

ALAMEDA COUNTY

Revised Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

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

July 1, 2000, through June 30, 2002



JOHN CHIANG
California State Controller

May 2007



JOHN CHIANG
California State Controller

May 23, 2007

The Honorable Patrick O'Connell
Auditor-Controller
Alameda County
1221 Oak Street, Room 249
Oakland, CA 94612

Dear Mr. O'Connell:

The State Controller's Office audited the costs claimed by Alameda 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, 2000, through June 30, 2002.

This final report supersedes the original final report issued October 8, 2004. We are reissuing this report to decrease claimed costs attributable to an amended claim filed for fiscal year 2001-02, and increase allowable costs by \$521,795 as a result of two Commission on State Mandates (COSM) decisions. On December 9, 2005, the COSM adopted the *Parameters and Guidelines* for the Handicapped and Disabled Students II Program, allowing medication support costs beginning in fiscal year 2001-02. On January 25, 2007, the COSM amended the *Parameters and Guidelines* for the Handicapped and Disabled Students I Program, eliminating realignment funds as offsetting revenues, beginning fiscal year 2001-02.

The county claimed \$11,676,405 (\$11,677,405 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$10,185,238 is allowable and \$1,491,167 is unallowable. The unallowable costs occurred primarily because the county claimed ineligible treatment costs and unsupported administrative costs. The State paid the county \$3,856,325. The State will pay allowable costs claimed that exceed the amount paid, totaling \$6,328,913, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). 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 COSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

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

Sincerely,

"Original signed by"

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm:vb

cc: Sherie Peterson
Auditor-Controller's Office
Alameda County
Marye L. Thomas, M.D., Director
Department of Behavioral Health Care Services
Alameda County
Marlene Gold, Director of Financial Services
Department of Behavioral Health Care Services
Alameda County
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance
Robin Ulesich-Foemmel
Special Education Program
Department of Mental Health
Cynthia Wong, Manager
Special Education Division
California Department of Education

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Revised Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Alameda County for costs of 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, 2000, through June 30, 2002. The last day of fieldwork was October 31, 2003.

The county claimed \$11,676,405 (\$11,677,405 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$10,185,238 is allowable and \$1,491,167 is unallowable. The unallowable costs occurred primarily because the county claimed ineligible treatment costs and unsupported administrative costs. The State paid the county \$3,856,325. The State will pay allowable costs claimed that exceed the amount paid, totaling \$6,328,913, contingent upon available appropriations.

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 on 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 (COSM) determined that this legislation imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. The COSM adopted the *Parameters and Guidelines* on August 22, 1991, and last amended it on August 29, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies in claiming reimbursable costs.

Parameters and Guidelines states 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 those 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). In addition, 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 to fund assessments,

psychotherapy, and other mental health services . . .,” and that the finding by the Legislature is “declaratory of existing law.” (emphasis added).

On January 25, 2007, the COSM amended the *Parameters and Guidelines* for the Handicapped and Disabled Students Program, allowing counties to file amended reimbursement claims for all allowable costs if they used realignment funds to pay for reimbursable activities for FY 2001-02 and FY 2003-04.

On May 26, 2005, the COSM adopted a Statement of Decision for the Handicapped and Disabled Students II Program that incorporates the above legislation and further identifies medication support as a reimbursable cost effective July 1, 2001. The COSM adopted the *Parameters and Guidelines* for this new program on December 9, 2005, and made technical corrections to it on July 21, 2006. *Parameters and Guidelines* for the Handicapped and Disabled Students II Program states 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 these costs incurred beginning July 1, 2001, the State Controller’s Office will reissue the audit reports.” Consequently, we are allowing medication support costs, and eliminating realignment funds as offsetting revenues beginning in FY 2001-02.

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, 2000, through June 30, 2002.

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 the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Sections 12410, 17558.5, and 17561. We did not audit the county’s financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

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.

