

SAN MATEO COUNTY

Audit Report

CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS), HDS II, AND SERIOUSLY EMOTIONALLY DISTURBED PUPILS (SEDP) PROGRAM

Chapter 1747, Statutes of 1984; Chapter 1274,
Statutes of 1985; Chapter 1128, Statutes of 1994;
and Chapter 654, Statutes of 1996

July 1, 2006, through June 30, 2010



JOHN CHIANG
California State Controller

October 2014



JOHN CHIANG
California State Controller

October 20, 2014

The Honorable David Pine, President
San Mateo County Board of Supervisors
Hall of Justice
400 County Center
Redwood City, CA 94063

Dear Mr. Pine:

The State Controller's Office audited the costs claimed by San Mateo County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Program (Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996) for the period of July 1, 2006, through June 30, 2010.

The county claimed \$12,517,348 for the mandated program. Our audit found that \$6,846,047 is allowable and \$5,671,301 is unallowable. The costs are unallowable primarily because the county used preliminary unit rates, claimed ineligible and duplicative treatment services, miscalculated its indirect cost rates, and understated offsetting reimbursements. The State paid the county \$2,038,513. Allowable costs claimed exceed the amount paid by \$4,807,534.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the Commission's website at www.csm.ca.gov/docs/IRCForm.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Bob Adler, CPA, Auditor-Controller
San Mateo County
John Klyver, Fiscal Officer
Behavioral Health and Recovery Services
San Mateo County
Michael Byrne, Principal Program Budget Analyst
Mandates Unit, Department of Finance
Carol Bingham, Senior Fiscal Policy Advisor
Government Affairs Division
California Department of Education
Erika Cristo
Special Education Program
California Department of Mental Health
Chris Essman, Manager
Special Education Division
California Department of Education
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Mateo County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Program (Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996) for the period of July 1, 2006, through June 30, 2010.

The county claimed \$12,517,348 for the mandated program. Our audit found that \$6,846,047 is allowable and \$5,671,301 is unallowable. The costs are unallowable primarily because the county used preliminary unit rates, claimed ineligible and duplicative treatment services, miscalculated its indirect cost rates, and understated offsetting reimbursements. The State paid the county \$2,038,513. Allowable costs claimed exceed the amount paid by \$4,807,534.

Background

Handicapped and Disabled Students (HDS) Program

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 (Commission) adopted the statement of decision for the HDS Program and determined that this legislation imposed a state mandate reimbursable under Government Code section 17561. The Commission adopted the parameters and guidelines for the HDS Program on August 22, 1991, and last amended them on January 25, 2007.

The parameters and guidelines for the HDS 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 HDS Program “are eligible for reimbursement from the state *for all allowable costs* to fund assessments, psychotherapy, and other mental health services . . .” and that the finding by the Legislature is “declaratory of existing law” (emphasis added).

The Commission amended the parameters and guidelines for the HDS Program on January 26, 2006, and corrected them on July 21, 2006, allowing reimbursement for out-of-home residential placements beginning July 1, 2004.

Handicapped and Disabled Students (HDS II) Program

On May 26, 2005, the Commission adopted a statement of decision for the HDS II Program that incorporates the above legislation and further identified medication support as a reimbursable cost effective July 1, 2001. The Commission adopted the parameters and guidelines for this new program on December 9, 2005, and last amended them on October 26, 2006.

The parameters and guidelines for the HDS 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.

Seriously Emotionally Disturbed Pupils (SEDP) Program

Government Code section 7576 (added and amended by Chapter 654, Statutes of 1996) allows new fiscal and programmatic responsibilities for counties to provide mental health services to seriously emotionally disturbed pupils placed in out-of-state residential programs. Counties’ fiscal and programmatic responsibilities include those set forth in Title 2, California Code of Regulations, section 60100, which provide that residential placements may be made out-of-state only when no in-state facility can meet the pupil’s needs.

On May 25, 2000, the Commission adopted the statement of decision for the Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services (SEDP) Program and determined that Chapter 654, Statutes of 1996, imposed a state mandate reimbursable under Government Code section 17561. The Commission adopted the parameters and guidelines for the SEDP Program on October 26, 2000. The Commission determined that the following activities are reimbursable:

- Payment for out-of-state residential placements;
- Case management of out-of-state residential placements. Case management includes supervision of mental health treatment and monitoring of psychotropic medications;

- Travel to conduct quarterly face-to-face contacts at the residential facility to monitor level of care, supervision, and the provision of mental health services as required in the pupil's IEP; and
- Program management, which includes parent notifications as required; payment facilitation; and all other activities necessary to ensure that a county's out-of-state residential placement program meets the requirements of Government Code section 7576.

The Commission consolidated the parameters and guidelines for the HDS, HDS II, and SEDP Programs for costs incurred commencing with FY 2006-07 on October 26, 2006, and last amended them on September 28, 2012. On September 28, 2012, the Commission stated that Chapter 43, Statutes of 2011 "eliminated the mandated programs for counties and transferred responsibility to school districts, effective July 1, 2011. Thus, beginning July 1, 2011, these programs no longer constitute reimbursable state-mandated programs for counties." The consolidated program replaced the prior HDS, HDS II, and SEDP mandated programs. The parameters and guidelines establish the state mandate and define reimbursable criteria. 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.

Objectives, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Consolidated HDS, HDS II, and SEDP Program for the period of July 1, 2006, through June 30, 2010.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We conducted this performance 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. Our audit scope did not assess the efficiency or effectiveness of program operations.

