C R
S Inc.

Cost Recovery Systems, Inc.

July 15, 2026

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

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

Dear Ms. Gmur,

The City of Rancho Cucamonga respectfully submits this additional information in response to the Commission's Draft Decision for further consideration.

I do declare under penalty of perjury that the foregoing information is true and correct to the best of my knowledge, and that such knowledge is based on personal observation, information, or belief.

Sincerely,

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

705-2 East Bidwell Street, # 294
Folsom, California 95630

Telephone: 916.939.7901
Fax: 916.939.7801

Introduction.

This Appeal Is About Whether Contract Cities May Continue to Rely on the Commission's Published Reimbursement Methodology

This Incorrect Reduction Claim is not merely a dispute over the reimbursement of Rancho Cucamonga's Identity Theft Prevention Program claim. Rather, it presents a fundamental question concerning the continued viability of the Commission's published methodology for recovering allowable indirect support costs incurred by California's contract cities.

For more than two decades, contract cities have prepared mandated cost reimbursement claims in reliance upon the Commission's adopted Parameters and Guidelines, Claiming Instructions, and State Mandates Claiming Manual. Those published authorities expressly authorize the recovery of allowable indirect support costs through an approved Indirect Cost Rate Proposal ("ICRP") and recognize that indirect costs may be allocated using direct salaries and wages, total direct costs, or another equitable distribution base. Nothing in those authorities excludes contract labor from serving as the equitable distribution base for an approved ICRP, nor do they establish separate reimbursement rules for contract cities that obtain law enforcement services through contracts with county sheriffs or other public agencies. Rancho Cucamonga did not devise a novel allocation methodology for purposes of this claim. It simply followed the same published reimbursement framework upon which contract cities throughout California have reasonably relied for more than twenty years.

The Recommended Decision nevertheless concludes that Rancho Cucamonga may not recover the majority of its allowable indirect support costs because it used contract law enforcement costs, rather than City payroll costs, as the equitable distribution base for its Commission-approved ICRP. That restriction appears nowhere in the Commission's adopted Parameters and Guidelines, Claiming Instructions, or State Mandates Claiming Manual. Instead, the Recommended Decision effectively creates a new reimbursement limitation applicable only to contract cities without any corresponding amendment to the Commission's published reimbursement standards.

If the Commission now concludes that a different methodology should govern future reimbursement claims submitted by contract cities, that change should be implemented prospectively through amendment of the Commission's published claiming guidance—not retroactively through the adjudication of an individual reimbursement claim.

The consequences of that conclusion extend far beyond Rancho Cucamonga. Many California cities obtain law enforcement services through contractual arrangements rather than operating traditional municipal police departments. Those jurisdictions have reasonably relied upon the Commission's published methodology in preparing reimbursement claims for many years. If the Commission now concludes that contract cities may no longer recover allowable indirect support costs using an approved ICRP based upon contract law enforcement costs, those agencies are entitled to know what methodology they are expected to use instead. The Recommended Decision provides no answer to that question.

Accordingly, this appeal presents an issue of statewide importance. The central question is not whether Rancho Cucamonga could have selected a different allocation methodology. The question is whether the City faithfully followed the Commission's published reimbursement methodology, or whether the State Controller may disallow otherwise allowable indirect support costs by applying an unpublished limitation that appears nowhere in the governing Parameters and Guidelines or Claiming Instructions.

I. The Recommended Decision Imposes a Limitation That Does Not Appear in the Commission's Published Reimbursement Standards

The Recommended Decision does not identify any provision of the Parameters and Guidelines, Claiming Instructions, or State Mandates Claiming Manual that prohibits Rancho Cucamonga from using contract law enforcement costs as the equitable distribution base for its approved Indirect Cost Rate Proposal ("ICRP"). Instead, it concludes that the City's allowable indirect support costs are largely unreimbursable because the direct program activities were performed pursuant to a law enforcement services contract rather than by City employees.

That conclusion cannot be reconciled with the Commission's published reimbursement standards.

As discussed above, the Parameters and Guidelines expressly authorize claimants to allocate allowable indirect support costs using total direct costs, direct salaries and wages, or another equitable distribution base. They contain no language limiting the use of contract labor, no distinction between contract cities and full-service cities, and no requirement that an approved ICRP be based exclusively upon City payroll costs. The Recommended Decision nevertheless imposes precisely those limitations.

The practical effect is to create a new reimbursement standard that appears nowhere in the Commission's published guidance. Under the Recommended Decision, contract cities may recover only those indirect costs the State Controller determines are sufficiently "administrative," while indirect support costs associated with contract law enforcement activities are effectively excluded from reimbursement. Yet neither the Parameters and Guidelines nor the Claiming Instructions establish such a distinction, define that standard, or explain how claimants are expected to apply it when preparing reimbursement claims.

Administrative agencies are expected to apply the standards they have adopted and published. Claimants likewise are entitled to rely upon those published standards when preparing reimbursement claims. Here, Rancho Cucamonga did exactly that. The City prepared its claim using an approved ICRP, applied one of the allocation methodologies expressly authorized by the Commission, and claimed allowable indirect support costs in accordance with the Commission's published reimbursement framework. The Recommended Decision does not conclude that the City failed to comply with any published Commission requirement. Rather, it concludes that the City's methodology is unacceptable because of a limitation that appears nowhere in the governing authorities.

That distinction is significant. This appeal does not concern the Commission's interpretation of ambiguous language within the Parameters and Guidelines. Instead, the Recommended Decision effectively adds a substantive limitation that the Commission itself has never adopted. Had the Commission intended to prohibit contract labor from serving as an equitable distribution base, or intended to establish separate reimbursement rules for contract cities, it could have amended the Parameters and Guidelines or Claiming Instructions to say so. It has never done so.

Indeed, the State Controller's approach demonstrates why published claiming standards are essential. Under the Recommended Decision, a contract city cannot determine from the Parameters and Guidelines what indirect support costs remain reimbursable, what costs must instead be treated as direct contract costs, or how an approved ICRP should be modified to comply with the Commission's expectations. Those questions are answered neither by the Recommended Decision nor by any existing Commission guidance.

The Commission's reimbursement system depends upon published, administrable standards that permit local agencies to prepare claims before an audit occurs. By replacing the Commission's published methodology with an unpublished limitation applied only after the claim was filed, the Recommended Decision deprives contract cities of the notice necessary to comply with Government Code section 17564(b), which requires indirect costs to be claimed in the manner prescribed by the Commission.

For these reasons, the Recommended Decision should be rejected because it effectively rewrites the Commission's reimbursement methodology through an individual reimbursement dispute rather than through amendment of the Commission's adopted Parameters and Guidelines.

II. The Recommended Decision Acknowledges That Contract Cities Incur Allowable Indirect Support Costs but Provides No Principled Basis for Disallowing the Remaining Costs

The Recommended Decision recognizes that Rancho Cucamonga incurs indirect support costs associated with administering its mandated programs. Indeed, the State Controller did not disallow all indirect costs. Instead, it permitted reimbursement for certain Citywide administrative functions while rejecting the remaining indirect support costs reflected in the City's approved Indirect Cost Rate Proposal ("ICRP").

That distinction reveals the central flaw in the Recommended Decision.

By allowing reimbursement for some indirect support costs, the State Controller necessarily acknowledged that contract cities incur legitimate indirect costs attributable to state-mandated programs. The dispute therefore is not whether indirect support costs exist. Rather, the dispute concerns the methodology used to identify and allocate those costs.

The Parameters and Guidelines answer that question by authorizing claimants to recover allowable indirect support costs through an approved ICRP using an equitable distribution base. Rancho Cucamonga followed that methodology. The Recommended Decision nevertheless substitutes a different approach under which only those costs deemed sufficiently "administrative" remain reimbursable, while other indirect support costs associated with contract law enforcement services are excluded.

