

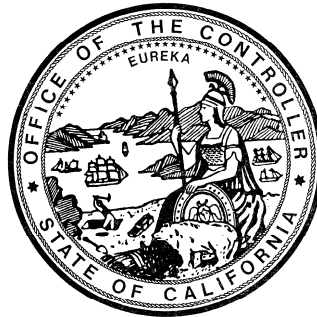
MARIN COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

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

July 1, 2003, through June 30, 2006



JOHN CHIANG
California State Controller

November 2008



JOHN CHIANG
California State Controller

November 5, 2008

Charles McGlashan, President
Marin County Board of Supervisors
3501 Civic Center Drive
San Rafael, CA 94903

Dear Mr. McGlashan:

The State Controller's Office audited the costs claimed by Marin 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, 2003, through June 30, 2006.

The county claimed \$5,967,155 for the mandated program. Our audit disclosed that \$5,080,543 is allowable and \$886,612 is unallowable. The county claimed unallowable costs primarily because it overstated costs and omitted Early Periodic Screening, Diagnosis, and Treatment (EPSDT) and Healthy Families revenues from its revenue calculation. The State paid the county \$4,261,865. Allowable costs claimed exceed the amount paid by \$818,678.

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/vb

cc: The Honorable Richard Arrow, Auditor-Controller
Marin County
Bruce Gurganus, Director
Division of Mental Health
Marin County Health & Human Services
Theresa Arrambide, Fiscal Supervisor
Division of Mental Health
Marin County Health & Human Services
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance
Stacey Wofford
Special Education Program
Department of Mental Health
Cynthia Wong, Manager
Special Education Division
California Department of Education

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Marin 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, 2003, through June 30, 2006.

The county claimed \$5,967,155 for the mandated program. Our audit disclosed that \$5,080,543 is allowable and \$886,612 is unallowable. The county claimed unallowable costs primarily because it overstated costs, and omitted Early Periodic Screening, Diagnosis, and Treatment (EPSDT) and Healthy Families revenues from its revenue calculation. The State paid the county \$4,261,865. Allowable costs claimed exceed the amount paid by \$818,678.

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 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 (CSM) determined that this legislation imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines for the Handicapped and Disabled Students Program on August 22, 1991, and last amended it on August 29, 1996. 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.

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

On May 26, 2005, the CSM 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 costs effective July 1, 2001. The CSM adopted the parameters and guidelines for this new program on December 9, 2005, and made technical corrections to it on July 21, 2006.

The parameters and guidelines for the Handicapped and Disabled Students 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.

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, 2003, through June 30, 2006.

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 this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county’s financial statements. We conducted the 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.

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, Marin County claimed \$5,967,155 for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$5,080,543 is allowable and \$886,612 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$1,390,325 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,390,325, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$1,899,095. Our audit disclosed that \$1,709,804 is allowable. The State will offset \$189,291 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2005-06 claim, the State paid the county \$2,362,770. Our audit disclosed that \$1,980,414 is allowable. The State will offset \$382,356 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

**Views of
Responsible
Officials**

We issued a draft audit report on August 6, 2008. Theresa Arrambide, Fiscal Supervisor, responded by letter dated September 10, 2008 (Attachment), agreeing with the audit results. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Marin 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