To achieve our audit objectives, we performed the following audit procedures:

- Interviewed employees, completed the internal control questionnaire, and performed a walk-through of the cost components of each claim.

- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities.

Conclusion

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

For the audit period, San Mateo County claimed \$12,517,348 for costs of the Consolidated HDS, HDS II, and SEDP Program. Our audit found that \$6,846,047 is allowable and \$5,671,301 is unallowable.

For the fiscal year (FY) 2006-07 claim, the State paid the county \$2,038,513. Our audit found that \$1,060,994 is allowable. The State will offset \$977,519 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2007-08 claim, the State made no payment to the county. Our audit found that \$1,525,626 is allowable. The State will pay allowable costs claimed totaling \$1,525,626, contingent upon available appropriations.

For the FY 2008-09 claim, the State made no payment to the county. Our audit found that no costs are allowable.

For the FY 2009-10 claim, the State made no payment to the county. Our audit found that \$4,259,427 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,259,427, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on September 10, 2014. Juan Raigoza, Assistant Controller, responded by letter dated September 19, 2014 (Attachment), disagreeing with the audit results. The final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of the San Mateo 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, CPA
Chief, Division of Audits

October 20, 2014

**Schedule 1—
Summary of Program Costs
July 1, 2006, through June 30, 2010**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Referral and mental health assessments	\$ 460,821	\$ 460,334	\$ (487)	Finding 1
Authorize/issue payments to providers	73,392	305,546	232,154	Finding 2
Psychotherapy/other mental health services	<u>6,961,767</u>	<u>6,039,654</u>	<u>(922,113)</u>	Finding 1
Total direct costs	7,495,980	6,805,534	(690,446)	
Indirect costs	<u>965,544</u>	<u>939,520</u>	<u>(26,024)</u>	Finding 3
Total direct and indirect costs	8,461,524	7,745,054	(716,470)	
Less other reimbursements	<u>(6,089,208)</u>	<u>(6,684,060)</u>	<u>(594,852)</u>	Finding 4
Total program cost	<u>\$ 2,372,316</u>	1,060,994	<u>\$ (1,311,322)</u>	
Less amount paid by State ²		<u>(2,038,513)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (977,519)</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Referral and mental health assessments	\$ 664,534	\$ 629,131	\$ (35,403)	Finding 1
Authorize/issue payments to providers	155,103	13,110	(141,993)	Finding 2
Psychotherapy/other mental health services	<u>7,581,697</u>	<u>6,673,991</u>	<u>(907,706)</u>	Finding 1
Total direct costs	8,401,334	7,316,232	(1,085,102)	
Indirect costs	<u>811,969</u>	<u>760,596</u>	<u>(51,373)</u>	Finding 3
Total direct and indirect costs	9,213,303	8,076,828	(1,136,475)	
Less other reimbursements	<u>(5,755,680)</u>	<u>(6,551,202)</u>	<u>(795,522)</u>	Finding 4
Total program cost	<u>\$ 3,457,623</u>	1,525,626	<u>\$ (1,931,997)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,525,626</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Referral and mental health assessments	\$ 728,743	\$ 713,465	\$ (15,278)	Finding 1
Authorize/issue payments to providers	105,862	462,491	356,629	Finding 2
Psychotherapy/other mental health services	<u>7,797,924</u>	<u>7,438,735</u>	<u>(359,189)</u>	Finding 1
Total direct costs	8,632,529	8,614,691	(17,838)	
Indirect costs	<u>1,159,620</u>	<u>894,051</u>	<u>(265,569)</u>	Finding 3
Total direct and indirect costs	9,792,149	9,508,742	(283,407)	
Less other reimbursements	<u>(9,348,025)</u>	<u>(9,569,365)</u>	<u>(221,340)</u>	Finding 4
Total claimed amount	444,124	(60,623)	(504,747)	
Adjustment to eliminate negative balance	—	<u>60,623</u>	<u>60,623</u>	
Total program cost	<u>\$ 444,124</u>	—	<u>\$ (444,124)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 661,331	\$ 641,193	\$ (20,138)	Finding 1
Authorize/issue payments to providers	698,147	531,828	(166,319)	Finding 2
Psychotherapy/other mental health services	<u>7,556,995</u>	<u>6,433,952</u>	<u>(1,123,043)</u>	Finding 1
Total direct costs	8,916,473	7,606,973	(1,309,500)	
Indirect costs	<u>1,263,369</u>	<u>925,862</u>	<u>(337,507)</u>	Finding 3
Total direct and indirect costs	10,179,842	8,532,835	(1,647,007)	
Less other reimbursements	<u>(3,936,557)</u>	<u>(4,273,408)</u>	<u>(336,851)</u>	Finding 4
Total program cost	<u>\$ 6,243,285</u>	4,259,427	<u>\$ (1,983,858)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,259,427</u>		
<u>Summary: July 1, 2006, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 2,515,429	\$ 2,444,123	\$ (71,306)	
Authorize/issue payments to providers	1,032,504	1,312,975	280,471	
Psychotherapy/other mental health services	<u>29,898,383</u>	<u>26,586,332</u>	<u>(3,312,051)</u>	
Total direct costs	33,446,316	30,343,430	(3,102,886)	
Indirect costs	<u>4,200,502</u>	<u>3,520,029</u>	<u>(680,473)</u>	
Total direct and indirect costs	37,646,818	33,863,459	(3,783,359)	
Less other reimbursements	<u>(25,129,470)</u>	<u>(27,078,035)</u>	<u>(1,948,565)</u>	
Total claimed amount	12,517,348	6,785,424	(5,731,924)	
Adjustment to eliminate negative balance	—	60,623	60,623	
Total program cost	<u>\$ 12,517,348</u>	6,846,047	<u>\$ (5,671,301)</u>	
Less amount paid by State ²		<u>(2,038,513)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,807,534</u>		

¹ See the Findings and Recommendations section.

