SAN BERNARDINO COUNTY

Revised Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

Chapter 1747, Statutes of 1984;
and Chapter 1274, Statutes of 1985

July 1, 2003, through June 30, 2006

JOHN CHIANG
California State Controller

August 2011

JOHN CHIANG
California State Controller

August 26, 2011

The Honorable Josie Gonzalez, Chair
San Bernardino County Board of Supervisors
385 N. Arrowhead Avenue, 5th Floor
San Bernardino, CA 95415-0110

Dear Mrs. Gonzalez:

The State Controller's Office audited the costs claimed by San Bernardino County for the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984; and Chapter 1274, Statutes of 1985) for the period of July 1, 2003, through June 30, 2006. This revised final report supersedes the original final report, issued September 8, 2010.

The county claimed $4,227,909 ($4,228,909 less a $1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that $2,188,639 is allowable, and $2,039,270 is unallowable because the county claimed ineligible and unsupported costs, overstated administrative costs by applying incorrect rates, and understated offsetting revenues by omitting relevant sources. The State paid the county $257,549. Allowable costs claimed exceed the amount paid by $1,931,090.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: The Honorable Larry Walker
Auditor-Controller/Treasurer/Tax Collector
San Bernardino County
Jai Prasad, Accountant III
Auditor-Controller's Office
San Bernardino County
Jeff Carosone, Principal Program Budget Analyst
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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Bernardino County for the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984; and Chapter 1274, Statutes of 1985) for the period of July 1, 2003, through June 30, 2006.

The county claimed $4,227,909 ($4,228,909 less a $1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that $2,188,639 is allowable, and $2,039,270 is unallowable because the county claimed ineligible and unsupported costs, overstated administrative costs by applying incorrect rates, and understated offsetting revenues by omitting relevant sources. The State paid the county $257,549. Allowable costs claimed exceed the amount paid by $1,931,090.

Background

Chapter 26 of the Government Code, commencing with section 7570, and Welfare and Institutions Code section 5651 (added and amended by Chapter 1747, Statutes of 1984; and Chapter 1274, Statutes of 1985) require counties to participate in the mental health assessment for "individuals with exceptional needs," participate in the expanded "Individualized Education Program" (IEP) team, and provide case management services for "individuals with exceptional needs" who are designated as "seriously emotionally disturbed." These requirements impose a new program or higher level of service on counties.

On April 26, 1990, the Commission on State Mandates (CSM) determined that this legislation imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines for the Handicapped and Disabled Students Program on August 22, 1991, and last amended it on August 29, 1996. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

The parameters and guidelines for the Handicapped and Disabled Students Program state that only 10% of mental health treatment costs are reimbursable. However, on September 30, 2002, Assembly Bill 2781 (Chapter 1167, Statutes of 2002) changed the regulatory criteria by stating that the percentage of treatment costs claimed by counties for fiscal year (FY) 2000-01 and prior fiscal years is not subject to dispute by the SCO. Furthermore, this legislation states that, for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of these costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by Welfare and Institutions Code section 17600 et seq. (realignment funds).

Furthermore, Senate Bill 1895 (Chapter 493, Statutes of 2004) states that realignment funds used by counties for the Handicapped and Disabled Students Program "are eligible for reimbursement from the state *for all allowable costs* [emphasis added] to fund assessments, psychotherapy, and other mental health services . . ." and that the finding by the Legislature is "declaratory of existing law."

On May 26, 2005, the CSM adopted a Statement of Decision for the Handicapped and Disabled Students II Program that incorporates the above legislation and further identified medication support as a reimbursable cost effective July 1, 2001. The CSM adopted the parameters and guidelines for this new program on December 9, 2005, and made technical corrections to it on July 21, 2006.

The parameters and guidelines for the Handicapped and Disabled Students II Program state that "Some costs disallowed by the State Controller's Office in prior years are now reimbursable beginning July 1, 2001 (e.g., medication monitoring). Rather than claimants re-filing claims for those costs incurred beginning July 1, 2001, the State Controller's Office will reissue the audit reports." Consequently, we are allowing medication support costs commencing on July 1, 2001.

On January 26, 2006, CSM amended the parameters and guidelines for the Handicapped and Disabled Students Program and corrected them on July 21, 2006, allowing reimbursement for out-of-home residential placements beginning July 1, 2004.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Handicapped and Disabled Students Program for the period of July 1, 2003, through June 30, 2006.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Revised Summary of Program Costs (Schedule 1) and in the Revised Findings and Recommendations section of this report.

