

# **SAN DIEGO COUNTY**

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

March 2007



**JOHN CHIANG**  
California State Controller

March 21, 2007

Tracy Sandoval  
Assistant Chief Financial Officer/Auditor-Controller  
San Diego County  
1600 Pacific Highway, Room 166  
San Diego, CA 92101

Dear Ms. Sandoval:

The State Controller's Office audited the claims filed by San Diego 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 county claimed \$7,289,769 (\$7,290,769 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$5,236,714 is allowable and \$2,053,055 is unallowable. The unallowable costs occurred because the county claimed ineligible costs, did not include all relevant offsetting revenues, and inaccurately computed administrative costs. The State paid the county \$1,030,761. Allowable costs claimed exceed the amount paid by \$4,205,953.

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](http://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](mailto: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. BROWNFIELD**  
Chief, Division of Audits

JVB/vb

cc: Gil Enriquez, Senior Accountant  
Fiscal Services  
Health and Human Services Agency  
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# Audit Report

## Summary

The State Controller's Office (SCO) audited the claims filed by San Diego 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 July 13, 2004.

The county claimed \$7,289,769 (\$7,290,769 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$5,236,714 is allowable and \$2,053,055 is unallowable. The unallowable costs occurred because the county claimed ineligible costs, did not include all relevant offsetting revenues, and inaccurately computed administrative costs. The State paid the county \$1,030,761. Allowable costs claimed exceed the amount paid by \$4,205,953.

## 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 (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* 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 for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

*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* 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, 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, 2000, through June 30, 2002.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and 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* Section 17558.5. 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, San Diego County claimed \$7,289,769 (\$7,290,769 less a \$1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$5,236,714 is allowable and \$2,053,055 is unallowable.

For the FY 2000-01 claim, the State paid the county \$438,763. Our audit disclosed that \$340,343 is allowable. The county should return \$98,420 to the State.

For the FY 2001-02 claim, the State paid the county \$591,998. Our audit disclosed that \$4,896,371 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,304,373, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft audit report on October 27, 2006. Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor-Controller, responded by letter dated November 16, 2006, (Attachment) agreeing with the audit results except for Finding 2. This final audit report includes the county's response.

**Restricted Use**

This report is solely for the information and use of San Diego 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, 2000, through June 30, 2002**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<b>July 1, 2000, through June 30, 2001</b>				
Assessment/case management costs	\$ 1,024,159	\$ 174,865	\$ (849,294)	Finding 1
Administrative costs	—	13,307	13,307	Finding 3
Offsetting revenues:				
State categorical funds	(72,398)	(9,614)	62,784	Finding 2
Short-Doyle/Medi-Cal funds	(442,434)	(13,682)	428,752	Finding 2
Other	(158,503)	(136,413)	22,090	Finding 2
Net assessment/case management costs	<u>350,824</u>	<u>28,463</u>	<u>(322,361)</u>	
Treatment costs	9,049,909	5,029,253	(4,020,656)	Finding 1
Administrative costs	—	136,068	136,068	Finding 3
Offsetting revenues:				
State general/realignment funds	(5,937,799)	(1,591,318)	4,346,481	Finding 2
State categorical funds	(740,878)	(1,665,747)	(924,869)	Finding 2
Short-Doyle/Medi-Cal funds	(1,424,718)	(1,213,091)	211,627	Finding 2
Other	—	(382,285)	(382,285)	Finding 2
Net treatment costs	<u>946,514</u>	<u>312,880</u>	<u>(633,634)</u>	
Total costs	1,297,338	341,343	(955,995)	
Late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 1,296,338</u>	340,343	<u>\$ (955,995)</u>	
Less amount paid by the State		<u>(438,763)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (98,420)</u>		
<b>July 1, 2001, through June 30, 2002</b>				
Assessment/case management costs	\$ 1,484,507	\$ 1,318,904	\$ (165,603)	Finding 1
Administrative costs	—	114,299	114,299	Finding 3
Offsetting revenues:				
State categorical funds	(39,158)	(315,924)	(276,766)	Finding 2
Short-Doyle/Medi-Cal funds	(41,352)	(291,319)	(249,967)	Finding 2
Net assessment/case management costs	<u>1,403,997</u>	<u>825,960</u>	<u>(578,037)</u>	
Treatment costs	6,198,798	6,976,614	777,816	Finding 1
Administrative costs	—	187,113	187,113	Finding 3
Offsetting revenues:				
State general/realignment funds	(21,970)	—	21,970	Finding 2
State categorical funds	(774,118)	(1,717,714)	(943,596)	Finding 2
Short-Doyle/Medi-Cal funds	(813,276)	(1,272,065)	(458,789)	Finding 2
Other	—	(103,537)	(103,537)	Finding 2
Net treatment costs	<u>4,589,434</u>	<u>4,070,411</u>	<u>(519,023)</u>	



## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002 (continued)</u>				
Total costs	\$ 5,993,431	\$ 4,896,371	\$(1,097,060)	
Late claim penalty	—	—	—	
Total program costs	<u>\$ 5,993,431</u>	4,896,371	<u>\$(1,097,060)</u>	
Less amount paid by the State		(591,998)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,304,373</u>		
<u>Summary: July 1, 2000, through June 30, 2002</u>				
Assessment/case management costs	\$ 2,508,666	\$ 1,493,769	\$(1,014,897)	Finding 1
Administrative costs	—	127,606	127,606	Finding 3
Offsetting revenues:				
State categorical funds	(111,556)	(325,538)	(213,982)	Finding 2
Short-Doyle/Medi-Cal funds	(483,786)	(305,001)	178,785	Finding 2
Other	(158,503)	(136,413)	22,090	Finding 2
Net assessment/case management costs	<u>1,754,821</u>	854,423	(900,398)	
Treatment costs	15,248,707	12,005,867	(3,242,840)	Finding 1
Administrative costs	—	323,181	323,181	Finding 3
Offsetting revenues:				
State general/realignment funds	(5,959,769)	(1,591,318)	4,368,451	Finding 2
State categorical funds	(1,514,996)	(3,383,461)	(1,868,465)	Finding 2
Short-Doyle/Medi-Cal funds	(2,237,994)	(2,485,156)	(247,162)	Finding 2
Other	—	(485,822)	(485,822)	Finding 2
Net treatment costs	<u>5,535,948</u>	4,383,291	(1,152,657)	
Total costs	7,290,769	5,237,714	(2,053,055)	
Late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 7,289,769</u>	5,236,714	<u>\$(2,053,055)</u>	
Less amount paid by the State		(1,030,761)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,205,953</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

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

The county claimed costs for the program that were not based on actual costs. The county, in its automated system, did not implement unique procedure codes for all mandate-related services. To determine the claimed costs, the county commingled provider services and allocated a portion of the total to the mandate. As a result, the county included ineligible clients—such as adults over the age of 22 years—and ineligible services—medication monitoring (FY 2000-01 only) and crisis intervention services. For FY 2000-01, the county allocated a portion of treatment costs to assessment/case management because unique service function codes for assessment/case management were not operative.

In response to our preliminary findings, the county identified additional assessment and case management costs, adding a total of \$2,517,681 to the claims. We found that the assessment units identified were already included in the audit adjustments in the initial draft report. The assessment procedure codes were not fully operational during the audit period; the county used other mental health service codes that have the same unit cost to record units. So, all of the additional assessment units identified were already included in the initial draft report under other mental health services. The additional case management units identified by the county were not included in the initial draft report. The SCO adjusted the audit finding to include the additional case management costs.

We determined allowable costs using the appropriate unit cost, based on actual units of service provided to eligible clients. This calculation resulted in an overstatement of \$4,869,950 for FY 2000-01 and \$612,213 for FY 2001-02.

*Parameters and Guidelines* for the program specifies that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable. Furthermore, *Parameters and Guidelines* specify 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.

On December 9, 2005, the Commission on State Mandates (COSM) adopted *Parameters and Guidelines* for the Handicapped and Disabled Students II Program. Under the newly adopted mandate, medication support costs are allowable beginning FY 2001-02. We revised this finding, allowing medication support costs for FY 2001-02.

As a result of claiming costs that are not based on actual cost per unit, the county overstated its claims as follows.

	Fiscal Year		Total
	2000-01	2001-02	
Assessment	\$ (849,294)	\$ (165,603)	\$(1,014,897)
Treatment	(4,020,656)	777,816	(3,242,840)
Audit adjustment	<u>\$(4,869,950)</u>	<u>\$ 612,213</u>	<u>\$(4,257,737)</u>

#### Recommendation

We recommend that the county ensure that it uses the actual units of service and costs per unit and that it claims only eligible services, in accordance with the mandated program. Furthermore, we recommend that the county implement unique procedure codes for all eligible services in its automated system, so that the system can accurately accumulate and report all mandate-related units of service.

#### County's Response

The county agrees with the finding.

#### SCO's Comment

The finding remains unchanged.