² County received categorical payment from the California Department of Mental Health from FY 2009-10 budget.

Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated assessment and treatment costs by \$3,383,357 for the audit period. The county claimed assessment costs in the Referral and Mental Health Assessments cost component, and mental health treatment costs in the Psychotherapy/Other Mental Health Services cost component.

The county computed its claim using preliminary unit-of-service reports. For fiscal year (FY) 2006-07, the unit-of-service report detail contained more units than what was claimed. In the three remaining fiscal years, the unit-of-service reports contained fewer units than what was claimed. In discussions with county staff, we found that the understatement for FY 2006-07 was due to the county's omission of one county-operated facility from the claim. Upon request from the county, we considered the omitted facility in our audit adjustments.

We verified, on a sample basis, support for reported services. In our testing, we found that the county claimed duplicative services, ineligible therapeutic behavioral services (TBS), and ineligible socialization services. The duplicated services consist of residential treatment costs and day treatment services. The duplicative residential treatment costs consisted of vendor payments to out-of-state residential placement providers that were claimed in two cost components: (1) Psychotherapy/Other Mental Health Services and (2) Authorize/Issue Payments to Providers. The duplicative day treatment costs consisted of identical services.

During our case file testing, we found three types of services claimed by the county that included ineligible socialization services—day treatment intensive, group therapy, and rehabilitation services. We discussed this issue with the county and proposed to perform a statistical sample of the three groups of services. Upon county acceptance of our proposal, we selected a statistical sample for each service type for FY 2006-07, FY 2007-08, and FY 2009-10. We did not include FY 2008-09 in our testing because revenues exceeded eligible costs.

We identified nine separate populations based on service type and fiscal year. In each population we included only the units of service that were not directly offset by reimbursements, including Short-Doyle/Medi-Cal (SD/MC), Early and Periodic Screening, Diagnosis, and Treatment (EPSDT), Healthy Families (HF), Wraparound, and private insurance payments. To select the sample size for each of the nine populations, we adhered to a 95% confidence interval, +/- 8% precision rate, and a 50% expected error rate. We tested the sample transactions to determine which services included ineligible activities. We then projected the results to each of the respective populations in order to determine the audit adjustments.

We verified the unit rates used to compute costs of county-operated facilities and contract providers. In our review, we found that the county used preliminary or incorrect unit rates to compute its costs.

We recalculated costs based on actual, supportable units of service provided to eligible clients using the appropriate unit rates that represented the actual cost to the county. We excluded costs related to the aforementioned duplicative costs, ineligible services, and unallowable costs based on the results of the statistical sample. We also considered unclaimed costs for our adjustments.

The following table summarizes the overstated assessment and treatment costs claimed:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
Referral and mental health assessments	\$ 460,821	\$ 460,334	\$ (487)
Psychotherapy/other mental health services	<u>6,961,767</u>	<u>6,039,654</u>	<u>(922,113)</u>
Subtotal	<u>\$ 7,422,588</u>	<u>\$ 6,499,988</u>	<u>\$ (922,600)</u>
<u>FY 2007-08</u>			
Referral and mental health assessments	\$ 664,534	\$ 629,131	\$ (35,403)
Psychotherapy/other mental health services	<u>7,581,697</u>	<u>6,673,991</u>	<u>(907,706)</u>
Subtotal	<u>\$ 8,246,231</u>	<u>\$ 7,303,122</u>	<u>\$ (943,109)</u>
<u>FY 2008-09</u>			
Referral and mental health assessments	\$ 728,743	\$ 713,465	\$ (15,278)
Psychotherapy/other mental health services	<u>7,797,924</u>	<u>7,438,735</u>	<u>(359,189)</u>
Subtotal	<u>\$ 8,526,667</u>	<u>\$ 8,152,200</u>	<u>\$ (374,467)</u>
<u>FY 2009-10</u>			
Referral and mental health assessments	\$ 661,331	\$ 641,193	\$ (20,138)
Psychotherapy/other mental health services	<u>7,556,995</u>	<u>6,433,952</u>	<u>(1,123,043)</u>
Subtotal	<u>\$ 8,218,326</u>	<u>\$ 7,075,145</u>	<u>\$ (1,143,181)</u>
<u>Summary</u>			
Referral and mental health assessments	\$ 2,515,429	\$ 2,444,123	\$ (71,306)
Psychotherapy/other mental health services	<u>29,898,383</u>	<u>26,586,332</u>	<u>(3,312,051)</u>
Total	<u>\$ 32,413,812</u>	<u>\$ 29,030,455</u>	<u>\$ (3,383,357)</u>

The following table summarizes the calculation of allowable costs:

