

SOLANO 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



JOHN CHIANG
California State Controller

December 2007



JOHN CHIANG
California State Controller

December 14, 2007

Honorable Simona Padilla-Scholtens
Auditor-Controller
Solano County
675 Texas Street, Suite 2800
Fairfield, CA 94533

Dear Ms. Scholtens:

The State Controller's Office audited the costs claimed by Solano 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. We issued the original draft audit report on January 17, 2007.

The county claimed \$7,363,348. Our audit disclosed that \$5,752,501 is allowable and \$1,610,847 is unallowable. The unallowable costs resulted from the county claiming ineligible costs and incorrectly calculating offsetting revenues and administrative costs. The State paid the county \$168,440. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,584,061, contingent upon available appropriations.

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

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

cc: Fred Heacock

Mental Health Director
Solano County

Stephen Chu

Chief Financial Officer
Solano County

Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance

Robin Foemmel-Brie

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 Solano 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 June 12, 2006. Our original audit report was issued on January 27, 2007.

The county claimed \$7,363,348. Our audit disclosed that \$5,584,061 is allowable and \$1,610,847 is unallowable. The unallowable costs occurred because the county claimed ineligible costs and incorrectly calculated offsetting revenues and administrative cost. The State paid the county \$168,440. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,236,544, contingent upon available appropriations.

Background

Chapter 26 of the Government Code, commencing with section 7570, and Welfare and Institutions Code section 5651 (added and amended by Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) require counties to participate in the mental health assessment for "individuals with exceptional needs," participate 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 establishes the state mandate and defines reimbursement criteria. CSM adopted the parameters and guidelines on August 22, 1991, and last amended it on August 29, 1996. In compliance with Government Code section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

The parameters and guidelines 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 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 cost effective July 1, 2001. The CSM adopted the parameters and guidelines for this new program on December 9, 2005, and made technical corrections to them on July 21, 2006. The 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, Solano County claimed \$7,363,348 for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$5,584,061 is allowable and \$1,610,847 is unallowable.

For fiscal year (FY) 2001-02, the State paid the county \$168,429. Our audit disclosed that \$1,365,145 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,196,716, contingent upon available appropriations.

For FY 2002-03, the State paid the county \$11. Our audit disclosed that \$2,510,270 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$2,510,259, contingent upon available appropriations.

For FY 2003-04, the State made no payment to the county. Our audit disclosed that \$1,877,086 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,877,086, contingent upon available appropriations.

Views of Responsible Officials

After we issued the draft audit report, dated January 17, 2007, Solano County informed us that the California Department of Mental Health (DMH) was auditing the county's Medi-Cal claims and EPSDT settlement amount for fiscal year (FY) 2001-02. The county appealed the DMH audit findings; the final resolution is still pending. To assess the impact of DMH's audit on the SCO's offsetting revenues, we reviewed the SCO auditor's calculations. In that review, we discovered errors in the calculation of costs and offsetting revenues for all years in the audit period. Hence, we reissued the draft report, dated November 9, 2007. Since allowable costs exceed claimed costs for FY 2001-02 by \$400,728, the Mental Health audit does not affect the SCO's audit. Government Code section 17561 stipulates that the State will not reimburse for 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.

On December 11, 2007, Stephen M. Chu, Chief Financial Officer, Health and Social Services, Solano County, responded to the draft audit report via e-mail agreeing with the audit results.

Restricted Use

This report is solely for the information and use of Solano County, 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	\$ 137,846	\$ 1,365,812	\$ 1,227,966	Finding 1
Administrative costs	831	231,930	231,099	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(29,085)	(292,841)	(263,756)	Finding 3
State categorical funds	—	(263,516)	(263,516)	Finding 3
Net assessment and case management costs	<u>109,592</u>	<u>1,041,385</u>	<u>931,793</u>	
Treatment costs	3,701,700	2,601,226	(1,100,474)	Finding 1
Administrative costs	295,507	441,090	145,583	Finding 2
Offsetting revenues:				
State General/Realignments Funds	(1,075,024)	(1,075,024)	—	
Short-Doyle/Medi-Cal (FFP only)	(1,122,439)	(661,820)	460,619	Finding 3
State categorical funds	(544,191)	(580,984)	(36,793)	Finding 3
Other funds	—	—	—	
Net treatment costs	<u>1,255,553</u>	<u>724,488</u>	<u>(531,065)</u>	
Subtotal	1,365,145	1,765,873	400,728	
Less allowable costs that exceed costs claimed ²	—	(400,728)	(400,728)	
Total program costs	<u>\$ 1,365,145</u>	1,365,145	<u>\$ —</u>	
Less amount paid by the State		(168,429)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,196,716</u>		
July 1, 2002, through June 30, 2003				
Assessment and case management costs	\$ 166,174	\$ 1,471,033	\$ 1,304,859	Finding 1
Administrative costs	7,908	190,951	183,043	Finding 2
Short-Doyle/Medi-Cal (FFP only)	(34,963)	(354,786)	(319,823)	Finding 3
State categorical funds	—	(280,587)	(280,587)	Finding 3
Net assessment and case management costs	<u>139,119</u>	<u>1,026,611</u>	<u>887,492</u>	
Treatment costs	3,764,928	2,386,423	(1,378,505)	Finding 1
Administrative costs	182,357	301,739	119,382	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(974,239)	(672,582)	301,657	Finding 3
State categorical funds	—	(531,921)	(531,921)	Finding 3
Net treatment costs	<u>2,973,046</u>	<u>1,483,659</u>	<u>(1,489,387)</u>	
Total program costs	<u>\$ 3,112,165</u>	2,510,270	<u>\$ (601,895)</u>	
Less amount paid by the State		(11)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,510,259</u>		

