STATE OF CALIFORNIA
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

July 31, 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-11
Education Code Sections 48260.5
Statutes 1983, Chapter 498; Statutes 1994, Chapter 1023;
Statutes 1995, Chapter 19
Fiscal Years: 2006-2007, 2007-2008, 2008-2009, and 2009-2010
San Juan 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 **August 21, 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, September 25, 2015**, at 10:00 a.m., State Capitol, Room 447, Sacramento, California. The proposed decision will be issued on or about September 11, 2015. 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,

Heather Halsey
Executive Director

Hearing Date: September 25, 2015
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ITEM __

INCORRECT REDUCTION CLAIM

DRAFT PROPOSED DECISION

Education Code section 48260.5

Statutes 1983, Chapter 498; Statutes 1994, Chapter 1023 ; Statutes 1995, Chapter 19

Notification of Truancy

Fiscal Years 2006-2007 through 2009-2010

13-904133-I-11

San Juan Unified School District, Claimant

EXECUTIVE SUMMARY

Overview

This analysis addresses reductions made by the State Controller's Office (Controller) to San Juan Unified School District's (claimant's) reimbursement claims for costs incurred during fiscal years 2006-2007 through 2009-2010 under the *Notification of Truancy* program.

The following issues are in dispute:

- The statutory deadline to initiate the audit of the 2006-2007 reimbursement claim;
- Reductions based on notifications of truancy issued for pupils who had less than three unexcused absences or occurrences of tardiness and for pupils who were under the age of six and over the age of eighteen.
- Whether the use of the statistical sampling methodology to support the reduction in this case is an underground regulation or violates claimant's right to reimbursement for all mandated costs incurred under article XIII B, section 6 of the California Constitution.

As explained herein, staff finds that the Controller did not initiate its audit of the 2006-2007 reimbursement claim within the statutory deadline and, thus, the audit reductions for that fiscal year ($33,802) are void and should be reinstated to the claimant.

Staff further finds that the remaining reduction of costs ($71,731) for fiscal years 2007-2008, 2008-2009, and 2009-2010 is correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support. The claimant's request for reimbursement to provide initial truancy notices for pupils with less than three truancy absences or tardies, or for students who are under the age of six and over the age of eighteen, goes beyond the scope of the mandate and is not eligible for reimbursement.

Staff further finds that the Controller's calculation of reductions based on estimation sampling and extrapolation is not inconsistent with the requirement of article XIII B, section 6 that local governments are entitled to reimbursement of all costs mandated by the state, nor does the

Controller's application of this methodology in this instance constitute an illegal underground regulation. Finally, staff finds that here 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.

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.[1] Chapter 498, Statutes of 1983, added Education Code Section 48260.5 which specified as follows:

> § 48260.5. Notice to parent or guardian; alternative educational programs; solutions
>
> (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 Chapter 498, Statutes of 1983, imposed a reimbursable state-mandated program to develop notification forms and provide written notice to the parents or guardians of the truancy.[2]

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 1983, which was found not to impose any mandated activities, provided that a truancy occurs when a student is "absent from school without valid

[1] Education Code section 48200.

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

excuse *more than three days* or tardy in excess of 30 minutes on each of *more than three days* in one school year…"[3]

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 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 activities may submit a request to amend the parameters and guidelines to the Commission for the unique costs to be approved for reimbursement."[4]

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…"[5] 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.[6] Those amendments were incorporated into the parameters and guidelines on January 31, 2008, effective July 1, 2006, at the Legislature's direction.[7] These are the parameters and guidelines applicable to this claim.

Procedural History

On February 14, 2008, claimant signed its fiscal year 2006-2007 reimbursement claim.[8] On February 11, 2009, claimant signed its 2007-2008 reimbursement claim.[9] On February 10, 2010, claimant signed its 2008-2009 reimbursement claim.[10] On February 14, 2011, claimant signed

[3] Education Code section 48260 (Stats. 1983, ch. 498).

[4]Exhibit A, IRC, page 69.

[5] Education Code section 48260, as amended by Stats. 1994, ch. 1023 and Stats. 1995, ch. 19.

[6] Education Code section 48260.5, as amended by Stats. 1994, ch. 1023 and Stats. 1995, ch. 19.

[7] Statutes 2007, chapter 69 (AB 1698).

[8] Exhibit A, IRC, page 284.

[9] Exhibit A, IRC, page 287.

[10] Exhibit A, IRC, page 290.

its 2009-2010 reimbursement claim.[11] On February 15, 2011, the entrance conference for the audit was conducted.[12] On November 30, 2011, the Controller issued the final audit report.[13] On October 1, 2013, claimant filed this IRC.[14] On October 3, 2014, the Controller filed comments on the IRC.[15] On July 31, 2015, Commission staff issued the draft proposed decision.

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 costs in the claim be reinstated.

The Commission must review questions of law, including interpretation of parameters and guidelines, de novo, without consideration of 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.[16] The Commission must also interpret the Government Code and implementing regulations in accordance with the broader constitutional and statutory scheme. In making its decisions, the Commission must strictly construe article XIII B, section 6 and not apply it as an "equitable remedy to cure the perceived unfairness resulting from political decisions on funding priorities."[17]

With regard to the Controller's audit decisions, the Commission must determine whether they were arbitrary, capricious, or entirely lacking in evidentiary support. This standard is similar to the standard used by the courts when reviewing an alleged abuse of discretion of a state agency.[18]

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[11] Exhibit A, IRC, page 292.

[12] Exhibit A, IRC, pages 262 and 267.

[13] Exhibit A, IRC, page 250.

[14] Exhibit A, IRC.

[15] Exhibit B, Controller's Comments.

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

[17] *County of Sonoma*, supra, 84 Cal.App.4th 1264, 1280, citing *City of San Jose v. State of California* (1996) 45 Cal.App.4th 1802, 1817.

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

The Commission must 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 claimant.[19] In addition, sections 1185.2(c) and 1185.1(f)(3) of the Commission's regulations require that any assertions of fact by the parties to an IRC must be supported by documentary evidence. The Commission's ultimate findings of fact must be supported by substantial evidence in the record.[20]

Claims

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

Issue	Description	Staff Recommendation
Whether the Controller met the statutory deadline to audit claimant's 2006-2007 reimbursement claim.	Based on the date the entrance conference occurred (February 15, 2011), claimant asserts that the Controller failed to timely initiate the audit of the 2006-2007 reimbursement claim, filed on February 14, 2008, within the three year statutory deadline required by Government Code section 17558.5. The Controller alleges that it timely initiated the audit within three years of the date the claim was filed based on a telephone phone call to Michael Dencavage, the district's former Chief Financial Officer, on January 24, 2011. At the time the underlying reimbursement claims were filed, Government Code section 17558.5 stated: A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to audit by the Controller no later than three years after the date 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	*The audit of the 2006-2007 fiscal year reimbursement claim was not initiated timely.* Staff finds that the Controller's assertion that the audit was initiated by a telephone call to the claimant on January 24, 2015, is not supported by evidence in the record and is hearsay. The only fact that is not disputed by the parties and can therefore be considered a "verifiable event" is the date of the entrance conference, February 15, 2011, one day after the time to initiate the audit under the statute expired.

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

[20] Government Code section 17559(b), which provides that a claimant or the state may commence a proceeding in accordance with the provisions of section 1094.5 of the Code of Civil Procedure to set aside a decision of the Commission on the ground that the Commission's decision is not supported by substantial evidence in the record.