The difficulty is that the Commission has never adopted such a methodology.

Neither the Parameters and Guidelines, the Claiming Instructions, nor the State Mandates Claiming Manual identifies which indirect support costs should remain reimbursable for contract cities after application of the Recommended Decision. They do not distinguish between departmental overhead and Citywide overhead. They do not identify supervisory support, clerical assistance, communications, fleet management, facilities, technology support, records management, training, or other indirect support functions as categorically non-reimbursable. Nor do they establish any methodology by which contract cities are to determine which of those costs may be recovered and which must instead be absorbed entirely by the local agency.

The Recommended Decision therefore replaces an objective, Commission-approved allocation methodology with an undefined case-by-case determination. Such an approach cannot be administered consistently because no published standards exist to guide claimants or auditors in determining where the line should be drawn.

The facts of this case illustrate the problem. Rancho Cucamonga contracts with the San Bernardino County Sheriff's Department to provide virtually all direct law enforcement services. The City's indirect support costs are incurred to administer, oversee, and support that contractual law enforcement operation in the same manner that a traditional police department incurs supervisory, administrative, fiscal, personnel, communications, fleet, technology, and other departmental support costs. The organizational structure differs; the governmental functions do not.

Yet under the Recommended Decision, a contract city is effectively penalized because its direct law enforcement services are provided through a contractual arrangement rather than through municipal employees. Nothing in the Parameters and Guidelines suggests that the Legislature or the Commission intended reimbursement to depend upon the organizational structure a local agency chooses to provide identical mandated services.

The inconsistency becomes even more apparent when comparing contract cities with traditional police departments. A city operating its own police department may recover allowable indirect support costs through its approved ICRP based upon direct personnel costs. A contract city performing the identical state-mandated activities through a sheriff's services contract is denied recovery of many of those same indirect support costs solely because its principal direct costs arise under a contract rather than a payroll system. The Recommended Decision identifies no published authority justifying that disparate treatment.

The Commission's reimbursement methodology was intended to reimburse actual allowable costs reasonably incurred in carrying out state-mandated programs—not to produce different reimbursement outcomes based solely upon how a local agency chooses to organize its law enforcement services. Because the Recommended Decision recognizes that contract cities incur allowable indirect support costs while simultaneously rejecting the Commission-approved methodology for allocating those costs, it creates an internally inconsistent reimbursement framework that cannot be administered uniformly or predictably.

III. The Recommended Decision Provides No Administrable Methodology for Contract Cities to Calculate Their Allowable Indirect Support Costs

Perhaps the most significant consequence of the Recommended Decision is not the disallowances in Rancho Cucamonga's reimbursement claims, but its failure to identify any methodology that contract cities may lawfully use to recover their allowable indirect support costs in future reimbursement claims.

The Commission's reimbursement system depends upon clear, published claiming methodologies. Government Code section 17564(b) provides that indirect costs are to be claimed in the manner prescribed by the Commission. Local agencies therefore must be able to determine, before preparing their reimbursement claims, what methodology the Commission requires in order to recover allowable indirect support costs.

The Recommended Decision, however, rejects Rancho Cucamonga's use of a Commission-approved Indirect Cost Rate Proposal ("ICRP") without identifying what methodology should replace it. It does not explain how a contract city should allocate allowable indirect support costs associated with a contract law enforcement operation. It does not identify which indirect support costs remain reimbursable, which costs must instead be treated as direct contract costs, or how those costs should be measured and allocated. Nor does it establish any objective standard that contract cities or auditors can consistently apply in future reimbursement claims.

Those omissions are not merely academic. They make compliance with the Commission's reimbursement system impossible.

A contract city preparing its next reimbursement claim would have no way to determine, from the Commission's published guidance, whether supervisory support, departmental administration, fiscal oversight, communications, fleet management, records management, information technology, training, facilities support, or other indirect support functions remain reimbursable. Nor could it determine whether those costs should be allocated through an approved ICRP, incorporated into contract service costs, or excluded from reimbursement altogether. The Recommended Decision provides no answers.

The resulting uncertainty is particularly significant because many California cities provide law enforcement services through contracts with county sheriffs or other public agencies rather than through traditional municipal police departments. Those jurisdictions have relied upon the Commission's published methodology for years in preparing reimbursement claims. If the Commission concludes that methodology is no longer permissible, contract cities are entitled to know what methodology has replaced it.

The absence of any administrable alternative also creates the substantial risk of inconsistent audit results. Without published standards, individual auditors will necessarily determine on a case-by-case basis which indirect support costs are sufficiently "administrative" to remain reimbursable and which are not. The absence of published standards has already resulted in materially different audit outcomes for similarly situated contract cities. Without an objective methodology, different auditors inevitably reach different conclusions regarding identical categories of indirect support costs.

The record already demonstrates that this concern is not hypothetical. In separate audits of another California contract city, the State Controller initially concluded that no indirect support costs associated with the City's contract law enforcement services were reimbursable. In a subsequent audit, however, the State Controller permitted recovery of approximately fourteen percent of those same categories of indirect support costs. Those materially different audit outcomes underscore the absence of any published methodology governing the calculation of allowable indirect support costs for contract cities and demonstrate the inconsistent results that inevitably occur when auditors are required to apply an undefined standard rather than the Commission's adopted Parameters and Guidelines. (See Appendix A)

Equally important, the Recommended Decision effectively places contract cities in an impossible position. If they continue using an approved ICRP based upon contract law enforcement costs, they risk future audit disallowances under the reasoning of the Recommended Decision. If they abandon the Commission's approved methodology, however, they have no published guidance identifying what methodology they should instead follow. In either circumstance, contract cities cannot know whether they have complied with Government Code section 17564(b).

To the extent the Recommended Decision suggests that Rancho Cucamonga should have presented these allowable indirect support costs differently on its reimbursement claim, neither the Recommended Decision nor the Commission's published Parameters and Guidelines, Claiming Instructions, or State Mandates Claiming Manual identify where those costs should instead have been reported or how contract cities should present them. A claimant cannot reasonably be expected to comply with an unpublished reporting methodology.

Moreover, the State Controller accepted the City's direct contract service costs, reclassified costs where necessary during the audit, and ultimately allowed reimbursement of those direct contract costs. The remaining dispute therefore is not where the direct costs appeared on the claim form.

The dispute is whether contract cities possess any published methodology for recovering their separate allowable indirect support costs after those direct costs have been recognized.

To the extent the Recommended Decision rests upon the reporting classification used on the claim form rather than the Commission's approved indirect cost allocation methodology, it conflates the reporting of direct costs with the methodology used to allocate separate allowable indirect support costs. Those are separate accounting concepts. The Sheriff's contract costs were claimed once as direct contract service costs. Those same direct costs were then used solely as the equitable distribution base for allocating a separate pool of allowable indirect support costs through the City's approved ICRP. Using direct costs as an allocation base does not constitute a second reimbursement of those direct costs.

This uncertainty is inconsistent with the fundamental purpose of the Commission's Parameters and Guidelines. Those documents exist so that local agencies may prepare reimbursement claims using objective, published standards before an audit occurs—not so that new claiming requirements may first emerge during the audit process or through an individual reimbursement dispute.

The Commission is, of course, free to amend its Parameters and Guidelines prospectively if it determines that a different methodology should govern future reimbursement claims submitted by contract cities. What it should not do is adopt a Recommended Decision that effectively invalidates the Commission's existing methodology without simultaneously identifying the methodology that will replace it.

For that reason alone, the Recommended Decision should be rejected. At a minimum, contract cities throughout California are entitled to clear, published guidance identifying how allowable indirect support costs are to be calculated in future reimbursement claims.

