

SAN BERNARDINO 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, 2008, through June 30, 2010



BETTY T. YEE
California State Controller

March 2019



BETTY T. YEE
California State Controller

March 27, 2019

The Honorable Ensen Mason,
Auditor-Controller/Treasurer/Tax Collector
San Bernardino County
268 W. Hospitality Lane, 4th Floor
San Bernardino, CA 92415

Dear Mr. Mason:

The State Controller's Office (SCO) audited the costs claimed by San Bernardino County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils Program for the period of July 1, 2008, through June 30, 2010.

The county claimed and was paid \$4,287,156 for the mandated program. Our audit found that \$2,320,800 is allowable and \$1,966,356 is unallowable. The costs are unallowable primarily because the county claimed costs and revenues based on preliminary unit-of-service and residential placement cost data and claimed unsupported Wraparound Services Program for Children expenses.

Following issuance of this audit report, the SCO's Local Government Programs and Services Division will notify the county of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: The Honorable Curt Hagman, Chairman
San Bernardino County Board of Supervisors
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	3
Conclusion	4
Follow-up on Prior Audit Findings	5
Views of Responsible Officials	5
Restricted Use	5
Schedule—Summary of Program Costs	6
Findings and Recommendations	7
Attachment—County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Bernardino County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Program for the period of July 1, 2008, through June 30, 2010.

The county claimed and was paid \$4,287,156 for the mandated program. Our audit found that \$2,320,800 is allowable and \$1,966,356 is unallowable. The costs are unallowable primarily because the county claimed costs and revenues based on preliminary unit-of-service and residential placement cost data, and claimed unsupported Wraparound Services Program for Children (Wraparound Program) expenses.

Background

Handicapped and Disabled Students Program

Chapter 26 of the Government Code (GC), commencing with section 7570, and Welfare and Institutions Code (WIC) 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 GC 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 WIC 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" (emphasis added) and that the finding by the Legislature is "declaratory of existing law."

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 incorporated 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, in part:

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

GC 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* (CCR), 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 SEDP: Out-of-State Mental Health Services Program and determined that Chapter 654, Statutes of 1996, impose a state mandate reimbursable under GC 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, which 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 GC 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 GC section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

The objective of our audit was to determine whether costs claimed represent increased costs resulting from the legislatively mandated Consolidated HDS, HDS II, and SEDP Program. Specifically, we conducted this audit to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The audit period was July 1, 2008, through June 30, 2010.

To achieve our audit objective, we:

- Reviewed annual mandated cost claims filed by the county for the audit period to identify the significant cost components of each claim and determine whether there were any errors or unusual or unexpected variances from year to year. We also reviewed activities claimed to determine whether they adhered to SCO’s claiming instructions and the program’s parameters and guidelines;
- Completed an internal control questionnaire by interviewing key county staff. Discussed the claim preparation process with county staff to determine what information was obtained, who obtained it, and how it was used;
- Reviewed source documents to verify that all out-of-state residential placement providers claimed were organized and operated on a non-profit basis;
- Verified residential placement costs claimed by tracing a non-statistical sample of \$2,111,112 out of \$10,965,821 in residential placement costs to payment reports and warrants. We did not project sample errors to the intended (total) population;
- Verified out-of-county residential treatment costs claimed by tracing a non-statistical sample of \$297,203 out of \$610,739 in out-of-county residential treatment costs to payment reports and warrants. We did not project sample errors to the intended (total) population;
- Validated unit-of-service reports by tracing a non-statistical sample of 100 out of 28,523 client visits from unit-of-service reports to client files. We did not project sample errors to the intended (total) population;

- Validated all unit rates claimed by reconciling the claimed rates to rates reported in the county's cost reports submitted to the California Department of Mental Health (CDMH) and verifying that contractor rates used were consistent with the county's contract settlement policy;
- Verified the eligibility of Wraparound Program expenses claimed by tracing a non-statistical sample of payments totaling \$270,984 out of the \$1,866,795 in Wraparound Program costs to the client files. After discussions with county staff, we projected the allowable sample rate of 6.48% to the intended (total) population;
- Reviewed indirect costs to determine whether they were properly computed and applied;
- Reviewed offsetting revenues to determine whether all relevant sources were identified and properly computed and applied; and
- Recalculated allowable costs using our audited data, including unit-of-service reports and the appropriate unit rates.

