

SAN DIEGO COUNTY

Audit Report

CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS), HDS II, AND SERIOUSLY EMOTIONALLY DISTURBED PUPILS PROGRAM

Chapter 1747, Statutes of 1984; Chapter 1274,
Statutes of 1985; Chapter 1128, Statutes of 1994;
and Chapter 654, Statutes of 1996

July 1, 2009, through June 30, 2010



BETTY T. YEE
California State Controller

August 2016



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California State Controller

August 15, 2016

The Honorable Ron Roberts, Chairperson
Board of Supervisors
San Diego County
1600 Pacific Highway, Room 335
San Diego, CA 92101

Dear Mr. Roberts:

The State Controller's Office audited the costs claimed by San Diego County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils Program (Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996) for the period of July 1, 2009, through June 30, 2010.

The county claimed \$11,271,868 for the mandated program. Our audit found that the entire amount is allowable. The State made no payments to the county. The State will pay allowable costs claimed, totaling \$11,271,868, contingent upon available appropriations.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Diego County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils Program (Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996) for the period of July 1, 2009, through June 30, 2010.

The county claimed \$11,271,868 for the mandated program. Our audit found that the entire amount is allowable. The State made no payment to the county. The State will pay allowable costs claimed, totaling \$11,271,868, contingent upon available appropriations.

Background

Handicapped and Disabled Students Program

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 (Commission) adopted the statement of decision for the HDS Program and determined that this legislation imposes a state mandate reimbursable under Government Code section 17561. The Commission adopted the parameters and guidelines for the HDS Program on August 22, 1991, and last amended them on January 25, 2007.

The parameters and guidelines for the HDS 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 HDS 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).

The Commission amended the parameters and guidelines for the HDS Program on January 26, 2006, and corrected them on July 21, 2006, allowing reimbursement for out-of-home residential placements beginning July 1, 2004.

Handicapped and Disabled Students II Program

On May 26, 2005, the Commission adopted a statement of decision for the HDS II Program that incorporates the above legislation and further identified medication support as a reimbursable cost effective July 1, 2001. The Commission adopted the parameters and guidelines for this new program on December 9, 2005, and last amended them on October 26, 2006.

The parameters and guidelines for the HDS 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.

Seriously Emotionally Disturbed Pupils Program

Government Code section 7576 (added and amended by Chapter 654, Statutes of 1996) allows new fiscal and programmatic responsibilities for counties to provide mental health services to seriously emotionally disturbed pupils placed in out of state residential programs. Counties’ fiscal and programmatic responsibilities include those set forth in Title 2, *California Code of Regulations*, section 60100, which provide that residential placements may be made out-of-state only when no in-state facility can meet the pupil’s needs.

On May 25, 2000, the Commission adopted the statement of decision for the Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services (SEDP) Program and determined that Chapter 654, Statutes of 1996, impose a State mandate reimbursable under Government Code section 17561. The Commission adopted the parameters and guidelines for the SEDP Program on October 26, 2000. The Commission determined that the following activities are reimbursable:

- Payment for out-of-state residential placements;
- Case management of out-of-state residential placements. Case management includes supervision of mental health treatment and monitoring of psychotropic medications;
- Travel to conduct quarterly face-to-face contacts at the residential facility to monitor level of care, supervision, and the provision of mental health services as required in the pupil’s IEP; and
- Program management, which includes parent notifications as required; payment facilitation; and all other activities necessary to ensure that a county’s out-of-state residential placement program meets the requirements of Government Code section 7576.

The Commission consolidated the parameters and guidelines for the HDS, HDS II, and SEDP Programs for costs incurred commencing with FY 2006-07 on October 26, 2006, and last amended them on September 28, 2012. On September 28, 2012, the Commission stated that Statutes of 2011, Chapter 43, “eliminated the mandated programs for counties and transferred responsibility to school districts, effective July 1, 2011. Thus, beginning July 1, 2011, these programs no longer constitute reimbursable state-mandated programs for counties.” The consolidated program replaced the prior HDS, HDS II, and SEDP mandated programs. The parameters and guidelines establish the state mandate and define reimbursable criteria. 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.