IV. The Recommended Decision Should Be Rejected Because It Is Inconsistent with the Commission's Published Reimbursement Framework and Creates Uncertainty for Future Claims

The Commission's adopted reimbursement framework is intended to provide local agencies with objective, published standards by which they may prepare reimbursement claims before an audit occurs. Rancho Cucamonga relied upon those published standards in preparing its claim.

The record demonstrates that the City used an approved Indirect Cost Rate Proposal ("ICRP"), applied an allocation methodology expressly authorized by the Parameters and Guidelines, and claimed allowable indirect support costs in the manner prescribed by the Commission. The Recommended Decision does not identify any provision of the Parameters and Guidelines, Claiming Instructions, or State Mandates Claiming Manual that the City failed to follow.

Instead, the Recommended Decision reaches its conclusion by applying a limitation that appears nowhere in the Commission's published reimbursement guidance. In doing so, it effectively establishes a different reimbursement methodology for contract cities without any corresponding amendment to the Parameters and Guidelines or other published claiming instructions.

That result is significant not only because it affects Rancho Cucamonga's reimbursement claim, but because it creates uncertainty for every California contract city that has relied upon the Commission's published methodology in preparing mandated cost reimbursement claims. If contract cities may no longer recover allowable indirect support costs through an approved ICRP using contract law enforcement costs as the equitable distribution base, the Commission's reimbursement system must identify what methodology has replaced it.

Accordingly, adoption of the Recommended Decision would leave contract cities without clear guidance regarding how allowable indirect support costs are to be identified, allocated, and claimed in future reimbursement submissions. Such uncertainty is inconsistent with Government Code section 17564(b), the Commission's adopted Parameters and Guidelines, and the fundamental purpose of the State Mandates reimbursement process.

Moreover, the Recommended Decision identifies no published provision of the Commission's Parameters and Guidelines, Claiming Instructions, State Mandates Claiming Manual, or other published Commission authority that Rancho Cucamonga failed to follow. In the absence of such authority, the Recommended Decision necessarily rests upon a limitation that exists outside the Commission's published reimbursement framework.

For these reasons, the Commission should reject the Recommended Decision and reaffirm that local agencies are entitled to rely upon the Commission's published reimbursement methodology unless and until that methodology is amended through the Commission's established processes.

The issue before the Commission is therefore straightforward. Either Rancho Cucamonga complied with the Commission's published reimbursement methodology, or the Commission must identify the published methodology contract cities are expected to follow instead. The Recommended Decision does neither.

CONCLUSION

This appeal presents an issue that extends well beyond Rancho Cucamonga's reimbursement claim. At stake is whether California's contract cities may continue to rely upon the Commission's published reimbursement methodology when preparing mandated cost reimbursement claims or whether that methodology may be displaced through an unpublished limitation first announced in an individual reimbursement dispute.

Rancho Cucamonga did exactly what Government Code section 17564(b) requires. The City prepared its reimbursement claim using the methodology prescribed by the Commission, relied upon an approved Indirect Cost Rate Proposal, and allocated its allowable indirect support costs using an equitable distribution base expressly authorized by the Commission's adopted

Parameters and Guidelines. The Recommended Decision identifies no published Commission authority that the City failed to follow.

Instead, the Recommended Decision substitutes a new limitation that appears nowhere in the Commission's Parameters and Guidelines, Claiming Instructions, or State Mandates Claiming Manual. In doing so, it not only disallows Rancho Cucamonga's claim, but also leaves every California contract city without a published methodology for identifying, allocating, and claiming allowable indirect support costs in future reimbursement claims.

If the Commission determines that its existing reimbursement methodology should be changed prospectively, it possesses the authority to amend its Parameters and Guidelines through its established processes. What it should not do is effectively rewrite those published standards through the adjudication of a single reimbursement claim while leaving contract cities without any administrable methodology for complying with Government Code section 17564(b).

This appeal therefore does not ask the Commission to adopt a new reimbursement methodology. It simply asks the Commission to apply the methodology it has already adopted and published.

For all of these reasons, the City respectfully requests that the Commission reject the Recommended Decision, reverse the disallowance of Rancho Cucamonga's claimed indirect support costs, and reaffirm that local agencies are entitled to rely upon the Commission's published reimbursement methodology unless and until that methodology is prospectively amended through the Commission's established procedures.

Appendix A

Illustration of Inconsistent Audit Treatment of Contract City Indirect Support Costs

DECLARATION OF ANNETTE S. CHINN

I, Annette S. Chinn, do hereby declare as follows:

1) I have personal knowledge of the facts stated in this Declaration and if called as a witness, I could and would testify to the statements made herein.

2) I have been a consultant in the field of State Mandate Reimbursement claim preparation since 1992 and have personal knowledge and experience in the preparation of Indirect Costs Rate Proposals (ICRPs) and have prepared thousands of ICRPs for hundreds of local agencies, including preparation of ICRPs for contract city's law enforcement overhead costs.

3) I am a consultant/President of Cost Recovery Systems, Inc. and representative of the City of Laguna Niguel (City) for this Incorrect Reduction Claim (IRC). I was directly involved in the preparation of the City's State Mandate claims since 2002, including the Identity Theft claims subject to this IRC. The law enforcement ICRP rates included overhead costs charged within the Orange County Sheriff's Department contract and were prepared in compliance with written State Parameters and Guidelines, Claiming Manuals and Instructions, and Federal OMB/CFR Guidelines.

4) Until the State Controller's 2024 Desk Review Audit of the Identity Theft Program, the City has been paid by the State Controller's Office (SCO) for all other funded law enforcement programs for the last twenty years, which included the law enforcement contract overhead costs/ICRPs. Neither the validity of including overhead/indirect costs or the use of existing ICRPs methodologies were ever questioned by the SCO until this audit.

5) I also filed claims for and represented the City of San Marcos (another city that contracts for law enforcement services with a similar contract structure) in their 2017 State Audit of their Crime Statistics Reporting audit and subsequent IRC. This 2017 prior SCO audits recognized overhead costs within their law enforcement contract and the costs that were allowed were similar, if not identical to the type of costs included in Laguna Niguel's ICRPs. The ICRP methodology used and allowed were in accordance with existing Parameters and Guidelines, Claiming Manuals, and Federal OMB/CFR Guidelines.

6) Attached hereto in the Exhibits are true and correct copies of relevant documents including:
   a) Identity Theft program, April 2024Audit Report
   b) Racial and Identity Profiling, July 2025 Audit Report

7) I have personal knowledge of the facts stated in the narrative included in this Incorrect Reduction Claim and believe them to be true and correct.

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 15, 2026 in El Dorado Hills, California.

Annette S. Chinn
President
Cost Recovery Systems, Inc.

CITY OF LAGUNA NIGUEL

Audit Report

RACIAL AND IDENTITY PROFILING PROGRAM

Chapter 466, Statutes of 2015;
and Chapter 328, Statutes of 2017

July 1, 2018, through June 30, 2024

MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

July 2025

MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

July 1, 2025

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Mr. Trevor Agrelius, Finance Director
City of Laguna Niguel
30111 Crown Valley Parkway
Laguna Niguel, CA 92677

Dear Mr. Agrelius:

The State Controller's Office performed a review of costs claimed by the City of Laguna Niguel (the city) for the legislatively mandated Racial and Identity Profiling Program (Chapter 466, Statutes of 2015; and Chapter 328, Statutes of 2017) for the period of July 1, 2018, through June 30, 2024. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to validating the claimed contract services costs and hourly rates.

The city claimed $530,379 for costs of the mandated program. Our review found that $223,818 is allowable and $306,561 is unallowable. The costs are unallowable because the city overstated its contract hourly rates and the average time increment required for each stop. The State paid the city $461,896.

