

LOS ANGELES COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS II PROGRAM

Chapter 1128, Statutes of 1994, and
Chapter 654, Statutes of 1996

July 1, 2002, through June 30, 2004



JOHN CHIANG
California State Controller

May 2010



JOHN CHIANG
California State Controller

May 28, 2010

Gloria Molina, Chair
Los Angeles County Board of Supervisors
Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Ms. Molina:

The State Controller's Office audited the costs claimed by Los Angeles County for the legislatively mandated Handicapped and Disabled Students II Program (Chapter 1128, Statutes of 1994, and Chapter 654, Statutes of 1996) for the period of July 1, 2002, through June 30, 2004.

The county claimed \$3,276,316 for the mandated program. Our audit disclosed that \$2,558,437 is allowable and \$717,879 is unallowable. The costs are unallowable primarily because the county overstated costs by using inaccurate units of service, and overstated offsetting revenues. In calculating offsetting revenues, the county used inaccurate Medi-Cal units and deducted unsupported revenues for the audit period, and applied an incorrect funding percentage for Short Doyle/Medi-Cal for fiscal year 2002-03. The State made no payment to the county. The State will pay allowable costs claimed that exceed the amount paid, totaling \$2,558,437, 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 the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

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/sk

cc: Wendy L. Watanabe, Auditor-Controller
Los Angeles County
Hasmik Yaghobyan, JD
SB 90 Coordinator
Los Angeles County
Jeff Carosone, Principal Program Budget Analyst
Cor-Gen Unit, Department of Finance
Carol Bingham, Director
Fiscal Policy Division
California Department of Education
Stacey Wofford
Special Education Program
Department of Mental Health
Matika Rawls, Manager
Special Education Division
California Department of Education
Angie Teng, Section Supervisor
Division of Accounting and Reporting
State Controller's Office

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	3
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Summary of Program Costs	4
Findings and Recommendations	5
Attachment—County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Los Angeles County for the legislatively mandated Handicapped and Disabled Students II Program (Chapter 1128, Statutes of 1994, and Chapter 654, Statutes of 1996) for the period of July 1, 2002, through June 30, 2004.

The county claimed \$3,276,316 for the mandated program. Our audit disclosed that \$2,558,437 is allowable and \$717,879 is unallowable. The costs are unallowable primarily because the county overstated costs by using inaccurate units of service, and overstated offsetting revenues. In calculating offsetting revenues, the county used inaccurate Medi-Cal units and deducted unsupported revenues for the audit period, and applied an incorrect funding percentage for Short Doyle/Medi-Cal for fiscal year (FY) 2002-03. The State made no payment to the county. The State will pay allowable costs claimed that exceed the amount paid, totaling \$2,558,437, 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 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 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 identifies 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 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.

On January 26, 2006, CSM amended the parameters and guidelines for the Handicapped and Disabled Students Program and corrected them on July 21, 2006, allowing reimbursement for out-of-home residential placements beginning July 1, 2004.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Handicapped and Disabled Students II Program for the period of July 1, 2002, 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 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, Los Angeles County claimed \$3,276,316 for costs of the Handicapped and Disabled Students II Program. Our audit disclosed that \$2,558,437 is allowable and \$717,879 is unallowable.

For the FY 2002-03 claim, the State made no payment to the county. Our audit disclosed that \$1,388,425 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,388,425, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$1,170,012 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,170,012, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on March 26, 2010. Wendy L. Watanabe, Auditor-Controller, responded by letter dated April 30, 2010 (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 Los Angeles 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

May 28, 2010

**Schedule 1—
Summary of Program Costs
July 1, 2002, through June 30, 2004**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference ¹</u>
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Psychotherapy of other treatment services	\$ 2,981,091	\$ 2,407,966	\$ (573,125)	Finding 1
Total direct costs	2,981,091	2,407,966	(573,125)	
Indirect costs	<u>203,322</u>	<u>165,995</u>	<u>(37,327)</u>	Finding 2
Total direct and indirect costs	3,184,413	2,573,961	(610,452)	
Less offsetting reimbursements	<u>(1,480,524)</u>	<u>(1,185,536)</u>	<u>294,988</u>	Finding 3
Total program costs	<u>\$ 1,703,889</u>	1,388,425	<u>\$ (315,464)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,388,425</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Psychotherapy of other treatment services	\$ 2,839,465	\$ 2,266,155	\$ (573,310)	Finding 1
Total direct costs	2,839,465	2,266,155	(573,310)	
Indirect costs	<u>235,416</u>	<u>187,972</u>	<u>(47,444)</u>	Finding 2
Total direct and indirect costs	3,074,881	2,454,127	(620,754)	
Less offsetting reimbursements	<u>(1,502,454)</u>	<u>(1,284,115)</u>	<u>218,339</u>	Finding 3
Total program costs	<u>\$ 1,572,427</u>	1,170,012	<u>\$ (402,415)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,170,012</u>		
<u>Summary: July 1, 2002, through June 30, 2004</u>				
Direct costs:				
Psychotherapy of other treatment services	\$ 5,820,556	\$ 4,674,121	\$ (1,146,435)	
Total direct costs	5,820,556	4,674,121	(1,146,435)	
Indirect costs	<u>438,738</u>	<u>353,967</u>	<u>(84,771)</u>	
Total direct and indirect costs	6,259,294	5,028,088	(1,231,206)	
Less offsetting reimbursements	<u>(2,982,978)</u>	<u>(2,469,651)</u>	<u>513,327</u>	
Total program costs	<u>\$ 3,276,316</u>	2,558,437	<u>\$ (717,879)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,558,437</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated medication support costs