We asked the county’s representative to submit a written representation letter regarding the county’s accounting procedures, financial records, and mandated cost claiming procedures as recommended by *Government Auditing Standards*. However, the county did not submit a representation letter.

Conclusion

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

For the audit period, Alameda County claimed \$11,676,405 (\$11,677,405 in costs less a \$1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$10,185,238 is allowable and \$1,491,167 is unallowable. The State paid the county \$3,856,325. The State will pay allowable costs claimed that exceed the amount paid, totaling \$6,328,913, contingent upon available appropriations.

Views of Responsible Officials

We issued a final report on October 8, 2004. The county disagreed with all three findings. This final revised audit report includes the county's response.

Subsequent to issuance of our October 8, 2004, final report, the COSM adopted *Parameters and Guidelines* for the Handicapped and Disabled Students II Program. Medication monitoring support costs are reimbursable beginning in FY 2001-02 under program guidelines. This decision impacts Finding 1, increasing allowable costs by \$257,854. On January 25, 2007, the COSM amended the *Parameters and Guidelines* for the Handicapped and Disabled Students I Program, eliminating realignment funds as offsetting revenues beginning FY 2001-02. This decision impacts Finding 3, decreasing revenue offsets by \$1,020,479. The county amended its FY 2001-02 claim, decreasing claimed costs by \$1,687,836. Allowable costs for FY 2001-02 increased by \$521,795 (\$1,509,688 less \$987,893 for allowable costs that exceed claimed costs). On April 4, 2007, the Alameda County Auditor-Controller's Office and Alameda County Behavioral Health Care Services were informed of the revisions and reissuance of the final audit report. The county did not respond.

Restricted Use

This report is solely for the information and use of Alameda 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