This letter contains an adjustment to costs claimed by the city. If you disagree with the finding, you may file an Incorrect Reduction Claim with the Commission on State Mandates. Pursuant to section 1185.1(c) of the Commission's regulations (Title 2, California Code of Regulations), an Incorrect Reduction Claim challenging this adjustment must be filed with the Commission on State Mandates no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain Incorrect Reduction Claim information on the Commission on State Mandates' website at www.csm.ca.gov/request-form.php.

If you have any questions regarding this report, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at 916-327-3138, or email at lkurokawa@sco.ca.gov. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/rs

Attachments:
Attachment 1—Summary of Program Costs
Attachment 2—Review Results

Copy: The Honorable Ray Gennawey, Mayor
City of Laguna Niguel
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
Kaily Yap, Finance Budget Analyst
Local Government Unit
California Department of Finance
Darryl Mar, Manager
Local Reimbursements Section
State Controller's Office
Everett Luc, Supervisor
Local Reimbursements Section
State Controller's Office

Attachment 1—
Summary of Program Costs
July 1, 2018, through June 30, 2024

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment[1]
July 1, 2018, through June 30, 2019			
Direct costs:			
Contract services:			
Training per peace officer employee and supervisor assigned to perform the reimbursable activities	$ 4,027	$ 3,219	$ (808)
Collection and reporting data on all stops	79,224	31,670	(47,554)
Total direct costs	83,251	34,889	(48,362)
Rounding error[2]	2	-	(2)
Total program costs	$ 83,253	34,889	$ (48,364)
Less amount paid by the State[3]		(83,253)	
Amount paid in excess of allowable costs claimed		$ (48,364)	
July 1, 2019, through June 30, 2020			
Direct costs:			
Contract services:			
Collection and reporting data on all stops	$ 86,352	$ 36,284	$ (50,068)
Total direct costs	86,352	36,284	(50,068)
Rounding error[2]	1	-	(1)
Total program costs	$ 86,353	36,284	$ (50,069)
Less amount paid by the State[3]		(86,353)	
Amount paid in excess of allowable costs claimed		$ (50,069)	
July 1, 2020, through June 30, 2021			
Direct costs:			
Contract services:			
Collection and reporting data on all stops	$ 117,423	$ 49,723	$ (67,700)
Total direct costs	117,423	49,723	(67,700)
Rounding error[2]	(1)	-	1
Total program costs	$ 117,422	49,723	$ (67,699)
Less amount paid by the State[3]		(117,422)	
Amount paid in excess of allowable costs claimed		$ (67,699)	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment[1]
July 1, 2021, through June 30, 2022			
Direct costs:			
Contract services:			
Collection and reporting data on all stops	$ 104,676	$ 44,356	$ (60,320)
Total program costs	$ 104,676	44,356	$ (60,320)
Less amount paid by the State[3]		(104,676)	
A Amount paid in excess of allowable costs claimed		$ (60,320)	
July 1, 2022, through June 30, 2023			
Direct costs:			
Contract services:			
Collection and reporting data on all stops	$ 70,191	$ 29,661	$ (40,530)
Total direct costs	70,191	29,661	(40,530)
Rounding error[2]	1	-	(1)
Total program costs	$ 70,192	29,661	$ (40,531)
Less amount paid by the State[3]		(70,192)	
Amount paid in excess of allowable costs claimed		$ (40,531)	
July 1, 2023, through June 30, 2024			
Direct costs:			
Contract services:			
Collection and reporting data on all stops	$ 68,480	$ 28,905	$ (39,575)
Total direct costs	68,480	28,905	(39,575)
Rounding error[2]	3	-	(3)
Total program costs	$ 68,483	28,905	$ (39,578)
Less amount paid by the State[3]		-	
Allowable costs claimed in excess of amount paid		$ 28,905	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment[1]
Summary: July 1, 2018, through June 30, 2024			
Direct costs:			
Contract services	$ 530,373	$ 223,818	$ (306,555)
Total direct costs	530,373	223,818	(306,555)
Rounding error[2]	6	-	(6)
Total program costs	$ 530,379	223,818	$ (306,561)
Less amount paid by the State[3]		(461,896)	
Amount paid in excess of allowable costs claimed		$ (238,078)	

[1] See the Review Results section.

[2] We identified claim rounding errors for fiscal year (FY) 2018-19, FY 2019-20, FY 2020-21, FY 2022-23, and FY 2023-24.

[3] Payment amount current as of April 15, 2025.

Attachment 2— Review Results July 1, 2018, through June 30, 2024

BACKGROUND—

Government Code (GC) section 12525.5, as added and amended by the Statutes of 2015, Chapter 466 and the Statutes of 2017, Chapter 328; and Title 11, California Code of Regulations, sections 999.224 through 999.229 established the state-mandated Racial and Identity Profiling Program.

The program requires a local law enforcement agency that employs peace officers—or that contracts for peace officers from another city or county for police protection services—to electronically report to the Attorney General, on an annual basis, data on all "stops" conducted within its jurisdiction. For purposes of the program, "peace officer" does not include probation officers and officers in custodial settings.

On May 22, 2020, the Commission on State Mandates (Commission) found that GC section 12525.5 constitutes a reimbursable state-mandated program, beginning November 7, 2017, for local law enforcement agencies.

The Commission determined that each claimant is allowed to claim and be reimbursed for the following activities identified in the parameters and guidelines (Section IV., "Reimbursable Activities"):

A. <u>One-Time Activities</u>

1. One-time training per peace officer employee and supervisor assigned to perform the reimbursable activities....
2. One-time installation and testing of software necessary to comply with the state-mandated requirements for the collection and reporting of data on all applicable stops.

B. <u>Ongoing Activities</u>

1. Identification of the peace officers required to report stops, and maintenance of a system to match individual officers to their Officer I.D. number. . . .
2. Collection and reporting data on all stops, as defined, conducted by that agency's peace officers for the preceding calendar year in accordance with sections 999.226(a) and 999.227 of the regulations. . . .
3. Electronic submission of data to DOJ and retention of stop data collected. . . .
4. Audits and validation of data collected. . .
5. For stop data collected, ensure that the name, address, social security number, or other unique personally identifiable information of the individual stopped, searched, or subjected to property seizure, and the badge number or other unique identifying information of the peace officer involved, is not transmitted to the Attorney General in an open text field. . . .

The parameters and guidelines describe the 16 types of stop data and all applicable data elements, data fields, and narrative explanation fields that peace officers must collect for every stop.

The following stops are not reportable:

- Interactions with passengers in a stopped vehicle who have not been observed or suspected of violating the law;
- Stops made during public safety mass evacuations;
- Stops made during active shooter incidents;
- Stops resulting from routine security screenings to enter a building or special event;
- Interactions during traffic control of vehicles in response to a traffic accident or emergency, crowd control requiring pedestrians to remain in a fixed location for public safety reasons, persons detained at residences so that officers can check for proof of age while investigating underage drinking, and checkpoints and roadblocks at which officers detain a person as the result of regulatory activity that is general and not based on individualized suspicion or personal characteristics;
- Interactions with a person who is subject to a warrant or search condition at his or her residence;
- Interactions with a person who is subject to home detention or house arrest;
- Stops in a custodial setting; and
- Stops that occur while an officer is off duty.

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. In compliance with GC section 17558, the SCO issues the *Mandated Cost Manual for Local Agencies* (*Mandated Cost Manual*) to assist local agencies in claiming mandated program reimbursable costs.

FINDING— Overstated Racial and Identity Profiling Program Costs

The City of Laguna Niguel (the city) claimed $530,379 in contract services costs for the Racial and Identity Profiling Program. We found that $223,818 is allowable and $306,561 is unallowable. The costs are unallowable because the city overstated its contract hourly rates, and the average time increment required for each stop.