Objectives, Scope, and Methodology

We conducted this performance audit to determine whether costs claimed represent increased costs resulting from the Consolidated HDS, HDS II, and SEDP Program for the period of July 1, 2009, through June 30, 2010.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the county’s financial statements. We conducted this 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. Our audit scope did not assess the efficiency or effectiveness of program operations. We did not audit the county’s financial statements.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

To achieve our audit objectives, we performed the following procedures:

- Reviewed claims to identify the material cost components of each claim, any errors, and any unusual or unexpected variances from year-to-year
- Completed an internal control questionnaire and performed a walk-through of the claim preparation process to determine what information was used, who obtained it, and how it was obtained
- Reviewed the county’s contracts with providers who perform eligible mental health and residential placement services to verify contract rates claimed
- Reviewed county documents to verify the county claimed costs from eligible non-profit residential placement services to verify contract rates claimed

- Verified unit of service reports by tracing a sample of transactions from the reports to client files
- Verified unit rates claimed by reconciling the claimed rates to rates within the county's cost reports
- Determined whether indirect costs claimed were properly computed and applied
- Determined if all relevant offsetting revenues were identified and properly applied
- Recalculated allowable costs claimed using audited data

Conclusion

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Schedule (Summary of Program Costs) and in the Findings and Recommendations section of this report.

For the audit period, San Diego County claimed \$11,271,868 for costs of the Consolidated HDS, HDS II, and SEDP Program. Our audit found that the entire amount is allowable.

The State made no payment to the county. The State will pay allowable costs claimed, totaling \$11,271,868, contingent upon available appropriations.

Views of Responsible Officials

We discussed our audit results with the county's representatives during an exit conference conducted on July 18, 2016. James Lardy, Finance Officer; Chona Penalba, Principal Accountant; and Lennie Padilla, Senior Accountant, agreed with the audit results. Ms. Padilla declined a draft audit report and agreed that we could issue the audit report as final.

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, CPA
Chief, Division of Audits

August 15, 2016

Schedule—
Summary of Program Costs
July 1, 2009, through June 30, 2010

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct and indirect costs ² :				
Referral and mental health assessments	\$ 1,871,276	\$ 1,833,704	\$ (37,572)	Finding 1
Transfers and interim placements	890,504	771,627	(118,877)	Finding 1
Authorize/issue payments to providers	7,820,235	7,820,235	-	
Psychotherapy/other mental health services	11,230,322	11,463,831	233,509	Finding 1
Total direct and indirect costs	21,812,337	21,889,397	77,060	
Less other reimbursements	(10,540,469)	(10,260,595)	279,874	Finding 2
Total claimed costs	11,271,868	11,628,802	356,934	
Less allowable costs that exceed costs claimed ³	-	(356,934)	(356,934)	
Total program cost	<u>\$ 11,271,868</u>	11,271,868	<u>\$ -</u>	
Less amount paid by State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 11,271,868</u>		

¹ See the Findings and Recommendations section.

² The county incorrectly claimed indirect costs associated with each cost component under this cost component.

³ Government Code section 17568 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 2009-10.

Findings and Recommendations

FINDING 1— Understated unit-of- service costs and indirect costs

The county understated unit-of-service costs and indirect costs by \$77,060 for the audit period. Unit-of-service costs were understated by \$174,109 and related indirect costs were overstated by \$97,049.

The county claimed unit-of-service costs that were not fully based on actual costs to implement the mandated program. For the audit period, the county provided unit-of-service reports that represented the finalized units of service rendered to eligible clients. We reviewed the reports and noted that reported units did not reconcile to claimed units. Units did not reconcile because the county used preliminary unit-of-service reports to determine claimed costs.

We verified on a sample basis, support for reported services. In our review we found that the county claimed a number of services with units well above 480 units (8 hours). During our testing of the sampled services, we found that the services over 480 units were not supported by a progress note. We removed these services from the recalculation of allowable unit of service costs.

We verified the unit rates used to compute costs of county-operated facilities and contract providers. In our review, we found that the county used preliminary unit rates to compute its costs. The use of preliminary unit rates lead to the county understating unit of service costs during the audit period.

We recalculated direct costs based on actual, supportable units of service provided to eligible clients using the appropriate unit rates that represented the actual cost to the county. We excluded costs related to the aforementioned unsupported services containing over 480 units.

To determine indirect costs claimed, the county used a method consistent with the allocation in the county's cost reports submitted to the California Department of Mental Health (CDMH). However, preliminary cost report figures were used to compute the rates. As a result, the county overstated its indirect cost rate for the audit period.