**Revised Schedule 1—
Summary of Program Costs
July 1, 2000, through June 30, 2002**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2000, through June 30, 2001</u>				
Assessment and case management costs	\$ 1,539,387	\$ 1,539,387	\$ —	
Administrative costs	193,920	250,612	56,692	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(340,141)	(340,141)	—	
EPSDT and county matching funds	—	—	—	
Realignment funds	—	—	—	
State categorical funds	<u>(44,526)</u>	<u>(44,526)</u>	<u>—</u>	
Net assessment and case management costs	<u>1,348,640</u>	<u>1,405,332</u>	<u>56,692</u>	
Treatment costs	11,734,503	10,958,711	(775,792)	Finding 1
Administrative costs	1,478,223	268,457	(1,209,766)	Findings 1, 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(3,024,152)	(2,858,308)	165,844	Finding 1
EPSDT and county matching funds	(3,364,293)	(3,198,449)	165,844	Finding 1
Realignment funds	(1,457,901)	(1,351,890)	106,011	Finding 1
State categorical funds	<u>(339,414)</u>	<u>(339,414)</u>	<u>—</u>	
Net treatment costs	<u>5,026,966</u>	<u>3,479,107</u>	<u>(1,547,859)</u>	
Subtotal	6,375,606	4,884,439	(1,491,167)	
Less late claim penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total reimbursable costs	<u>\$ 6,374,606</u>	4,883,439	<u>\$ (1,491,167)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,883,439</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Assessment and case management costs	\$ 1,298,772	\$ 1,104,493	\$ (194,279)	Finding 4
Administrative costs	94,137	142,480	48,343	Findings 2, 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(235,325)	(501,448)	(266,123)	Findings 3, 4
EPSDT and county matching funds	—	(501,448)	(501,448)	Finding 3
Realignment funds	—	—	—	Finding 3
State categorical funds	<u>(32,652)</u>	<u>(27,227)</u>	<u>5,425</u>	Finding 4
Net assessment and case management costs	<u>1,124,932</u>	<u>216,850</u>	<u>(908,082)</u>	
Treatment costs	13,972,796	14,222,520	249,724	Findings 1, 4
Administrative costs	1,012,772	266,191	(746,581)	Findings 1, 2, 4
Offsetting revenues: (continued)				
Short-Doyle/Medi-Cal funds (FFP)	(4,658,137)	(3,968,507)	689,630	Findings 1, 3, 4
EPSDT and county matching funds	(4,658,137)	(4,090,649)	567,488	Findings 1, 4
Realignment funds	(1,141,139)	—	1,141,139	Findings 1, 3, 4
State categorical funds	<u>(351,288)</u>	<u>(356,713)</u>	<u>(5,425)</u>	Finding 4
Net treatment costs	<u>4,176,867</u>	<u>6,072,842</u>	<u>1,895,975</u>	
Subtotal	5,301,799	6,289,692	987,893	
Less allowable costs that exceed claimed costs	<u>—</u>	<u>(987,893)</u>	<u>(987,893)</u>	
Total program costs	<u>\$ 5,301,799</u>	5,301,799	<u>\$ —</u>	
Less amount paid by the State		<u>(3,856,325)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,445,474</u>		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>Summary: July 1, 2000, through June 30, 2002</u>				
Assessment and case management costs	\$ 2,838,159	\$ 2,643,880	\$ (194,279)	Finding 4
Administrative costs	288,057	393,092	105,035	Findings 2, 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(575,466)	(841,589)	(266,123)	Findings 3, 4
EPSDT and county matching funds	—	(501,448)	(501,448)	Finding 3
Realignment funds	—	—	—	Finding 3
State categorical funds	<u>(77,178)</u>	<u>(71,753)</u>	<u>5,425</u>	Finding 4
Net assessment and case management costs	<u>2,473,572</u>	<u>1,622,182</u>	<u>(851,390)</u>	
Treatment costs	25,707,299	25,181,231	(526,068)	Findings 1, 4
Administrative costs	2,490,995	534,648	(1,956,347)	Findings 1, 2, 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(7,682,289)	(6,826,815)	855,474	Findings 1, 3, 4
EPSDT and county matching funds	(8,022,430)	(7,289,098)	733,332	Findings 1, 4
Realignment funds	(2,599,040)	(1,351,890)	1,247,150	Findings 1, 3, 4
State categorical funds	<u>(690,702)</u>	<u>(696,127)</u>	<u>(5,425)</u>	Finding 4
Net treatment costs	<u>9,203,833</u>	<u>9,551,949</u>	<u>348,116</u>	
Subtotal	11,677,405	11,174,131	(503,274)	
Less late claim penalty	(1,000)	(1,000)	—	
Subtotal	<u>\$ 11,676,405</u>	11,173,131	(503,274)	
Less allowed costs that exceed claimed costs		<u>(987,893)</u>	<u>(987,893)</u>	
Total program costs		10,185,238	<u>\$ (1,491,167)</u>	
Less amount paid by the State		<u>(3,856,325)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 6,328,913</u>		

¹ See the Findings and Recommendations section.

Revised Findings and Recommendations

FINDING 1— Ineligible treatment costs

The county claimed various treatment costs that are ineligible. The county claimed costs for medication support, crisis intervention, and inpatient services, which are not reimbursable under program guidelines.

Parameters and Guidelines for the mandated program specifies that only the following treatment services are reimbursable: individual therapy; collateral therapy and contacts; group therapy; day treatment; and the mental health portion of residential treatment in excess of California Department of Social Services payments for residential placement.

Subsequent to the issuance of our final report, the Commission on State Mandates (COSM) adopted *Parameters and Guidelines* for the Handicapped and Disabled Students II Program on December 9, 2005. Under the newly adopted program guidelines, medication support costs are reimbursable beginning fiscal year (FY) 2001-02. This change impacts this finding, increasing allowable costs by \$257,854.