	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 the audit is commenced.	
Reductions based on notifications of truancy issued for pupils who had less than three unexcused absences or occurrences of tardiness and for pupils who were under the age of six and over the age of eighteen.	The Controller reduced costs claimed based on notices issued beyond the scope of the mandate. The claimant contends that these notices are eligible for reimbursement.	*Correct* -The claimant's request for reimbursement to provide truancy notices for pupils with *less than three* truancy absences or tardies goes beyond the scope of the mandate and is not eligible for reimbursement. In addition, the mandate applies to "any pupil subject to compulsory full-time education." (Ed. Code, § 48260.) Pupils subject to compulsory full-time education are pupils between the ages of six and eighteen. ((Ed. Code, § 48200.) Therefore, these reductions are correct as a matter of law.
The statistical sampling methodology used by the Controller to determine the amounts to be reduced.	For fiscal years 2007-2008, 2008-2009, and 2009-2010, the claimant issued and claimed reimbursement for 56,073 initial truancy notifications and claimed reimbursement based on the unit cost in the amount of $901,023. In its audit of 2007-2008, 2008-2009, and 2009-2010 reimbursement claims, the Controller examined a random sample of initial truancy notices distributed by the claimant (884 notifications distributed by elementary and secondary schools), with the calculation of the "sample size based on a 95% confidence level," and determined that 70 of those notices were claimed beyond the scope of the mandate, as described in the issue above. The number of unallowable notifications within the sample for each fiscal year was then calculated as an error	*Correct* - There is no law or regulation on point that proscribes the Controller's statistical sampling and extrapolation methodology as an auditing method. Staff finds that this sampling and extrapolation method does not constitute an underground regulation, since there is no evidence that it has been applied generally and that because the confidence level is so high (as discussed below) it is consistent with claimant's right under article XIII B, section 6, right to reimbursement of all state-mandated costs incurred.

	percentage, and extrapolated to the total number of notifications issued and identified by the claimant in those fiscal years (56,073 notifications), to approximate the total number of unallowable notifications (4,070 notifications), which is less than 10 percent of the notices claimed. 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 $71,731. Claimant argues that the use of statistical sampling should be rejected, that the extrapolation of findings is void, and that the audit findings can only pertain to documentation actually reviewed; that is, the 884 notifications examined and the 70 notifications disallowed for insufficient number of absences or tardies to justify the initial notification of truancy and the age of the student. Claimant further argues that the use of the sampling method is an underground regulation.	Such methods must be upheld absent evidence that the results are arbitrary, capricious, or entirely lacking in evidentiary support. No such evidence has been filed here.

Staff Analysis

A. The audit of the 2006-2007 fiscal year reimbursement claim was not timely initiated pursuant to Government Code section 17558.5.

Claimant signed its reimbursement claim for fiscal year 2006-2007 on February 14, 2008, and the final audit report states that the claim was filed with the Controller's Office on the same date.[21] At that time, Government Code section 17558.5(a) stated the following:

> 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.[22]

[21] Exhibit A, IRC, pages 262, 284.

[22] Government Code section 17558.5, as last amended by Statutes 2004, chapter 313.

Claimant asserts that the entrance conference was conducted on February 15, 2011, which is one day beyond three years after the date the annual claim was filed.

The Controller's audit report states that the audit of the 2006-2007 reimbursement claim was timely initiated the audit within three years of the date the claim was filed based on a phone call allegedly made on January 24, 2011 to Michael Dencavage, the district's former Chief Financial Officer.[23] Government Code section 17558.5 does not specifically define the event that initiates the audit and, thus, a phone call, a confirming letter, or an entrance conference, are all events that could reasonably be viewed as the initiation date under the statute. However, unlike other agencies that conduct audits and have adopted formal regulations to make it clear when the audit begins, the Controller has not adopted a regulation for the audits of state-mandate reimbursement claims, and in this case, the parties dispute the event that initiated the audit.

The audit initiation provisions of Government Code section 17558.5 are best characterized as a statute of repose, which provides a period during which an audit may be initiated, and after which the claimant may enjoy repose, dispose of any evidence or documentation to support their claims, and assert a defense that the audit is not timely and therefore void. The characteristics of a statute of repose include that it is "not dependent upon traditional concepts of accrual of a claim, *but is tied to an independent, objectively determined and verifiable event*…"[24]

In this case, the Controller's position that the audit was timely initiated with a telephone call relies solely upon a hearsay that is not supported by evidence in the record. Section 1187.5(c) of the Commission's regulations requires that oral or written representations of fact offered by any person shall be under oath or affirmation. All written representations of fact must be signed under penalty of perjury by persons who are authorized and competent to do so and must be based on the declarant's personal knowledge, information, or belief.

The only fact that is not disputed by the parties and can therefore be considered a "verifiable event" is the date of the entrance conference, February 15, 2011, one day after the time to initiate the audit under the statute expired.

Staff finds that the audit of the claimant's reimbursement claim for fiscal year 2006-2007 was initiated after the three year period expired and is therefore not timely initiated within the meaning of Government Code section 17558.5. Staff recommends that the Commission request the Controller to reinstate the $33,802 reduced from the 2006-2007 reimbursement claim.

B. The Controller's Reasons for Reducing Costs for Fiscal Years 2007-2008, 2008-2009, and 2009-2010, Are Correct as a Matter of Law and Not Arbitrary, Capricious, or Entirely Lacking in Evidentiary Support.

For fiscal years 2007-2008, 2008-2009, and 2009-2010, the Controller reduced costs totaling $71,731 for initial truancy notifications that the Controller determined were not reimbursable. Of the notifications sampled during the audit, 13 notices were determined unallowable because the notices were sent to pupils who had less than three truancy absences or tardiness occurrences, and 57 notices were unallowable because they were sent to pupils under age six or over age

[23] Exhibit A, IRC, p. 262.

[24] *Inco Development Corp. v. Superior Court* (2005) 131 Cal.App.4th 1014. (Emphasis added.)

eighteen who were not subject to the compulsory education requirements of the Education Code.[25]

1) Reimbursement is not required to provide truancy notices for pupils with less than three unexcused absences or tardiness occurrences and, thus, the Controller's reduction of costs for those notices is correct.

Section 48260 as amended by Statutes 1994, chapter 1023 (SB 1728) and Statutes 1995, chapter 19 (SB 102) provides that a pupil who is absent or tardy from school without valid excuse "*on three occasions* in on 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.

Staff finds that the claimant's request for reimbursement to provide truancy notices for pupils with less than three truancy absences or tardies goes beyond the scope of the mandate and is not eligible for reimbursement. Accordingly, the Controller's reduction of costs for notices provided to students with less than three truancy absences or tardiness occurrences is correct as a matter of law.

2) Reimbursement is not required to provide truancy notices to pupils who are under the age of six and over the age of eighteen, who have unexcused absences or tardiness occurrences and, thus, the Controller's reduction of costs for those notices is correct.

The Controller also found that the claimant sent 57 notices within the audit sample, to pupils under age six or over age eighteen who were not subject to the compulsory education requirements of the Education Code or the *Notification of Truancy* mandate. The claimant asserts that notifications of truancy sent to students under age six and over age eighteen should be reimbursable because the Education Code provides that those students are statutorily entitled to attend school. Claimant further contends that school districts are required by Education Code section 46000 to record, keep attendance, and report absences of all pupils according to the CDE regulations. These regulations provide that records of attendance of every pupil shall be kept for apportionment of state funds and to ensure general compliance with the compulsory education law.[26]

School districts were required by state law to admit a child to kindergarten if the child would have his or her fifth birthday on or before December 2 of that school year,[27] are 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 (IEP),[28] and are required by state law to record the attendance of every pupil enrolled in school for apportionment of state

[25] Exhibit A, IRC 13-904133-I-11, pages 258 (these numbers do not reflect the disallowed notices in fiscal year 2006-2007).

[26] Exhibit A, IRC, pages 18-22.

[27] Education Code section 48000(a), as last amended by Statutes 1991, chapter 381.

[28] Title 20, United States Code, section 1401; Education Code section 56026.

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."[29] However, the truancy laws apply only to "any pupil subject to compulsory full-time education." (Ed. Code § 48260(a).) "Compulsory full-time education" is defined in Education Code section 48200 as "each person between the ages of six and eighteen years" (Ed. Code § 48200.)

Therefore, the Controller's reduction of costs for truancy notices provided to students younger than six and older than eighteen, who are not subject to compulsory full-time education, is correct as a matter of law and not arbitrary, capricious, or entirely lacking in evidentiary support.

C. The Controller's Reductions Based on Statistical Sampling and Extrapolation in this Case Are Not Arbitrary, Capricious, or Entirely Lacking in Evidentiary Support and Are, Therefore, Correct.

In its audit of 2007-2008, 2008-2009, and 2009-2010 reimbursement claims, the Controller examined a random sample of initial truancy notices distributed by the claimant for each fiscal year (totaling 884 notifications distributed by elementary and secondary schools)[30], with the calculation of the "sample size based on a 95% confidence level," and determined that 70 of those notices were claimed beyond the scope of the mandate, as described in the issue above. 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 those fiscal years (56,073 notifications), to approximate the total number of unallowable notifications (4,070 notifications), which is less than 10 percent of the notices claimed. 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 $71,731. Since the Controller has not actually reviewed all 56,073 notifications and the records associated with those notices during these fiscal years, the Controller's methodology results in 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 and that reduction taken represents best the point estimate.