	Fiscal Year				Total
	2006-07	2007-08	2008-09	2009-10	
Total supported costs	\$ 7,526,151	\$ 8,241,610	\$ 8,492,164	\$ 8,143,519	\$ 32,403,444
Incorrect unit rates	(769,346)	(555,993)	(306,185)	(446,836)	(2,078,360)
Ineligible socialization services	(257,863)	(363,146)	—	(599,859)	(1,220,868)
Duplicate residential treatment costs	(42,204)	(9,633)	(28,491)	(21,183)	(101,511)
Ineligible TBS	(4,103)	(9,222)	(994)	(496)	(14,815)
Duplicate day treatment services	(605)	(494)	(4,294)	—	(5,393)
Unclaimed costs	<u>47,958</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>47,958</u>
Allowable costs	<u>\$ 6,499,988</u>	<u>\$ 7,303,122</u>	<u>\$ 8,152,200</u>	<u>\$ 7,075,145</u>	<u>\$ 29,030,455</u>

The program's parameters and guidelines provide reimbursement for mental health services when required by the pupil's IEP. These services include assessments, collateral, case management, individual and group psychological therapy, medication monitoring, intensive day treatment, and day rehabilitation services. The parameters and guidelines further specify that when providing mental health treatment services the activities of socialization and vocational services are not reimbursable.

The parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities that are supported by source documents that show the validity of such costs.

Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's Response

The county did not respond to the finding.

FINDING 2— Understated residential placement costs

The county understated residential placement costs by \$280,471 for the audit period.

The county claimed costs for clients placed in out-of-home residential facilities. These costs consist of mental health treatment and board-and-care; however, the county omitted the board-and-care portion from its claims for FY 2006-07, FY 2007-08, and FY 2008-09. We considered the omitted costs in determining our audit adjustments. In addition to the omitted costs, we found that the county claimed duplicative and ineligible costs. In determining allowable costs, we made the following adjustments:

- For FY 2006-07 and FY 2008-09, we included unclaimed board-and-care costs totaling \$736,098.
- For FY 2006-07, we excluded ineligible vendor payments to for-profit facilities totaling \$38,727. These costs included only the mental health treatment costs, as the corresponding board-and-care costs were not claimed.
- We excluded duplicate case management and mental health treatment costs totaling \$284,840 because these costs are already claimed in other cost components: (1) Referral and Mental Health Assessments and (2) Psychotherapy/Other Mental Health Services.
- For FY 2009-10, we excluded mental health treatment costs incurred outside of the fiscal year totaling \$33,460.
- We excluded board-and-care costs incurred outside of the audit period, totaling \$98,600. The county claimed board-and-care costs for the month in which the payments were made rather than the month in which costs were incurred.

Based on the aforementioned adjustments, we placed eligible and supported costs in the appropriate fiscal year in which the costs were incurred. We did not consider unclaimed board-and-care costs for FY 2007-08 because the county utilized Local Revenue Funds (realignment) to fund its 60% share of the costs.

The following table summarizes the understated residential placement treatment costs claimed:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
Mental health treatment	\$ 73,392	\$ 3,477	\$ (69,915)
Board-and-care	—	302,069	302,069
Subtotal	<u>\$ 73,392</u>	<u>\$ 305,546</u>	<u>\$ 232,154</u>
<u>FY 2007-08</u>			
Mental health treatment	\$ 155,103	\$ 13,110	\$ (141,993)
Board-and-care	—	—	—
Subtotal	<u>\$ 155,103</u>	<u>\$ 13,110</u>	<u>\$ (141,993)</u>
<u>FY 2008-09</u>			
Mental health treatment	\$ 105,862	\$ 39,037	\$ (66,825)
Board-and-care	—	423,454	423,454
Subtotal	<u>\$ 105,862</u>	<u>\$ 462,491</u>	<u>\$ 356,629</u>
<u>FY 2009-10</u>			
Mental health treatment	\$ 101,186	\$ 22,892	\$ (78,294)
Board-and-care	596,961	508,936	(88,025)
Subtotal	<u>\$ 698,147</u>	<u>\$ 531,828</u>	<u>\$ (166,319)</u>
<u>Summary</u>			
Mental health treatment	\$ 435,543	\$ 78,516	\$ (357,027)
Board-and-care	596,961	1,234,459	637,498
Total	<u>\$ 1,032,504</u>	<u>\$ 1,312,975</u>	<u>\$ 280,471</u>

The parameters and guidelines specify that the mandate is to reimburse counties for payments to service vendors providing placement of seriously emotionally disturbed pupils in out-of-home residential facilities as specified in Government Code section 7581, and Title 2, *California Code of Regulations* (CCR) section 60200.

Title 2, CCR, section 60100, subdivision (h), specifies that out-of-state residential placements shall be made in residential programs that meet the requirements of Welfare and Institutions Code section 11460, subdivision (c)(2) through (3). Subdivision (c)(3) states that reimbursement shall be paid only to a group home organized and operated on a nonprofit basis.

The parameters and guidelines also provide that Welfare and Institutions Code section 18355.5 applies to this program and prohibits a county from claiming reimbursement for its 60% share of the total residential and non-educational costs for a seriously emotionally disturbed child placed in an out-of-home residential facility, if the county claims and receives reimbursement for these costs from the Local Revenue Fund identified in Welfare and Institutions Code section 17600.

Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County’s Response

The county did not respond to the finding.

**FINDING 3—
Overstated indirect costs**

The county overstated indirect costs by \$680,473 for the audit period.

The county overstated indirect costs for the audit period because it used preliminary figures to compute its indirect cost rates and applied the rates to unsupported, ineligible, and duplicative direct costs.