Ineligible treatment costs and related administrative costs and revenue offsets have been adjusted as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Treatment costs:			
Medication support	\$ (642,013)	\$ —	\$ (642,013)
Crisis intervention	(56,295)	(86,662)	(142,957)
Inpatient services	(77,484)	(161,126)	(238,610)
Total ineligible treatment costs	(775,792)	(247,788)	(1,023,580)
Administrative costs	(97,750)	(31,222)	(128,972)
Offsetting revenues:			
Short-Doyle/Medi-Cal funds Federal			
Financial Participation (FFP)	165,844	40,345	206,189
EPSDT and county matching funds	165,844	40,345	206,189
Realignment funds	106,011	87,045	193,056
Audit adjustment	\$ (435,843)	\$ (111,275)	\$ (547,118)

Recommendation

The county should ensure that costs claimed are eligible increased costs incurred as a result of the mandate.

County's Response

The county disagreed with the finding, as summarized below.

Medication Support and Crisis Intervention

The county stated that the *Parameters and Guidelines* used by the SCO auditor as the basis of the finding is outdated and does not reflect the changes that were clarified in AB 2781 (Chapter 1167, Statutes of 2002).

That legislation clarifies the fact that all other mental health services, which includes medication support and crisis intervention costs, are eligible for reimbursement. That legislation specifies that counties are eligible for 100% reimbursement of the AB 3632 related mental health services. Therefore, the county does not agree that medication support and crisis intervention services are not reimbursable under the program guidelines. Currently, COSM is considering revisions to the current outdated *Parameters and Guidelines*.

Inpatient Services

The county stated that it did not include inpatient services on its claims. It stated that our auditor categorized some residential treatment services as inpatient services. The California Department of Mental Health categorizes both residential treatment and inpatient services under the same mode of service code (mode 05). *Parameters and Guidelines* states that the mental health portion of residential treatment in excess of the California Department of Social Services payment for residential placement is reimbursable.

SCO's Comment

The finding and recommendation remain unchanged with regards to crisis intervention and inpatient services for the audit period and medication support for FY 2000-01. However, the COSM adopted *Parameters and Guidelines* for the Handicapped and Disabled Students II Program on December 9, 2005, allowing medication support costs beginning in FY 2001-02. The guidelines stated that medication support costs were not reimbursable for FY 2000-01. Consequently the finding has been updated for the allowable medication support costs of \$257,854.

Crisis Intervention

Crisis intervention was not included in the *Parameters and Guidelines* for the Handicapped and Disabled Students II Program; therefore, these services are not reimbursable for the audit period.

Inpatient Services

Our auditor questioned the following services:

- Code 05-40 Adult Crisis Residential
- Code 05-60 Child Crisis Residential
- Code 05-65 Adult Residential

Services to adults and crisis services are not eligible for reimbursement under *Parameters and Guidelines* for the Handicapped and Disabled Students Program.

**FINDING 2—
Claimed
administrative costs
unsupported**

The county claimed administrative costs that were not supported by its accounting records or its annual cost reports submitted to the California Department of Mental Health. The county applied an administrative cost rate to contract provider costs even though the base on which the rate was computed excluded contract provider costs.

Parameters and Guidelines specifies that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

Our auditor recomputed the administrative cost rate based on amounts documented in the county’s annual cost reports, and adjusted claimed administrative costs as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Administrative costs:			
Assessment and case management	\$ 56,692	\$ 3,344	\$ 60,036
Treatment	(1,112,016)	(1,525,446)	(2,637,462)
Audit adjustment	<u>\$(1,055,324)</u>	<u>\$(1,522,102)</u>	<u>\$(2,577,426)</u>

Recommendation

The county should ensure that costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

County’s Response

The county agreed that the methodology used to calculate administrative costs on its claims was faulty, but stated that the calculation included in the audit report grossly understated administrative costs. The county requested that administrative costs be recalculated for both assessment/case management and treatment costs using a methodology agreeable to both the State and the county.

SCO’s Comment

Based on further review of the adjustments made to administrative costs in the draft report, we determined that utilization and review costs should have been classified as indirect rather than direct costs in our auditor’s computation. As a result, we have increased the FY 2000-01 indirect cost rate from 14.17% to 16.28%, and the FY 2001-02 rate from 10.66% to 12.90%. The audit adjustments reflected in the finding above have been revised to reflect these updated percentages. We furnished the county with copies of our auditor’s working papers supporting this adjustment.

