



**JOHN CHIANG**  
**California State Controller**

March 8, 2007

TO ALL CALIFORNIA LOCAL EDUCATION AGENCIES

Re: Mandated Cost Claim Overpayments

Dear Superintendent:

As a result of recent discussions with various school districts, it has become apparent that a misconception exists concerning the practices of my office with regard to recouping overpayments determined as a result of an audit on mandated cost programs. The purpose of this letter is to both clarify any existing ambiguities and provide reliable guidance on this critically important education funding issue.

As you know, the Legislature has directed my office to recoup the amounts of any unallowable mandated claim costs resulting from desk and/or field audits of such claims to the extent authorized by existing law. In that regard, Government Code section 17561, which states the reimbursement method applicable to mandated costs incurred by local agencies and school districts, provides in relevant part:

(d) . . . When disbursing reimbursement funds to local agencies or school districts, the Controller shall disburse them as follows:

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(2) In subsequent fiscal years each local agency or school district shall submit its claims as specified in Section 17560. The Controller shall pay these claims from funds appropriated therefore, provided that the Controller (A) may audit the records of any local agency or school district to verify the actual amount of the mandated costs, (B) may reduce any claim that the Controller determines is excessive or unreasonable, and (C) shall adjust the payment to correct for any underpayments or overpayments which occurred in previous fiscal years." (Emphasis added.)

Consequently, consistent with the language of Section 17561, the Controller's Office treats audit disallowances as overpayments and recovers, or offsets, those overpayments from mandated cost reimbursements to be made in subsequent years. As I have indicated to those school districts that have raised this question, the Controller's Office does not recover any overpayment of mandated cost claims by offsetting funds appropriated by the Legislature for purposes unrelated to mandated cost reimbursements, such as ADA apportionments.

During my brief tenure as the State Controller, it has become clear to me that there are many challenges facing those responsible for navigating the arcane and complex statutes and policies associated with state mandated programs. It also is clear to me that I have the unique opportunity to assist and partner with local educational leaders in overcoming these challenges and optimizing the amount of education dollars that are rightfully due them.

Therefore, in the months to come, I will be implementing various programs to strengthen my office's working relationship with county offices of education and school districts throughout this state. For example, it is my intent to provide pertinent and useful information directly to the various offices and districts through a list server. The information will include, but not be limited to, information on payments made by mandated cost program, types of audit disallowances by program, record keeping, and information on developing time studies for use in mandates where appropriate. My office will also sponsor and participate in various conferences and training sessions. By taking these and other proactive measures, it is my intention to bridge any communication divides, and to demystify the role of this office.

If you have any questions concerning this matter, please do not hesitate to contact my Chief of Staff, Collin Wong-Martinusen at (916) 327-1361, or my General Counsel, Richard J. Chivaro at (916) 445-6854.

Very truly yours,

*Original Signed by:*

JOHN CHIANG  
California State Controller