The county used a method that is consistent with the allocations in the county’s cost reports submitted to the California Department of Mental Health (CDMH). However, preliminary cost report figures were used to compute the rates. As a result, the county understated its indirect cost rate in FY 2006-07, and overstated its rates for FY 2007-08, FY 2008-09 and FY 2009-10. Additionally, the county applied its indirect cost rates to ineligible and duplicative direct costs as described in Finding 1.

We recalculated indirect rates consistent with the allocations in the county’s cost reports and applied them to allowable direct costs. The rates are calculated net of associated revenues and are applied to eligible direct costs of services provided at county-run facilities in the following cost components: (1) Referral and Mental Health Assessments and (2) Psychotherapy/Other Mental Health Services.

The following table summarizes the overstated indirect costs:

	Fiscal Year				Total
	2006-07	2007-08	2008-09	2009-10	
Direct Costs	\$ 5,239,935	\$ 5,984,231	\$ 6,814,411	\$ 5,757,850	
Indirect Cost Rate	17.93%	12.71%	13.12%	16.08%	
Allowable Indirect Costs	939,520	760,596	894,051	925,862	
Claimed Indirect Costs	965,544	811,969	1,159,620	1,263,369	
Audit Adjustment	\$ (26,024)	\$ (51,373)	\$ (265,569)	\$ (337,507)	\$ (680,473)

The parameters and guidelines specify that indirect costs that are incurred in the performance of the mandated activities and adequately documented are reimbursable.

The parameters and guidelines further specify that indirect costs may be claimed to the extent that they have not already been reimbursed by the CDMH from categorical funding sources.

Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County’s Response

The county did not respond to the finding.

**FINDING 4—
Understated offsetting
reimbursements**

The county understated offsetting reimbursements by \$1,948,565 for the audit period.

The understatement resulted primarily from the county applying SD/MC and EPSDT funding percentages to inaccurate direct costs, and using unsupported funding percentages to calculate EPSDT reimbursements. Furthermore, the county did not apply Wraparound funds even though a portion of the claimed mental health services were funded by these revenues. The county also misapplied Individuals with Disabilities Education Act (IDEA) funds in FY 2007-08 and used preliminary figures to compute the “Other IEP revenue” offset.

The county overstated funding percentages for SD/MC and HF by adding an additional percentage representing administrative (indirect) reimbursements. Since indirect costs were computed net of offsetting reimbursements, this led to an excess allocation of revenue to SD/MC- and HF-related services costs.

We recalculated allowable offsetting reimbursements for all relevant funding sources and applied the appropriate rates for SD/MC, EPSDT, and HF to eligible direct costs. We excluded offsetting reimbursements related to ineligible and unsupported direct costs, and administrative (indirect) allocations. Concerning the latter, indirect costs are computed net of offsetting reimbursements.

The following table summarizes the understated offsetting reimbursements:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
IDEA	\$ (1,979,620)	\$ (1,979,619)	\$ 1
CDMH categorical	(1,748,786)	(1,748,786)	—
SD/MC	(1,656,166)	(1,457,313)	198,853
EPSDT	(206,756)	(931,223)	(724,467)
HF	(360,930)	(261,674)	99,256
Wraparound	—	(165,592)	(165,592)
Other IEP revenue	(136,950)	(139,853)	(2,903)
Subtotal	<u>\$ (6,089,208)</u>	<u>\$ (6,684,060)</u>	<u>\$ (594,852)</u>

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2007-08</u>			
IDEA	\$ (1,979,619)	\$ (2,024,238)	\$ (44,619)
CDMH categorical	(1,579,018)	(1,579,018)	—
SD/MC	(1,554,226)	(1,390,622)	163,604
EPSDT	(190,895)	(892,779)	(701,884)
HF	(349,054)	(247,551)	101,503
Wraparound	—	(309,275)	(309,275)
Other IEP revenue	(102,868)	(107,719)	(4,851)
Subtotal	<u>\$ (5,755,680)</u>	<u>\$ (6,551,202)</u>	<u>\$ (795,522)</u>
<u>FY 2008-09</u>			
IDEA	\$ (1,979,619)	\$ (1,979,619)	\$ —
CDMH categorical	(4,760,833)	(4,760,833)	—
SD/MC	(1,824,188)	(1,630,564)	193,624
EPSDT	(218,800)	(677,404)	(458,604)
HF	(292,637)	(248,735)	43,902
Other IEP revenue	(269,290)	(269,552)	(262)
Miscellaneous	(2,658)	(2,658)	—
Subtotal	<u>\$ (9,348,025)</u>	<u>\$ (9,569,365)</u>	<u>\$ (221,340)</u>
<u>FY 2009-10</u>			
IDEA	\$ (1,979,619)	\$ (1,979,619)	\$ —
SD/MC	(1,361,816)	(1,144,977)	216,839
EPSDT	(70,350)	(453,232)	(382,882)
HF	(274,850)	(198,540)	76,310
Wraparound	—	(238,773)	(238,773)
Other IEP revenue	(249,922)	(258,267)	(8,345)
Subtotal	<u>\$ (3,936,557)</u>	<u>\$ (4,273,408)</u>	<u>\$ (336,851)</u>
<u>Summary</u>			
IDEA	\$ (7,918,477)	\$ (7,963,095)	\$ (44,618)
CDMH categorical	(8,088,637)	(8,088,637)	—
SD/MC	(6,396,396)	(5,623,476)	772,920
EPSDT	(686,801)	(2,954,638)	(2,267,837)
HF	(1,277,471)	(956,500)	320,971
Wraparound	—	(713,640)	(713,640)
Other IEP revenue	(759,030)	(775,391)	(16,361)
Miscellaneous	(2,658)	(2,658)	—
Total	<u>\$ (25,129,470)</u>	<u>\$ (27,078,035)</u>	<u>\$ (1,948,565)</u>

The parameters and guidelines specify that any direct payments (categorical funds, SD/MC, EPSDT, IDEA, and other reimbursements) received from the State that are specifically allocated to the program, and/or any other reimbursements received as a result of the mandate, must be deducted from the claim.

Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's Response

. . . The County continues to disagree with the EPSDT offset methodology utilized and the resultant incorrect finding. Below are the County's positions on the issue:

EPSDT Methodology Offsets is incorrect based on Prior State Guidance

The SCO's proposed methodology for offsetting EPSDT conflicts with prior guidance issued by the State Department of Mental Health (DMH) on this subject. That methodology does not reflect the intent of the State to provide EPSDT revenue for program growth above the established baseline.

In the FY 2003-04 Short-Doyle Medi-Cal Cost Report instructions, DMH provided a specific methodology for determining the appropriate EPSDT offset for Special Education Program (SEP) costs and included directions stating that the DMH process was to be used as the supporting documentation for SB 90 State Mandate Claims. That prescribed methodology accounts for baseline program size and appropriate offset of all EPSDT revenue. These instructions were included in each of the subsequent Short-Doyle Medi-Cal Cost Report instructions, including each of the audit years. Those instructions were provided to the County and are posted on the DHCS Information Technology Web Services (ITWS) website. The County of San Mateo used this prescribed DMH methodology to determine the EPSDT offset for SB90 claims for each of the audited years. A completed Exhibit A with backup documentation for each audited year has been provided to the SCO. The DMH Short-Doyle Cost Report instructions and worksheets have also been provided to the SCO by the County.

The method proposed in the draft Audit Report for EPSDT revenue offset would distribute State EPSDT revenue equally to all Medi-Cal services without regard to differences in growth of SEP services relative to growth in other mandated programs. This position is in clear contradiction to prior guidance issued by the State. The County has asked for this item to be reexamined by the Commission through a previously filed IRC on this subject. Prior to issuance of the final report, the County asks that the SCO staff analyze the consistently applied State prescribed methodology utilized by the County and that this finding be removed.

Statute of Limitations has expired on Baseline Prior Audited DMH Cost Reports

SCO field audit staff have asked repeatedly for documentation in order to audit baseline calculations of the County. It is the County's position that those baseline numbers (from 1994-95) as well as prior DMH cost reports for the fiscal years under SCO audit have been accepted by the state and federal government. Furthermore, it is County Counsel's position that data older than three years is deemed true and correct. (Welfare and Institutions Code § 14170; *Redding Medical Center v. Bonta* (2004) 115 Cal.App.4th 1031.) Additionally, County Counsel advised that SCO's request to audit those baseline and prior DMH reports after three years is subject to the defense of laches as the delay in making the request is unreasonable and presumptively prejudicial to the County. (*Fountain Valley Regional Hospital and Medical Center v.*

Bonta (1999) 75 Cal.App.4th 316, citing *Robert F. Kennedy Medical Center v. Belsh* (1996) 13 Cal.4th 748.)

Reasonable Acceptance and Acceptance Reliance based on acceptance of prior year Cost Reports

SCO field audit staff have asked repeatedly for documentation in order to audit baseline calculations of the County. It is the County's position that those baseline numbers (1994-95) as well as prior DMH cost reports for the fiscal years under SCO audit have been accepted by the state and federal government. The SCO position to simplify EPSDT revenue offsets is in conflict with previously prescribed DMH methods. Audit staff can verify the County methods by examining prior cost reports and should not employ a new methodology without an amendment to the program's parameters and guidelines. The audit DMH/DHCS reports for FY 2006-07 and 2007-08 are attached thereto to confirm that there were no findings related to baseline or EPSDT revenues, methods or calculations, and that the County has acted consistently and in accordance with state procedures. DHCS audits for FYs 2008-09 and 2009-10 have not been completed.

SCO's Comment

The finding remains unchanged.

The county contests only the portion of the finding that relates to EPSDT revenues used to offset claimed mental health services costs. These revenues represent the State's corresponding portion of federal Medi-Cal funding for children and youth who are full-scope Medi-Cal eligible. The funding provided is a portion of total related costs in excess of base-year costs. Over the course of the audit, the county has presented different methodologies in identifying and applying EPSDT revenues; these include not applying any revenues at all, to using various calculations for the claims and other proposals. The calculations primarily rely on comparing current EPSDT-related costs to base-year (1994-95) costs. The county then discounts the amount of revenue applied to the state-mandated program based on this comparison, arguing that the growth in total EPSDT costs is due largely to the expansion of costs of non-mandate-related clients or programs. However, the county did not provide supporting documentation for the mandate-related base-year costs in a format that we could validate. Further, amounts used in the calculations are based largely on estimated information that is inconsistent with support provided. With the exception of FY 2006-07, the calculations provided do not support the offsetting revenues applied on the claims. In its response, the county has not addressed these inconsistencies.