For the audit period, San Bernardino County claimed $4,227,909 ($4,228,909 less a $1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that $2,188,639 is allowable and $2,039,270 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our audit disclosed that $153,725 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling $153,725, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county $188,025. Our audit disclosed that $1,498,018 is allowable. The state will pay allowable costs claimed that exceed the amount paid, totaling $1,309,993, contingent upon available appropriations.

For the FY 2005-06 claim, the State paid the county $69,524. Our audit disclosed that $536,896 is allowable. The state will pay allowable costs claimed that exceed the amount paid, totaling $467,372, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on August 11, 2010. Allan Rawland, Director, Department of Behavioral Health, San Bernardino County and Larry Walker, Auditor-Controller/Recorder and Treasurer/Tax Collector, San Bernardino County responded by letter dated August 19, 2010 (Attachment), agreeing with the audit results. However, the county believed that potentially allowable expenditures were inadvertently excluded from its claims. We issued the final report on September 8, 2010.

On November 30, 2010, the county provided documentation in an auditable format related to costs and associated revenues that it omitted from FY 2004-05 and FY 2005-06 filed claims. Based on our review of the supporting documentation, we revised Finding 1 to include additional allowable residential placement costs. As a result, we increased allowable program costs by $1,777,365, from $411,274 to $2,188,639.

We discussed the revisions with Jai Prasad, Accountant, Auditor-Controller's Office; Tanya Bratton, Deputy Director, Behavioral Health; and other county representatives on July 18, 2011. The county representatives agreed with the revised audit results.

Restricted Use

This report is solely for the information and use of San Bernardino County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

August 26, 2011

Revised Schedule 1—
Summary of Program Costs
July 1, 2003, through June 30, 2006

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 2003, through June 30, 2004				
Assessment/case management costs	$ 809,384	$ 729,782	$ (79,602)	Finding 1
Administrative costs	113,452	74,827	(38,625)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(432,914)	(213,931)	218,983	Finding 3
State categorical funds (EPSDT)	—	(130,406)	(130,406)	Finding 3
State categorical funds (IDEA) [2]	(257,198)	(257,198)	—	Finding 3
Other (SAMHSA)	(24,599)	—	24,599	Finding 3
Net assessment/case management costs	208,125	203,074	(5,051)	
Treatment costs	2,002,265	1,273,588	(728,677)	Finding 1
Administrative costs	1,368,288	121,166	(1,247,122)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(1,072,968)	(312,607)	760,361	Finding 3
State categorical funds (EPSDT)	—	(190,555)	(190,555)	Finding 3
State categorical funds (IDEA) [2]	(940,941)	(940,941)	—	Finding 3
Other (SAMHSA)	(60,968)	—	60,968	Finding 3
Net treatment costs	1,295,676	(49,349)	(1,345,025)	
Total program costs	$ 1,503,801	153,725	$ (1,350,076)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 153,725		
July 1, 2004, through June 30, 2005				
Assessment/case management costs	$ 915,434	$ 2,147,272	$ 1,231,838	Finding 1
Administrative costs	546,299	104,609	(441,690)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(464,100)	(238,566)	225,534	Finding 3
State categorical funds (EPSDT)	—	(166,567)	(166,567)	Finding 3
State categorical funds (IDEA) [2]	(381,584)	(381,584)	—	Finding 3
Net assessment/case management costs	616,049	1,465,164	849,115	