GC sections 12410, 17558.5, and 17561 provide the legal authority to conduct this audit. We conducted this performance 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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.

Conclusion

As a result of performing the audit procedures, we found instances of noncompliance with the requirements described in our audit objective. We found that the county claimed unsupported and ineligible costs, and overstated costs that were funded by other sources, as quantified in the accompanying Schedule and described in the Findings and Recommendations section of this report.

For the audit period, San Bernardino County claimed and was paid \$4,287,156 for costs of the legislatively mandated Consolidated HDS, HDS II, and SEDP Program. Our audit found that \$2,320,800 is allowable and \$1,966,356 is unallowable.

Following issuance of this audit report, the SCO's Local Government Programs and Services Division will notify the county of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

**Follow-up on
Prior Audit
Findings**

We have not previously conducted an audit of the county’s legislatively mandated Consolidated HDS, HDS II, and SEDP Program.

**Views of
Responsible
Officials**

We issued the draft audit report on February 11, 2019. Ensen Mason, Auditor-Controller/Treasurer/Tax Collector, San Bernardino County, responded by letter dated February 21, 2019, agreeing with the findings. This final audit report includes the county’s response.

Restricted Use

This report is solely for the information and use of San Bernardino County, the California Department of Finance, the California Department of Education, 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 audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

March 27, 2019

Schedule—
Summary of Program Costs
July 1, 2008, through June 30, 2010

Cost Elements	Actual Costs Claimed ¹	Allowable per Audit	Audit Adjustment	Reference ²
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Referral and mental health assessments	\$ 418,869	\$ 427,356	\$ 8,487	Finding 1
Authorize/Issue payments to providers	6,527,405	5,690,664	(836,741)	Finding 2
Psychotherapy/Other mental health services	3,032,203	2,360,954	(671,249)	Finding 1, 3
Total direct costs	9,978,477	8,478,974	(1,499,503)	
Indirect costs	236,356	242,729	6,373	Finding 4
Total direct and indirect costs	10,214,833	8,721,703	(1,493,130)	
Less other reimbursements	(8,888,120)	(8,102,109)	786,011	Finding 5
Total program cost	<u>\$ 1,326,713</u>	619,594	<u>\$ (707,119)</u>	
Less amount paid by the State		(1,326,713)		
Amount paid in excess of allowable claimed costs		<u>\$ (707,119)</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 283,481	\$ 287,622	\$ 4,141	Finding 1
Authorize/Issue payments to providers	6,526,676	5,698,996	(827,680)	Finding 2
Psychotherapy/Other mental health services	3,196,790	2,079,512	(1,117,278)	Finding 1, 3
Total direct costs	10,006,947	8,066,130	(1,940,817)	
Indirect costs	174,458	166,385	(8,073)	Finding 4
Total direct and indirect costs	10,181,405	8,232,515	(1,948,890)	
Less other reimbursements	(7,220,962)	(6,531,309)	689,653	Finding 5
Total program cost	<u>\$ 2,960,443</u>	1,701,206	<u>\$ (1,259,237)</u>	
Less amount paid by the State		(2,960,443)		
Amount paid in excess of allowable claimed costs		<u>\$ (1,259,237)</u>		
<u>Summary: July 1, 2008, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 702,350	\$ 714,978	\$ 12,628	Finding 1
Authorize/Issue payments to providers	13,054,081	11,389,660	(1,664,421)	Finding 2
Psychotherapy/Other mental health services	6,228,993	4,440,466	(1,788,527)	Finding 1, 3
Total direct costs	19,985,424	16,545,104	(3,440,320)	
Indirect costs	410,814	409,114	(1,700)	Finding 4
Total direct and indirect costs	20,396,238	16,954,218	(3,442,020)	
Less other reimbursements	(16,109,082)	(14,633,418)	1,475,664	Finding 5
Total program cost	<u>\$ 4,287,156</u>	2,320,800	<u>\$ (1,966,356)</u>	
Less amount paid by the State		(4,287,156)		
Amount paid in excess of allowable claimed costs		<u>\$ (1,966,356)</u>		

¹ The county did not separately report direct and indirect costs on its claims. We recategorized the county's direct and indirect costs into the appropriate claim components based on information that the county provided.