November 5, 2008

**Schedule 1—
Summary of Program Costs
July 1, 2003, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
July 1, 2003, through June 30, 2004				
Assessment/case management costs	\$ 1,300,129	\$ 1,023,478	\$ (276,651)	Finding 1
Administrative costs	171,714	192,319	20,605	Finding 2
Offsetting revenues:				
State categorical funds (EPSDT and IDEA)	(495,716)	(573,062)	(77,346)	Finding 3
Short-Doyle/Medi-Cal funds	(381,041)	(212,391)	168,650	Finding 3
Other (Healthy Families)	(14,393)	(34,932)	(20,539)	Finding 3
Net assessment/case management costs	<u>580,693</u>	<u>395,412</u>	<u>(185,281)</u>	
Treatment costs	2,386,878	2,412,292	25,414	Finding 1
Administrative costs	315,246	361,380	46,134	Finding 2
Offsetting revenues:				
State categorical funds (EPSDT and IDEA)	(910,073)	(1,296,857)	(386,784)	Finding 3
Short-Doyle/Medi-Cal funds	(628,803)	(426,507)	202,296	Finding 3
Other (Healthy Families)	(38,652)	(55,395)	(16,743)	Finding 3
Net treatment costs	<u>1,124,596</u>	<u>994,913</u>	<u>(129,683)</u>	
Total program costs	<u>\$ 1,705,289</u>	1,390,325	<u>\$ (314,964)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,390,325</u>		
July 1, 2004, through June 30, 2005				
Assessment/case management costs	\$ 1,179,614	\$ 1,155,485	\$ (24,129)	Finding 1
Administrative costs	153,896	226,135	72,239	Finding 2
Offsetting revenues:				
State categorical funds (EPSDT and IDEA)	(455,114)	(608,489)	(153,375)	Finding 3
Short-Doyle/Medi-Cal funds	(269,665)	(207,367)	62,298	Finding 3
Other (Healthy Families)	(7,313)	(33,020)	(25,707)	Finding 3
Net assessment/case management costs	<u>601,418</u>	<u>532,744</u>	<u>(68,674)</u>	
Treatment costs	2,412,204	2,502,136	89,932	Finding 1
Administrative costs	314,702	416,504	101,802	Finding 2
Offsetting revenues:				
State categorical funds (EPSDT and IDEA)	(930,668)	(1,262,277)	(331,609)	Finding 3
Short-Doyle/Medi-Cal funds	(485,077)	(381,778)	103,299	Finding 3
Other (Healthy Families)	(13,484)	(97,525)	(84,041)	Finding 3
Net treatment costs	<u>1,297,677</u>	<u>1,177,060</u>	<u>(120,617)</u>	
Total program costs	<u>\$ 1,899,095</u>	1,709,804	<u>\$ (189,291)</u>	
Less amount paid by the State		<u>(1,899,095)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (189,291)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Assessment/case management costs	\$ 1,237,230	\$ 1,182,270	\$ (54,960)	Finding 1
Administrative costs	171,165	237,733	66,568	Finding 2
Offsetting revenues:				
State categorical funds (EPSDT and IDEA)	(422,455)	(601,002)	(178,547)	Finding 3
Short-Doyle/Medi-Cal funds	(292,740)	(228,152)	64,588	Finding 3
Other (Healthy Families)	(16,158)	(42,744)	(26,586)	Finding 3
Net assessment/case management costs	<u>677,042</u>	<u>548,105</u>	<u>(128,937)</u>	
Treatment costs	2,821,266	2,782,249	(39,017)	Finding 1
Administrative costs	390,310	480,956	90,646	Finding 2
Offsetting revenues:				
State categorical funds (EPSDT and IDEA)	(963,328)	(1,320,109)	(356,781)	Finding 3
Short-Doyle/Medi-Cal funds	(529,814)	(422,149)	107,665	Finding 3
Other (Healthy Families)	(32,705)	(88,638)	(55,933)	Finding 3
Net treatment costs	<u>1,685,729</u>	<u>1,432,309</u>	<u>(253,420)</u>	
Total program costs	<u>\$ 2,362,771</u>	1,980,414	<u>\$ (382,357)</u>	
Less amount paid by the State		<u>(2,362,770)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ (382,356)</u>	
<u>Summary: July 1, 2003, through June 30, 2006</u>				
Assessment/case management costs	\$ 3,716,973	\$ 3,361,233	\$ (355,740)	
Administrative costs	496,775	656,187	159,412	
Offsetting revenues:				
State categorical funds (EPSDT and IDEA)	(1,373,285)	(1,782,553)	(409,268)	
Short-Doyle/Medi-Cal funds	(943,446)	(647,910)	295,536	
Other (Healthy Families)	(37,864)	(110,696)	(72,832)	
Net assessment/case management costs	<u>1,859,153</u>	<u>1,476,261</u>	<u>(382,892)</u>	
Treatment costs	7,620,348	7,696,677	76,329	
Administrative costs	1,020,258	1,258,840	238,582	
Offsetting revenues:				
State categorical funds (EPSDT and IDEA)	(2,804,069)	(3,879,243)	(1,075,174)	
Short-Doyle/Medi-Cal funds	(1,643,694)	(1,230,434)	413,260	
Other (Healthy Families)	(84,841)	(241,558)	(156,717)	
Net treatment costs	<u>4,108,002</u>	<u>3,604,282</u>	<u>(503,720)</u>	
Total program costs	<u>\$ 5,967,155</u>	5,080,543	<u>\$ (886,612)</u>	
Less amount paid by the State		<u>(4,261,865)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ 818,678</u>	

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Overstated
assessment and
treatment costs**

The county overstated assessment and treatment costs by \$279,411 for the audit period. The county did not claim costs based on actual costs to implement the mandated program. In some cases, the county used incorrect cost-per-unit amounts to compute costs. For fiscal year (FY) 2003-04, the county used a preliminary unit-of-service report that overstated units.

We recalculated costs based on the actual units of eligible services and applied the appropriate cost per unit.

The program’s parameters and guidelines specify that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

The following table summarizes the overstated assessment and treatment costs:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ (276,651)	\$ (24,129)	\$ (54,960)	\$ (355,740)
Treatment	25,414	89,932	(39,017)	76,329
Total adjustment	<u>\$ (251,237)</u>	<u>\$ 65,803</u>	<u>\$ (93,977)</u>	<u>\$ (279,411)</u>

Recommendation

We recommend that the county ensure that it uses the actual units of service and apply appropriate costs per unit.