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 2004, through June 30, 2005 (continued)				
Treatment costs	1,353,099	1,408,450	55,351	Finding 1
Administrative costs	824,854	151,246	(673,608)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(429,609)	(387,450)	42,159	Finding 3
State categorical funds (EPSDT)	—	(270,518)	(270,518)	Finding 3
State categorical funds (IDEA) [2]	(798,902)	(867,874)	(68,972)	Finding 3
Net treatment costs	949,442	33,854	(915,588)	
Subtotal	1,565,491	1,499,018	(66,473)	
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	$ 1,564,491	1,498,018	$ (66,473)	
Less amount paid by the State		(188,025)		
Allowable costs claimed in excess of (less than) amount paid		$ 1,309,993		
July 1, 2005, through June 30, 2006				
Assessment/case management costs	$ 1,087,919	$ 1,285,618	$ 197,699	Finding 1
Administrative costs	531,491	84,788	(446,703)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(438,896)	(241,188)	197,708	Finding 3
State categorical funds (EPSDT)	—	(171,086)	(171,086)	Finding 3
State categorical funds (IDEA) [2]	(595,322)	(595,322)	—	Finding 3
Net assessment/case management costs	585,192	362,810	(222,382)	
Treatment costs	1,066,935	1,424,809	357,874	Finding 1
Administrative costs	524,061	111,138	(412,923)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(431,407)	(406,314)	25,093	Finding 3
State categorical funds (EPSDT)	—	(288,234)	(288,234)	Finding 3
State categorical funds (IDEA) [2]	(585,164)	(667,313)	(82,149)	Finding 3
Net treatment costs	574,425	174,086	(400,339)	
Total program costs	$ 1,159,617	536,896	$ (622,721)	
Less amount paid by the State		(69,524)		
Allowable costs claimed in excess of (less than) amount paid		$ 467,372		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
Summary: July 1, 2003, through June 30, 2006				
Assessment/case management costs	$ 2,812,737	$ 4,162,672	$ 1,349,935	
Administrative costs	1,191,242	264,224	(927,018)	
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(1,335,910)	(693,685)	642,225	
State categorical funds (EPSDT)	—	(468,059)	(468,059)	
State categorical funds (IDEA) [2]	(1,234,104)	(1,234,104)	—	
Other (SAMHSA)	(24,599)	—	24,599	
Net assessment/case management costs	1,409,366	2,031,048	621,682	
Treatment costs	4,422,299	4,106,847	(315,452)	
Administrative costs	2,717,203	383,550	(2,333,653)	
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(1,933,984)	(1,106,371)	827,613	
State categorical funds (EPSDT)	—	(749,307)	(749,307)	
State categorical funds (IDEA) [2]	(2,325,007)	(2,476,128)	(151,121)	
Other (SAMHSA)	(60,968)	—	60,968	
Net treatment costs	2,819,543	158,591	(2,660,952)	
Subtotal	4,228,909	2,189,639	(2,039,270)	
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	$ 4,227,909	2,188,639	$ (2,039,270)	
Less amount paid by the State		(257,549)		
Allowable costs claimed in excess of (less than) amount paid		$ 1,931,090		

[1] See the Findings and Recommendations section.

[2] The county received $1,198,139, $1,249,458, and $1,262,635 in Individuals with Disabilities Education Act (IDEA) funds for FY 2003-04, FY 2004-05, and FY 2005-06, respectively. The original and reallocated IDEA amounts are included in the "Allowable per Audit" column.

Revised Findings and Recommendations

FINDING 1—Understated assessment and overstated treatment costs

The county understated assessment costs by $1,349,935 and overstated treatment costs by $315,452, totaling an understatement of $1,034,483 for the audit period. We revised the finding to incorporate previously unclaimed, allowable, residential placement costs.

The county claimed mental health service costs to implement the mandated program that are not fully based on actual costs. The county ran unit-of-service reports to support its claims. These reports did not fully support the units of service claimed and contained ineligible services of rehabilitation and crisis intervention. For fiscal year (FY) 2004-05, the county did not provide any support for claimed due process costs. Also, the county did not provide evidence as to whether or not due process costs are included in the cost reports submitted to the Department of Mental Health. If the costs are included in the unit rates, allowing the costs claimed would result in duplicate reimbursement. The county did not include residential placement costs in its original claim. After issuance of the final report on September 8, 2010 the county representatives contacted the SCO regarding additional assessment costs related to residential placement for FY 2004-05 and FY 2005-06.

We recalculated costs based on actual, supportable units of service provided to eligible clients using the appropriate unit cost that represented actual cost to the county. We excluded ineligible rehabilitation and crisis intervention services. We also excluded unsupported and potentially duplicated due process costs. Concerning due process costs, we did not consider the unsupported costs and the portion related to potential duplication with the cost report. In regards to residential placement costs, we calculated eligible costs net of revenues after adjusting for unallowable payments.

The following table summarizes the overstated costs claimed:

	Fiscal Year			
	2003-04	2004-05	2005-06	Total
Assessment:				
Units of service	$ 22,092	$ (8,530)	$ (35,764)	$ (22,202)
Ineligible services	(95,866)	(50,347)	(228,051)	(374,264)
Due process	(5,828)	(19,278)	(5,858)	(30,964)
Residential placement	—	1,309,993	197,699	1,777,365
Total assessment	(79,602)	1,231,838	197,699	1,349,935
Treatment:				
Units of service	(728,677)	76,553	375,148	(276,976)
Ineligible services	—	(21,202)	(17,274)	(38,476)
Total treatment	(728,677)	55,351	357,874	(315,452)
Total adjustments	$ (808,279)	$1,287,189	$ 555,573	$1,034,483

The program's parameters and guidelines specify that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable. Further, the parameters and guidelines do not identify rehabilitation and crisis intervention as eligible services.

The parameters and guidelines also provide that costs must be traceable to source documentation to show evidence of the validity of such costs.