² See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

During testing of assessment and treatment costs, we found that the county overstated costs by \$93,762 for the audit period. The county claimed assessment and treatment costs within the Referral & Mental Health Assessments and the Psychotherapy/Other Mental Health Services cost components. Costs were understated in FY 2008-09 and overstated in FY 2009-10 because the county misinterpreted the parameters and guidelines and claimed costs not based on actual units-of-service.

The county used preliminary unit-of-service reports to determine claimed assessment and treatment costs. As a result, the county claimed costs that were not fully based on actual costs to implement the mandated programs. For the audit period, the county provided unit-of-service reports that represented finalized units-of-service rendered to eligible clients. We reviewed the reports and noted that reported units did not reconcile to claimed units for either fiscal year under audit.

We verified, on a sample basis, support for reported services. We selected a non-statistical haphazard sample of service transactions. We found that all clients were eligible for the program and services were properly supported by a progress note, with a few exceptions. We verified unit rates used to compute costs of county-operated facilities and contract providers. In our review, we found that the county correctly claimed costs based on rates from annual cost reports and provider contracts.

We recalculated allowable costs based on actual, supported units-of-service provided to eligible clients using appropriate unit rates that represented actual costs to the county. After our recalculation, we found that the county understated costs by \$14,050 in FY 2008-09 and overstated costs by \$107,812 in FY 2009-10.

The following table summarizes the overstated assessment and treatment costs claimed:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2008-09</u>			
Referral & mental health assessments	\$ 418,869	\$ 427,356	\$ 8,487
Psychotherapy/Other mental health services	2,297,668	2,303,231	5,563
Subtotal	<u>\$2,716,537</u>	<u>\$2,730,587</u>	<u>\$ 14,050</u>
<u>FY 2009-10</u>			
Referral & mental health assessments	\$ 283,481	\$ 287,622	\$ 4,141
Psychotherapy/Other mental health services	2,128,220	2,016,267	(111,953)
Subtotal	<u>\$2,411,701</u>	<u>\$2,303,889</u>	<u>\$ (107,812)</u>
<u>Summary</u>			
Referral & mental health assessments	\$ 702,350	\$ 714,978	\$ 12,628
Psychotherapy/Other mental health services	4,425,888	4,319,498	(106,390)
Total	<u>\$5,128,238</u>	<u>\$5,034,476</u>	<u>\$ (93,762)</u>

Criteria

Section IV (H) of the program's parameters and guidelines provides that reimbursement is allowable for mental health services when required by the pupil's IEP. These services include assessment, collateral, case management, individual and group psychological therapy, medication monitoring, intensive day treatment, and day rehabilitation services. The parameters and guidelines further specify that when providing mental health treatment services, socialization and vocation services are not reimbursable.

Section IV of the parameters and guidelines specifies that the State will reimburse only actual increased costs incurred to implement mandated activities that are supported by source documents showing the validity of such costs.

Recommendation

No recommendation is applicable, as the consolidated program is no longer mandated. For other mandated programs, we recommend that the county:

- Follow the mandated program claiming instructions and the parameters and guidelines when preparing its mandated cost claims; and
- Ensure that claimed costs are based on actual costs.

County's Response

The county agreed with the finding.

FINDING 2— Overstated residential placement costs

During testing of residential placement costs, we found that the county overstated costs by \$1,664,421 for the audit period. The county claimed residential placement costs within the Authorize/Issue Payments to Providers cost component. Costs were overstated because the county misinterpreted the parameters and guidelines and did not claim actual costs. The county claimed duplicative, unsupported, and ineligible vendor costs.