These indirect cost rates apply to both assessment/case management and treatment costs. The adjustment to administrative costs related to treatment costs is larger than that for assessment/case management (1) because of the adjustment to claimed treatment costs in Finding 1 above and (2) because a large portion of treatment costs claimed is made up of private contractor services to which administrative costs do not apply.

**FINDING 3—
Revenue offsets
overstated**

The county overstated revenue offsets for FY 2001-02 by \$933,434. The overstatement occurred because the county reported revenue offsets that did not agree with documentation supporting the claim and it included realignment funds as a revenue offset.

Parameters and Guidelines specifies that any direct payments (categorical funds) received from the State that are specifically allocated to the program, and any other reimbursements received as a result of the mandate, must be deducted from the claims.

Chapter 1167, Statutes 2002, (Assembly Bill 2781) amended *Welfare and Institutions Code* Section 5701.3. This legislation states that FY 2001-02 and thereafter, counties are not required to provide any share of psychotherapy and other mental health services or fund any part of these services with realignment funds.

Chapter 493, Statutes 2004, (Senate Bill 1895) added *Welfare and Institutions Code* Section 5701.6. This legislation states that if realignment funds are used by counties for assessments, psychotherapy, and other mental health services, counties are eligible for reimbursement from the State for all allowable costs to fund mental health services. This legislation further states that this section is declaratory of existing law. The Legislative Counsel's Digest states that this provision applies to FY 2001-02 and thereafter.

COSM amended the *Parameters and Guidelines* of the Handicapped and Disabled Students I Program on January 25, 2007. Counties will be allowed to file amended reimbursement claims for all allowable costs, if they used realignment funds to pay for reimbursable activities for FY 2001-02 through FY 2003-04.

As a result of the legislation and COSM amendment, we eliminated realignment funds as a revenue offset. Offsetting revenues have been adjusted as follows.

	Fiscal Year 2001-02
Offsetting revenues:	
Assessment and case management:	
Short-Doyle/Medi-Cal funds (FFP)	\$ (279,714)
EPSDT and county matching funds	(501,448)
Realignment funds ¹	—
Total assessment and case management	<u>(781,162)</u>
Treatment:	
Short-Doyle/Medi-Cal funds (FFP)	122,142
Realignment funds ²	<u>1,592,454</u>
Total treatment	<u>1,714,596</u>
Total audit adjustment	<u>\$ 933,434</u>

¹ The revised finding eliminates \$127,710 of realignment funds related to assessment and case management costs that we identified in the original final audit report dated October 8, 2004, as understated offsetting revenues.

² The revised finding also reverses \$1,592,454 of realignment funds related to treatment costs the county deducted from claimed costs. This amount is inclusive of \$468,339 that we identified in the original final report

Recommendation

The county should ensure that only applicable revenue received is offset against costs claimed.

County's Response

At the time of filing the claims for FY 00/01 and FY 01/02, Alameda County's understanding of the regulations requires (1) Medi-Cal FFP and county match requirement (including Realignment or EPSDT) and (2) all categorical funds to be offset from the total cost of services. It was Alameda County's understanding at the time the claim was prepared that a prorated share of Realignment should also be offset from the total cost, as well as the match to Medi-Cal FFP. This understanding has changed based on the review of the P&G's which states, "the scope of the mandate is one hundred (100) percent reimbursement, except that for individuals billed to Medi-Cal only, the Federal Financing Participation portion (FFP) for these activities should be deducted from reimbursable activities not subject to the Short-Doyle Act." And the clarification is given in the State's Audit Report, "Furthermore, this legislation states that for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of those 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). With this being said, realignment funds in the amount of \$28,163 for assessment and case management and \$246,641 for treatment, should not be included in the offset. The county would like to review the Controller's work papers to clarify this issue.