Claimant asserts that the use of statistical sampling should be rejected and that the risk of extrapolating findings from a sample is that the conclusions obtained from the sample may not

[29] 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."

[30] The sample sizes for elementary schools and the sample sizes for secondary schools that were reviewed by the Controller each fiscal year ranged from 146 to 148. The sample sizes for elementary and secondary schools were separately calculated because elementary schools took daily attendance and secondary schools took period attendance. (Exhibit A, IRC, page 259 (final audit report); Exhibit B, Controller's Comments on IRC, page 28.

be representative of the universe. Claimant further asserts that the Controller's failure to adopt statistical sampling as a regulation renders its use void.[31]

The Controller 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; 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 Act is not applicable."[32]

Staff finds that sampling and extrapolation as a methodology to identify a dollar figure for an audit adjustment in this case is within the Controller's audit authority, is not applied generally in the manner of a regulation, and there is no evidence that the reduction is arbitrary, capricious, or entirely lacking in evidentiary support.

1. <u>There is no evidence to support claimant's argument that the statistical sampling and extrapolation method used in the audit of the claimant's reimbursement claims constitutes an underground regulation.</u>

Even if the Controller's audit authority under the Government Code and case law is broad enough to encompass statistical sampling and extrapolation methods, the claimant has also challenged the methodology as a regulation not adopted pursuant to the Administrative Procedure Act (APA), to which the Controller responds that the APA is "not applicable."[33] The provisions of the APA on which the claimant relies include, primarily, Government Code sections 11340.5 and 11342.600. 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."[34] 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 APA. Therefore, if the Controller's challenged audit methods constitute a regulation not adopted pursuant to the APA, the Commission cannot uphold the reductions.

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

[31] Exhibit A, IRC, pages 15-16.

[32] Exhibit B, Controller's Comments, page 16.

[33] Exhibit C, Controller's Comments, page 17.

[34] Government Code section 11342.600 (Stats. 2000, ch. 1060).

must "implement, interpret, or make specific the law enforced or administered by [the agency], or ... govern [the agency's] procedure."[35]

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 presents a close question, which turns on the issue of general applicability.[36]

In *Clovis Unified School District v. Chiang*, 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.[37] As noted below, in the Medi-Cal audit context, the courts found a 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. However, the methodology was upheld once APA compliance had been achieved.

Here, 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 utilize such methods. Indeed, 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;[38] others apply a sampling and extrapolation method to determine whether the notifications issued complied with the eight required elements under section 48260.5;[39] and still 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.[40]

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[35] *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)].

[36] 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."].

[37] 188 Cal.App.4th at page 803.

[38] 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.]

[39] See, e.g., Audit of Colton Joint Unified School District, *Notification of Truancy*, fiscal years 1999-2000 through 2001-2002, issued November 26, 2003.

[40] See, e.g., Audit of Bakersfield City School District, *Notification of Truancy*, fiscal years 2007-2008 through 2009-2010, issued October 25, 2012

Therefore, based on the case law discussed above, 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 has the authority to use statistical sampling and extrapolation auditing methods for mandate reimbursement claims, so long as those methods do not constitute underground regulations, and the audit conclusions must be upheld absent evidence that the Controller's 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. The Controller counters that "[t]here is no prohibitive language contained in statute…" and that no legal authority dictates "specific auditing tests to perform…" or requires the Controller "to provide claimants 'notice' that the SCO will use sampling techniques."[41]

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. Indeed, the Controller's authority to audit is commonly 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."[42] 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."[43]

With respect to mandate reimbursement, the Controller's audit authority 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. However, section 17561 also provides that the Controller may audit the records of any local agency or school district to verify the amount of mandated costs, and may reduce any claim that the Controller determines is excessive or unreasonable, and also provide for the Controller to audit "[t]he application of a reasonable reimbursement methodology…."[44] 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."[45] Thus the Controller's audit authority pursuant to section 17561 expressly authorizes an audit of a claim based on a unit cost reimbursement scheme. The

[41] Exhibit C, Controller's Comments, page 17.

[42] California Constitution, article XVI, section 7 (added November 5, 1974, by Proposition 8).

[43] Statutes 1968, chapter 449.

[44] As amended by Statutes 2009, 3d Extraordinary Session, chapter 4.

[45] Government Code section 17518.5 (added, Stats. 2004, ch. 890); Government Code section 17557 (as amended, Stats. 2004, ch. 890; Stats. 2007, ch. 329).

statutes, however, do not address how the Controller is to audit and verify the costs mandated by the state.

Accordingly, the Controller cites to "Government Auditing Standards, as issued by the Comptroller General of the United States…" which, the Controller asserts, "specify that auditors may use professional judgment in 'selecting the methodology, determining the type and amount of evidence to be gathered, and choosing the tests and procedures for their work.'"[46] While the standards cited do not provide *expressly* 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.[47]

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. For example, 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.[48] The methods used by the Department of Health Services were disapproved by the courts 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.[49]

In addition to the Medi-Cal reimbursement context, the courts have declined to reject the use of statistical sampling and extrapolation to calculate damages due to plaintiffs in a class action or other mass tort action.[50] And, 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."[51]

On that basis, and giving due consideration to the discretion of the Controller to audit the fiscal affairs of the state,[52] staff finds that the Controller has the authority to audit a reimbursement claim based on statistical sampling and extrapolation and that such methods (to the extent that they do not impose an underground regulation) must be upheld absent evidence that the audit reductions are arbitrary, capricious, or entirely lacking in evidentiary support.

3. <u>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 by the district</u>

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[46] Exhibit C, Controller's Comments, page 17.

[47] Exhibit X, Excerpt from Government Auditing Standards, 2003, page 13.

[48] *Grier v. Kizer* (1990) 219 Cal.App.3d 422; *Union of American Physicians and Dentists v. Kizer* (1990) 223 Cal.App.3d 490.

[49] E.g., *Grier*, *supra*, 219 Cal.App.3d, pages 439-440.

[50] See, e.g., *Bell v. Farmers Insurance Exchange* (2004) 115 Cal.App.4th 715.

[51] *County of Marin v. Martin* (1974) 43 Cal.App.3d 1, 7.

[52] Government Code section 12410 (Stats. 1968, ch. 449).

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 further 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. In this respect, 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, and, thus, the extrapolation from the samples would not be representative of the universe. 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 8 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 2006-2007 (8,680) is 45 percent larger than the size in fiscal year 2009-2010 (6,006). The claimant concludes by stating that "[t]he expected error rate is stated to be 50%, which means the total amount adjusted $105,533 [for the entire audit period, including fiscal year 2006-2007] is really just a number exactly between [the adjustment range]."

The Controller disagrees with the claimant's assertions that the sampling is non-representative of all notices claimed. The Controller states that "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." Applying the statistical formula used by the Controller 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 6,006 to 8,680 notifications issued by elementary schools, and 8,837 to 11,197 notifications issued by secondary schools during the audit period.

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* (Arkin), all notices randomly sampled have an equal opportunity for inclusion in the sample and, thus, the result is statistically objective and unbiased. 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.

In addition, when excluding the figures for fiscal year 2006-2007, the adjustment range for the population's true error rate within the 95 percent confidence interval for the remaining fiscal years is $36,854, added or subtracted from the point estimate (the amount reduced in those years) of $71,731. Although there is a possibility that the reduction of $71,731 may provide more reimbursement or less reimbursement to the claimant than the actual costs correctly claimed, it represents the statistically best estimate of unallowable costs based on a 95 percent confidence level. And the adjustment range of $36,854 for the costs reduced represents just four percent

plus or minus of the total amount claimed in fiscal years 2007-2008, 2008-2009, and 2009-2010 ($901,023).

Based on the analysis above, staff finds that the Controller's reduction of costs based on a statistical sampling method in this case, is not arbitrary, capricious, or entirely lacking in evidentiary support.

Conclusion

Pursuant to Government Code section 17551(d) and section 1185.9 of the Commission's regulations, staff finds that the Controller's audit of the 2006-2007 reimbursement claim was not timely initiated within the meaning of Government Code section 17558.5 and, thus, the audit reductions for that fiscal year ($33,802) are void and should be reinstated to the claimant.

