

CONTRA COSTA COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

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

July 1, 2001, through June 30, 2004



STEVE WESTLY
California State Controller

January 2007



STEVE WESTLY
California State Controller

January 5, 2007

The Honorable Stephen Ybarra
Auditor-Controller
Contra Costa County
625 Court Street, Room 103
Martinez, CA 94553-1282

Dear Mr. Ybarra:

The State Controller's Office audited the costs claimed by Contra Costa 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, 2001, through June 30, 2004.

The county claimed \$8,942,587 for the mandated program. Our audit disclosed that \$6,738,480 is allowable and \$2,204,107 is unallowable. The unallowable costs occurred primarily because the county claimed unsupported units of service and did not offset State grant funds received against claimed costs. The State paid the county \$1,422,512. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,315,968, contingent upon available appropriations.

If you disagree with the audit finding[s], 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, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by:

JEFFREY V. BROWNFELD
Chief, Division of Audits

JVB/vb:ams

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Contra Costa 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, 2001, through June 30, 2004. The last day of fieldwork was August 31, 2005.

The county claimed \$8,942,587 for the mandated program. Our audit disclosed that \$6,738,480 is allowable and \$2,204,107 is unallowable. The unallowable costs occurred primarily because the county claimed unsupported units of service and did not offset State grant funds received against claimed costs. The State paid the county \$1,422,512. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,315,968, 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 that counties 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 Chapter 1747, Statutes of 1984, resulted in state-mandated costs that are reimbursable pursuant to *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. The COSM adopted *Parameters and Guidelines* on August 22, 1991, and it was last amended 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). Furthermore, Senate Bill 1895 (Chapter 493, Statutes of 2004) states that realignment funds used by counties for the Handicapped and Disabled Students Program "are eligible for reimbursement from the state for all allowable costs to fund assessments,

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

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 identified 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 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.

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, 2001, through June 30, 2004.

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.

Conclusion

Our audit disclosed 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, Contra Costa County claimed \$8,942,587 for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$6,738,480 is allowable and \$2,204,107 is unallowable.

For fiscal year (FY) 2001-02, the State paid the county \$1,422,495. Our audit disclosed that \$1,601,708 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$179,213, contingent upon available appropriations.

For FY 2002-03, the State paid the county \$17. Our audit disclosed that \$2,826,661 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$2,826,644, contingent upon available appropriations.

For FY 2003-04, the State made no payments to the county. Our audit disclosed that \$2,310,111 is allowable. The State will pay that amount, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft report on September 22, 2006. Haj Najal, Accountant, Auditor-Controller's Office, responded by telephone on November 14, 2006. He stated that Contra Costa County Health Services Department agrees with the audit finding. The department did not respond in writing to the draft report.

Restricted Use

This report is solely for the information and use of Contra Costa 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