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference</u> ¹
<u>July 1, 2003, through June 30, 2004</u>				
Assessment and case management costs	\$ 379,993	\$ 1,937,574	\$ 1,557,581	Finding 1
Administrative costs	16,719	224,213	207,494	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(25,411)	(541,012)	(515,601)	Finding 3
State categorical funds	—	(386,423)	(386,423)	Finding 3
Other funds	—	(394,869)	(394,869)	Finding 3
Net assessment and case management costs	<u>371,301</u>	<u>839,483</u>	<u>468,182</u>	
Treatment costs	4,353,489	2,398,878	(1,954,611)	Finding 1
Administrative costs	191,554	266,166	74,612	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(1,145,512)	(663,562)	481,950	Finding 3
State categorical funds	—	(473,955)	(473,955)	Finding 3
Other funds	(884,794)	(489,924)	394,870	Finding 3
Net treatment costs	<u>2,514,737</u>	<u>1,037,603</u>	<u>(1,477,134)</u>	
Total program costs	<u>\$ 2,886,038</u>	<u>1,877,086</u>	<u>\$(1,008,952)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,877,086</u>		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Assessment and case management costs	\$ 684,013	\$ 4,774,419	\$ 4,090,406	Finding 1
Administrative costs	25,458	647,094	621,636	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(89,459)	(1,188,639)	(1,099,180)	Finding 3
State categorical funds	—	(930,526)	(930,526)	Finding 3
Other funds	—	(394,869)	(394,869)	Finding 3
Net assessment and case management costs	<u>620,012</u>	<u>2,907,479</u>	<u>2,287,467</u>	
Treatment costs	11,820,117	7,386,527	(4,433,590)	Finding 1
Administrative costs	669,418	1,008,995	339,577	Finding 2
Offsetting revenues:				
State General/Realignments Funds	(1,075,024)	(1,075,024)	—	
Short-Doyle/Medi-Cal (FFP only)	(3,242,190)	(1,997,964)	1,244,226	Finding 3
State categorical funds	(544,191)	(1,586,860)	(1,042,669)	Finding 3
Other funds	(884,794)	(489,924)	394,870	Finding 3
Net treatment costs	<u>6,743,336</u>	<u>3,245,750</u>	<u>(3,497,586)</u>	
Subtotal	7,363,348	6,153,229	(1,210,119)	
Less allowable costs that exceed costs claimed ²	—	(400,728)	(400,728)	
Total program costs	<u>\$ 7,363,348</u>	<u>5,752,501</u>	<u>\$(1,610,847)</u>	
Less amount paid by the State		(168,440)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,584,061</u>		

¹ See the Findings and Recommendations section.

² Government Code section 17561 stipulates that the State will not reimburse for 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— Overstated assessment and treatment costs

The county overstated assessment and treatment costs by \$343,184 for the audit period.

The county included ineligible therapeutic behavioral services (SFC 15-58) and crisis intervention services (SFC 15-71) when computing claimed costs. The portion of costs relating to therapeutic behavioral services was \$19,916 and for crisis intervention services was \$160,262. Furthermore, the county used some rates that were not based on actual costs incurred. The county claimed \$8,309 in due-process proceeding costs for FY 2001-02 that were not adequately supported; the county was also unable to trace some units of service to the Total Units detail report generated by its accounting system. Therefore, we used units supported by the detail report to determine the reimbursable costs.

The parameters and guidelines for the Handicapped and Disabled Students Program specify that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable. Additionally, the 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. The parameters and guidelines for the Handicapped and Disabled Students II Programs allow medication support costs beginning in FY 2001-02. Crisis intervention and therapeutic behavioral service costs are not reimbursable.

The following table summarizes the overstated assessment and treatment costs:

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment cost	\$ 1,227,966	\$ 1,304,859	\$ 1,557,581	\$ 4,090,406
Treatment cost	(1,100,474)	(1,378,505)	(1,954,611)	(4,433,590)
Audit adjustment	\$ 127,492	\$ (73,646)	\$ (397,030)	\$ (343,184)

Recommendation

We recommend that the county ensure that appropriate rates are used to compute the assessment and treatment costs. Additionally, we recommend that the county claim only eligible services in accordance with the program's parameters and guidelines.