SCO's Comment

Based on the county's response, enacted legislation, and the COSM amendment to the *Parameters and Guidelines*, we eliminated realignment funds as a revenue offset.

In the original final report dated October 8, 2004, we stated that the county understated offsetting realignment revenues related to assessment and case management costs by \$127,719 and overstated offsetting realignment revenues related to treatment costs by \$468,339. In this revised finding, we reversed our adjustments and restored the entire \$1,679,499 of realignment funds the county deducted as offsetting revenues from claimed treatment costs, net of the realignment adjustment we identified in Finding 1 of \$87,045.

**FINDING 4—
Decreased claimed
costs**

The county amended its FY 2001-02 claim before the draft and final reports were issued, decreasing claimed costs by \$1,687,836. The audit staff inadvertently missed the amended claim. To further compound the problem, the county did not comment on the discrepancies between claimed costs when it responded to the draft report. As a result, the final audit report erroneously reported claimed costs for FY 2001-02. We have corrected claimed costs as follows.

	<u>Original Costs</u>	<u>Amended Costs</u>	<u>Total</u>
<u>July 1, 2001, through June 30, 2002</u>			
Assessment and case management costs	\$ 1,104,493	\$ 1,298,772	\$ (194,279)
Administrative costs	139,136	94,137	44,999
Less offsetting revenues:			
Short-Doyle Medi-Cal (FFP)	(221,734)	(235,325)	13,591
EPSDT and county match	—	—	—
Realignment	—	—	—
State categorical funding (SEP)	<u>(27,227)</u>	<u>(32,652)</u>	<u>5,425</u>
Net assessment and case management costs	<u>994,668</u>	<u>1,124,932</u>	<u>(130,264)</u>
Treatment costs	14,470,308	13,972,796	497,512
Administrative costs	1,822,859	1,012,772	810,087
Less offsetting revenues:			
Short-Doyle Medi-Cal (FFP)	(4,130,994)	(4,658,137)	527,143
EPSDT and county match	(4,130,994)	(4,658,137)	527,143
Realignment	(1,679,499)	(1,141,139)	(538,360)
State categorical funding (SEP)	<u>(356,713)</u>	<u>(351,288)</u>	<u>(5,425)</u>
Net treatment costs	<u>5,994,967</u>	<u>4,176,867</u>	<u>1,818,100</u>
Total program costs	<u>\$ 6,989,635</u>	<u>\$ 5,301,799</u>	<u>\$ 1,687,836</u>

Recommendation

For subsequent audits, we recommend that when a draft audit report incorrectly reports claimed costs, the county should notify the SCO of the inaccuracies, so that they can be corrected.

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



ALCOHOL, DRUG & MENTAL HEALTH SERVICES
MARYE L. THOMAS, M.D., DIRECTOR

2000 Embarcadero Cove, Suite 302
Oakland, California 94606
(510) 567-8100

July 14, 2004

California State Controller
Compliance Audits Bureau
Division of Audits
P. O. Box 942850
Sacramento, CA 94250-5874

ATTENTION: Jim L. Spano, Chief

REFERENCE: Handicapped and Disabled Students Program
Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985
Period July 1, 2000 through June 30, 2002

In response to your department's letter of June 11, 2004, Alameda County has several concerns regarding the above referenced Handicapped and Disabled Students Program audit which are outlined below. All during the audit and at the exit conference many of the concerns were discussed, but the county's opinion has not been reflected in the audit findings.

FINDING 1 – Ineligible Treatment Costs:

The Controller alleges the county claimed various treatment cost that are ineligible. The county claimed costs for medication support, crisis intervention, and inpatient services, which the Controller states are not reimbursable under program guidelines. As a result, the Controller is disallowing \$1,515,218 for treatment costs for FY 00-01 and 01-02.