The county overstated medication support costs by \$1,146,435 for the audit period.

The county claimed costs that are not fully based on actual costs to implement the mandated program. Support for the claim was not in a testable format and we could not verify it. The county ran the unit-of-service (UOS) reports multiple times to support costs claimed. The county ran reports using incorrect query parameters that resulted in errors, duplicate transactions, incorrect activity code/procedure code usage, missing client IEPs, ineligible clients, addition errors, missing progress notes, under- and over-billing, etc.

We worked with the county to correct the query parameters before the county re-ran the UOS reports a fourth time. The fourth-generation reports resolved the inaccurate data issues, which were mainly duplication and client eligibility. However, the report still contained instances of overbilling associated with single-client service visits in excess of the standard workday. In this instance, we removed all single-client service visits in excess of ten hours.

We adjusted costs based on the appropriate unit cost and actual units of service provided to eligible clients. Further, we excluded all single-client service visits in excess of ten hours.

The following table summarizes the overstated costs claimed:

	Fiscal Year		Total
	2002-03	2003-04	
Unsupported costs	\$ (569,987)	\$ (568,546)	\$ (1,138,533)
Overbilled costs (excess of ten hours)	<u>(3,138)</u>	<u>(4,764)</u>	<u>(7,902)</u>
Audit adjustment	<u>\$ (573,125)</u>	<u>\$ (573,310)</u>	<u>\$ (1,146,435)</u>

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.

Recommendation

We recommend that the county implement policies and procedures to ensure that only actual units of service for eligible clients are claimed in accordance with the mandate program.

County's Response

The county agreed with the finding and recommendation.

**FINDING 2—
Overstated indirect costs**

The county overstated indirect costs by \$84,771 for the audit period.

The county applied indirect cost rates to ineligible costs. In both fiscal years, the county claimed direct costs that were not based on actual program costs. Further, we noted that the county applied indirect costs rates to overbilled units of services.

We recalculated costs by applying the appropriate indirect cost rates to eligible direct costs.

The following table summarizes the overstated indirect costs claimed:

	Fiscal Year		Total
	2002-03	2003-04	
Indirect costs	\$ (37,327)	\$ (47,444)	\$ (84,771)

The parameters and guidelines specify that indirect costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

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

Recommendation

We recommend that the county apply indirect cost rates to eligible and supported direct costs.

County's Response

The county agreed with the finding and recommendation.

**FINDING 3—
Overstated offsetting reimbursements**

The county overstated offsetting reimbursements by \$513,327 for the audit period.

The county miscalculated offsetting reimbursements by using inaccurate Medi-Cal units and, for FY 2002-03, by applying incorrect funding percentages for Short-Doyle/Medi-Cal. Further, the county deducted unsupported offsetting revenues and applied Short Doyle/Medi-Cal FFP (SD/MC) and Early and Periodic, Screening, Diagnosis and Treatment (EPDST) funds to ineligible indirect costs.

We recalculated revenue related to direct costs by applying the appropriate cost per unit to eligible Med-Cal units, using correct funding percentages for SD/MC and EPSDT, and excluding unsupported revenues. Further, we recalculated revenues related to indirect costs applying the related portion of SD/MC and EPDST funds to eligible administrative costs.

The following table summarizes the overstated offsetting revenues claimed:

	Fiscal Year		Total
	2002-03	2003-04	
Direct costs:			
Short Doyle/Medi-Cal	\$ 154,672	\$ 113,568	\$ 268,240
State categorical funds	107,479	80,725	188,204
Other	14,855	8,542	23,397
Total direct costs	277,006	202,835	479,841
Indirect costs	17,982	15,504	33,486
Total	<u>\$ 294,988</u>	<u>\$ 218,339</u>	<u>\$ 513,327</u>

The parameters and guidelines specify that any direct payments (categorical funds, SD/MC, 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.

Recommendation

We recommend that the county implement policies and procedures to ensure that revenues are applied to valid program costs. Further, we recommend that the county apply the appropriate SD/MC and EPDST reimbursement percentages to eligible costs and maintain supporting documentation for all applicable offsetting revenues.

