pupil may be subject to prosecution under Education Code section 48264.
7. The pupil may be subject to suspension, restriction, or delay of the pupil’s driving privileges pursuant to Vehicle Code section 13202.7.
8. It is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

The district distributed notifications that did not include the eighth item above. Therefore, we allowed only 87.5% (7/8) of the unit cost allowance for each notification.

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2006-07	2007-08	2008-09	2009-10	
Number of notifications claimed	22,315	26,710	20,734	13,372	
Adjustments from Finding 1:					
Understated notifications	1,152	71	1,560	-	
Duplicate notifications	(109)	(302)	(522)	-	
Charter school notifications	-	(3)	(6)	-	
Allowable notifications	23,358	26,476	21,766	13,372	
Uniform cost allowance	x \$16.15	x \$17.28	x \$17.74	x \$17.87	
Subtotal	\$ 377,232	\$ 457,505	\$ 386,129	\$ 238,958	
Unallowable percentage	x (12.5)%	x (12.5)%	x (12.5)%	x (12.5)%	
Audit adjustment	\$ (47,154)	\$ (57,188)	\$ (48,266)	\$ (29,870)	\$ (182,478)

### Recommendation

We recommend that the district ensure that all initial truancy notifications comply with the minimum requirements specified in the parameters and guidelines.

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**



**JOHN CHIANG**  
*California State Controller*

July 17, 2007

RE: Passage of AB 1698 (ENG) Fixing the Truancy Mandate

Dear School District:

I am writing to share the very good news that AB 1698 (Eng) has been chaptered and a decade-long discrepancy affecting administration of the Notification of Truancy mandate has been rectified.

The Notification of Truancy mandate established a higher level of service for school districts to apprise parents of truant pupils. In the mid-1990's, this mandate statute was amended to broaden the notification requirements and definition of truant. When the three-year statute of limitations for the Commission on State Mandates (COSM) to change the Parameters and Guidelines ("Ps and Gs") elapsed without an update, the discrepancy could only be fixed through statute.

As the sponsor of this bill, I sought to direct the COSM to align the Ps and Gs with statute. Without this clarification, my auditors have been forced to disregard the statute declaring that parental notifications should occur at three absences and include eight specific pieces of information, as opposed to the four absences and five pieces of information specified in the Ps and Gs.

AB 1698 will ensure that all schools who notify parents when three unexcused absences accrue are appropriately reimbursed for their efforts.

It is unfortunate that a misalignment of Ps and Gs and statute took more than a decade to correct. As your State Controller, you have my assurance that I will continue to pursue the removal of bureaucratic obstacles to appropriate and on-time payment.

School District  
July 18, 2007  
Page 2

I hope we can work together again on common sense solutions to outdated or unworkable mandate processes.

Sincerely,

*Original Signed By*

JOHN CHIANG  
California State Controller

cc: The Honorable Mike Eng