The county claimed residential placement costs that included both board-and-care and mental health treatment costs. San Bernardino County Human Services (SBCHS) tracks and makes payments for board-and-care and out-of-state treatment services within the county's aid payment system. The county's Department of Behavioral Health (DBH) tracks and makes payments for the in-state residential treatment costs. As DBH is fiscally responsible for mental health treatment costs, DBH completes a monthly interagency transfer to SBCHS for the out-of-state mental health treatment costs. Both departments reported the same out-of-state treatment costs to the auditor-controller, resulting in a duplication of costs claimed. To avoid any duplication, we removed the \$1,477,521 in out-of-state treatment costs claimed by DBH.

We verified, on a sample basis, support for residential services. In our review, we found that the county had claimed costs based on the month when services were paid rather than when they were incurred. As a result, the county claimed costs from outside the audit period and left potentially eligible costs unclaimed. We requested updated reports based on the effective month of residential placement. After reviewing the updated reports, we found that the county had overstated residential placement costs by \$72,817 for the audit period. Furthermore, we found payment inaccuracies during testing that led to an additional overstatement of \$26,840.

We verified the eligibility of each vendor claimed using supporting documentation provided by the county and by performing an online search. As a result of our review, we found that the county had claimed ineligible out-of-state residential placement costs of \$87,243 from facilities that are owned and operated on a for-profit basis. Only placements in facilities that are owned and operated on a nonprofit basis are eligible for reimbursement.

Based on the aforementioned adjustments, we recalculated supported costs based on the month when costs were incurred. We excluded costs from for-profit vendors and duplicate costs claimed by both county departments.

The following table summarizes the overstated residential placement costs claimed:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
2008-09	\$ 6,527,405	\$ 5,690,664	\$ (836,741)
2009-10	<u>6,526,676</u>	<u>5,698,996</u>	<u>(827,680)</u>
Total	<u>\$ 13,054,081</u>	<u>\$ 11,389,660</u>	<u>\$(1,664,421)</u>

The following table summarizes the calculation of allowable costs:

<u>Authorize/Issue Payments to Providers</u>	<u>Fiscal Year</u>		<u>Total</u>
	<u>2008-09</u>	<u>2009-10</u>	
Total claimed costs	\$ 6,527,405	\$ 6,526,676	\$ 13,054,081
Duplicate out-of-state treatment costs	(726,657)	(750,864)	(1,477,521)
FY 2007-08 costs claimed	(147,531)	-	(147,531)
Ineligible vendor costs	-	(87,243)	(87,243)
Incorrect payments	(18,363)	(8,477)	(26,840)
Unclaimed costs	<u>55,810</u>	<u>18,904</u>	<u>74,714</u>
Allowable costs	<u>\$ 5,690,664</u>	<u>\$ 5,698,996</u>	<u>\$ 11,389,660</u>

Criteria

Section IV (G) of the parameters and guidelines specify that the mandate is to reimburse counties for payments to service vendors providing placement of seriously emotionally disturbed pupils in out-of-home residential facilities as specified in GC section 7581 and 2 CCR 60200.

2 CCR 60100, subdivision (h), specifies that out-of-state residential placement shall be made in residential programs that meet the requirement of WIC section 11460, subdivision (c)(2) through (3). Subdivision (c)(3) states that reimbursement shall be paid only to a group home organized and operated on a nonprofit basis.

Section IV (G) of the parameters and guidelines also provide that WIC section 18355.5 applies to this program and prohibits a county from claiming reimbursement for its 60% share of the total residential and non-educational costs for a seriously emotionally disturbed child placed in an out-of-home residential facility, if the county claims reimbursement for these costs from the Local Revenue Fund identified in WIC section 17600 and receives these funds.

Recommendation

No recommendation is applicable, as the consolidated program is no longer mandated. For other mandated programs, we recommend that the county:

- Follow the mandated program claiming instructions and the parameters and guidelines when preparing its mandated cost claims; and
- Ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

County's Response

The county agreed with the finding.