County’s Response

The county agreed with the finding.

**FINDING 2—
Miscalculated
administrative costs**

The county understated administrative costs by \$397,994 for the audit period. The county did not reduce the administrative costs by related administrative revenues. The county also allocated county administrative costs to contractor expenditures in its calculations.

We recalculated the administrative costs using the correct costs net of offsetting revenues and applied an allocation methodology that is consistent with the cost report allocation.

The program’s parameters and guidelines specify that administrative costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

The program’s parameters and guidelines further specify that to the extent that the State Department of Mental Health has not already compensated reimbursable indirect costs from categorical funding sources, these costs may be claimed.

The following table summarizes the understated administrative costs:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ 20,605	\$ 72,239	\$ 66,568	\$ 159,412
Treatment	46,134	101,802	90,646	238,582
Total adjustment	<u>\$ 66,739</u>	<u>\$ 174,041</u>	<u>\$ 157,214</u>	<u>\$ 397,994</u>

Recommendation

We recommend that the county apply a methodology that is consistent with the cost report submitted to the State Department of Mental Health and ensure that the information used to allocate administrative costs is complete and accurate.

County's Response

The county agreed with the finding.

FINDING 3— Understated offsetting revenues

The county understated its offsetting revenues by \$1,005,195 for the audit period. The county miscalculated revenues by not applying Early Periodic Screening Diagnosis and Treatment (EPSDT), and Healthy Families (HF) revenues in its calculations. The county also used an incorrect Short/Doyle Medi-Cal (SD/MC) funding percentage rate for FY 2004-05.

We recalculated total revenues, applying the appropriate cost per unit to eligible units of service and using the correct funding percentages for EPSDT, HF, and SD/MC.

The program's parameters and guidelines specify that any direct payments (categorical funds, Short Doyle/Medi-Cal FFP, and other offsets such as private insurance) received from the State that are specifically allocated to the program, and/or any other reimbursement received as a result of the mandate, must be deducted from the claim.

The following table summarizes the understated offsetting revenues:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ 70,765	\$ (116,784)	\$ (140,545)	\$ (186,564)
Treatment	(201,231)	(312,351)	(305,049)	(818,631)
Total adjustment	<u>\$ (130,466)</u>	<u>\$ (429,135)</u>	<u>\$ (445,594)</u>	<u>\$ (1,005,195)</u>

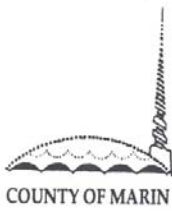
Recommendation

We recommend that the county include all direct payments (categorical funds, Short Doyle/Medi-Cal FFP, and other offsets such as private insurance) when computing offsetting revenues.

County's Response

The county agreed with the finding.

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



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Larry Meredith, Ph.D., Director

DIVISION OF COMMUNITY MENTAL HEALTH SERVICES

20 N. SAN PEDRO RD., STE. 2028
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September 10, 2008

Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano,

Enclosed is the response to the audit findings and recommendations for the Marin County audit of the Handicapped and Disabled Students Program for fiscal years 2003-2004, 2004-2005, and 2005-2006. Please call me at the number below if you have any questions or need clarification on any of the responses.

Thank You.

Teri Arrambide
H&HS Fiscal Supervisor
(415) 499-4253

MARIN COUNTY
COMMUNITY MENTAL HEALTH SERVICES
HANDICAPPED AND DISABLED STUDENTS PROGRAM
FINDINGS AND RECOMMENDATIONS
FOR FISCAL YEARS 03/04, 04/05, 05/06

FINDING 1 – OVERSTATED ASSESSMENT AND TREATMENT COSTS

RECOMMENDATION

We recommend that the County ensure that it uses the actual units of service and apply appropriate costs per unit.

AUDITEE'S RESPONSE

We concur with the finding. The County uses standard reports which are generated by the mental health billing system to determine the units of service to claim. The County cost per unit, as well as the provider cost per unit, is based on the annual MediCal cost report.

FINDING 2 – MISCALCULATED ADMINISTRATIVE COSTS

RECOMMENDATION

We recommend that the County apply a methodology that is consistent with the cost report submitted to the California Department of Health and ensure that the information used to allocate administrative cost is complete and accurate.

AUDITEE RESPONSE

We agree with the finding. Since the audit, we have changed the way the administration is calculated and have already revised our 06/07 claim to reflect this change in methodology.

FINDING 3 – UNDERSTATED OFFSETTING REVENUES

RECOMMENDATION

We recommend that the County include all direct payments (categorical funds, Short Doyle/Medi-Cal FFP, and other offsets such as private insurance) when computing offsetting revenues.

AUDITEE RESPONSE

We concur with the finding. The County will directly allocate the offsetting revenues to the appropriate expenditures when completing the claim.

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

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