## **FINDING 2— Incorrect offsetting revenues**

The county applied incorrect offsetting revenues. For FY 2000-01, the county overstated offsetting revenues by \$3,764,580 and for FY 2001-02, the county understated the offsetting revenues by \$2,010,685. For FY 2000-01, the overstatement was primarily due to the significant reductions in allowable costs discussed in Finding 1.

The county did not include Early Periodic Screening Diagnosis and Treatment (EPSDT) and third-party payer funds during the audit period, and it applied revenues based on allocations that were not supported by actual units of service provided for certain programs. We recalculated the offsetting revenues by allocating EPSDT funds across all eligible clients, based on a percentage, and applied the correct funding percentages for Short Doyle/Medi-Cal Federal Financing Participation (FFP) to actual units of service provided to eligible mandate clients. As the county elected to offset costs claimed with the realignment funds for FY 2000-01, we applied offsetting revenues consistent with this election.

*Parameters and Guidelines* specifies that any direct payments (categorical funds, Short Doyle/Medi-Cal FFP, and other offsets) received from the State that are specifically allocated to the program, as well as any other reimbursement received as a result of the mandate, must be deducted from the claim.

Because it excluded EPSDT and third-party payer funds and did not allocate revenues based on actual services provided, the county misstated its offsetting revenues as follows.

	Fiscal Year		Total
	2000-01	2001-02	
Assessment:			
State categorical funds	\$ 62,784	\$ (276,766)	\$ (213,982)
Short-Doyle/Medi-Cal funds	428,752	(249,967)	178,785
Other	22,090	—	22,090
Total assessment offsetting revenues	<u>513,626</u>	<u>(526,733)</u>	<u>(13,107)</u>
Treatment:			
State general/realignment funds	4,346,481	21,970	4,368,451
State categorical funds	(924,869)	(943,596)	(1,868,465)
Short-Doyle/Medi-Cal funds	211,627	(458,789)	(247,162)
Other	(382,285)	(103,537)	(485,822)
Total treatment offsetting revenues	<u>3,250,954</u>	<u>(1,483,952)</u>	<u>1,767,002</u>
Audit adjustment	<u>\$ 3,764,580</u>	<u>\$(2,010,685)</u>	<u>\$ 1,753,895</u>

### Recommendation

We recommend that the county ensure that all applicable revenues are offset against actual costs incurred for this program. We also recommend that the county calculate applicable reimbursements based on actual units of service provided for a particular program.

### County's Response

The County concurs with this finding with respect to incorrectly applied offsetting Early, Periodic, Screening, Diagnosis and Treatment (EPSDT) and third-party payer revenues during the audit period. However, the County disagrees with the finding regarding costs that were offset with realignment funds for Fiscal Year (FY) 2000/01. (Please see County's attached Schedule A for an illustration of County's true offsetting revenues.) For FY 2000/01, the County mistakenly offset costs claimed with realignment funds and should not be penalized for its mistake. It did not claim such offsetting revenues in the subsequent FY 2001/02.

As you state in your revised report, the Parameters and Guidelines specify that direct payments received from the State that are specifically allocated to the program, as well as any other reimbursement received as a result of the mandate must be deducted from the claim. This would include categorical funds, ShortDoyle/Medi-Cal FFP and EPSDT. It does not include money received from the Local Revenue Fund (realignment). In fact, Section 5701.6 of the Welfare and Institutions Code supports this position and states in relevant part as follows:

Counties may utilize money from the Local Revenue Fund [realignment] . . . to fund the costs of any part of those services provided pursuant to Chapter 26.5 (commencing with Section 7570) of Division 7 of Title 1 of the Government Code. If money is used by counties for those services, counties are eligible for reimbursement from the State for all allowable costs to fund assessments, psychotherapy, and other

mental health services allowable pursuant to Section 300.24 of Title 34 of the Code of Federal regulations [IDEA] and required by Chapter 26.5 . . . of the Government Code.

In addition, in light of this law, the Commission on State Mandates found in its Decision on the Handicapped and Disabled Students Program (Case No.: 04-RL-4282-10) that realignment funds used by a county for this mandated program are not required to be identified as an offset and deducted from the costs claimed. Consequently, the County asserts that for FY 2000/01, the realignment funds offset of \$1,591,318 should not be considered offsetting revenues and should be reinstated as allowable reimbursable costs.

#### SCO's Comment

The finding remains unchanged.

The county elected to deduct realignment funds from claimed costs for FY 2000-01. *Government Code* Section 17561 allows the county to amend its claim within one year of the filing deadline specified in the SCO claiming instructions. The county did not amend its FY 2000-01 claim.