Staff further finds that the reduction of $71,731 claimed for notices distributed for pupils who had less than three unexcused absences or tardiness occurrences and for pupils who were not subject to the compulsory education laws in fiscal years 2007-2008, 2008-2009, and 2009-2010, 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 partially approve the IRC, request the Controller to reinstate $33,802 for the 2006-2007 fiscal year pursuant to section 1185.9 of the Commission's regulations, and authorize staff to make any technical, non-substantive changes following the hearing.

BEFORE THE

COMMISSION ON STATE MANDATES

STATE OF CALIFORNIA

IN RE INCORRECT REDUCTION CLAIM ON: Education Code section 48260.5 Statutes 1983, Chapter 498; Statutes 1994, Chapter 1023; Statutes 1995, Chapter 19 Fiscal Years 2006-2007 through 2009-2010 San Juan Unified School District, Claimant.	Case No.: 13-904133-I-11 *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: September 25, 2015*)

DECISION

The Commission on State Mandates (Commission) heard and decided this incorrect reduction claim (IRC) during a regularly scheduled hearing on September 25, 2015. [Witness list will be included in the adopted decision.]

The law applicable to the Commission's determination of a reimbursable state-mandated program is article XIII B, section 6 of the California Constitution, Government Code section 17500 et seq., and related case law.

The Commission [adopted/modified] the proposed decision to [approve/partially approve/deny] this IRC at the hearing by a vote of [vote count will be included in the adopted decision].

Summary of the Findings

This IRC addresses reductions made by the State Controller's Office (Controller) to reimbursement claims filed by San Juan Unified School District for fiscal years 2006-2007 through 2009-2010, for the *Notification of Truancy* program. The Commission partially approves this IRC.

The Commission finds that the Controller's audit of the 2006-2007 reimbursement claim was not timely initiated by the Controller within the meaning of Government Code section 17558.5 and, thus, the audit reductions for that fiscal year ($33,802) are void and should be reinstated to the claimant.

The Commission further finds that the remaining reduction of costs ($71,731) for fiscal years 2007-2008, 2008-2009, and 2009-2010 is correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support. The claimant's request for reimbursement to provide initial truancy notices for pupils with less than three truancy absences or tardies, or for students who are under the age of six and over the age of eighteen, goes beyond the scope of the mandate and is not eligible for reimbursement.

Staff further finds that that the Controller's calculation of reductions based on estimation sampling and extrapolation is not inconsistent with the requirement of article XIII B, section 6 that local governments are entitled to reimbursement of all costs mandated by the state, nor does the Controller's application of this methodology in this instance constitute an illegal underground regulation. Finally, staff finds that 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.

COMMISSION FINDINGS

I. Chronology

02/14/2008 Claimant signed reimbursement claim for fiscal year 2006-2007.[53]

02/11/2009 Claimant signed reimbursement claim for fiscal year 2007-2008.[54]

02/10/2010 Claimant signed reimbursement claim for fiscal year 2008-2009.[55]

02/14/2011 Claimant signed reimbursement claim for fiscal year 2009-2010.[56]

02/15/2011 The entrance conference for the audit was conducted.[57]

11/30/2011 Controller issued the final audit report.[58]

10/01/2013 Claimant filed this IRC.[59]

10/03/2014 The Controller filed comments on the IRC.[60]

07/31/2015 Commission staff issued the draft proposed decision.[61]

[53] Exhibit A, IRC, page 284.

[54] Exhibit A, IRC, page 287.

[55] Exhibit A, IRC, page 290.

[56] Exhibit A, IRC, page 292.

[57] Exhibit A, IRC, pages 262 and 267.

[58] Exhibit A, IRC, page 250.

[59] Exhibit A, IRC.

[60] Exhibit B, Controller's Comments.

[61] Exhibit C, Draft Proposed Decision.

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.[62] Once a pupil is 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.[63] As originally enacted, section 48260.5 specified:

> § 48260.5. Notice to parent or guardian; alternative educational programs; solutions
>
> (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 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

[62] Education Code section 48200.

[63] 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.[64]

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 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."[65]

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.[66] 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. These are the parameters and guidelines applicable to this claim.

The Controller's Audit and Summary of the Issues

The November 30, 2011 audit report determined that $1,086,513 in claimed costs was allowable and $105,533 was unallowable.[67]

The Controller found that the district claimed $105,533 during the audit period for initial truancy notifications that the Controller determined were not reimbursable because a certain number of notices were sent to pupils under six or over eighteen who were not subject to the compulsory education requirements of the Education Code. The Controller also found that a certain number

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

[65] Exhibit A, IRC, page 69.

[66] Exhibit X, Controller's Letter dated July 17, 2007 on AB 1698.

[67] Exhibit A, IRC 13-904133-I-11, page 251.

of notices were sent to pupils who had less than three absences as truancy is defined in the parameters and guidelines.[68]

The Controller reached the dollar amount reduced by using an audit methodology known as "statistical sampling." The Controller examined a random sample of initial truancy notices distributed by the claimant[69], with the calculation of the "sample size based on a 95% confidence level," and determined that 70 of those notices were claimed beyond the scope of the mandate, as described in the issue above.[70] 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 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.

III. Positions of the Parties

San Juan Unified School District

Claimant argues that the Controller did not timely initiate the audit of the 2006-2007 fiscal year reimbursement claim and, thus, the reduction of costs for that year is void.

Claimant then challenges the Controller's disallowance of notifications sent to pupils under age six and over age eighteen because the Education Code allows these student to attend school and requires school districts to provide educational services to these pupils.[71] Claimant also asserts that the Controller's use of statistical sampling is flawed.

Claimant also asserts that the use of statistical sampling should be rejected, that the extrapolation of findings is void, and that the audit findings can only pertain to documentation actually reviewed.[72] The claimant attacks the statistical reliability and accuracy of the Controller's methodology, arguing that "[t]esting 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."[73] The claimant further 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.[74] The claimant further contends that the sampling technique used by the Controller is also quantitatively non-representative because less than two percent of

[68] Exhibit A, IRC 13-904133-I-11, page 258.

[69] The sample sizes for elementary schools and the sample sizes for secondary schools that were reviewed by the Controller each fiscal year ranged from 146 to 148. (Exhibit A, IRC, page 259 (final audit report); Exhibit B, Controller's Comments on IRC, page 28.

[70] Exhibit B, Controller's Comments on IRC, pages 16 and 28.

[71] Exhibit A, IRC, pages 18-22; claimant initially challenged the disallowance of notifications sent to students with less than three absences but withdrew that contention.

[72] Exhibit A, IRC, pages 10-11.

[73] Exhibit A, IRC, page 14.

[74] Exhibit A, IRC, page 15.

the total number of notices were audited and that "[t]he expected error rate is stated to be 50%, which means the total amount adjusted $105,533 is really just a number exactly between [the adjustment range]" and that "[a]n interval of possible outcomes cannot be used as a finding of absolute actual cost."[75] Claimant further asserts that the Controller's failure to adopt statistical sampling as a regulation renders its use void.[76]

State Controller's Office

The Controller asserts that it timely initiated the audit of the 2006-2007 reimbursement claim pursuant to Government Code section 17558.5 with a phone call.

The Controller also asserts that claimant is not entitled to claim reimbursement for notices sent to students under age six or over age eighteen as these students are not subject to compulsory full time education, as defined in Education Code section 48200, and are thus not part of the mandated program. The Controller further contends that its use of statistical sampling is a recognized audit methodology that "project[s] each sample's results to the applicable population."[77] The Controller supports its use of statistical sampling by referring to an auditing handbook which specifically recommends the use of statistical sampling to "determine the frequency of an occurrence or type of item…." And the Controller asserts that is how statistical sampling is used here – to sample literally tens of thousands of individual documents, the notifications of truancy issued by claimant.[78]

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 SCO has incorrectly reduced payments to a 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 SCO and request that the costs in the claim be reinstated.

The Commission must review questions of law, including interpretation of the parameters and guidelines, de novo, without consideration of legal conclusions made by the Controller in the context of an audit. The Commission is vested with exclusive authority to adjudicate disputes over the existence of state-mandated programs within the meaning of article XIII B, section 6.[79] 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

[75] Exhibit A, IRC, page 16.

[76] Exhibit A, IRC, pages 15-16.