We found that the city correctly classified claimed costs as contract services costs because it contracted with the Orange County Sheriff-Coroner's Department (OCSD) for its law enforcement services during the review period. The city also used the correct methodology to calculate its contract services costs: it multiplied the number of stops recorded by the time required to perform the reimbursable activities and then multiplied the total by the hourly rates obtained from the city's contracts with the county for law enforcement services. OCSD based the hourly rates in its contracts on incurred costs for salaries, benefits, and additional costs described as “Other Charges and Credits.”

The contract hourly rates were overstated because the city included a contract overhead amount in its hourly rate calculations based on unallowable indirect costs. The indirect costs are unallowable because they are based on salaries and wages costs that the city did not incur.

Additionally, the city claimed five minutes per stop for Activity B.2. (collection and reporting data on all stops). OCSD has agreed that the claim of five minutes for each stop was overstated and that 2.5 minutes per stop is correct.

The following table summarizes the claimed, allowable, and review adjustment amounts by fiscal year:

Fiscal Year	Amount Claimed	Amount Allowable	Review Adjustment
2018-19	$ 83,253	$ 34,889	$ (48,364)
2019-20	86,353	36,284	(50,069)
2020-21	117,422	49,723	(67,699)
2021-22	104,676	44,356	(60,320)
2022-23	70,192	29,661	(40,531)
2023-24	68,483	28,905	(39,578)
Totals	$ 530,379	$ 223,818	$ (306,561)

Contract Services Costs

The city contracted with the OCSD to perform its law enforcement services during the review period. The city’s website summarizes the city’s police services as follows:

> Police Services for the City of Laguna Niguel are provided by contract with the Orange County Sheriff's Department (OCSD). The Sheriff's Department is responsible for providing the protection of citizens, the enforcement of laws, and crime prevention. Law enforcement services include patrol, traffic enforcement, accident analysis and investigation, parking enforcement, general and special investigations, and the Community Support Unit. Police Services also provides a variety of Community Policing programs and public safety information.

The city’s website also states:

> Police Services are provided by contract with the [OCSD]. The Sheriff's Department protects the citizens, enforces the laws, and encourages crime prevention. Law enforcement services include patrol, traffic enforcement, accident analysis and investigation, parking enforcement, and general and special investigations. The Chief of Police Services is the Department Head and is responsible for the day-to-day operations in the City.

The OCSD provided law enforcement services that included the reimbursable activities claimed for the mandated program. The city contracted with the OCSD for various staff positions each fiscal year and paid the OCSD annual contract rates for each position. These positions included, but were not limited to, Lieutenants, Investigators, Sheriffs, and Sergeants. No city staff member performed any of the reimbursable activities under this program; therefore, the city did not incur salary and related indirect costs. Furthermore, the city's contract with Orange County (the county) states that the county's employees should not be considered "in any manner" to be city employees.

We recalculated allowable contract services costs for the review period based on the claimed number of stops reported, the revised time increments to conduct the reimbursable activity of collecting and reporting stop data, and the revised contract hourly rates.

Time Increments

The city computed its claimed costs based on OCSD officers conducting stops at an average of five minutes per stop. An OCSD representative explained that the five-minute average per stop was derived from a time study conducted by the OCSD in 2021. However, we noted that the OCSD, along with seven other law enforcement agencies in Southern California and the California Highway Patrol, participated in a 2019 California Department of Justice field test to assess the amount of officer time required to complete a stop data collection form. The field test is documented on pages 109 and 110 of the test claim for this mandated program (test claim number 18-TC-02, filed by the City of San Diego on June 14, 2019). The test claim included the field test results, documenting that officers spent an average of 2.5 minutes per stop. We asked the OCSD whether the average of 2.5 minutes is an accurate reflection of time spent by its officers to complete the reimbursable activity of collecting and reporting stop data. The OCSD agreed that the 2.5 minute-per-stop average from the field test is the correct average time to use for its officers collecting and reporting stop data.

An OCSD representative explained that there was no documentation supporting its 2021 time study. The representative also stated that the county conducted another time study in October 2024, which found that officers averaged three minutes per stop. That time study was supported by 36 stops, all of which were undated. In addition, the county had not prepared a time study plan, nor did it explain how the stops were selected or were representative of the entire population of stops. Regardless, time study results cannot be applied retroactively.

Therefore, we adjusted the city's claims to reflect an average time of 2.5 minutes for OCSD officers to conduct stops.

The following table shows the adjustments made to total hours spent on the reimbursable activity of collecting and reporting stop data during the review period:

Fiscal Year	Stops Claimed	Hours Claimed	Hours Allowable	Review Adjustment
2018-19	4,442	370.17	185.09	(185.08)
2019-20	4,894	407.83	203.93	(203.90)
2020-21	6,518	543.17	271.60	(271.57)
2021-22	5,580	465.00	232.50	(232.50)
2022-23	3,586	298.83	149.42	(149.41)
2023-24	3,572	297.67	148.84	(148.83)

Contract Hourly Rates

The city's claims included copies of the law enforcement contracts that it negotiated with Orange County for each year of the review period. Attachment C (Payment) of the contract lists the authorized OCSD staffing level for each year and the rates billed to the city for various OCSD staff members.

We used this information to determine the contract hourly billing rates for various employee classifications. We recalculated the contract hourly rates for the Lieutenant, Investigator, Deputy Sheriff, and Sergeant classifications using information from Attachment C. The city's contracts specify the cost of services provided by detailing the number of each employee classification provided and the cost of services for each classification. For example, the city's contract for fiscal year (FY) 2023-24 indicates that five Sergeants (Patrol), 25 employees in the Deputy Sheriff II (Patrol) classification, and five employees in the Deputy Sheriff II (Motorcycle) classification provided law enforcement services for the city during the year.

The following table shows the base contract hourly rate calculation for Deputy Sheriffs and Sergeants during FY 2023-24:

Employee Classification	Annual Cost [a]	Level of Service [b]	Cost per Employee [c] = [a]/[b]	Productive Hours [d]	Hourly Rate [e] = [c]/[d]
Deputy Sheriff II (Patrol)	$ 7,482,425	25	$ 299,297	1,800	$ 166.28
Deputy Sheriff II (Motorcycle)	1,520,795	5	304,159	1,800	168.98
Sergeant (Patrol)	1,798,165	5	359,633	1,800	199.80

We recalculated the contract hourly rates and determined that the city properly used 1,800 annual productive hours for all OCSD employees in its claims for all years of the review period, as specified in the SCO's *Mandated Cost Manual.*

The SCO's *Mandated Cost Manual* also states that the cost of contract services is allowable, and that costs for contract services can be claimed using an hourly billing rate. However, the SCO's *Mandated Cost Manual* does not provide specific guidance on how to calculate an hourly billing rate. Generally speaking, an hourly rate for a specific employee classification is determined by dividing the contract cost for an individual employee who performs reimbursable activities by 1,800 annual productive hours. However, this approach does not allow claimants to recover any additional contract costs, such as administrative costs, that could be reimbursable. We concluded that it was appropriate to allow the city to claim its other costs, classified in Attachment C as "Other Charges and Credits," as an addition to the contract hourly rate for employee classifications included in its contracts with the OCSD.

We calculated an administrative cost percentage for each fiscal year of the review period based on the city's contracts with the OCSD. To calculate the percentage, we divided the line-item amount titled "Other Charges and Credits" by the total contract cost.