*Parameters and Guidelines* states that besides direct payments, any other reimbursement received as a result of the mandate must be deducted from the claim. The document does not specifically exclude realignment funds.

Chapter 1167, Statutes of 2002 (Assembly Bill 2781), amended Section 5701.3 of the *Welfare and Institutions Code*. This legislation states that for 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 of 2004 (Senate Bill 1895), added Section 5701.6 to the *Welfare and Institution Code*. This legislation states that if a county uses realignment funds for assessments, psychotherapy, and other mental health services, then the county is 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.

The COSM adopted a Statement of Decision for the Handicapped and Disabled Students II Program on May 26, 2005, and related *Parameters and Guidelines* on December 9, 2005 (02-TC-40/02-TC-49). This mandate incorporates the provisions of Assembly Bill 2781 and Senate Bill 1895, which states that realignment funds are not required to be deducted from claimed costs effective July 1, 2001.

The COSM reconsidered the prior Statement of Decision for the Handicapped and Disabled Students Program and adopted amended Statement of Decision on May 26, 2005, and *Parameters and Guidelines* on January 26, 2006 (04-RL-4282-10). The amendments, effective beginning July 1, 2004, does not require realignment funds to be deducted from claimed costs.

The COSM adopted amendments to *Parameters and Guidelines* for the Handicapped and Disabled Students Program (CSM 4282) on January 25, 2007. The COSM affirmed that eligible claimants will be allowed to be reimbursed for realignment funds deducted in claims filed for FY 2001-02 through FY 2003-04.

The COSM has not adopted any *Parameters and Guidelines* that would allow a county to be reimbursed for realignment funds deducted in claims filed for FY 2000-01.

**FINDING 3—  
Inaccurate  
administrative costs**

The county omitted offsetting revenues when determining administrative costs. In its claim, the county had commingled the direct and administrative costs and reported the costs as direct costs.

The omitted offsetting revenues include Short Doyle/Medi-Cal FFP administration and utilization review revenues. We recalculated the administrative rates, reducing the administrative costs by applicable offsetting revenues. We applied the recalculated rates to the eligible direct costs.

*Parameters and Guidelines* for the program specifies that any direct payments (Short/Doyle-Medi-Cal revenues) received from the State that are specifically allocated to the program, as well as, any other reimbursements received as a result of the mandate, must be correctly deducted from the claims.

The audit adjustment resulting from the separation of indirect costs from direct costs claimed and the application of offsetting revenues is as follows.

	Fiscal Year		Total
	2000-01	2001-02	
Assessment	\$ 13,307	\$ 114,299	\$ 127,606
Treatment	136,068	187,113	323,181
Audit adjustment	<u>\$ 149,375</u>	<u>\$ 301,412</u>	<u>\$ 450,787</u>

Recommendation

We recommend that the county prepare an indirect cost rate proposal that includes an adjustment for offsetting revenues and then apply the rate to eligible direct costs.

County's Response

The county agrees with the finding.

SCO's Comment

The finding remains unchanged.

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

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# County of San Diego

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November 16, 2006

Jim L. Spano, Chief  
Compliance Audit Bureau  
State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Spano:

RESPONSE TO REVISED DRAFT AUDIT REPORT DATED OCTOBER 2006 OF THE  
HANDICAPPED AND DISABLED STUDENTS PROGRAM: JULY 1, 2000 THROUGH  
JUNE 30, 2002

Thank you for the opportunity to review your revised draft audit report of the County of San Diego's (County) costs for the legislatively mandated Handicapped and Disabled Students Program for the period of July 1, 2000 through June 30, 2002. The audit was conducted to determine whether costs claimed by the County were supported by appropriate source documents, not funded by another source, and not unreasonable and/or excessive. This response supersedes the County's response to the original draft report issued on December 8, 2004.

The County claimed \$7,289,769 during the audit period, and your revised draft audit found that \$5,236,714 is allowable and \$2,053,055 is unallowable. You state that the audit disclosed the unallowable costs occurred because the County claimed ineligible costs, did not include all relevant offsetting revenues and inaccurately computed administrative costs. We are submitting the following comments in response to the revised draft audit findings and recommendations and address those findings and recommendations in the order presented in the revised draft audit.

## Findings and Recommendations

### Finding 1 - Overstated Assessment and Treatment Costs:

- The County concurs with this finding with respect to these costs.



