

# ORANGE COUNTY

Audit Report

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

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

*July 1, 2009, through June 30, 2010*



**BETTY T. YEE**  
California State Controller

October 2016



**BETTY T. YEE**  
California State Controller

October 14, 2016

The Honorable Lisa A. Bartlett, Chair  
Board of Supervisors  
Orange County  
333 West Santa Ana Boulevard  
Santa Ana, CA 92701

Dear Ms. Bartlett:

The State Controller's Office audited the costs claimed by Orange County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils 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, 2009, through June 30, 2010.

The county claimed \$13,402,817 for the mandated program. Our audit found that the entire amount is allowable. The State made no payments to the county. The State will pay allowable costs claimed that exceed the amount paid, totaling \$13,402,817, contingent upon available appropriations.

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

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD, CPA**  
Chief, Division of Audits

JVB/rg

cc: The Honorable Eric H. Woolery, CPA, Auditor-Controller  
Orange County  
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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Orange County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils 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, 2009, through June 30, 2010.

The county claimed \$13,402,817 for the mandated program. Our audit found that the entire amount is allowable. The State made no payment to the county. The State will pay allowable costs claimed, totaling \$13,402,817, contingent upon available appropriations.

## Background

### Handicapped and Disabled Students 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 impose 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 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 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, impose 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 Statutes of 2011, Chapter 43, “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 this performance 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, 2009, through June 30, 2010.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We conducted this 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. We did not audit the county’s financial statements.

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.

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

- Reviewed claims to identify the material cost components of each claim, any errors, and any unusual or unexpected variances from year-to-year;
- Completed an internal control questionnaire and performed a walk-through of the claim preparation process to determine what information was used, who obtained it, and how it was obtained;
- Reviewed the county’s contracts with providers who perform eligible mental health and residential placement services to verify contract rates claimed;
- Reviewed county documents to determine that the county claimed vendor payments made to eligible non-profit residential placement providers and to verify contract rates claimed;

- Verified unit of service reports by tracing a sample of transactions from the reports to client files;
- Verified unit rates claimed by reconciling the claimed rates to rates within the county's cost reports;
- Determined whether indirect costs claimed were properly computed and applied;
- Determined if all relevant offsetting revenues were identified and properly applied; and
- Recalculated allowable costs claimed using audited data.

**Conclusion**

For the audit period, Orange County claimed \$13,402,817 for costs of the HDS, HDS II, and SEDP. Our audit found no material instances of noncompliance with the requirements outlined above.

The State paid made no payments to the county. Our audit found that the entire amount is allowable. The State will pay allowable costs claimed, totaling \$13,402,817, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We discussed our audit results with the county's representatives during an exit conference conducted on September 15, 2016. Greg White, Claims and Reporting Manager, and Tiffany Thibeault, Behavioral Health Claim Unit Manager, agreed with the audit results. On September 22, 2016, Ms. Thibeault stated via email that we could issue the audit report as final.

**Restricted Use**

This report is solely for the information and use of Orange 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 14, 2016

**Schedule—**  
**Summary of Program Costs**  
**July 1, 2009, through June 30, 2010**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs			
Authorize/issue payments to providers	\$ 10,643,474	\$ 10,643,474	\$ -
Psychotherapy/other mental health services	10,880,886	10,880,886	-
Participation in due process hearings	300,247	300,247	-
Total direct costs	21,824,607	21,824,607	-
Indirect costs	4,315,311	4,315,311	-
Total direct and indirect costs	26,139,918	26,139,918	-
Less other reimbursements	(12,737,101)	(12,737,101)	-
Total program cost	<u>\$ 13,402,817</u>	13,402,817	<u>\$ -</u>
Less amount paid by State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 13,402,817</u>	

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