RESPONSE TO FINDING 1:

The Parameters and Guidelines used by the Controller's auditor on which it bases its findings are outdated and do not reflect the changes that were clarified in AB 2781 of the 2002 legislative session. We believe that legislation clarifies the fact that all other mental health services, which includes crisis intervention costs, are eligible for reimbursement. That legislation specifies that counties are eligible for 100% reimbursement of the "3632" related mental health services. Therefore, Alameda County does not agree that medication support and crisis intervention services are not reimbursable under the program guidelines. Even when applying the outdated, or more narrow, Parameter and Guidelines (P & G's), costs related to mental health services rendered under the Short-Doyle Act are claimable. The Short-Doyle Act, which was essentially repealed by the Bronzan-McCorquodale Program Re-alignment legislation in 1991, included both medication support and crisis intervention. When an Individual Education Program (IEP) is written medication support can be a critical component of the child meeting the goals of the IEP. Crisis Intervention is another critical component, as the service's name indicates Crisis Intervention is an unpredictable service, provided only as needed.

In other words, though the Short Doyle Act was repealed on July 1, 1991, it is believed that medication and crisis intervention were intended to be eligible components of the Handicapped and Disabled mandate reimbursement claim. AB 2781 was enacted to clarify the eligibility of these costs. It did not make changes to what was eligible, but just clarified the law beginning in '99'. Currently the Commission on State Mandates is considering revisions to the current outdated parameters and guidelines. The following are among the issues being addressed in the amendment of the Parameters and Guidelines.



Regarding preparing reimbursement claims for psychotherapy and other mental health services required by Chapter 26.5, Section 38 of Chapter 1167, Statutes of 2002 amended Section 5701.3 of the Welfare and Institutions Code to provide that:¹

“Consistent with the annual Budget Act, this chapter shall not affect the responsibility of the state to fund psychotherapy and other mental health services required by Chapter 26.5 (commencing with Section 7570) of Division 7 of Title 1 of the Government Code, and the state shall reimburse counties for all allowable costs incurred by counties in providing services pursuant to that chapter. The reimbursement provided pursuant to this section for purposes of Chapter 26.5 (commencing with Section 7570) of Division 7 of Title 1 of Government Code shall be provided by the state through an appropriation included in either the annual Budget Act or other statute. Counties shall continue to receive reimbursement from specifically appropriated funds for costs necessarily incurred in providing psychotherapy and other mental health services in accordance with this chapter. For reimbursement claims for services delivered in the 2001-2002 fiscal year and thereafter, counties are not required to provide any share of those costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by Chapter 6 (commencing with Section 17600) of Part 5 of Division 9.”

Except for Chapter 26.5 psychotherapy and other mental health service costs funded under State categorical appropriations, counties are entitled to 100% reimbursement of their Chapter 26.5 service costs.

Regarding auditing claims for costs incurred during 2000-01 and prior fiscal years, Section 41 of Chapter 1167, Statutes of 2002 provides that:²

“Notwithstanding any other provision of law, with respect to the handicapped and disabled students state-mandated local program, county reimbursement claims submitted to the Controller for reimbursement for services associated with providing, pursuant to Chapter 26.5 (commencing with Section 7570) of Division 7 of Title 1 of the Government Code, allowable mental health treatment services required by an individualized education program in fiscal years up to and including the 2000-01 fiscal year are not subject to dispute by the Controller’s office regarding the percentage of reimbursement claimed by any county.”

AB 2781 was adopted specifically to address the Controller audits and to provide counties one hundred percent of its “3632” costs.

Inpatient Services Disallowance:

The Controller is alleging that the inpatient services claimed by the county are not reimbursable under program guidelines. The Controller is recommending a disallowance of \$77,484 for 2000-01 and \$161,126 for 2001-02.

Response to Disallowance:

Alameda County did not include inpatient services in the claim. In researching this issue it appears the auditor categorized some residential treatment services as inpatient. The State Department of Mental Health categorizes both Residential Treatment and Inpatient Services under the same mode of service (Mode 05). The P & G’s state Mental Health portion of residential treatment in excess of the State Department of Social Services payment for residential placement is claimable.