Response to Revised Draft Audit Report Dated  
October 2006 of the Handicapped and Disabled  
Students Program: July 1, 2000 through June 30, 2002  
Page Two  
November 16, 2006

Finding 2 – Incorrect Offsetting Revenues:

The County concurs with this finding with respect to incorrectly applied offsetting Early, Periodic, Screening, Diagnosis and Treatment (EPSDT) and third-party payer revenues during the audit period. However, the County disagrees with the finding regarding costs that were offset with realignment funds for Fiscal Year (FY) 2000/01. (Please see County's attached Schedule A for an illustration of County's true offsetting revenues.) For FY 2000/01, the County mistakenly offset costs claimed with realignment funds and should not be penalized for its mistake. It did not claim such offsetting revenues in the subsequent FY 2001/02.

As you state in your revised report, the Parameters and Guidelines specify that direct payments received from the State that are specifically allocated to the program, as well as any other reimbursement received as a result of the mandate must be deducted from the claim. This would include categorical funds, ShortDoyle/Medi-Cal FFP and EPSDT. It does not include money received from the Local Revenue Fund (realignment). In fact, Section 5701.6 of the Welfare and Institutions Code supports this position and states in relevant part as follows:

Counties may utilize money from the Local Revenue Fund [realignment]...to fund the costs of any part of those services provided pursuant to Chapter 26.5 (commencing with Section 7570) of Division 7 of Title 1 of the Government Code. If money is used by counties for those services, counties are eligible for reimbursement from the State for all allowable costs to fund assessments, psychotherapy, and other mental health services allowable pursuant to Section 300.24 of Title 34 of the Code of Federal regulations [IDEA] and required by Chapter 26.5...of the Government Code.

In addition, in light of this law, the Commission on State Mandates found in its Decision on the Handicapped and Disabled Students Program (Case No.: 04-RL-4282-10) that realignment funds used by a county for this mandated program are not required to be identified as an offset and deducted from the costs claimed. Consequently, the County asserts that for FY 2000/01, the realignment funds offset of \$1,591,318 should not be considered offsetting revenues and should be reinstated as allowable reimbursable costs.

Finding 3 - Inaccurate Administrative Costs:

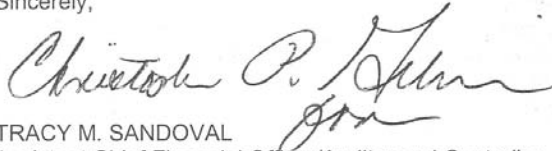
- The County concurs with this finding with respect to these costs.

We hope that these responses and comments will assist you in the preparation of a fair and equitable final audit.

Response to Revised Draft Audit Report Dated  
October 2006 of the Handicapped and Disabled  
Students Program: July 1, 2000 through June 30, 2002  
Page Three  
November 16, 2006

If you have any questions, please contact Gil Enriquez of the Health and Human Services  
Agency, Fiscal Services at (619) 338-2629.

Sincerely,

A handwritten signature in black ink, appearing to read "Tracy M. Sandoval". The signature is written in a cursive style with a large initial "T".

TRACY M. SANDOVAL  
Assistant Chief Financial Officer/Auditor and Controller

RCA:MF:kb

Attachment

Schedule A

INCORRECT OFFSETTING REVENUES, FINDING 2

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>County's Position</u>
<u>July 1, 2000, through June 30, 2001</u>			
Assessment/case management costs	\$1,024,159	\$174,865	\$174,865
Administrative costs		13,307	13,307
Offsetting revenues:			
State categorical funds	(72,398)	(9,614)	(9,614)
Short-Doyle/Medi-Cal funds	(442,434)	(13,682)	(13,682)
Other	<u>(158,503)</u>	<u>(136,413)</u>	<u>(136,413)</u>
Net assessments/case management costs	<u>350,824</u>	<u>28,463</u>	<u>28,463</u>
Treatment costs	9,049,909	5,029,253	5,029,253
Administrative costs		136,068	136,068
Offsetting revenues:			
State general/realignment funds	(5,937,799)	(1,591,318)	0
State categorical funds	(740,878)	(1,665,747)	(1,665,747)
Short-Doyle/Medi-Cal funds	(1,424,718)	(1,213,091)	(1,213,091)
Other		<u>(382,285)</u>	<u>(382,285)</u>
Net treatment costs	<u>946,514</u>	<u>312,880</u>	<u>1,904,198</u>
Total costs	1,297,338	341,343	1,932,661
Late claim penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>(1,000)</u>
Net costs	<u>\$1,296,338</u>	340,343	1,931,661
Less amount paid by the State		<u>(438,763)</u>	<u>(438,763)</u>
Allowable costs claimed in excess of (less than) amount paid		<u>(\$98,420)</u>	<u>\$1,492,898</u>

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

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