We recalculated the indirect cost rate consistent with the allocations in the county's finalized cost report and applied them to allowable direct costs. The rates are calculated net of associated revenues and are applied to eligible direct costs of services provided at county-run facilities in the following cost components: (1) Referral and Mental Health Assessments, (2) Transfers and Interim Placements, and (3) Psychotherapy/Other Mental Health Services.

The following table summarizes the understated unit-of-service costs and indirect costs claimed:

Cost Component	Amount Claimed	Amount Allowable	Audit Adjustment
Referral & mental health assessments:			
Unit-of-service costs (direct)	\$ 1,673,609	\$ 1,676,234	\$ 2,625
Indirect costs	197,667	157,470	(40,197)
Subtotal	\$ 1,871,276	\$ 1,833,704	\$ (37,572)
Transfers & interim placements			
Unit-of-service costs (direct)	\$ 617,589	\$ 520,793	\$ (96,796)
Indirect costs	76,440	54,359	(22,081)
Subtotal	\$ 694,029	\$ 575,152	\$ (118,877)
Psychotherapy/other mental health services			
Unit-of-service costs (direct)	\$ 11,092,095	\$ 11,360,375	\$ 268,280
Indirect costs	138,227	103,456	(34,771)
Subtotal	\$ 11,230,322	\$ 11,463,831	\$ 233,509
Summary: All components			
Unit-of-service costs (direct)	\$ 13,383,293	\$ 13,557,402	174,109
Indirect costs	412,334	315,285	(97,049)
Total	\$ 13,795,627	\$ 13,872,687	\$ 77,060

The program's parameters and guidelines provide reimbursement for mental health services when required by the pupil's individualized education program. These services include assessments, collateral, case management, individual and group psychological therapy, medication monitoring, intensive day treatment, and day rehabilitation services. The parameters and guidelines further specify that the State will reimburse only actual increased costs incurred to implement the mandated activities that are supported by source documents that show the validity of such costs.

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

The parameters and guidelines further specify that to the extent the CDMH has not already compensated reimbursable administration costs from categorical funding sources, the costs may be claimed.

Recommendation

No recommendation is applicable for this audit, as the consolidated program is no longer mandated.

FINDING 2— Overstated offsetting revenues

The county overstated offsetting revenues by \$279,874 for the audit period.

The overstatement resulted primarily from the county using preliminary units of service and unit rates to determine total Short Doyle/Medi-Cal (SD/MC), and Early and Periodic Screening, Diagnosis and Treatment (EPSDT) reimbursements. For EPSDT, the county applied an estimated funding percentage. For Individuals with Disabilities Education Act (IDEA) grant funds, the county included a prior period adjustment for

FY 2007-08 even though the adjustment was made in the prior SCO audit and understated the amount of IDEA funds received for FY 2009-10.

We recalculated allowable offsetting reimbursements for all relevant funding sources and applied the appropriate rates for SD/MC and EPSDT to eligible direct costs. For EPSDT, we applied a funding percentage based on the final settlement by the CDMH. We excluded offsetting reimbursements related to unsupported direct costs. We applied all relevant revenues to the full extent of the funding provided, including IDEA funds and third party payor revenues. No revenues were applied for the California Department of Social Services 40% share of eligible board and care costs as the county claimed the costs net of the offsetting revenues within the Authorize and Issue Payments to Providers cost component.

The following table summarizes the adjustments to offsetting revenues:

Funding Sources	Amount Claimed	Amount Allowable	Audit Adjustment
SD/MC	\$ (4,319,803)	\$ (3,868,235)	\$ 451,568
IDEA, FY 2009-10	(4,030,591)	(4,302,655)	(272,064)
EPSDT	(2,097,830)	(2,088,307)	9,523
IDEA, FY 2007-08 (prior period adjustment)	(90,847)	-	90,847
Third Party Payors	(1,398)	(1,398)	-
Total	\$ (10,540,469)	\$ (10,260,595)	\$ 279,874

The parameters and guidelines specify that any direct payments (categorical funds, SD/MC, EPSDT, IDEA, and other reimbursements) received from the State that are specifically allocated to the program, and/or any other reimbursements received as a result of the mandate, must be deducted from the claim.

Recommendation

No recommendation is applicable for this audit, as the consolidated program is no longer mandated.

**State Controller's Office
Division of Audits
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