[77] Exhibit B, page 12.

[78] Exhibit B, Controller's Comments, page 13.

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

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."[80]

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.[81] 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.]' "[82]

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 claimant.[83] In addition, section 1185.1(f)(3) and 1185.2(c) of the Commission's regulations requires that any assertions of fact by the parties to an IRC must be supported by documentary evidence. The Commission's ultimate findings of fact must be supported by substantial evidence in the record.[84]

A. The audit of the 2006-2007 fiscal year reimbursement claim was not timely initiated pursuant to Government Code section 17558.5.

Claimant's reimbursement claim for fiscal year 2006-2007 was signed on February 14, 2008, and the final audit report states that the claim was filed with the Controller's Office on the same date.[85] At that time, Government Code section 17558.5(a) stated the following:

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[80] *County of Sonoma, supra,* 84 Cal.App.4th 1264, 1280, citing *City of San Jose v. State of California* (1996) 45 Cal.App.4th 1802, 1817.

[81] *Johnston v. Sonoma County Agricultural Preservation and Open Space District* (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.

[82] *American Bd. of Cosmetic Surgery, Inc, supra,* 162 Cal.App.4th at pages 547-548.

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

[84] 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.

[85] Exhibit A, IRC, pages 262, 284.

> 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.[86]

Claimant asserts that "the entrance conference was conducted on February 15, 2011, which is [one day] more than three years after the date the annual claim was filed as well as more than three years after the date of first payment ($54,550) on this annual claim which occurred on March 12, 2007."[87] Claimant therefore alleges that the audit reductions for fiscal year 2006-2007 are void.

The Controller's audit report states that it timely initiated the audit within three years of the date the claim was filed based on a phone call allegedly made on January 24, 2011, as follows:

> The SCO initiated the audit on January 24, 2011, by telephone call to Michael Dencavage, the district's former Chief Financial Officer. On the same date, we requested supporting documentation from the district and the district responded that it was retrieving the requested documentation. Therefore, the SCO initiated the audit within three years of the date that the district filed its claim.[88]

In addition, the Controller's comments on the IRC include a declaration from Mr. Jim Spano, Chief of the Mandated Cost Audits Bureau, that the audit was initiated on January 24, 2011. The declaration does not otherwise reference the telephone call or provide any written documentation that the telephone call was made.[89]

As indicated above, payment was made for this program to the claimant on March 12, 2007, for the fiscal year 2006-2007 costs. Thus, the first sentence of Government Code section 17558.5 controls, and requires the Controller to initiate the audit "no later than three years after the date that the actual reimbursement claim is filed." Since the reimbursement claim was filed on February 14, 2008, the Controller had until February 14, 2011 to initiate the audit. However, the Commission must determine the event which constitutes the initiation of an audit for purposes of section 17558.5 in this case, because the difference between a January 24, 2011 telephone call and the February 15, 2011 entrance conference is dispositive of the question whether the

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[86] Government Code section 17558.5, as last amended by Statutes 2004, chapter 313.

[87] Exhibit A, IRC, page ; see also Exhibit B, Controller's Comments on IRC, page 31, for the remittance advice issued to the claimant on March 12, 2007, showing an approved payment amount to the claimant for the *Notification of Truancy* program of $54,550, and a net payment amount of $35,363 to reflect offsets for fiscal year 2006-2007.

[88] Exhibit A, IRC, page 262.

[89] Exhibit B, Controller's Comments, page 5.

Controller met the three-year deadline to initiate the audit of the 2006-2007 reimbursement claim by February 14, 2011, pursuant to Government Code section 17558.5.

Government Code section 17558.5 does not specifically define the event that initiates the audit and, thus, a phone call, a confirming letter, or an entrance conference, are all events that could reasonably be viewed as the initiation date under the statute. However, unlike other agencies that conduct audits and have adopted formal regulations to make it clear when the audit begins, the Controller has not adopted a regulation for the audits of state-mandate reimbursement claims, and in this case, the parties dispute the event that initiated the audit.[90]

An audit of mandate reimbursement claims is not a civil action subject to a statute of limitations, and in any event the California Supreme Court has held that "the statutes of limitations set forth in the Code of Civil Procedure…do not apply to administrative proceedings."[91] Government Code section 17558.5 requires the Controller to initiate an audit within three years after the date that the actual reimbursement claim is filed or last amended, whichever is later, or within three years of the date the claim is first paid. The requirement to timely initiate an audit therefore requires a unilateral act of the Controller. And failure to timely initiate the audit within the three-year deadline is a jurisdictional bar to any reductions made by the Controller of claimant's reimbursement claims.

In this respect, the initiation provisions of Government Code section 17558.5 are better characterized as a statute of repose, rather than a statute of limitations. The statute provides a period during which an audit may be initiated, and after which the claimant may enjoy repose, dispose of any evidence or documentation to support their claims, and assert a defense that the audit is not timely and therefore void.[92] The courts have described a statute of repose as the

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[90] See, e.g., regulations adopted by the California Board of Equalization (title 18, section 1698.5, stating that an "audit engagement letter" is a letter "used by Board staff to confirm the start of an audit or establish contact with the taxpayer").

[91] *Coachella Valley Mosquito and Vector Control District v. Public Employees' Retirement System* (2005) 35 Cal.4th 1072, 1088 [citing *City of Oakland v. Public Employees' Retirement System* (2002) 95 Cal.App.4th 29; *Robert F. Kennedy Medical Center v. Department of Health Services* (1998) 61 Cal.App.4th 1357, 1361-1362 (finding that Code of Civil Procedure sections 337 and 338 were not applicable to an administrative action to recover overpayments made to a Medi-Cal provider); *Little Co. of Mary Hospital v. Belshe* (1997) 53 Cal.App.4th 325, 328-329 (finding that the three year audit requirement of hospital records is not a statute of limitations, and that the statutes of limitations found in the Code of Civil Procedure apply to the commencement of civil actions and civil special proceedings, "which this was not"); *Bernd v. Eu*, *supra* (finding statutes of limitations inapplicable to administrative agency disciplinary proceedings)].

[92] Courts have ruled that when a deadline is for the protection of a person or class of persons, and the language of the statute as a whole indicates the Legislature's intent to enforce the deadline, the deadline is mandatory. (*People v. McGee* (1977) 19 Cal.3d 948, 962, citing *Morris v. County of Marin* (18 Cal.3d 901, 909-910). In this respect, the deadlines in Government Code section 17558.5 are mandatory and not directory, making the requirement to meet the statutory deadline jurisdictional.

period that "begins when a specific event occurs, regardless of whether a cause of action has accrued or whether any injury has resulted," and that "a statute of repose thus is harsher than a statute of limitations in that it cuts off a right of action after a specified period of time, irrespective of accrual or even notice that a legal right has been invaded."[93] The characteristics of a statute of repose include that it is "not dependent upon traditional concepts of accrual of a claim, *but is tied to an independent, objectively determined and verifiable event*…"[94] Whether analyzed as a statute of repose, or a statute of limitations, the act or event that must occur before the expiration of the statutory period (which is also the event that begins the procedural limitation period) may be interpreted similarly. That is, the filing of a civil action may be interpreted analogously to the initiation of an audit, to the extent that the initiation of the audit, like the commencement of a civil action, terminates the running of the statutory period, and vests authority in the party to proceed.[95]

In this case, the Controller's position that the audit was timely initiated relies solely upon a factual assertion provided in the audit report that a telephone call was made to the claimant's former Chief Financial Officer Michael Dencavage on January 24, 2011. Jim Spano, in his declaration accompanying the Controller's comments on the IRC, also asserts that the audit was initiated on January 24, 2011, but does not state the event that initiated the audit or make any references of having personal knowledge of a telephone call. These assertions are out-of-court hearsay statements that are not supported by any evidence in the record. There is no evidence showing who from the Controller's Office made the call, or that contact with the claimant was actually made on January 24, 2011, or at any other time. Government Code section 17559 and section 1187.5 of the Commission's regulations require that all findings of fact be supported by substantial evidence in the record. In addition, the Commissions' regulations specify "Any relevant non-repetitive evidence shall be admitted if it is the sort of evidence on which responsible persons are accustomed to rely in the conduct of serious affairs."[96] Hearsay evidence is admissible if it is inherently reliable, but *will not be sufficient in itself* to support a finding unless the evidence would be admissible over objection in a civil case with a hearsay exception.[97] Hearsay evidence may be used only for the purpose of supplementing or explaining other evidence.[98] In addition, section 1187.5(c) requires that oral or written representations of fact offered by any person shall be under oath or affirmation. All written representations of fact

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[93] *Geist v. Sequoia Ventures, Inc*. (2000) 83 Cal.App.4th 300, 305.