County's Response

The county agreed with the audit finding.

**FINDING 2—
Understated
administrative cost**

The county understated administrative costs by \$961,213 for the audit period.

The county's rate used to compute administrative costs for each fiscal year was not appropriate for the claimed amount. The county prepared the mandate claims based on the cost report method but used the actual increased costs method to prepare the associated administrative cost. This practice is not consistent with the program's parameters and guidelines. Furthermore, the county's calculation excluded from the formula any administrative reimbursements from Short Doyle/Medi-Cal (FFP) and Healthy Families Funds.

The parameters and guidelines for the Handicapped and Disabled Students Program specify that the two satisfactory methods of submitting claims for reimbursement of increased costs incurred to comply with the mandate are: (a) the actual increased costs method, and (b) the cost report method. Additionally, the 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 administrative costs:

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment cost	\$ 231,099	\$ 183,043	\$ 207,494	\$ 621,636
Treatment cost	145,583	119,382	74,612	339,577
Audit adjustment	\$ 376,682	\$ 302,425	\$ 282,106	\$ 961,213

Recommendation

We recommend that the county ensure it uses appropriate rates when computing the administrative costs. Additionally, we recommend that the county ensure that it offsets all applicable reimbursements against reimbursable costs incurred for this program.

County's Response

The county agreed with the audit finding.

**FINDING 3—
Understated revenue
offsets**

The county understated revenue offsets by \$1,828,148 for the audit period.

The county did not report state-matching funds received from the California Department of Mental Health under the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) program, which partially reimburses the county for the cost of services provided to Medi-Cal clients. In addition, we excluded the revenue offsets relating to unallowable therapeutic behavioral services (SFC 15-58) and crisis intervention services (SFC 15-71) as discussed in Finding 1.

The parameters and guidelines for the Handicapped and Disabled Students Program 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
	2001-02	2002-03	2003-04	
Assessment revenues:				
State categorical funds	\$ (263,516)	\$ (280,587)	\$ (386,423)	\$ (930,526)
Short-Doyle/ Medi-Cal funds	(263,756)	(319,823)	(515,601)	(1,099,180)
Other	—	—	(394,869)	(394,869)
Total	<u>(527,272)</u>	<u>(600,410)</u>	<u>(1,296,893)</u>	<u>(2,424,575)</u>
Treatment revenues:				
State categorical funds	(36,793)	(531,921)	(473,955)	(1,042,669)
Short-Doyle/ Medi-Cal funds	460,619	301,657	481,950	1,244,226
Other	—	—	394,870	394,870
Total	<u>423,826</u>	<u>(230,264)</u>	<u>402,865</u>	<u>596,427</u>
Audit adjustment	<u>\$ (103,446)</u>	<u>\$ (830,674)</u>	<u>\$ (894,028)</u>	<u>\$ (1,828,148)</u>

Recommendation

We recommend that the county ensure that it offsets all applicable reimbursements against reimbursable costs incurred for this program.

County's Response

The county agreed with the audit finding.

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

sb90 mgmt response AB3632 audit report dated handicapped and disabled students program

Page 1 of 1

Spano, Jim

From: Chu, Stephen M. [SMChu@SolanoCounty.com]
Sent: Tuesday, December 11, 2007 12:58 PM
To: Ryan, Christopher
Cc: Spano, Jim
Subject: sb90 mgmt response AB3632 audit report dated handicapped and disabled students program

Management Response to the Audit Findings:

In connection with the Handicapped and Disabled Students Program audit dated November 9, 2007, our general response to the findings is that we filed the claims for the audited years in question based on our belief that certain State Mandate Parameters and Guidelines needed to be amended or clarified for Counties such as ours that believed that certain revenue offsets and costs claimed would become allowable once the State Mandates Commission clarified or amended its previous Parameters and Guidelines. Now that the amended claiming instructions have been clarified by the State Controllers Office and the State Mandates Commission has published its final Parameters and Guidelines related to the Handicapped and Disabled students program we are following those newly issued guidelines for all subsequent fiscal years to be in compliance with the final rules issued. It was our belief that if we had not claimed the higher costs until the new guidelines were published and issued we would have lost our rights to a majority of those claimable costs due to time limits. The audit report results included a majority of those claimable costs and revenue offsets that we had contested.

Based on the draft of the final report issued, we agree with the State Auditors final results as published. We appreciate the opportunity and the help of the State Auditors in helping us achieve the maximum reimbursement owed to our County for the Handicapped and Disabled Students program.

Stephen M. Chu, CFO
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Fairfield, Ca 94533-6804
Phone - 707-764-8354
Fax -707-421-3207

12/11/2007

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