Schedule 1— Summary of Program Costs July 1, 2001, through June 30, 2004

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
July 1, 2001, through June 30, 2002				
Assessment and case management costs	\$ 1,345,970	\$ 1,658,623	\$ 312,653	Findings 1, 2
Administrative costs	135,075	257,364	122,289	Finding 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(214,105)	(379,835)	(165,730)	Findings 1, 2
EPSDT and county matching funds	—	(271,269)	(271,269)	Findings 1, 2
SEP funds	(407,651)	(407,651)	—	
Other funds	(218,677)	(165,041)	53,636	Findings 1, 6
Net assessment and case management costs	640,612	692,191	51,579	
Treatment costs	1,533,641	2,860,494	1,326,853	Findings 1, 2, 3
Administrative costs	153,909	253,310	99,401	Finding 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(347,288)	(734,435)	(387,147)	Findings 1, 2, 3
EPSDT and county matching funds	—	(538,356)	(538,356)	Findings 1, 2, 3
SEP funds	(69,711)	(69,711)	—	
Other funds	(309,455)	(284,616)	24,839	Findings 1, 6
Net treatment costs	961,096	1,486,686	525,590	
Subtotal	1,601,708	2,178,877	577,169	
Less allowable costs that exceed claimed costs ²	—	(577,169)	(577,169)	
Total program costs	<u>\$ 1,601,708</u>	1,601,708	<u>\$ —</u>	
Less amount paid by the State		(1,422,495)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 179,213</u>		
July 1, 2002, through June 30, 2003				
Assessment and case management costs	\$ 1,856,849	\$ 1,691,367	\$ (165,482)	Findings 1, 2
Administrative costs	186,345	227,034	40,689	Finding 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(295,372)	(341,772)	(46,400)	Findings 1, 2
EPSDT and county matching funds	—	(250,606)	(250,606)	Findings 1, 2
Other funds	(301,678)	(127,365)	174,313	Findings 1, 6
Net assessment and case management costs	1,446,144	1,198,658	(247,486)	
Treatment costs	3,130,018	2,919,599	(210,419)	Findings 1, 2, 3
Administrative costs	314,114	217,627	(96,487)	Finding 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(708,782)	(743,900)	(35,118)	Findings 1, 2, 3
EPSDT and county matching funds	—	(545,469)	(545,469)	Findings 1, 2, 3
Other funds	(631,569)	(219,854)	411,715	Findings 1, 6
Net treatment costs	2,103,781	1,628,003	(475,778)	
Total program costs	<u>\$ 3,549,925</u>	2,826,661	<u>\$ (723,264)</u>	
Less amount paid by the State		(17)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,826,644</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Assessment and case management costs	\$ 1,886,475	\$ 1,886,475	\$ —	
Due process settlements	62,550	3,550	(59,000)	Finding 3
Administrative costs	246,549	253,041	6,492	Finding 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(475,445)	(478,588)	(3,143)	Finding 2
EPSDT and county matching funds	(339,199)	(325,224)	13,975	Finding 2
IDEA grant funds	—	(394,549)	(394,549)	Finding 5
Other funds	(93,787)	(82,570)	11,217	Finding 6
Net assessment and case management costs	<u>1,287,143</u>	<u>862,135</u>	<u>(425,008)</u>	
Treatment costs	3,857,099	3,696,086	(161,013)	Findings 2, 3
Administrative costs	504,095	269,563	(234,532)	Finding 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(972,098)	(949,541)	22,557	Findings 2, 3
EPSDT and county matching funds	(693,529)	(645,810)	47,719	Findings 2, 3
IDEA grant funds	—	(773,021)	(773,021)	Finding 5
Other funds	(191,756)	(149,301)	42,455	Finding 6
Net treatment costs	<u>2,503,811</u>	<u>1,447,976</u>	<u>(1,055,835)</u>	
Total program costs	<u>\$ 3,790,954</u>	2,310,111	<u>\$ (1,480,843)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,310,111</u>		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Assessment and case management costs	\$ 5,089,294	\$ 5,236,465	\$ 147,171	Findings 1, 2
Due process settlements	62,550	3,550	(59,000)	Finding 3
Administrative costs	567,969	737,439	169,470	Finding 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(984,922)	(1,200,195)	(215,273)	Findings 1, 2
EPSDT and county matching funds	(339,199)	(847,099)	(507,900)	Findings 1, 2
SEP funds	(407,651)	(407,651)	—	
IDEA grant funds	—	(394,549)	(394,549)	Finding 5
Other funds	(614,142)	(374,976)	239,166	Finding 6
Net assessment and case management costs	<u>3,373,899</u>	<u>2,752,984</u>	<u>(620,915)</u>	
Treatment costs	8,520,758	9,476,179	955,421	Findings 1, 2, 3
Administrative costs	972,118	740,500	(231,618)	Finding 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(2,028,168)	(2,427,876)	(399,708)	Findings 1, 2, 3
EPSDT and county matching funds	(693,529)	(1,729,635)	(1,036,106)	Findings 1, 2, 3
SEP funds	(69,711)	(69,711)	—	
IDEA grant funds	—	(773,021)	(773,021)	Finding 5
Other funds	(1,132,780)	(653,771)	479,009	Findings 1, 6
Net treatment costs	<u>5,568,688</u>	<u>4,562,665</u>	<u>(1,006,023)</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2001, through June 30, 2004 (continued)</u>				
Subtotal	8,942,587	7,315,649	(1,626,938)	
Less allowable costs that exceed claimed costs ²	—	(577,169)	(577,169)	
Total program costs	<u>\$ 8,942,587</u>	6,738,480	<u>\$(2,204,107)</u>	
Less amount paid by the State		(1,422,512)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,315,968</u>		

¹ See the Findings and Recommendations section.

² *Government Code* Section 17561 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2001-02.

Findings and Recommendations

**FINDING 1—
Adjustment to
claimed costs**

The county’s fiscal year (FY) 2001-02 and FY 2002-03 claims were not supported by its accounting records. Prior to the start of audit fieldwork, the county noticed the errors and compiled revised cost data totaling \$1,253,633 that should have been claimed. We were able to trace the revised cost data to the county’s accounting records and management information system.

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

As a result, we increased the original claimed amounts to reflect the costs as revised by the county.

	Fiscal Year		Total
	2001-02	2002-03	
Assessment and case management costs	\$ 1,119,553	\$ 801	\$ 1,120,354
Offsetting revenues:			
Short-Doyle/Medi-Cal funds (FFP)	(158,731)	(331)	(159,062)
EPSDT and county matching funds	(246,815)	(207,269)	(454,084)
Other funds	30,917	175,160	206,077
Net assessment and case management costs	744,924	(31,639)	713,285
Treatment costs	1,613,506	36,420	1,649,926
Offsetting revenues:			
Short-Doyle/Medi-Cal funds (FFP)	(379,210)	(47,371)	(426,581)
EPSDT and county matching funds	(480,937)	(530,014)	(1,010,951)
Other funds	(56,813)	384,767	327,954
Net treatment costs	696,546	(156,198)	540,348
Audit adjustment	<u>\$ 1,441,470</u>	<u>\$ (187,837)</u>	<u>\$ 1,253,633</u>

Recommendation

We recommend that the county review its claim filing process to ensure that it claims all eligible and supported increased costs incurred as a result of the mandate.