[94] *Inco Development Corp. v. Superior Court* (2005) 131 Cal.App.4th 1014. (Emphasis added.)

[95] *Liptak v. Diane Apartments, Inc.* (1980) 109 Cal.App.3d 762, 773 ["A party does not have a vested right in the time for the commencement of an action [and nor] does he have a vested right in the running of the statute of limitations prior to its expiration." (citing *Kerchoff-Cuzner Mill and Lumber Company v. Olmstead* (1890) 85 Cal. 80; *Mudd v. McColgan* (1947) 30 Cal.2d 463, 468)].

[96] Code of Regulations, Title 2, section 1187.5.

[97] Code of Regulations, Title 2, section 1187.5; Government Code section 11513.

[98] California Code of Regulations, title 2, section 1187.5.

must be signed under penalty of perjury by persons who are authorized and competent to do so and must be based on the declarant's personal knowledge, information, or belief.

The only fact that is not disputed by the parties and can therefore be considered a "verifiable event" is the date of the entrance conference, February 15, 2011, one day after the time to initiate the audit under the statute expired. Thus, the goals of finality and predictability in the operation of a limiting statute are best served by applying section 17558.5 to the Controller's entrance conference, not to an undocumented telephone call. Unlike a prior IRC where a letter existed that documented the parties' earlier agreement to an entrance conference, here there are only hearsay assertions that a telephone call was made to the claimant prior to the running of the three year period.[99] That assertion does not qualify as an "independent, objectively determined and verifiable event" to support a finding that the audit was timely initiated with a phone call.

Thus, the first unilateral act by the Controller to exercise its audit authority which is consistent with the plain language of section 17558.5, and consistent with the application of a procedural requirement to avoid delay in prosecution of claims must be the actual entrance conference. Because it is the Controller's authority to audit that must be exercised within a specified time, it must be within the Controller's exclusive control to demonstrate by documentary evidence that a timely audit is in progress, and that the claimant may be required to produce documentation to support its claims. In this case, the Controller has failed to document or otherwise provide evidence that it initiated the audit of the 2006-2007 reimbursement claim within the three year period required by section 17558.5.

Based on the foregoing, the Commission finds that the audit of the claimant's reimbursement claim for fiscal year 2006-2007 was initiated on February 15, 2011, after the three year period expired and is therefore not timely initiated within the meaning of Government Code section 17558.5. The Controller is requested to reinstate the $33,802 reduced from the 2006-2007 fiscal year reimbursement claim.

B. The Controller's Reasons for Reducing Costs for Fiscal Years 2007-2008, 2008-2009, and 2009-2010, Are Correct as a Matter of Law and Not Arbitrary, Capricious, or Entirely Lacking in Evidentiary Support.

For fiscal years 2007-2008, 2008-2009, and 2009-2010, the Controller reduced costs totaling $71,731 for initial truancy notifications that the Controller determined were not reimbursable. Of the notifications sampled during the audit, 13 notices were determined unallowable in those three fiscal years because the notices were sent to pupils who had less than three truancy absences or tardiness occurrences, and 57 notices were unallowable because they were sent to pupils under age six or over age eighteen who were not subject to the compulsory education requirements of the Education Code.[100]

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[99] *Health Fee Elimination*, 05-4206-I-06, adopted March 27, 2015.

[100] Exhibit A, IRC 13-904133-I-11, pages 258 (these numbers do not reflect the disallowed notices in fiscal year 2006-2007).

As described below, the Commission finds that the reasons for these reductions are correct as a matter of law and not arbitrary, capricious, or entirely lacking in evidentiary support. The Commission will address the Controller's calculation of the reduction under Section C.

1) Reimbursement is not required to provide truancy notices for pupils with less than three unexcused absences or tardiness occurrences and, thus, the Controller's reduction of costs for those notices is correct.

Section 48260 as amended by Statutes 1994, chapter 1023 (SB 1728) and Statutes 1995, chapter 19 (SB 102) provides that a pupil who is absent or tardy from school without valid excuse "*on three occasions* in on 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.

In fiscal years 2007-2008, 2008-2009, and 2009-2010, the Controller found, however, that the claimant sent truancy notices to pupils who had *less than* three truancy absences or tardiness occurrences. The claimant's request for reimbursement to provide truancy notices for pupils with less than three truancy absences or tardies goes beyond the scope of the mandate and is not eligible for reimbursement.

In response to the draft audit report, the claimant contended that it "believes it properly complied with state law and issued truancy notifications after three absences but has been unable to locate the requested supporting documentation, and therefore will concede this adjustment based on insufficient documentation."[101] Even though the claimant conceded the issue in response to the draft audit report, the IRC requests reinstatement of the costs reduced on this basis. The claimant, however, has not provided any further information or evidence to show that it complied with the mandate to provide truancy notices to pupils who are "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."

Accordingly, the Controller's reduction of costs for notices provided to students with less than three truancy absences or tardiness occurrences is correct as a matter of law and not arbitrary, capricious, or entirely lacking in evidentiary support.

2) Reimbursement is not required to provide truancy notices to pupils who are under the age of six and over the age of eighteen, who have unexcused absences or tardiness occurrences and, thus, the Controller's reduction of costs for those notices is correct as a matter of law.

The Controller also found that the claimant sent 57 notices within the audit sample, to pupils under age six or over age eighteen who were not subject to the compulsory education requirements of the Education Code or the *Notification of Truancy* mandate. The claimant asserts that notifications of truancy sent to students under age six and over age eighteen should be reimbursable because the Education Code provides that those students are statutorily entitled to attend school. Claimant further contends that school districts are required by Education Code

[101] Exhibit A, IRC, pages 260 and 266.

section 46000 to record, keep attendance, and report absences of all pupils according to the CDE regulations. These regulations provide that records of attendance of every pupil shall be kept for apportionment of state funds and to ensure general compliance with the compulsory education law.[102]

The Commission finds that providing truancy notices to pupils under the age of six and over the age of eighteen, who by definition are not subject to the compulsory education law, goes 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 the child would have his or her fifth birthday on or before December 2 of that school year.[103] 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 (IEP).[104] 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."[105]

However, the truancy laws apply only to those pupils who are subject to compulsory full-time education. Education Code section 48260(a) defines a truant as:

> *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.

"Compulsory full-time education" is defined in Education Code section 48200 as "each person between the ages of six and eighteen years" as follows:

> Each person *between the ages of six and eighteen years* not exempted from the provisions of this chapter (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 full-time education not exempted under the provisions of Chapter 3 (commencing with Section 48400) shall attend the public full-time designated as the length of the schoolday [sic] 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

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[102] Exhibit A, IRC, pages 18-22.

[103] Education Code section 48000(a), as last amended by Statutes 1991, chapter 381.

[104] Title 20, United States Code, section 1401; Education Code section 56026.

[105] 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."

> 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 [sic] by the governing board of the school district in which the residence of either the parent or the legal guardian is located.

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 first notice of initial truancy required by this mandated program, apply only to pupils between the ages of six and eighteen.

Therefore, the Controller's reduction of costs for truancy notices provided to students younger than six and older than eighteen, who are not subject to compulsory full-time education, is correct as a matter of law and not arbitrary, capricious, or entirely lacking in evidentiary support.

C. The Controller's Reductions on Statistical Sampling and Extrapolation Are Not Arbitrary, Capricious, or Entirely Lacking in Evidentiary Support and Are, Therefore, Correct.

In its audit of 2007-2008, 2008-2009, and 2009-2010 reimbursement claims, the Controller examined a random sample of initial truancy notices distributed by the claimant for each year (totaling 884 notifications distributed by elementary and secondary schools)[106], with the calculation of the "sample size based on a 95% confidence level," and determined that 70 of those notices were claimed beyond the scope of the mandate, as described in the issue above.[107] 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 those fiscal years (56,073 notifications), to approximate the total number of unallowable notifications (4,070 notifications), which is less than 10 percent of the notices claimed. 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 $71,731.