The following table shows the allowable administrative cost percentage that we calculated for each fiscal year of the review period:

Fiscal Year	Allowable Administrative Cost Percentage
2018-19	13.45%
2019-20	14.79%
2020-21	14.08%
2021-22	11.78%
2022-23	14.43%
2023-24	15.06%

As noted, we divided the cost of the "Other Charges and Credits" by the total contract cost. The following table shows how we made this calculation for FY 2023-24:

Cost Category	Contract Amount
Other charges and credits [a]	$ 2,493,712
Total contract amount [b]	16,553,363
Administrative cost percentage [c] = [a] ÷ [b]	15.06%

Contract hourly rates for the Deputy positions and Sergeants are as follows for FY 2023-24:

Employee Classification	Contract Hourly Rate [a]	Administrative Percentage [b]	Revised Hourly Rate [c] = [a] × [1 + b]
Deputy Sheriff II (Patrol)	$ 166.28	15.06%	$ 191.32
Deputy Sheriff II (Motorcycle)	168.98	15.06%	194.43
Sergeant (Patrol)	199.80	15.06%	229.89

The following table summarizes the claimed hourly rates and allowable contract hourly rates for each of the employee classifications appearing in the city's claims (Deputy Sheriff II [Patrol], Deputy Sheriff II [Motorcycle], Sergeant [Patrol], Investigator, and Lieutenant) during the review period, and the difference between those rates:

Fiscal Year	Claimed Hourly Rate	Allowable Hourly Rate	Rate Difference	Fiscal Year	Claimed Hourly Rate	Allowable Hourly Rate	Rate Difference
Deputy Sheriff II (Patrol)				Deputy Sheriff II (Motorcycle)			
2018-19	$ 211.86	$ 169.38	$ (42.48)	2018-19	$ 216.14	$ 172.81	$ (43.33)
2019-20	208.42	175.15	(33.27)	2019-20	212.37	178.46	$ (33.91)
2020-21	212.75	180.18	(32.57)	2020-21	216.56	183.41	$ (33.15)
2021-22	221.67	187.86	` (33.81)	2021-22	225.45	191.05	$ (34.40)
2022-23	231.34	195.52	(35.82)	2022-23	235.11	198.70	$ (36.41)
2023-24	226.63	191.32	(35.31)	2023-24	230.32	194.43	$ (35.89)
Sergeant (Patrol)				Lieutenant			
2018-19	$ 257.45	$ 205.83	$ (51.62)	2018-19	$ 298.87	$ 238.95	$ (59.92)
2019-20	252.93	212.55	(40.38)	2019-20	not claimed	-	-
2020-21	258.14	218.62	(39.52)	2020-21	not claimed	-	-
2021-22	267.29	226.52	(40.77)	2021-22	not claimed	-	-
2022-23	278.63	235.47	(43.16)	2022-23	not claimed	-	-
2023-24	272.32	229.89	(42.43)	2023-24	not claimed	-	-
Investigator							
2018-19	$ 252.62	$ 201.98	$ (50.64)				
2019-20	not claimed	-	-				
2020-21	not claimed	-	-				
2021-22	not claimed	-	-				
2022-23	not claimed	-	-				
2023-24	not claimed	-	-				

The following table shows the calculation of the review adjustment for FY 2023-24:

Employee Classification	Claimed Hours [a]	Claimed Rate [b]	Claimed Costs c = [a] * [b]	Allowable Hours [d/2]	Allowable Rate [e]	Allowable Costs f = [d] * [e]	Review Adjustment g = [f] - [c]
Deputy Sheriff II (Patrol)	232.55	$ 226.63	$ 52,703	116.28	$ 191.32	$ 22,246	$ (30,457)
Deputy Sheriff II (Motorcycle)	46.51	230.32	10,712	23.26	194.43	4,521	(6,191)
Sergeant (Patrol)	18.6	272.32	5,065	9.30	229.89	2,138	(2,927)
Rounding adjustment	-		3	-		-	(3)
Totals	297.66		$ 68,483	148.83		$ 28,905	$ (39,578)

Rounding Errors

We also found minor rounding errors, totaling $6, in the city's claims when we recalculated claimed costs using the contract cost computation schedules provided. We recalculated claimed costs by multiplying the claimed employee billing rates by the claimed labor hours. We incorporated these adjustments into the allowable cost computations for each year of the review period.

The following table summarizes the claimed and recalculated claimed costs by activity by fiscal year.

Fiscal Year	Activity A.1 Claimed [a]	Activity A.1 Recalculated [b]	Difference [c] = [b] - [a]	Activity B.2 Claimed [d]	Activity B.2 Recalculated [e]	Difference [f] = [e] - [d]	Total Difference [g] = [c] + [f]
2018-19	$ 4,029	$ 4,027	$ (2)	$ 79,224	$ 79,224	$ -	$ (2)
2019-20	-	-	-	86,353	86,352	(1)	(1)
2020-21	-	-	-	117,422	117,423	1	1
2021-22	-	-	-	104,676	104,676	-	-
2022-23	-	-	-	70,192	70,191	(1)	(1)
2023-24	-	-	-	68,483	68,480	(3)	(3)
Totals	$ 4,029	$ 4,027	$ (2)	$ 526,350	$ 526,346	$ (4)	$ (6)

Contract Overhead Costs

When calculating its contract billing rates, the city included in its computations an additional amount for contract overhead. That amount was added to the contract hourly rate. The city based its contract overhead amount on an Indirect Cost Rate Proposal (ICRP) for each fiscal year prepared for the City of Laguna Niguel Sheriff, which does not exist as a person or as an entity. The city's claims included copies of its ICRPs for FY 2018-19 through FY 2023-24. The city calculated indirect cost rates of 41.9% for FY 2018-19, 36.6% for FY 2019-20, 34.7% for FY 2020-21, 31.9% for FY 2021-22, 35.4% for FY 2022-23, and 36.3% for FY 2023-24. In addition, the city based its indirect cost rates on salaries and wages—costs that it did not incur. Instead, the city incurred contract services costs for its law enforcement activities. Substituting contract services costs as salaries and wages costs is not consistent with generally accepted accounting principles, nor is it consistent with the guidance provided for indirect cost calculations listed in Section V.B. of the parameters and guidelines or federal cost principles contained in Title 2, Code of Federal Regulations, Part 225, Appendices A and B. Therefore, these rates are unallowable.

Criteria

Section I, "Status of County," of the city's contract for law enforcement services states, in part:

> COUNTY, its agents and employees, shall not be entitled to any rights or privileges of CITY employees and shall not be considered in any manner to be CITY employees.

Section IV, "Reimbursable Activities," of the parameters and guidelines states:

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

> near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheet, invoices, and receipts.

Section V.A3., "Contracted Services," of the parameters and guidelines states:

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

Section V.B. "Indirect Cost Rates," of the parameters and guidelines states, in part:

> Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assigned to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include both: (1) overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.
>
> Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in 2 Code of Federal Regulations (CFR) part 225 (Office of Management and Budget (OMB) Circular A-87). Claimants have the option of using 10% of direct labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate exceeds 10 percent.
>
> The distribution base may be: (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution.

<u>Recommendation</u>

We recommend that the city:

- Adhere to the Racial and Identity Profiling Program's parameters and guidelines and the SCO's *Mandated Cost Manual* when claiming reimbursement for mandated costs; and
- Ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

April 12, 2024

Trevor Agrelius, Finance Director
City of Laguna Niguel
30111 Crown Valley Parkway
Laguna Niguel, CA 92677

Dear Mr. Agrelius:

The State Controller's Office performed a review of costs claimed by the City of Laguna Niguel for the legislatively mandated Identity Theft Program for the period of July 1, 2005, through June 30, 2013. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to validating the indirect costs claimed.

The city claimed $237,580 for costs of the mandated program. Our review found that $149,540 is allowable and $88,040 is unallowable. The costs are unallowable because the city claimed unallowable indirect costs, as described in the attached Summary of Program Costs and the Review Results. The State made no payments to the city. The State will pay $149,540, contingent upon available appropriations.

This letter report contains an adjustment to costs claimed by the city. If you disagree with the review finding, you may file an Incorrect Reduction Claim with the Commission on State Mandates. Pursuant to Title 3, California Code of Regulations, section 1185(c), an Incorrect Reduction Claim challenging this adjustment must be filed with the Commission on State Mandates no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain Incorrect Reduction Claim information on the Commission on State Mandates' website at www.csm.ca.gov/forms/IRCForm.pdf.