FINDING 3— Unsupported Wraparound Program costs

During testing of mental health services provided to Wraparound Program clients, we found that the county overstated costs by \$1,682,137 for the audit period. The county claimed Wraparound Program costs within the Psychotherapy/Other Mental Health Services cost component. Costs are overstated because the county misinterpreted the parameters and guidelines and claimed ineligible or unsupported Wraparound Program services.

The Wraparound Program is a separate program from the legislatively mandated program under audit. The program provides funding for a wide array of services with the intention of allowing children and youth to live at home in lieu of being placed in a residential facility. Clients may receive Wraparound Program services concurrently with the mandated program. Wraparound Program services may be eligible for reimbursement through the mandated program as long as clients maintain their eligibility, the services claimed are eligible for reimbursement in accordance with the mandate, and the services are properly documented. Similar to residential placements, the California Department of Social Services (CDSS) provides 40% offsetting reimbursement for Wraparound Program costs.

For the audit period, the county provided detailed reports from its aid payment system that represented total payments made to contract vendors for Wraparound Program services provided to eligible mandate clients.

We reviewed the reports and noted that the reported payments did not reconcile to the claimed amounts for the audit period. Payments did not reconcile because the county used preliminary Wraparound Program report information to determine claimed costs. Furthermore, the county included payments for services that occurred outside of the audit period.

We verified, on a sample basis, support for the Wraparound Program vendor payments claimed. We selected a non-statistical, haphazard sample of Wraparound Program clients to determine whether the payments claimed were for services eligible for reimbursement through the mandated program. During testing, we found that the county was only able to support 6.48% of the total costs sampled as eligible services. After discussion with county staff, the county and auditors agreed to apply the allowable rate found during testing to the total amount of Wraparound Program services claimed to determine allowable costs. After our recalculation, we found that the county overstated claimed Wraparound Program costs by \$676,812 in FY 2008-09 and \$1,005,325 in FY 2009-10.

Furthermore, we found the county did not offset Wraparound Program provider costs with the CDSS 40% offsetting reimbursement. We applied the reimbursement percentage to allowable Wraparound Program costs and included the revenues in the offsetting reimbursement component (see Finding 5).

The following table summarizes the overstated Wraparound Program costs claimed:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2008-09	\$ 734,535	\$ 57,723	\$ (676,812)
2009-10	1,068,570	63,245	(1,005,325)
Total	<u>\$ 1,803,105</u>	<u>\$ 120,968</u>	<u>\$(1,682,137)</u>

Criteria

Section IV (H) of the program's parameters and guidelines provides that reimbursement is allowable for mental health services when required by the pupil's IEP. These services include assessment, collateral, case management, individual and group psychological therapy, medication monitoring, intensive day treatment, and day rehabilitation services. The parameters and guidelines further specify that when providing mental health treatment services, socialization and vocation services are not reimbursable.

Section IV of the parameters and guidelines specifies that the State will reimburse only actual increased costs incurred to implement mandated activities that are supported by source documents showing the validity of such costs.

Recommendation

No recommendation is applicable, as the consolidated program is no longer mandated. For other mandated programs, we recommend that the county:

- Follow the mandated program claiming instructions and the parameters and guidelines when preparing its mandated cost claims; and
- Ensure that claimed costs include only eligible costs that are properly supported.

County’s Response

The county agreed with the finding.

**FINDING 4—
Overstated indirect costs**

During analysis of indirect costs, we found that the county overstated indirect costs by \$1,700 for the audit period. The county correctly calculated its indirect cost rate. However, the rate was applied to direct unit costs based on preliminary unit-of-service reports. The county used a method that was consistent with allocations in the cost reports that it submitted to the CDMH. The county then applied its indirect cost rate to direct assessment and treatment costs of county-operated facilities, based on preliminary unit-of-service reports.

We recalculated the indirect costs by applying the claimed indirect cost rate to allowable direct costs of assessment and treatment services provided at county-operated facilities in the Referral & Mental Health Assessments and the Psychotherapy/Other Mental Health Services cost components. After our recalculation, we found that the county understated indirect costs by \$6,373 for FY 2008-09 and overstated indirect costs by \$8,073 for FY 2009-10.