Since the Controller has not actually reviewed all 56,073 notifications and the records associated with those notices during these fiscal years, the Controller's methodology results in 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 four fiscal years (including fiscal year 2006-2007) between $54,620 and $156,444,

[106] The sample sizes for elementary schools and the sample sizes for secondary schools that were reviewed by the Controller each fiscal year ranged from 146 to 148. The sample sizes for elementary and secondary schools were separately calculated because elementary schools took daily attendance and secondary schools took period attendance. (Exhibit A, IRC, page 259 (final audit report); Exhibit B, Controller's Comments on IRC, page 28.

[107] Exhibit B, Controller's Comments on IRC, pages 16 and 28.

and that the total reduction taken ($105,533) for all fours years falls within that range and represents best the point estimate.[108]

Claimant asserts that the use of statistical sampling should be rejected, that the extrapolation of findings is void, and that the audit findings can only pertain to documentation actually reviewed; that is, the 884 notifications examined and the 70 notifications disallowed for insufficient number of absences or tardies to justify the initial notification of truancy and the age of the student.[109] The claimant attacks the statistical reliability and accuracy of the Controller's methodology, arguing that "[t]esting 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."[110] The claimant further 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. In this respect, the claimant states the following:

> 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.[111]

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 2006-2007 (8,680) is 45 percent larger than the size in fiscal year 2009-2010 (6,006). The claimant concludes by stating that "[t]he expected error rate is stated to be 50%, which means the total amount adjusted $105,533 [for the entire audit period, including fiscal year 2006-2007] is really just a number exactly between [the adjustment range]" and that "[a]n interval of possible outcomes cannot be used as a finding of absolute actual cost."[112] Claimant further asserts that the Controller's failure to adopt statistical sampling as a regulation renders its use void.[113]

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[108] Exhibit B, Controller's Comments, pages 16 and 29.

[109] Exhibit A, IRC, pages 10-11.

[110] Exhibit A, IRC, page 14.

[111] Exhibit A, IRC, page 15.

[112] Exhibit A, IRC, page 16.

[113] Exhibit A, IRC, pages 15-16.

The Controller 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; 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 Act is not applicable."[114]

Based on the analysis herein, the Commission finds that the Controller has the authority to use statistical sampling and extrapolation auditing methods for mandate reimbursement claims, and 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. <u>There is no evidence to support claimant's argument that the statistical sampling and extrapolation method used in the audit of the claimant's reimbursement claims constitutes an underground regulation.</u>

Even if the Controller's audit authority under the Government Code and case law is broad enough to encompass statistical sampling and extrapolation methods, the claimant has also challenged the methodology as a regulation not adopted pursuant to the APA. The provisions of the APA on which the claimant relies include, primarily, Government Code sections 11340.5 and 11342.600. Section 11340.5 provides, 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.[115]

Therefore, if the Controller's challenged audit methods constitute a regulation not adopted pursuant to the APA, the Commission cannot uphold the reductions. Section 11342.600, in turn, 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."[116] 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."[117]

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[114] Exhibit B, Controller's Comments, page 16.

[115] Government Code section 11340.5 (Stats. 2000, ch. 1060).

[116] Government Code section 11342.600 (Stats. 2000, ch. 1060).

[117] *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)].

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 presents a close question, which 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 here challenged, then perhaps that meets the standard of a rule applied "generally, rather than in a specific case."[118] 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.[119]

In *Clovis Unified School District v. Chiang*, 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.[120] 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.[121] The court 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 audit authority and was, therefore, an underground regulation.[122]

As noted below, in the Medi-Cal audit context, 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 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."[123] And, 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

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[118] *Tidewater Marine Western v. Bradshaw* (1996) 14 Cal.4th 557, 571.

[119] 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."].

[120] 188 Cal.App.4th, page 803.

[121] 188 Cal.App.4th, pages 803-805.

[122] *Id*, page 805.

[123] *Grier*, 219 Cal.App.3d, page 435.

is an alternative tenable interpretation of the statutes."[124] The court also noted that the Department "acquiesced" in that determination and soon after adopted a regulation providing expressly for statistical sampling and extrapolation in the conduct of Medi-Cal audits.[125] 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.[126] Now, 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.[127]

Thus, in light of *Clovis Unified, Grier* and *UAPD,* it is clear that an audit practice may be reasonable and otherwise permissible, yet still constitute 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" can be 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."[128] And in *Clovis Unified*, *supra*, 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."[129]

Here, unlike *Clovis Unified*, the sampling and extrapolation method is not published in the claiming instructions for this mandate; nor is it alleged that auditors were *required* to utilize such methods. Indeed, 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;[130] others apply a sampling and extrapolation method to

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[124] *Id*, pages 438-439.

[125] *Ibid*.

[126] *Union of American Physicians and Dentists, supra*, 223 Cal.App.3d at pp. 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)]. .

[127] See, e.g., Welfare and Institutions Code section 14170(b) (added, Stats. 1992, ch. 722 (SB 485); Code of Regulations, title 22, section 51458.2 (Register 1988, No. 17).

[128] *Tidewater*, *supra*, 14 Cal.4th 557, 571.

[129] 188 Cal.App.4th at page 803.

[130] 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

determine whether the notifications issued complied with the eight required elements under section 48260.5;[131] 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.[132]

Therefore, based on the case law discussed above, 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.

2. The Controller has the authority to use statistical sampling and extrapolation auditing methods for mandate reimbursement claims, so long as those methods do not constitute underground regulations, and the audit conclusions must be upheld absent evidence that the Controller's 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. The Controller counters that the law does not prohibit the audit methods used by the Controller. 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."[133] 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."[134]

Based on the analysis herein, the Commission finds that Controller has the authority to use statistical sampling and extrapolation auditing methods for mandate reimbursement claims, and the audit conclusions must be upheld absent evidence that the Controller's reductions are arbitrary, capricious, or entirely lacking in evidentiary support.

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 commonly 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

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performing a sampling and estimation audit to determine whether notifications were issued in compliance with section 48260.]

[131] See, e.g., Audit of Colton Joint Unified School District, *Notification of Truancy*, fiscal years 1999-2000 through 2001-2002, issued November 26, 2003.

[132] See, e.g., Audit of Bakersfield City School District, *Notification of Truancy*, fiscal years 2007-2008 through 2009-2010, issued October 25, 2012

[133] Exhibit B, Controller's Comments, page 11.

[134] Exhibit B, Controller's Comments, page 16 [emphasis in original].

Controller's duly drawn warrant."[135] 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."[136]

With respect to mandate reimbursement, the Controller's audit authority 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.[137] 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…" Section 17561 also provided, at the time the audit of the subject claims began in 2011, the following:

> 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 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.[138]

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." [139] Thus the Controller's audit authority pursuant to section 17561 expressly authorizes an audit of a claim based on a unit cost reimbursement scheme. The statutes, however, do not address how the Controller is to audit and verify the costs mandated by the state.

Accordingly, the Controller cites to Government Auditing Standards, as issued by the Comptroller General of the United States, to argue that it properly conducted the audit as follows:

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[135] California Constitution, article XVI, section 7 (added November 5, 1974, by Proposition 8).

[136] Statutes 1968, chapter 449.

[137] California Constitution, article XIII B, section 6 (Stats. 2004, ch. 133 (SCA 4; Proposition 1A, November 2, 2004)).

[138] Government Code section 17561 (Stats. 2009-2010, 3rd Ex. Sess., c. 4.)

[139] Government Code section 17518.5 (added, Stats. 2004, ch. 890); Government Code section 17557 (as amended, Stats. 2004, ch. 890; Stats. 2007, ch. 329).

> The SCO conducted its 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." Generally accepted government auditing standards require the auditor to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions. The standards recognize statistical sampling as an acceptable method to provide sufficient, appropriate evidence.[140]

While the standards cited do not provide *expressly* 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.[141] The Controller also cites the "Handbook of Sampling for Auditing and Accounting," by Herbert Arkin, for the proposition 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.[142]

In accordance with the Controller's audit authority and duties under the Government Code, the Commission's consideration is limited to whether the Controller's audit decisions and reduction of costs is arbitrary, capricious, or entirely lacking in evidentiary support.[143] Based on the standards and texts cited by the Controller, statistical methods are an appropriate and commonly-used tool in auditing, and must be upheld unless there is evidence that the Controller's reductions are arbitrary, capricious, or entirely lacking in evidentiary support.