If you have any questions regarding this correspondence, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/ac

Attachments:
Attachment 1—Summary of Program Costs
Attachment 2—Review Results

RE: S23-MCC-9012

Copy: The Honorable Kelly Jennings, Mayor
City of Laguna Niguel
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
Kaily Yap, Finance Budget Analyst
Local Government Unit
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Darryl Mar, Manager
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Attachment 1—
Summary of Program Costs
July 1, 2005, through June 30, 2013

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment[1]
July 1, 2005, through June 30, 2006			
Direct costs:			
Salaries:			
Taking a police report on a violation of Penal Code (PC) §530.5	$ 14,154	$ -	$ (14,154)
Beginning an investigation of facts	-	-	-
Total salaries	14,154	-	(14,154)
Contract services			
Taking a police report on a violation of PC §530.5	-	14,154	14,154
Beginning an investigation of facts	-		-
Total contract services	-	14,154	14,154
Total direct costs	14,154	14,154	-
Indirect costs	8,110	-	(8,110)
Total program costs	$ 22,265	14,154	$ (8,110)
Less amount paid by the State[2]		-	
Allowable costs claimed in excess of amount paid		$ 14,154	
July 1, 2006, through June 30, 2007			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	$ 22,186	$ -	$ (22,186)
Beginning an investigation of facts	-	-	-
Total salaries	22,186	-	(22,186)
Contract services			
Taking a police report on a violation of PC §530.5	-	22,186	22,186
Beginning an investigation of facts	-	-	-
Total contract services	-	22,186	22,186
Total direct costs	22,186	22,186	-
Indirect costs	12,712	-	(12,712)
Total program costs	$ 34,898	22,186	$ (12,712)
Less amount paid by the State[2]		-	
Allowable costs claimed in excess of amount paid		$ 22,186	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment[1]
July 1, 2007, through June 30, 2008			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	$ 20,358	$ -	$ (20,358)
Beginning an investigation of facts	-	-	-
Total salaries	20,358	-	(20,358)
Contract services			
Taking a police report on a violation of PC §530.5	-	20,358	20,358
Beginning an investigation of facts	-	-	-
Total contract services	-	20,358	20,358
Total direct costs	20,358	20,358	-
Indirect costs	11,665	-	(11,665)
Total program costs	$ 32,023	20,358	$ (11,665)
Less amount paid by the State[2]		-	
Allowable costs claimed in excess of amount paid		$ 20,358	
July 1, 2008, through June 30, 2009			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	$ 23,284	$ -	$ (23,284)
Beginning an investigation of facts	-	-	-
Total salaries	23,284	-	(23,284)
Contract services			
Taking a police report on a violation of PC §530.5	-	23,284	23,284
Beginning an investigation of facts	-	-	-
Total contract services	-	23,284	23,284
Total direct costs	23,284	23,284	-
Indirect costs	13,458	-	(13,458)
Total program costs	$ 36,742	23,284	$ (13,458)
Less amount paid by the State[2]		-	
Allowable costs claimed in excess of amount paid		$ 23,284	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment[1]
July 1, 2009, through June 30, 2010			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	$ 11,474	$ -	$ (11,474)
Beginning an investigation of facts	-	-	-
Total salaries	11,474	-	(11,474)
Contract services			
Taking a police report on a violation of PC §530.5	-	11,474	11,474
Beginning an investigation of facts	-	-	-
Total contract services	-	11,474	11,474
Total direct costs	11,474	11,474	-
Indirect costs	8,422	-	(8,422)
Total program costs	$ 19,897	11,474	$ (8,422)
Less amount paid by the State[2]		-	
Allowable costs claimed in excess of amount paid		$ 11,474	
July 1, 2010, through June 30, 2011			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	$ 10,963	-	$ (10,963)
Beginning an investigation of facts	-	-	-
Total salaries	10,963	-	(10,963)
Contract services			
Taking a police report on a violation of PC §530.5	-	10,963	10,963
Beginning an investigation of facts	-	-	-
Total contract services	-	10,963	10,963
Total direct costs	10,963	10,963	-
Indirect costs	6,128	-	(6,128)
Total program costs	$ 17,091	10,963	$ (6,128)
Less amount paid by the State[2]		-	
Allowable costs claimed in excess of amount paid		$ 10,963	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment[1]
July 1, 2011, through June 30, 2012			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	$ 22,703	-	$ (22,703)
Beginning an investigation of facts	-	-	-
Total salaries	22,703	-	(22,703)
Contract services			
Taking a police report on a violation of PC §530.5	-	22,703	22,703
Beginning an investigation of facts	-	-	-
Total contract services	-	22,703	22,703
Total direct costs	22,703	22,703	-
Indirect costs	13,236	-	(13,236)
Total program costs	$ 35,938	22,703	$ (13,236)
Less amount paid by the State[2]		-	
Allowable costs claimed in excess of amount paid		$ 22,703	
July 1, 2012, through June 30, 2013			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	$ 24,418	-	$ (24,418)
Beginning an investigation of facts	-	-	-
Total salaries	24,418	-	(24,418)
Contract services			
Taking a police report on a violation of PC §530.5	-	24,418	24,418
Beginning an investigation of facts	-	-	-
Total contract services	-	24,418	24,418
Total direct costs	24,418	24,418	-
Indirect costs	14,309	-	(14,309)
Total program costs	$ 38,727	24,418	$ (14,309)
Less amount paid by the State[2]		-	
Allowable costs claimed in excess of amount paid		$ 24,418	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment[1]
Summary: July 1, 2005, through June 30, 2013			
Direct costs:			
Salaries:			
Taking a police report on a violation of PC §530.5	$ 149,540	$ -	$ (149,540)
Beginning an investigation of facts	-	-	-
Total salaries	149,540	-	(149,540)
Contract services			
Taking a police report on a violation of PC §530.5	-	149,540	149,540
Beginning an investigation of facts	-	-	-
Total contract services	-	149,540	149,540
Total direct costs	149,540	149,540	-
Indirect costs	88,040	-	(88,040)
Total program costs	$ 237,580	149,540	$ (88,040)
Less amount paid by the State[2]		-	
Allowable costs claimed in excess of amount paid		$ 149,540	

[1] See the Review Results section.

[2] Payment amount current as of February 23, 2024.

Attachment 2— Review Results July 1, 2005, through June 30, 2013

BACKGROUND—

Penal Code section 530.6(a), as added by the Statutes of 2000, Chapter 956, requires a local law enforcement agency to take a police report and begin an investigation when a complainant residing within its jurisdiction reports suspected identity theft.

On March 27, 2009, the Commission on State Mandates (Commission) found that this legislation mandates a new program or higher level of service for local law enforcement agencies within the meaning of Article XIII B, section 6 of the California Constitution, and imposes costs mandated by the State pursuant to Government Code section 17514.

The Commission determined that each claimant is allowed to claim and be reimbursed for the following ongoing activities identified in parameters and guidelines (Section IV., "Reimbursable Activities"):

1. Either a) or b) below:
   a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or

   b) Reviewing the identity theft report completed on-line by the identity theft victim.
2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.

The Commission also determined that the reimbursable activities do not include providing a copy of the report to the complainant or referring the matter to the law enforcement agency in the jurisdiction where the suspected crime was committed.

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. In compliance with Government Code section 17558, the State Controller's Office issues the *Mandated Cost Manual for Local Agencies* to assist local agencies in claiming mandated program reimbursable costs.

FINDING— Overstated Identity Theft Program costs

The City of Laguna Niguel claimed $237,580 ($149,540 in salary costs and $88,040 in related indirect costs) for the Identity Theft Program during the review period. We found that $149,540 is allowable and $88,040 is unallowable. The costs are unallowable because the city claimed unallowable indirect costs.