The following table summarizes the overstated indirect costs claimed:

	Fiscal Year		Total
	2008-09	2009-10	
Direct assessment and treatment costs	\$ 2,342,946	\$ 1,943,747	
Indirect cost rate	10.36%	8.56%	
Allowable indirect costs	242,729	166,385	
Claimed indirect costs	236,356	174,458	
Audit adjustment	\$ 6,373	\$ (8,073)	\$ (1,700)

Criteria

Section V of the parameters and guidelines states that indirect costs incurred in the performance of the mandated activities and adequately documented are reimbursable. The parameters and guidelines further state that, to the extent that CDMH has not already compensated reimbursable administration costs from categorical funding sources, the costs may be claimed.

Recommendation

No recommendation is applicable, as the consolidated program is no longer mandated. For other mandated programs, we recommend that the county:

- Follow the mandated program claiming instructions and the parameters and guidelines when preparing its mandated cost claims; and
- Ensure that indirect cost rates are applied to eligible and supported direct costs.

County's Response

The county agreed with the finding.

FINDING 5— Overstated offsetting reimbursements

During our analysis of offsetting reimbursements, we found that the county overstated reimbursements by \$1,475,664 for the audit period. The overstatement resulted primarily because the county erroneously claimed an interagency transfer between county departments for out-of-state mental health treatment as an offsetting revenue, and applied the CDSS 40% reimbursement to ineligible direct costs. Furthermore, the county used preliminary unit-of-service reports to determine total Short-Doyle/Medi-Cal Federal Financing Participation (SD/MC) and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) reimbursements and did not offset its claim with the CDSS 40% reimbursement of Wraparound Program costs. Offsetting reimbursements are overstated because the county misinterpreted the parameters and guidelines, and applied incorrect reimbursements to ineligible or unsupported services.

We recalculated allowable offsetting reimbursements for all relevant funding sources and applied appropriate rates for Medi-Cal and EPSDT to eligible direct costs. We excluded offsetting reimbursements related to ineligible and unsupported direct costs. We applied all relevant revenues to the full extent of funding provided, including Individuals with Disabilities Education Act (IDEA) funds and CDMH categorical grants. We recalculated reimbursements for SEDP and Wraparound Program costs by applying the CDSS 40% reimbursement rate to allowable direct costs. We removed the entire \$1,394,468 in interagency transfers from DBH to SBCHS, for the cost of out-of-state residential treatment services. We removed these transfers because they were internal accounting transactions and did not represent an actual offsetting reimbursement for the county.

After our recalculations, we found that the county overstated offsetting reimbursements by \$786,011 in FY 2008-09 and \$689,653 in FY 2009-10.

The following table summarizes the adjustment to offsetting reimbursements:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2008-09</u>			
SD/MC	\$ (845,186)	\$ (725,762)	\$ 119,424
EPSDT	(474,190)	(376,774)	97,416
CDMH categorical grant	(1,330,748)	(1,330,748)	-
Federal IDEA grant	(1,180,486)	(1,180,486)	-
CDSS 40% offset	(2,042,747)	(2,178,279)	(135,532)
Local revenue (realignment)	(2,238,720)	(2,238,720)	-
Other – SED interagency transfer	(727,792)	-	727,792
Other – Recovery of Aid	(48,251)	(48,251)	-
CDSS 40% wraparound offset	-	(23,089)	(23,089)
Subtotal	<u>\$ (8,888,120)</u>	<u>\$ (8,102,109)</u>	<u>\$ 786,011</u>
<u>FY 2009-10</u>			
SD/MC	\$ (602,432)	\$ (750,802)	\$ (148,370)
EPSDT	(292,508)	(362,662)	(70,154)
Federal IDEA grant	(1,180,486)	(1,180,486)	-
CDSS 40% offset	(2,429,076)	(2,162,277)	266,799
Local revenue (realignment)	(2,028,954)	(2,028,954)	-
Other – SED interagency transfer	(666,676)	-	666,676
Other – Recovery of Aid	(20,830)	(20,830)	-
CDSS 40% wraparound offset	-	(25,298)	(25,298)
Subtotal	<u>\$ (7,220,962)</u>	<u>\$ (6,531,309)</u>	<u>\$ 689,653</u>
<u>Summary</u>			
SD/MC	\$ (1,447,618)	\$ (1,476,564)	\$ (28,946)
EPSDT	(766,698)	(739,436)	27,262
CDMH categorical grant	(1,330,748)	(1,330,748)	-
Federal IDEA grant	(2,360,972)	(2,360,972)	-
CDSS 40% offset	(4,471,823)	(4,340,556)	131,267
Local revenue (realignment)	(4,267,674)	(4,267,674)	-
Other – SED interagency transfer	(1,394,468)	-	1,394,468
Other – Recovery of Aid	(69,081)	(69,081)	-
CDSS 40% wraparound offset	-	(48,387)	(48,387)
Total	<u>\$ (16,109,082)</u>	<u>\$ (14,633,418)</u>	<u>\$ 1,475,664</u>