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. For example, 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*[144] and *Union of American Physicians and Dentists v. Kizer*,[145] (*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."[146] 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

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[140] Exhibit A, IRC, page 261 (Final Audit Report.)

[141] Exhibit X, Excerpt from Government Auditing Standards, 2003, page 13.

[142] Exhibit B, Controller's Comments, page 19.

[143] *American Bd. of Cosmetic Surgery, Inc, supra*, 162 Cal.App.4th at pages 547-548.

[144] (1990) 219 Cal.App.3d 422.

[145] (1990) 223 Cal.App.3d 490.

[146] *Id*, at page 495.

than on the substantive question whether statistical sampling and extrapolation was a permissible methodology for auditing.[147] 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 methodology on its merits.[148] Thus, after Grier, the Department has both regulatory and statutory authority for its sampling and extrapolation audit process.[149]

In addition to the Medi-Cal reimbursement context, the courts have declined to reject the use of statistical sampling and extrapolation to calculate damages due to plaintiffs in a class action or other mass tort action.[150] And, 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."[151]

On that basis, and giving due consideration to the discretion of the Controller to audit the fiscal affairs of the state,[152] the Commission finds that the Controller has the authority to audit a reimbursement claim based on statistical sampling and extrapolation and that such methods (to the extent that they do not impose an underground regulation) must be upheld absent evidence that the audit reductions are arbitrary, capricious, or entirely lacking in evidentiary support.

3. <u>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.</u>

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 further 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. In this respect, 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, and, thus, the extrapolation from the samples would not be representative of the universe.[153] The claimant further contends that the sampling technique used by the Controller is

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[147] E.g., *Grier, supra*, 219 Cal.App.3d, at pages 439-440.

[148] *Union of American Physicians and Dentists, supra*, 223 Cal.App.3d at pp. 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)].

[149] See, e.g., Welfare and Institutions Code section 14170(b) (added, Stats. 1992, ch. 722 (SB 485); Code of Regulations, title 22, section 51458.2 (Register 1988, No. 17).

[150] See, e.g., *Bell v. Farmers Insurance Exchange* (2004) 115 Cal.App.4th 715.

[151] *County of Marin v. Martin* (1974) 43 Cal.App.3d 1, 7.

[152] Government Code section 12410.

[153] Exhibit A, IRC, page 15.

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 2006-2007 (8,680) is 45 percent larger than the size in fiscal year 2009-2010 (6,006). The claimant concludes by stating that "[t]he expected error rate is stated to be 50%, which means the total amount adjusted $105,533 [for the entire audit period, including fiscal year 2006-2007] is really just a number exactly between [the adjustment range]."[154]

The Controller disagrees with the claimant's assertions that the sampling is non-representative of all notices claimed. The Controller states that "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."[155] Citing to Arkin's *Handbook of Sampling for Auditing and Accounting*, page 9, the Controller states the following:

> 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.

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 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.[156] 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:

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[154] Exhibit A, IRC, page 16.

[155] Exhibit B, Controller's Comments, page 14.

[156] Exhibit B, Controller's Comments, pages 15-16 [Citing Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, Third Edition, Prentice Hall, New Jersey, 1984, page 89].

$$n = \frac{p(1-p)}{\left(\frac{SE}{t}\right)^2 + \left(\frac{p(1-p)}{N}\right)}$$

n = sample size
p = percent of occurrence in population (expected error rate)
SE = desired sample precision
t = confidence level factor
N = population size[157]

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 6,006 to 8,680 notifications issued by elementary schools, and 8,837 to 11,197 notifications issued by secondary schools during the audit period.[158]

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.[159] 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.

In addition, when excluding the figures for fiscal year 2006-2007, the adjustment range for the population's true error rate within the 95 percent confidence interval for the remaining fiscal years is $36,854, added or subtracted from the point estimate (the amount reduced in those years) of $71,731.[160] Although there is a possibility that the $71,731 may provide more reimbursement

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[157] *Id.* at page 16 [Citing Arkin, p. 56].

[158] Exhibit B, Controller's Comments, page 28.

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

[160] See Exhibit B, Controller's Comments, page 28. To calculate the estimated adjustment range (the number added to and subtracted from the point estimate reduction as the upper and lower range error rates) *excluding fiscal year 2006-2007*, combine the "Universe standard error" for elementary and secondary schools, times the confidence level factor of 1.96, times unit cost for the fiscal year as follows:

For fiscal year 2007-2008, the "Universe standard error" of 361 (220 plus 141), times the confidence level factor of 1.96, times the unit cost of $17.28 for that fiscal year = $12,227.

For fiscal year 2008-2009, the "Universe standard error" of 360 (229 plus 131), times the confidence level factor of 1.96, times the unit cost of $17.74 for that fiscal year = $12,518.

or less reimbursement to the claimant than the actual costs correctly claimed, it represents the statistically best estimate of unallowable costs based on a 95 confidence level.[161] And the adjustment range of $36,854 for the costs reduced represents just four percent (4%) plus or minus of the total amount claimed in fiscal years 2007-2008, 2008-2009, and 2009-2010 ($901,023).[162]

Based on the analysis above, the Commission finds that the Controller's reduction of costs, based on the statistical sampling method as applied in this case, is not arbitrary, capricious, or entirely lacking in evidentiary support.

V. Conclusion

Pursuant to Government Code section 17551(d) and section 1185.9 of the Commission's regulations, the Commission finds that the Controller's audit of the 2006-2007 reimbursement claim was not timely initiated within the meaning of Government Code section 17558.5 and, thus, the audit reductions for that fiscal year ($33,802) are void and requests that the Controller reinstate these costs to the claimant.

The Commission further finds that the reduction of $71,731 claimed for notices distributed for pupils who had less than three unexcused absences or tardiness occurrences and for pupils who were not subject to the compulsory education laws in fiscal years 2007-2008, 2008-2009, and 2009-2010, is correct as a matter of law, and is not arbitrary, capricious, or entirely lacking in evidentiary support.

Accordingly, the Commission partially approves this IRC.

For fiscal year 2009-2010, the "Universe standard error" of 338 (70 plus 268), times the confidence level factor of 1.96, times the unit cost of $17.87 for that fiscal year = $11,839.

Thus, the total estimated error rate for these fiscal years is $36,584 (12,227+12,518+11,839). The adjustment range within the confidence interval then is $35,147 to $108,315 ($71,731 less $36,584; and $71,731 plus $36,584).

[161] Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, Third Edition, Prentice Hall, New Jersey, 1984.

[162] Exhibit A, IRC, page 257 (final audit report.)

DECLARATION OF SERVICE BY EMAIL

I, the undersigned, declare as follows:

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

On July 31, 2015 I served the:

Draft Proposed Decision, Schedule for Comments, and Notice of Hearing
Notification of Truancy, 13-904133-I-11
Education Code Sections 48260.5
Statutes 1983, Chapter 498; Statutes 1994, Chapter 1023;
Statutes 1995, Chapter 19
Fiscal Years: 2006-2007, 2007-2008, 2008-2009, and 2009-2010
San Juan 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 July 31, 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: 6/4/15

Claim Number: 13-904133-I-11

Matter: Notification of Truancy

Claimant: San Juan 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

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, Sacramento, CA 95814

Phone: (916) 445-0328
ed.hanson@dof.ca.gov

Cheryl Ide, Associate Finance Budget Analyst, *Department of Finance*
Education Systems Unit, 915 L Street, Sacramento, CA 95814
Phone: (916) 445-0328
Cheryl.ide@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

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

Jameel Naqvi, Analyst, *Legislative Analyst's Office*
Education Section, 925 L Street, Suite 1000, Sacramento, CA 95814
Phone: (916) 319-8331
Jameel.naqvi@lao.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

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, *Max8550*
2200 Sunrise Boulevard, Suite 240, Gold River, CA 95670
Phone: (916) 852-8970
dscribner@max8550.com

Camille Shelton, *Commission on State Mandates*
980 9th Street, Suite 300, Sacramento, CA 95814
Phone: (916) 323-3562
camille.shelton@csm.ca.gov

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

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

Kent Stephens, Chief Financial Officer, *San Juan Unified School District*
Business Services, 3738 Walnut Avenue, Carmichael, CA 95609
Phone: (916) 971-7238
kent.stephens@sanjuan.edu