Title 2, *California Code of Regulations* (CCR), section 60020, subdivision (i), which forms the basis for the services in the State-mandated cost program, does not include rehabilitation services. As such, these costs are not included in the program's parameters and guidelines.

Recommendation

We recommend that the county implement policies and procedures to ensure that only actual and supported costs for program eligible clients are claimed in accordance with the mandated program.

County's Response

> We concur with the finding and believe we are not accurately tracking allowable expenditures in order to support claimed costs. We do believe we omitted possible allowable expenditures and we are working on identifying and presenting those expenditures we believe are allowable to the state for their review. We expect to have documents ready for review by November 2010.

SCO's Comment

On November 30, 2010, the county provided documentation in an auditable format related to costs and associated revenues that it omitted from FY 2004-05 and FY 2005-06 filed claims. Based on our review of the supporting documentation, we revised the finding to include additional allowable residential placement costs totaling $1,777,365—$1,309,993 for FY 2004-05, and $467,372 for FY 2005-06.

FINDING 2—Overstated administrative costs

The county overstated administrative costs by $3,260,671 for the audit period.

The county miscalculated its administrative rates and applied the rates to ineligible costs. In all three fiscal years, the county incorrectly computed its rate by allocating a portion of administrative costs to the total administrative costs. Further, the county applied the rate to ineligible services and facilities that are not under the oversight of the county. Also, the county did not reduce administrative costs by any relevant revenues.

We recalculated administrative cost rates using a method that is consistent with the cost reports submitted to the California Department of Mental Health. We applied the rates to eligible direct costs. Lastly, we applied relevant administrative revenues including Short Doyle/Medi-Cal (SD/MC) administration funds.

The following table summarizes the overstated administrative costs claimed:

	Fiscal Year			
	2003-04	2004-05	2005-06	Total
Assessment	$ (38,625)	$ (441,690)	$ (446,703)	$ (927,018)
Treatment	(1,247,122)	(673,608)	(412,923)	(2,333,653)
Total adjustments	$(1,285,747)	$(1,115,298)	$ (859,626)	$(3,260,671)

The program's parameters and guidelines specify that administrative costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

The parameters and guidelines further specify that to the extent the California Department of Mental Health has not already compensated reimbursable administrative costs from categorical funding sources, the costs may be claimed.

Recommendation

We recommend that the county compute administrative cost rates using a method that is consistent with the cost allocations in the cost report submitted to the California Department of Mental Health, and apply administrative cost rates to eligible and supported direct costs. Further, we recommend that the county implement policies and procedures to ensure that all relevant administrative revenues are applied to valid administrative costs.

County's Response

> We concur with the finding and realize the administrative cost calculation was incorrect. As of FY 06/07, we are no longer using this formula and we believe our current method is both reasonable and allowable. Our current calculation differs than that used by SCO auditors for purposes of this audit and as such, we intend to submit revised calculations for the audit period with our current calculation methods that we believe more accurately represent our administrative cost. We expect to have documents ready for review by November 2010.

SCO's Comment

The finding and recommendation remain unchanged. At the exit conference, the county proposed an alternative method by which to compute administrative costs. The method allocates administrative costs based on units of service. We responded that the method proposed would result in an inaccurate allocation because the units of service for various mental health services provided are not homogeneous. That is, the units of different services do not relate to the same time increment. For example, units for day services relate to portions of days (half day or full day), while the unit increment for other less intensive services correspond to minutes. Further, allocating administrative revenues based on units would also result in an inaccurate allocation because such revenues are computed based on direct service costs, not units. As of the reissuance of this report, the county has not provided any additional information regarding this finding.

FINDING 3—Overstated offsetting revenues

The county overstated offsetting revenues by $186,918 for the audit period.

The county was unable to provide support for all of the revenues applied and the basis for the application. As such, it was not clear if all relevant revenue sources were applied, including Early and Periodic, Screening, Diagnosis and Treatment (EPSDT) revenues. The county also applied Substance Abuse Mental Health Service Administrative (SAMHSA) funds; however, no support that these funds should be applied. The county applied Individuals with Disabilities Education Act (IDEA) funds but did not consider the additional funds received for FY 2004-05 and FY 2005-06.

We recalculated revenues related to eligible assessment and treatment costs by applying the appropriate cost per unit to actual, supported Medi-Cal units, using the correct funding percentages for SD/MC and EPSDT, and excluding unsupported revenues. Further, we applied IDEA funds to the full extent of the grant.