County's Response

The county agreed with the finding and recommendation.

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



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

MARIA M. OMS
CHIEF DEPUTY

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JUDI E. THOMAS

April 30, 2010

Mr. Jeffrey V. Brownfield, Chief
Division of Audits
State Controller's Office
300 Capitol Mall, Suite 518
Sacramento, California 95814

Dear Mr. Brownfield:

**LOS ANGELES COUNTY'S RESPONSE TO
STATE CONTROLLER'S DRAFT AUDIT REPORT
HANDICAPPED AND DISABLED II PROGRAM (HDSII)
JULY 1, 2002 THROUGH JUNE 30, 2004**

The County of Los Angeles has reviewed the State's draft audit report dated March 26, 2010 for the HDSII's program. The draft audit report concluded that, of the \$3,276,316 claimed under HDSII, \$2,558,437 is allowable. The remaining \$717,879 is not allowable pursuant to the Parameters and Guidelines adopted by the Commission on State Mandates on December 9, 2005.

The County's response, which is attached, indicates agreement with the audit findings and the actions that the County will take to implement policies and procedures to ensure that the costs claimed under HDSII are eligible, mandate related, and supported. We also recognize that if the County subsequently provides additional information to support its \$717,879 of unallowable costs, the State will revise the final audit report to include such additional allowable costs.

If you have any questions, please contact Hasmik Yaghobyan at (213) 893-0792 or via e-mail at hyaghobyan@auditor.lacounty.gov.

Very truly yours,

Wendy L. Watanabe
Auditor-Controller

WLW:MMO:JN:CY:hy
H:\SB90\QSTClaim Submission\Ch1747\Audit Response Cover 4-27-10.doc

Attachment

*Help Conserve Paper – Print Double-Sided
"To Enrich Lives Through Effective and Caring Service"*

**LOS ANGELES COUNTY'S RESPONSE TO
STATE CONTROLLER'S DRAFT AUDIT REPORT
HANDICAPPED AND DISABLED II PROGRAM (HDSII)
JULY 1, 2002 THROUGH JUNE 30, 2004**

Finding # 1- Overstated Medication Support Costs

The County overstated medication support costs by \$1,146,435 for the audit period. The County claimed costs that are not fully based on actual costs to implement the mandated program. Support for the claim was not in testable format and could not be verified. The County had to rerun Unit-Of-Service (UOS) reports multiple times to support the claims. The reports were run using incorrect query parameters. As the result, during the testing we noted duplicate transactions, incorrect activity code/procedure code usage, missing client IEP's, ineligible clients, addition errors, missing progress notes, and under-and over-billing.

Recommendation

We recommend that the County implement policies and procedures to ensure that only actual units of service for eligible clients are claimed in accordance with the mandate program.

County's Response

We agree with the recommendation. The County will review and establish policies and procedures to ensure that only actual units of service for eligible clients are claimed in accordance with the mandate program.

Finding # 2- Overstated Indirect Costs

The County overstated indirect costs by \$84,771 for the audit period. The County applied indirect cost rates to ineligible costs. In both fiscal years, the County claimed direct costs that were not based on actual program costs. Further, the County applied indirect cost rates to overbilled units of service.

Recommendation

We recommend that the County apply indirect cost rates to eligible and supported direct costs.

County's Response

We agree with the recommendation. The County will review and establish policies and procedures to ensure that indirect cost rates are applied to eligible and supported direct costs.

**LOS ANGELES COUNTY'S RESPONSE TO
STATE CONTROLLER'S DRAFT AUDIT REPORT
HANDICAPPED AND DISABLED II PROGRAM (HDSII)
JULY 1, 2002 THROUGH JUNE 30, 2004**

Finding # 3- Overstated Offsetting Reimbursements

The County overstated offsetting reimbursements by \$513,327 for the audit period. The County miscalculated offsetting reimbursements by using inaccurate Medi-Cal units and for FY 2002-03, by applying incorrect funding percentages for Short-Doyle/Medi-Cal. Further, the County deducted unsupported offsetting revenues and applied Short Doyle/Medi-Cal FFP (SD/MC) and Early and Periodic, Screening, Diagnosis and Treatment (EPSDT) funds to ineligible indirect costs.

Recommendation

We recommend that the County implement policies and procedures to ensure that revenues are applied to valid program costs. Further, we recommend that the County apply appropriate SD/MC and EPSDT reimbursement percentages to eligible costs and maintain supporting documentation for all applicable offsetting revenues.

County's Response

We agree with the recommendation. The County will review and establish policies and procedures to ensure that revenues are applied to valid program costs; appropriate SD/MC and EPSDT reimbursement percentage rates are applied to eligible costs, and supporting documentation for applicable offsetting revenues are maintained.

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

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