**FINDING 2—
Unsupported units of
service claimed**

The county claimed unsupported units of service, totaling \$1,597,171 for the audit period. The county claimed costs and Short-Doyle/Medi-Cal reimbursements for units of service that differed from the units and rates in the county’s management information system database and in its annual cost reports submitted to the California Department of Mental Health.

Parameters and Guidelines for the Handicapped and Disabled Students Program specifies that all costs must be traceable to source documents and/or worksheets that show the validity of such costs. Furthermore, only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

As a result, we adjusted claimed costs to actual costs as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment and case management costs	\$ (806,900)	\$(166,283)	\$ —	\$ (973,183)
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(6,999)	(46,069)	(3,143)	(56,211)
EPSDT and county matching funds	(24,454)	(43,337)	13,975	(53,816)
Net assessment and case management costs	(838,353)	(255,689)	10,832	(1,083,210)
Treatment costs	(275,598)	(139,879)	(184)	(415,661)
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(13,132)	(11,977)	(6,431)	(31,540)
EPSDT and county matching funds	(61,558)	(33,222)	28,020	(66,760)
Net treatment costs	(350,288)	(185,078)	21,405	(513,961)
Audit adjustment	<u>\$(1,188,641)</u>	<u>\$(440,767)</u>	<u>\$ 32,237</u>	<u>\$(1,597,171)</u>

Recommendation

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

**FINDING 3—
Ineligible costs
claimed**

The county claimed certain assessment and treatment costs totaling \$237,826 that are ineligible. The county claimed settlement costs related to due process proceedings that were related to and claimed under another mandate (Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services Program), and crisis intervention services that are not reimbursable under program guidelines.

Parameters and Guidelines for the Handicapped and Disabled Students 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. *Parameters and Guidelines* for the Handicapped and Disabled Students II Program allows costs of medication monitoring beginning in FY 2001-02.

As a result, we adjusted claimed costs and related revenue offsets as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment and case management costs:				
Due process settlements	\$ —	\$ —	\$ (59,000)	\$ (59,000)
Treatment costs:				
Crisis intervention	(11,055)	(106,960)	(160,829)	(278,844)
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	5,195	24,230	28,988	58,413
EPSDT and county matching funds	4,139	17,767	19,699	41,605
Net treatment costs	(1,721)	(64,963)	(112,142)	(178,826)
Audit adjustment	<u>\$(1,721)</u>	<u>\$(64,963)</u>	<u>\$(171,142)</u>	<u>\$(237,826)</u>

Recommendation

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

**FINDING 4—
Claimed
administrative costs
misstated**

The county overstated its administrative costs by \$62,148 because it computed the rate incorrectly. The county understated its rates because it omitted its utilization review costs from total administrative costs. Also, the county incorrectly applied the administrative cost rates to contract provider costs, even though the base on which the rates were established correctly excluded those costs.

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

As a result, we adjusted allowable administrative costs using actual costs less allocable reimbursements, applied to allowable service costs provided by county clinics as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Administrative costs:				
Assessment and case management costs	\$ 122,289	\$ 40,689	\$ 6,492	\$ 169,470
Treatment costs	99,401	(96,487)	(234,532)	(231,618)
Audit adjustment	\$ 221,690	\$ (55,798)	\$ (228,040)	\$ (62,148)

Recommendation

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

**FINDING 5—
Revenue offsets
omitted from claim**

The county did not offset its FY 2003-04 claim by \$1,167,570 for Individuals with Disabilities Education Act (IDEA) grant funds received from the California Department of Mental Health.

Parameters and Guidelines for the Handicapped and Disabled Students Program 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.

As a result, we increased revenue offsets for the grant funds received as follows.

	Fiscal Year 2003-04
Offsetting revenues:	
IDEA grant funds:	
Assessment and case management costs	\$ (394,549)
Treatment costs	(773,021)
Audit adjustment	\$ (1,167,570)

Recommendation

We recommend that the county ensure that all applicable reimbursements received are offset against claimed costs.

**FINDING 6—
Revenue offsets
overstated**

The county offset its claims for “other” revenue received, prorating the revenue received based on the ratio of the costs of mandated services to total departmental costs. As the SCO reduced certain costs claimed, these offsets are overstated by \$184,144.

Parameters and Guidelines for the Handicapped and Disabled Students Program 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.

As a result, we reduced the revenue offsets claimed for other revenue as follows.

	Fiscal Year			
	2001-02	2002-03	2003-04	Total
Offsetting revenues:				
Other funds:				
Assessment and case management costs	\$ 22,719	\$ (847)	\$ 11,217	\$ 33,089
Treatment costs	81,652	26,948	42,455	151,055
Audit adjustment	\$ 104,371	\$ 26,101	\$ 53,672	\$ 184,144

Recommendation

We recommend that the county ensure that all applicable reimbursements received are correctly offset against claimed costs.

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Division of Audits
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<http://www.sco.ca.gov>