We computed the EPSDT revenues based on the final settlements provided by the CDMH. The EPSDT revenues are determined based on the aggregate mental health service costs of eligible children and youth who are full-scope Medi-Cal. We calculated the mandate-related portion of the revenues based on the mandate client costs provided by the county. In the absence of information to the contrary, we believe this rationale provides a reasonable basis to allocate the EPSDT revenues to mandated costs.

Our response addresses each of the county's arguments.

EPSDT Methodology Offsets is incorrect based on Prior State Guidance

The county argues that it relied on instructions provided by CDMH for use in preparing and submitting cost reports and related information to CDMH. The county then used this information to prepare its state-mandated cost claims. The instructions provided by CDMH to prepare and submit forms to the agency is not relevant for state-mandated cost claims. The program's parameters and guidelines and corresponding SCO claiming instructions provide guidance concerning the submission of mandate claims. Additionally, the information reported to CDMH in the Form MH 1912 does not reconcile to mandated cost claims filed by the county as the forms present different information. For example, the CDMH form captures estimated revenue information and includes all related funding used to support costs. The state-mandated cost claims are used to claim reimbursement of actual costs incurred and report related offsetting reimbursements for the mandate program. The mandated cost claims also include costs that are not reported on cost report forms submitted to CDMH. For example, residential placement board-and-care costs incurred by the county's social services department for the mandate and the associated revenues are not included in the mental health cost reports submitted to CDMH.

Concerning the EPSDT offsets, the county has presented different offset amounts. With the exception of FY 2006-07, the offsetting revenues identified on the county's claims do not agree with the amounts shown in its calculations (based on MH 1909 instructions from FY 2003-04) or reported to CDMH on the MH 1912 forms for each fiscal year. As noted earlier, the county's calculations rely on comparing current mandate-related EPSDT costs to the corresponding base year costs. This is to determine the relative growth of mandate-related EPSDT costs. However, the county did not provide supporting documentation regarding the mandate-related base-year costs in a format that we could validate. The calculations are largely based on estimated information and the county has not addressed inconsistencies in the information and calculations it provided.

Statute of Limitations has expired on Baseline Prior Audited DMH Cost Reports

The county asserts that it need not provide supporting documentation for its calculations, specifically, the mandate-related portion of EPSDT base-year costs. Based on advice of its counsel and cases cited, the county believes that cost report data older than three years is deemed true and correct. The county also believes that the SCO's request for mandate-related base-year information used in its calculations is subject to the defense of laches, making the request unreasonable and presumptively prejudicial to the county.

We disagree. The program's parameters and guidelines require that only actual costs may be claimed. Further, these costs must be traceable and supported by source documents that show the validity of such costs. In the cases cited by the county, the issues involve reviews by the California Department of Health Services concerning reported Medi-Cal information; these reviews were performed beyond the corresponding statute of limitations period. The cases cited are not pertinent to our audit of mandated cost claims filed by the county. The scope of our audit encompasses the mandated costs claims, not an evaluation of cost reports the county submitted to CDMH. The mandate claims are subject to audit by the SCO in accordance with Governmental Code section 17558.5, and we initiated the audit within the statutory requirements. To reiterate the primary issue, the county has not provided supporting documentation regarding the mandate-related base-year costs in a format that we could validate. The information is used as the basis for the county's EPSDT offset calculations.

Concerning the county's comments that cost report data older than three years is deemed true and correct, the information requested by the SCO is not reported on the county's cost reports submitted to the CDMH. The county's cost reports contain information related to aggregate cost allocations that include services provided to children, youth, and adults. In contrast, the mandate relates to a specific subset of services for children and youth that are provided in accordance with an IEP. As previously noted, for three of the fiscal years the calculations provided by the county are inconsistent with claimed offset amounts and information reported on the MH 1912 forms submitted to the CDMH.

Reasonable Acceptance and Acceptable Reliance based on acceptance of prior year Cost Reports

The county argues that it need not provide supporting documentation for its calculations, specifically, the mandate-related portion of EPSDT base-year costs. Again, the county believes that data older than three years is deemed true and correct. Baseline amounts and cost reports have already been accepted by the state and federal government. The county also references audits performed by CDMH relative to its Medi-Cal costs, noting that the agency has not identified issues relative to EPSDT.

We disagree. The program's parameters and guidelines require that only actual costs may be claimed. These costs must be traceable and supported by source documents that show the validity of such costs. The county has not provided supporting documentation regarding the mandate-related EPSDT base-year costs in a format that we could validate. The information is used as the basis for the county's EPSDT offset calculations. Concerning cost report and baseline information provided to CDMH, the EPSDT information reported does not identify the mandate-related portion of EPSDT base-year costs used in county's calculations. The CDMH documents only relate to total EPSDT-related costs and base-year, they do not identify the mandate- and non-mandate-related portions. In addition, the cost reports include estimated information as the final settlements by CDMH are prepared later. In

reference to the CDMH audit reports, the scope of the audits does not include an evaluation of mandate-related costs or claims submitted to the SCO for reimbursement, and therefore, are not relevant. As stated earlier, the county has not provided supporting documentation for the mandate-related EPSDT base-year costs used in its calculations. The county also has not addressed the inconsistencies in the information provided in support of the claimed offsetting revenues.