¹ Section 38 is found on page 39 of the Stanislaus County filing referenced above.

² Section 41 is found on page 40 of the Stanislaus County filing referenced above.

FINDING 2 – Claimed Administrative Costs Unsupported:

The Controller alleges that the county claimed administrative costs not supported by accounting records or its annual cost reports. The Controller alleges that the county applied an administrative cost rate to contract provider costs even though the base on which the rate was computed excluded contract provider costs. The Controller recomputed the administrative cost rate based on amounts documented in the county's annual cost reports and is making a recommendation to disallow \$1,122,599 for FY 2000-01 and \$1,599,735 for FY 2001-02, a total of \$2,722,334.

RESPONSE TO FINDING 2:

Alameda County does agree that the methodology used to calculate the administrative costs on the claims was faulty. But the calculation included in the audit report grossly understates the administrative cost. The administrative cost of this program averages around 11% - 12%. The audit report calculation for Assessment and Case Management cost is 11.27%, which seems accurate. But the calculation for Treatment Costs is only 1.53%, which is extremely low. Alameda County is requesting that the administrative cost be recalculated for both Assessment and Case Management Costs and Treatment Costs using a methodology agreeable to both the State and Alameda County which would minimally be the state approved default rate, 10%, for indirect costs.

In reference to the amended parameters and guidelines, which are under consideration by the Commission on State Mandates, direct administrative costs related to services required by a child's IEP is 100% reimbursable except that only 10% of the net cost of direct administrative costs related to services provided pursuant to a county's funded Section 5712 (a) program is reimbursable.³

FINDING 3 – Revenue Offset Understated:

The Controller alleges that the county understated revenue offsets for FY 2001-02 by \$318,400 (\$249,897 in assessment and case management costs, and \$68,503 in treatments costs). The Controller alleges that this occurred because revenue offsets reported by the county did not agree with the documentation supporting the claim. As a result, the Controller's office is suggesting a disallowance in \$318,400 for FY 2001-02.

RESPONSE TO FINDING 3:

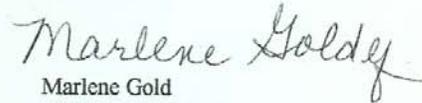
At the time of filing the claims for FY 00/01 and FY 01/02, Alameda County's understanding of the regulations requires (1) Medi-Cal FFP and county match requirement (including Realignment or EPSDT) and (2) all categorical funds to be offset from the total cost of services. It was Alameda County's understanding at the time the claim was prepared that a prorated share of Realignment should also be offset from the total cost, as well as the match to Medi-Cal FFP. This understanding has changed based on the review of the P & G 's which states, "the scope of the mandate is one hundred (100) percent reimbursement, except that for individuals billed to Medi-Cal only, the Federal Financing Participation portion (FFP) for these activities should be deducted from reimbursable activities not subject to the Short-Doyle Act." And the clarification is given in the State's Audit Report, "Furthermore, this legislation states that for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of those 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). With this being said, realignment funds in the amount of \$28,163 for assessment and case management and \$246,641 for treatment, should not be included in the offset. The county would like to review the Controller's work papers to clarify this issue.

³ Commission staff's [March 20, 2002] version of the paragraph is:

"Ten (10) percent of any direct administrative costs related to mental health treatment rendered under the Short-Doyle Act."

Based on the above comments Alameda County is requesting that the draft audit report be revised to incorporate these issues. I or my staff would be willing to meet again with your audit staff to clarify our concerns. If these issues cannot be agreed to, the County plans to take them to appeal. Please contact me or Leda Frediani, if you would like to discuss or we can set up a meeting to review in person. Thank you for your consideration in this matter.

Sincerely,

A handwritten signature in cursive script that reads "Marlene Gold".

Marlene Gold
Director of Finance

Enclosure

cc: Patrick O'Connell, Auditor-Controller
Sherie Peterson, Auditor- Controller's Office
Marye L. Thomas, MD., Director Behavioral Health Care

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

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