The following table summarizes the overstated offsetting revenues claimed:

	Fiscal Year			
	2003-04	2004-05	2005-06	Total
Assessment offsetting revenues:				
Short-Doyle/Medi-Cal funds	$ 218,983	$ 225,534	$ 197,708	$ 642,225
State categorical funds (EPSDT)	(130,406)	(166,567)	(171,086)	(468,059)
Other (SAMHSA)	24,599	—	—	24,599
Total assessment	113,176	58,967	26,622	198,765
Treatment offsetting revenues:				
Short-Doyle/Medi-Cal funds	760,361	42,159	25,093	827,613
State categorical funds (EPSDT)	(190,555)	(270,518)	(288,234)	(749,307)
State categorical funds (IDEA)	—	(68,972)	(82,149)	(151,121)
Other (SAMHSA)	60,968	—	—	60,968
Total treatment	630,774	(297,331)	(345,290)	(11,847)
Total offsetting revenues	$ 743,950	$ (238,364)	$ (318,668)	$ 186,918

The program's parameters and guidelines specify that any direct payments (categorical funds, Short Doyle/Medi-Cal FFP, and other offsets such as private insurance) received from the State that are specifically allocated to the program, and/or any other reimbursement received as a result of the mandate, must be deducted from the claim.

Recommendation

We recommend that the county implement policies and procedures to ensure that appropriate revenues are identified and applied to valid costs.

County's Response

> We concur with the finding and realize offsetting revenue was incorrect. As of FY 06/07, we are no longer using that tracking method and we believe our current method is both reasonable and accurate.

SCO's Comment

The finding and recommendation remain unchanged. The additional costs allowed in Finding 1 as a result of the reissued report were computed net of offsetting revenues. As noted in Finding 2, the county has not provided any additional information related to administrative costs; therefore, there are no related adjustments to offsetting revenues.

Attachment—
County's Response to
August 11, 2010 Draft Audit Report

County of San Bernardino

Administration
268 W Hospitality Lane Suite 400 • San Bernardino, CA 92415 • (909) 382-3133 • Fax (909) 382-3105

BEHAVIORAL HEALTH

ALLAN RAWLAND, MSW, ACSW
Director

CaSONYA THOMAS, MPA, CHC
Assistant Director

August 19, 2010

Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Mr. Spano:

We have reviewed the draft report prepared by the State Controller's Office for the costs claimed by the County for the Handicapped and Disabled Students (HDS) Program for the period July 1, 2003 through June 30, 2006. The County has reviewed the draft, attached are our responses.

If you have any questions about this response, please contact Jai Prasad- Accountant III, Reimbursable Projects Section at 909-386-8854

Sincerely,

Allan Rawland, Director
Department of Behavioral Health
County of San Bernardino

for Larry Walker, Auditor - Controller / Recorder
Treasurer / Tax Collector
County of San Bernardino

AR:LW:jjh:ep

GREGORY C. DEVEREAUX
County Administrative Officer

Board of Supervisors
BRAD MITZELFELT ... First District
PAUL BIANE ... Second District
NEIL DERRY ... Third District
GARY C. OVITT, CHAIR ... Fourth District
JOSIE GONZALES VICE CHAIR ... Fifth District

FINDING 1—
Overstated assessment and treatment costs

Recommendation: We recommend that the county implement policies and procedures to ensure that only actual and supported costs for program eligible clients are claimed in accordance with the mandated program:

Response: We concur with the finding and believe we are now accurately tracking allowable expenditures in order to support claimed costs. We do believe we omitted possible allowable expenditures and we are working on identifying and presenting those expenditures we believe are allowable to the state for their review. We expect to have documents ready for review by November 2010.

FINDING 2—
Overstated administrative costs

Recommendation: We recommend that the county compute administrative cost rates using a method that is consistent with the cost allocations in the cost report submitted to the California Department of Mental Health, and apply administrative cost rates to eligible and supported direct costs. Further, we recommend that the county implement policies and procedures to ensure that all relevant administrative revenues are applied to valid administrative costs

Response: We concur with the finding and realize the administrative cost calculation was incorrect. As of FY 06/07, we are no longer using this formula and we believe our current method is both reasonable and allowable. Our current calculation differs than that used by SCO auditors for purposes of this audit and as such, we intend to submit revised calculations for the audit period with our current calculation methods that we believe more accurately represent our administrative cost. We expect to have documents ready for review by November 2010.

FINDING 3—
Overstated offsetting revenues

Recommendation: We recommend that the county implement policies and procedures to ensure that appropriate revenues are identified and applied to valid costs.

Response: We concur with the finding and realize offsetting revenue was incorrect. As of FY 06/07, we are no longer using that tracking method and we believe our current method is both reasonable and accurate.

State Controller's Office
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http://www.sco.ca.gov

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