

NAPA 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

November 2006



STEVE WESTLY
California State Controller

November 8, 2006

The Honorable Pamela A. Kindig
Auditor-Controller
Napa County
1195 Third Street, Room B-10
Napa, CA 94559-3097

Dear Ms. Kindig:

The State Controller's Office audited the costs claimed by Napa 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 \$2,563,006 (\$2,565,006 less a \$2,000 penalty for filing late claims) for the mandated program. Our audit disclosed that the entire amount is allowable. The State paid the county \$156,143. The State will pay allowable costs that exceed the amount paid, totaling \$2,406,863, contingent upon available appropriations.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Randolph F. Snowden, Director
Health and Human Services Agency
Napa County
Doug Hawker, Acting Director
Department of Mental Health
Napa County
Rose Hardcastle, Staff Services Manager
Health and Human Services Agency
Napa 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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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Napa 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 February 7, 2006.

The county claimed \$2,563,006 (\$2,565,006 less a \$2,000 penalty for filing late claims) for the mandated program. Our audit disclosed that the entire amount is allowable. The State paid the county \$156,143. The State will pay allowable costs that exceed the amount paid, totaling \$2,406,863, 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. 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 for 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 costs 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, this report excludes any adjustments for medication support costs commencing 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

For the audit period, Napa County claimed \$2,563,006 (\$2,565,006 less a \$2,000 penalty for filing late claims) for costs of the Handicapped and Disabled Students Program. Our audit disclosed no material instances of noncompliance with the requirements outlined above. However, our audit disclosed that the county understated allowable costs by \$1,237,423, as reflected in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For FY 2001-02, the State paid the county \$156,136. Our audit disclosed that \$665,033 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$508,897, contingent upon available appropriations.

For FY 2002-03, the State paid the county \$7. Our audit disclosed that \$1,040,970 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,040,963, contingent upon available appropriations.

For FY 2003-04, the State made no payments to the county. Our audit disclosed that \$857,003 is allowable. The State will pay that amount, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft report on June 16, 2006. Rose Hardcastle, Staff Services Manager, Napa County Health and Human Services Agency, responded by telephone on August 3, 2006, agreeing in general with the audit results. Ms. Hardcastle stated that the county declined to submit a written response.

Restricted Use

This report is solely for the information and use of Napa 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
<u>July 1, 2001, through June 30, 2002</u>				
Assessment and case management costs	\$ 12,580	\$ 126,597	\$ 114,017	Finding 1
Administrative costs	1,258	41,645	40,387	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(14,474)	(14,474)	Finding 3
EPSDT funds	—	(6,941)	(6,941)	Finding 3
Net assessment and case management costs	<u>13,838</u>	<u>146,827</u>	<u>132,989</u>	
Treatment costs	674,885	897,713	222,828	Finding 1
Administrative costs	57,995	210,776	152,781	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(128,217)	(128,217)	Finding 3
EPSDT funds	—	(61,487)	(61,487)	Finding 3
State categorical funds	<u>(81,685)</u>	<u>(81,685)</u>	<u>—</u>	
Net treatment costs	<u>651,195</u>	<u>837,100</u>	<u>185,905</u>	
Subtotal	665,033	983,927	318,894	
Less allowable costs that exceed amount claimed ²	<u>—</u>	<u>(318,894)</u>	<u>(318,894)</u>	
Total program costs	<u>\$ 665,033</u>	665,033	<u>\$ —</u>	
Amount paid by the State		<u>(156,136)</u>		
Less allowable costs claimed in excess of (less than) amount paid		<u>\$ 508,897</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Treatment costs	\$ 1,041,970	\$ 1,424,875	\$ 382,905	Finding 1
Administrative costs	—	584,388	584,388	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(194,961)	(194,961)	Finding 3
EPSDT funds	—	(99,445)	(99,445)	Finding 3
Net treatment costs	1,041,970	1,714,857	672,887	
Less late claim penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Subtotal	1,040,970	1,713,857	672,887	
Less allowable costs that exceed amount claimed ²	<u>—</u>	<u>(672,887)</u>	<u>(672,887)</u>	
Total program costs	<u>\$ 1,040,970</u>	1,040,970	<u>\$ —</u>	
Less amount paid by the State		<u>(7)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,040,963</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Assessment and case management costs	\$ 50,914	\$ 50,914	\$ —	
Administrative costs	15,329	27,254	11,925	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(5,723)	(5,723)	Finding 3
EPSDT funds	—	(2,100)	(2,100)	Finding 3
Net assessment and case management costs	<u>66,243</u>	<u>70,345</u>	<u>4,102</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004 (continued)</u>				
Treatment costs	1,207,463	1,207,463	—	
Administrative costs	300,447	534,166	233,719	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(216,608)	(210,887)	5,721	Finding 3
EPSDT funds	(79,491)	(77,391)	2,100	Finding 3
IDEA funds	(420,051)	(420,051)	—	
Net treatment costs	<u>791,760</u>	<u>1,033,300</u>	<u>241,540</u>	
Subtotal	858,003	1,103,645	245,642	
Less late claim penalty	(1,000)	(1,000)	—	
Subtotal	857,003	1,102,645	245,642	
Less allowable costs that exceed amount claimed ²	—	(245,642)	(245,642)	
Total program costs	<u>\$ 857,003</u>	857,003	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 857,003</u>		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Assessment and case management costs	\$ 63,494	\$ 177,511	\$ 114,017	Finding 1
Administrative costs	16,587	68,899	52,312	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(20,197)	(20,197)	Finding 3
EPSDT funds	—	(9,041)	(9,041)	Finding 3
Net assessment and case management costs	<u>80,081</u>	<u>217,172</u>	<u>137,091</u>	
Treatment costs	2,924,318	3,530,051	605,733	Finding 1
Administrative costs	358,442	1,329,330	970,888	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(216,608)	(534,065)	(317,457)	Finding 3
EPSDT funds	(79,491)	(238,323)	(158,832)	Finding 3
State categorical funds	(81,685)	(81,685)	—	
IDEA funds	(420,051)	(420,051)	—	
Net treatment costs	<u>2,484,925</u>	<u>3,585,257</u>	<u>1,100,332</u>	
Subtotal	2,565,006	3,802,429	1,237,423	
Less late claim penalty	(2,000)	(2,000)	—	
Subtotal	2,563,006	3,800,429	1,237,423	
Less allowable costs that exceed amount claimed ²	—	(1,237,423)	(1,237,423)	
Total program costs	<u>\$ 2,563,006</u>	2,563,006	<u>\$ —</u>	
Less amount paid by the State		(156,143)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,406,863</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, FY 2002-03, and FY 2003-04.

