



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

December 20, 2012

Lisa Cardella-Presto, CPA  
Auditor-Controller  
Merced County  
2222 M Street  
Merced, CA 95340

Dear Ms. Cardella-Presto:

The State Controller's Office reviewed the costs claimed by Merced 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 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996) for the period of July 1, 2006, through June 30, 2008. Our review was limited to validating offsetting reimbursements allocated by the California Department of Mental Health (DMH) and from the California Department of Education (CDE).

The county claimed \$210,006 (\$226,094 less a \$16,088 penalty for filing late claims) for the mandated program. Our review disclosed that \$5,978 is allowable and \$204,028 is unallowable. The costs are unallowable because the county understated offsetting reimbursements allocated by DMH and CDE, as described in the attached Summary of Program Costs and Finding and Recommendation.

For the fiscal year (FY) 2006-07 claim, the State paid the county \$57,636. Our review disclosed that the entire claimed costs of \$155,216 is unallowable. The State will offset \$57,636 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 review disclosed that \$5,978 is allowable. The State will pay that amount, contingent upon available appropriations.

We communicated the review results to Manjit Kaur, Fiscal Manager, via telephone on November 28, 2012.

If you disagree with the review finding, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). 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 CSM's website at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

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/sk

Attachments

RE: S11-MCC-904

cc: Manjit Kaur, Fiscal Manager  
    Merced County Department of Mental Health  
    Sharon Robinson  
    Merced County Department of Mental Health  
    Randall Ward, Principal Program Budget Analyst  
    Mandates Unit, Department of Finance  
    Erika Cristo, Manager  
    Department of Mental Health  
    Chris Essman, Manager  
    California Department of Education  
    Carol Bingham, Director  
    California Department of Education  
    Jay Lal, Manager  
    Division of Accounting and Reporting  
    State Controller's Office

**Attachment 1—  
Summary of Program Costs  
July 1, 2006, through June 30, 2008**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Review</u>	<u>Review Adjustment <sup>1</sup></u>
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Referral and mental health assessments	\$ 147,401	\$ 147,401	\$ —
Psychotherapy/other mental health services	214,210	214,210	—
Total direct costs	361,611	361,611	—
Indirect costs	28,802	28,802	—
Total direct and indirect costs	390,413	390,413	—
Less offsetting reimbursements	(225,197)	(458,738)	(233,541)
Subtotal	165,216	(68,325)	(233,541)
Less late claim penalty	(10,000)	(10,000)	—
Adjustment to eliminate negative balance	—	78,325	78,325
Total program costs	<u>\$ 155,216</u>	—	<u>\$ (155,216)</u>
Less amount paid by the State		(57,636)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (57,636)</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Referral and mental health assessments	\$ 118,730	\$ 118,730	\$ —
Psychotherapy/other mental health services	150,902	150,902	—
Total direct costs	269,632	269,632	—
Indirect costs	22,811	22,811	—
Total direct and indirect costs	292,443	292,443	—
Less offsetting reimbursements	(231,565)	(280,377)	(48,812)
Subtotal	60,878	12,066	(48,812)
Less late claim penalty	(6,088)	(6,088)	—
Total program costs	<u>\$ 54,790</u>	5,978	<u>\$ (48,812)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,978</u>	

## Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment <sup>1</sup>
<u>Summary: July 1, 2006, through June 30, 2008</u>			
Direct costs:			
Referral and mental health assessments	\$ 266,131	\$ 266,131	\$ —
Psychotherapy/other mental health services	365,112	365,112	—
Total direct costs	631,243	631,243	—
Indirect costs	51,613	51,613	—
Total direct and indirect costs	682,856	682,856	—
Less offsetting reimbursements	(456,762)	(739,115)	(282,353)
Subtotal	226,094	(56,259)	(282,353)
Less late claim penalty	(16,088)	(16,088)	—
Adjustment to eliminate negative balance	—	78,325	78,325
Total program costs	<u>\$ 210,006</u>	5,978	<u>\$ (204,028)</u>
Less amount paid by the State		<u>(57,636)</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (51,658)</u>	

<sup>1</sup> See Attachment 2, Finding and Recommendation.

## Attachment 2— Finding and Recommendation July 1, 2006, through June 30, 2008

### FINDING— Understated offsetting reimbursements

The county understated offsetting reimbursements by \$282,353 for the review period. The county understated Individuals with Disabilities Education Act (IDEA) funds received from the California Department of Education (CDE) by \$64,986 and AB 3632 funds received from the California Department of Mental Health (DMH) by \$217,367.

The county's fiscal manager stated that the error occurred because the county claimed only funds actually received from these two sources at the time the claims were prepared. We adjusted offsetting reimbursements to the fiscal-year funding provided by the CDE and the DMH.

The following table summarizes the understated offsetting reimbursements:

	Claimed Offsets	Allowable Offsets	Review Adjustment
<u>FY 2006-07</u>			
IDEA	\$ 148,199	\$ 164,373	\$ (16,174)
DMH Categorical	—	217,367	(217,367)
Short Doyle/Medi-Cal Federal Financing Participation	76,998	76,998	—
Subtotal	<u>225,197</u>	<u>458,738</u>	<u>(233,541)</u>
<u>FY 2007-08</u>			
IDEA	67,500	116,312	(48,812)
DMH Categorical	164,065	164,065	—
Subtotal	<u>231,565</u>	<u>280,377</u>	<u>(48,812)</u>
<u>Total</u>			
IDEA	215,699	280,685	(64,986)
DMH Categorical	164,065	381,432	(217,367)
Shrot Doyle/Medi-Cal Federal Financing Participation	76,998	76,998	—
Total	<u>\$ 456,762</u>	<u>\$ 739,115</u>	<u>\$ (282,353)</u>

The Commission on State Mandates (CSM) consolidated the parameters and guidelines for the Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Programs for costs incurred commencing with fiscal year (FY) 2006-07 on October 26, 2006, and last amended them on September 28, 2012. On September 28, 2012, the CSM 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 program. The parameters and guidelines establish the state mandate and define reimbursable criteria. In compliance with Government Code section 17558, the SCO issued claiming instructions to assist local agencies in claiming mandated program reimbursable costs.

The program’s parameters and guidelines specify that any direct payments or categorical funding received from the State that is specifically allocated to any service provided under this program, shall be identified and deducted from the claim.

Recommendation

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