Criteria

Section VII of 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.

Section IV (G) of the parameters and guidelines provides that counties are eligible to be reimbursed for 60% of residential costs. The parameters and guidelines also provide that WIC section 18355.5 applies to this program and prohibits a county from claiming reimbursement for its 60% share of the total residential and non-educational costs for a seriously emotionally

disturbed child placed in an out-of-home residential facility, if the county claims reimbursement for these costs from the Local Revenue Fund identified in WIC section 17600 and receives these funds.

Recommendation

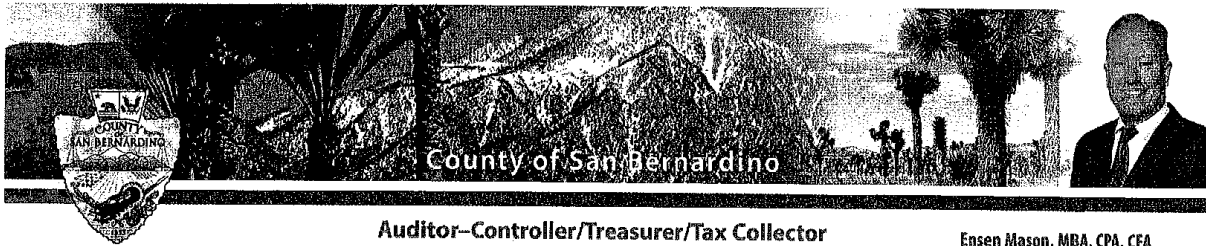
No recommendation is applicable, as the consolidated program is no longer mandated. For other mandated programs, we recommend that the county:

- Follow the mandated program claiming instructions and the parameters and guidelines when preparing its mandated cost claims; and
- Ensure that offsetting reimbursements are identified and properly applied to program costs.

County's Response

The county agreed with the finding.

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



Auditor-Controller/Treasurer/Tax Collector

Ensen Mason, MBA, CPA, CFA
Auditor-Controller/Treasurer/Tax Collector

Douglas R. Boyd, Sr., ESQ.
Assistant Auditor-Controller/Treasurer/Tax Collector

February 21, 2019

Lisa Kurokawa, Chief, Compliance Audits Bureau
State Controller's Office
Division of Audits
PO Box 942850
Sacramento, CA 94250

RE: **Response to Draft Audit Report**
Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils Program

Dear Ms. Kurokawa:

We have reviewed the State Controller's Office draft audit report for the above-mandated program dated February 11, 2019. The County review has been completed and we concur with the findings and recommendations proposed in the Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils Program draft audit for the period of July 1, 2008, through June 30, 2010.

If you have any questions, please contact Jai Prasad, Supervising Accountant III, at (909) 382-7026.

Sincerely,

Ensen Mason
Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By: *Vanessa Doyle*
Vanessa Doyle
Chief Deputy Controller

EM:DRB:MJB:VJD:JP:adp

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