**Attachment—
County’s Response to
Draft Audit Report**

555 County Center, 4th Floor
Redwood City, California 94063-1665

Telephone: (650) 363-4777
Email: Controller@smcgov.org
www.co.smcgov.org/controller



Bob Adler
Controller

Juan Raigoza
Assistant Controller

Shirley Tourel
Deputy Controller

County of San Mateo
Office of the Controller

September 19, 2014

Via PDF & Email

Mr. Chris Ryan, Audit Manager
California State Controller's Office, Audits Division
3301 C Street, Suite 700
Sacramento, CA 95816

Subject: County of San Mateo – Consolidated HDS, HDS II & SEP Program
County Response to Draft Audit Report
Statutes 1984, Chapter 1747; Statutes 1985, Chapter 1274
Fiscal Years 2006-2007, 2007-2008, 2008-2009, 2009-2010

Dear Mr. Ryan:

This letter is in response to your draft findings presented to the County of San Mateo on September 10, 2014 regarding the above referenced Audit of state mandated cost claims for the Consolidated HDS, HDS II and SEP Program. We continue to stand by the arguments raised in our July 16, 2014 correspondence and were disappointed that this did not influence the final findings in the draft report. It also appears that the numerous documentation submitted to support those arguments was also not taken into account. Documents provided are listed in Attachment A included herein and can be resubmitted if necessary. **The County continues to disagree with the EPSDT offset methodology utilized and the resultant incorrect finding.** Below are the County's positions on this issue.

EPSDT Methodology Offsets is incorrect based on Prior State Guidance.

The SCO's proposed methodology for offsetting EPSDT revenue conflicts with prior guidance issued by the State Department of Mental Health (DMH) on this subject. That methodology does not reflect the intent of the State to provide EPSDT revenue for program growth above the established baseline.

In the FY 2003-04 Short-Doyle Medi-Cal Cost Report instructions, DMH provided a specific methodology for determining the appropriate EPSDT offset for Special Education Program (SEP) costs and included directions stating that the DMH process was to be used as the supporting documentation for SB90 State Mandate Claims. That prescribed methodology accounts for baseline program size and appropriate offset of all EPSDT revenue. These instructions were included in each of the subsequent Short-Doyle Medi-Cal Cost Report instructions, including each of the audit years. Those instructions were provided to the County and are posted on the DHCS Information Technology Web Services (ITWS) website. The County of San Mateo used this prescribed DMH methodology to determine the EPSDT offset for SB90 claims for each of the audited years. A completed Exhibit A with backup documentation for each audited year has been provided to the SCO. The DMH Short-Doyle Cost Report instructions and worksheets have also been provided to the SCO by the County.

The method proposed in the draft Audit Report for EPSDT revenue offset would distribute State EPSDT revenue equally to all Medi-Cal services without regard to differences in growth of SEP services relative to growth in other mandated programs. This position is in clear contradiction to prior guidance issued by the State. The County has asked for this item to be reexamined by the Commission through a previously filed IRC on this subject. Prior to issuance of the final report, the County asks that the SCO staff analyze the consistently applied State prescribed methodology utilized by the County and that this finding be removed.

Statue of Limitations has expired on Baseline Prior Audited DMH Cost Reports

Closely related to the item above.

SCO field audit staff have asked repeatedly for documentation in order to audit baseline calculations of the County. It is the County's position that those baseline numbers (from 1994-95) as well as prior DMH cost reports for the fiscal years under SCO audit have been accepted by the state and federal government. Furthermore, it is County Counsel's position that data older than three years is deemed true and correct. (Welfare and Institutions Code § 14170; *Redding Medical Center. Bonta* (2004) 115 Cal.App.4th 1031.) Additionally, County Counsel advised that SCO's request to audit those baseline and prior DMH reports after three years is subject to the defense of laches as the delay in making the request is unreasonable and presumptively prejudicial to the County. (*Fountain Valley Regional Hospital and Medical Center v. Bonta* (1999) 75 Cal.App.4th 316, citing *Robert F. Kennedy Medical Center v. Belsh* (1996) 13 Cal.4th 748.)

Reasonable Acceptance and Acceptable Reliance based on acceptance of prior year Cost Reports.

Closely related to the previous two items above.

SCO field audit staff have asked repeatedly for documentation in order to audit baseline calculations of the County. It is the County's position that those baseline numbers (from 1994-95) as well as prior DMH cost reports for the fiscal years under SCO audit have been accepted by the state and federal government. The SCO position to simplify EPSDT revenue offsets is in conflict with previously prescribed DMH methods. Audit staff can verify the County methods by examining prior cost reports and should not employ a new methodology without an amendment to the program's parameters and guidelines. The audit DMH/DHCS reports for FYs 2006-07 and 2007-08 are attached hereto to confirm that there were no findings related to baseline or EPSDT revenues, methods or calculations, and that the County has acted consistently and in accordance with state procedures. DHCS audits for FYs 2008-09 and 2009-10 have not been completed.

It is our expectation that the above positions will be included in the final report. Please feel free to contact Gina Wilson if you have any questions or wish to discuss this matter further.

Sincerely,


Juan Raigoza
Assistant Controller
County of San Mateo


Peter Finck
Deputy County Counsel
County of San Mateo


Gina Wilson
CFO, Health System
County of San Mateo
650-573-2383

- cc: Stephen Kaplan, San Mateo County Behavioral Health & Recovery Services
- Glenn Kulm, San Mateo County Behavioral Health & Recovery Services
- John Klyver, San Mateo County Behavioral Health & Recovery Services
- Shirley Tourel, San Mateo County Controller's Office
- Jim Spano, SCO
- Doug Brejnak, SCO
- Patrick Dyer, MGT of America
- Brad Burgess, MGT of America

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>