The city used the correct methodology to calculate its salary costs. It multiplied the number of identity theft police reports by the time required to perform the reimbursable activities, then multiplied the product by the hourly rates obtained from the city's contracts with the Orange County Sheriff's Department (OCSD). The city contracted with OCSD to perform its law enforcement services during the review period. These services included the reimbursable activities claimed for the mandated program. The OCSD's contracts included costs for salaries and benefits.

However, the city should have classified its salary costs as contract services costs, as no city staff members performed the reimbursable activities. The city did not incur any salary costs—or indirect costs related to salary costs—but rather incurred contract services costs. We reallocated the costs to the appropriate cost category of Contract Services.

The following table summarizes the claimed, allowable, and review adjustment amounts by fiscal year:

	Salaries		(A)	(B)	(C)	(D)=(A)+(B)+(C)
Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment	Related Indirect Cost Adjustment	Contract Services Adjustment	Total Audit Adjustment
2005-06	$ 14,154	$ -	$ (14,154)	$ (8,110)	$ 14,154	$ (8,110)
2006-07	22,186	-	(22,186)	(12,712)	22,186	(12,712)
2007-08	20,358	-	(20,358)	(11,665)	20,358	(11,665)
2008-09	23,284	-	(23,284)	(13,458)	23,284	(13,458)
2009-10	11,474	-	(11,474)	(8,422)	11,474	(8,422)
2010-11	10,963	-	(10,963)	(6,128)	10,963	(6,128)
2011-12	22,703	-	(22,703)	(13,236)	22,703	(13,236)
2012-13	24,418	-	(24,418)	(14,309)	24,418	(14,309)
Total	$ 149,540	$ -	$ (149,540)	$ (88,040)	$ 149,540	$ (88,040)

For the review period, the city included a copy of its Indirect Cost Rate Proposals with its mandated cost claims. The Indirect Cost Rate Proposals were prepared for "the City of Laguna Niguel Sheriff," which does not exist as an entity or as a person.

Visitors to the city's website can find information about Laguna Niguel police services on two pages. The first page, linked in the "Services" menu (Home > Services > Police), summarizes the city's police services as follows:

> Police Services for the City of Laguna Niguel are provided by contract with the [OCSD]. The Sheriff's Department is responsible for providing the protection of citizens, the enforcement of laws, and crime prevention. Law enforcement services include patrol, traffic enforcement, accident analysis and investigation, parking enforcement, general and special investigations, and the Community Support Unit. Police Services also provides a variety of Community Policing programs and public safety information.

The second page is the "Police Services" homepage, which describes the city's police services as follows:

> Police Services are provided by contract with the [OCSD]. The Sheriff's Department protects the citizens, enforces the laws, and encourages crime prevention. Law enforcement services include patrol, traffic enforcement, accident analysis and investigation, parking enforcement, and general and special investigations. The Chief of Police Services is the Department Head and is responsible for the day-to-day operations in the City. . . .

The city claimed related indirect costs totaling $88,040 for the review period, based on $149,540 in claimed salaries. We found that the entire amount is unallowable because no city staff member performed any of the reimbursable activities under this program during the review period. Instead, the city contracted with the county to have the OCSD perform all of its law enforcement services during the review period. Therefore, the city did not incur any direct salary costs or related indirect costs. In addition, substituting contract services costs for salary costs is inconsistent with generally accepted accounting principles.

Furthermore, none of the costs that the city incurred for law enforcement services provided by the OCSD were indirect costs. The parameters and guidelines (Section V.B., "Indirect Cost Rates") provide that indirect costs are "incurred for a common or joint purpose, benefiting more than one program, and . . . not directly assignable to a particular department or program." In this instance, there is only one program (law enforcement services provided by a contractor), and there are no city departments.

The following table summarizes the claimed, allowable, and review adjustment amounts by fiscal year:

			(A)	(B)	(C)=(B)-(A)
	Claimed			Indirect	
Fiscal Year	Salaries Claimed	Indirect Cost Rate	Indirect Costs[1]	Costs Allowable	Audit Adjustment
2005-06	$ 14,154	57.30%	$ 8,110	$ -	$ (8,110)
2006-07	22,186	57.30%	12,712	-	(12,712)
2007-08	20,358	57.30%	11,665	-	(11,665)
2008-09	23,284	57.80%	13,458	-	(13,458)
2009-10	11,474	73.40%	8,422	-	(8,422)
2010-11	10,963	55.90%	6,128	-	(6,128)
2011-12	22,703	58.30%	13,236	-	(13,236)
2012-13	24,418	58.60%	14,309	-	(14,309)
Total	$ 149,540		$ 88,040	$ -	$ (88,040)

[1] Differences are due to rounding errors.

Criteria

Item 1 of Section III, "Period of Reimbursement," of the parameters and guidelines states, "Actual costs for one fiscal year shall be included in each claim."

Section IV, "Reimbursable Activities" of the parameters and guidelines begins:

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

Section IV continues:

> For each eligible claimant, the following ongoing activities are eligible for reimbursement:
>
> 1. Either a) or b) below:
>
>   a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or
>
>   b) Reviewing the identity theft report completed on-line by the identity theft victim.
>
> 2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.
>
> Providing a copy of the report to the complainant is not reimbursable under this program.
>
> Referring the matter to the law enforcement agency where the suspected crime was committed for further investigation of the facts is also not reimbursable under this program.

Section V.A.1, "Salaries and Benefits," of the parameters and guidelines states:

> Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours. Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

Section V.B, "Indirect Cost Rates," of the parameters and guidelines states, in part:

> Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.
>
> Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in 2 CFR Part 225 (Office of Management and Budget [OMB] Circular A-87). Claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal . . . if the indirect cost rate exceeds 10%. . . .

Sub-paragraph (3), "Contract Services," of the *Mandated Cost Manual for Local Agencies* issued by the State Controller's Office ("Filing a Claim," part 7) dated July 1, 2013, states:

> The cost of contract services is allowable if the local agency lacks the staff resources or necessary expertise, or it is economically feasible to hire a contractor to perform the mandated activity. The claimant must keep documentation on hand to support the name of the contractor, explain the reason for having to hire a contractor, describe the mandated activities performed, give the dates when the activities were performed, the number of hours spent performing the mandate, the hourly billing rate, and the total cost. The hourly billing rate must not exceed the rate specified in the P's & G's for the mandated program. The contractor's invoice or statement must include an itemized list of costs for activities performed. **A copy of the contract must be included with the submitted claim**.

Recommendation

The California State Legislature suspended the Identity Theft Program in the fiscal year 2013-14 through fiscal year 2023-24 Budget Acts. If the program becomes active again, we recommend that the city:

- Adhere to the program's parameters and guidelines and claiming instructions when claiming reimbursement for mandated costs; and
- Ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

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 16, 2026, I served the:

- **Current Mailing List dated July 2, 2026**
- **Claimant's Comments on the Draft Proposed Decision filed July 15, 2026**

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

By making it available on the Commission's website and providing notice of how to locate it to the email addresses provided on the attached mailing list.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on July 16, 2026 at Sacramento, California.

David Chavez
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814
(916) 323-3562

COMMISSION ON STATE MANDATES

Mailing List

Last Updated: 7/2/26

Claim Number: 25-0308-I-01

Matter: Identity Theft

Claimant: City of Rancho Cucamonga

TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

Each commission mailing list is continuously updated as requests are received to include or remove any party or person on the mailing list. A current mailing list is provided with commission correspondence, and a copy of the current mailing list is available upon request at any time. Except as provided otherwise by commission rule, when a party or interested party files any written material with the commission concerning a claim, it shall simultaneously serve a copy of the written material on the parties and interested parties to the claim identified on the mailing list provided by the commission. (Cal. Code Regs., tit. 2, § 1181.3.)

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