Findings and Recommendations

**FINDING 1—
Units of service understated**

The county understated the number of eligible units of mental health assessment and treatment services provided. The county understated units of service because it inadvertently reduced eligible units by a portion of Short-Doyle/ Medi-Cal units on its claims. Also, the county discovered various other eligible service units after it submitted its claims. For fiscal year (FY) 2001-02 and FY 2002-03, the county understated units of service by 102,441 and 153,005 units, respectively.

Parameters and Guidelines for the mandated program specifies that the actual increased costs incurred to provide eligible mental health services are reimbursable.

As a result, we increased claimed assessment and treatment costs as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment costs	\$ 114,017	\$ —	\$ —	\$ 114,017
Treatment costs	222,828	382,905	—	605,733
Audit adjustment	\$ 336,845	\$ 382,905	\$ —	\$ 719,750

Recommendation

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

**FINDING 2—
Underreported administrative costs**

The county inadvertently failed to claim administrative costs related to assessment and treatment services for FY 2002-03. For FY 2001-02 and FY 2003-04, the county underreported its eligible administrative costs. We computed allowable administrative costs based on administrative cost data contained in the county’s annual cost reports submitted to the California Department of Mental Health.

Parameters and Guidelines specifies that administrative costs incurred in providing eligible mental health assessment and treatment services are reimbursable.

As a result, we increased claimed administrative costs as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Administrative costs:				
Assessment costs	\$ 40,387	\$ —	\$ 11,925	\$ 52,312
Treatment costs	152,781	584,388	233,719	970,888
Audit adjustment	\$ 193,168	\$ 584,388	\$ 245,644	\$1,023,200

Recommendation

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

**FINDING 3—
Offsetting revenues
understated**

The county did not report revenues received from the California Department of Mental Health as reimbursement for services provided to Medi-Cal clients. The county failed to report the federal financing participation (FFP) share of Short-Doyle/Medi-Cal costs on its claims, and the state matching funds received under the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program.

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.

As a result, we have adjusted claimed costs as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment costs:				
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	\$ (14,474)	\$ —	\$ (5,723)	\$ (20,197)
EPSDT funds	(6,941)	—	(2,100)	(9,041)
Subtotal	<u>(21,415)</u>	<u>—</u>	<u>(7,823)</u>	<u>(29,238)</u>
Treatment costs:				
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(128,217)	(194,961)	5,721	(317,457)
EPSDT funds	<u>(61,487)</u>	<u>(99,445)</u>	<u>2,100</u>	<u>(158,832)</u>
Subtotal	<u>(189,704)</u>	<u>(294,406)</u>	<u>7,821</u>	<u>(476,289)</u>
Audit adjustment	<u>\$ (211,119)</u>	<u>\$ (294,406)</u>	<u>\$ (2)</u>	<u>\$ (505,527)</u>

Recommendation

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

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

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