

SUTTER 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 29, 2019

The Honorable Nathan Black, CPA
Auditor-Controller
Sutter County
463 Second Street, Suite 124
Yuba City, CA 95991

Dear Mr. Black:

The State Controller's Office (SCO) audited the costs claimed by Sutter 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 \$2,458,358 for the mandated program. Our audit found that \$1,493,644 is allowable and \$964,714 is unallowable. The costs are unallowable primarily because the county claimed costs for fiscal year (FY) 2008-09 based on prior-year data and used preliminary unit-of-service cost data to prepare its FY 2009-10 claim.

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/hf

cc: The Honorable Mat Conant, Chairman
Sutter County Board of Supervisors
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Sutter 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 \$2,458,358 for the mandated program. Our audit found that \$1,493,644 is allowable and \$964,714 is unallowable. The costs are unallowable primarily because the county claimed costs for fiscal year (FY) 2008-09 based on prior-year data and used preliminary unit-of-service cost data to prepare its FY 2009-10 claim.

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 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* [emphasis added] to fund assessments, psychotherapy, and other mental health services" 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 began allowing medication support costs beginning 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, imposes 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 objective, we:

- Reviewed the annual mandated cost claims filed by the county for the audit period and identified the material cost components of each claim as Participation as a Member of IEP Team, Authorize/Issue Payments to Providers, Psychotherapy/Other Mental Health Services, and Offsetting Reimbursements. Determined whether there were any errors or unusual or unexpected variances from year to year. Reviewed the activities claimed to determine whether they adhered to the 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 travel expenses claimed were eligible for reimbursement and supported by appropriate Travel Expense Claims;
- Verified residential treatment costs claimed by tracing a non-statistical sample of \$170,296 out of \$1,779,612 in residential placement costs to payment reports and invoices. We did not project sample errors to the intended (total) population;
- Validated unit-of-service reports by tracing a non-statistical sample of 200 out of 11,014 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);
- 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 outlined 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 audit report.

For the audit period, Sutter County claimed and was paid \$2,458,358 for the legislatively mandated Consolidated HDS, HDS II, and SEDP Program. Our audit found that \$1,493,644 is allowable and \$964,714 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 discussed our audit results with the county's representatives during an exit conference conducted on February 13, 2019. Steven Smith, Interim County Administrator; Jennifer Rafik, Administrative Services Officer; and Annie Liu, Principal Analyst, agreed with the audit results. Mr. Smith declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This audit report is solely for the information and use of Sutter 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 29, 2019

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Participation as member of IEP team	\$ 24,218	\$ -	\$ (24,218)	Finding 1
Authorize/Issue payments to providers	-	446,752	446,752	Finding 2
Psychotherapy/Other mental health services	2,557,904	1,335,608	(1,222,296)	Finding 3
Total direct costs	2,582,122	1,782,360	(799,762)	
Indirect costs	2,129	-	(2,129)	Finding 1
Total direct and indirect costs	2,584,251	1,782,360	(801,891)	
Less other reimbursements	(1,700,923)	(1,092,012)	608,911	Finding 4
Total program cost	<u>\$ 883,328</u>	690,348	<u>\$ (192,980)</u>	
Less amount paid by State ²		(883,328)		
Amount paid in excess of allowable costs claimed		<u>\$ (192,980)</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Authorize/Issue payments to providers	\$ 903,493	\$ 476,667	\$ (426,826)	Finding 2
Psychotherapy/Other mental health services	1,835,332	1,340,798	(494,534)	Finding 3
Total direct costs	2,738,825	1,817,465	(921,360)	
Indirect costs	-	-	-	
Total direct and indirect costs	2,738,825	1,817,465	(921,360)	
Less other reimbursements	(1,163,795)	(1,014,169)	149,626	Finding 4
Total program cost	<u>\$ 1,575,030</u>	803,296	<u>\$ (771,734)</u>	
Less amount paid by State ²		(1,575,030)		
Amount paid in excess of allowable costs claimed		<u>\$ (771,734)</u>		
<u>Summary: July 1, 2008, through June 30, 2010</u>				
Direct costs:				
Participation as member of IEP team	\$ 24,218	\$ -	\$ (24,218)	Finding 1
Authorize/Issue payments to providers	903,493	923,419	19,926	Finding 2
Psychotherapy/Other mental health services	4,393,236	2,676,406	(1,716,830)	Finding 3
Total direct costs	5,320,947	3,599,825	(1,721,122)	
Indirect costs	2,129	-	(2,129)	Finding 1
Total direct and indirect costs	5,323,076	3,599,825	(1,723,251)	
Less other reimbursements	(2,864,718)	(2,106,181)	758,537	Finding 4
Total program cost	<u>\$ 2,458,358</u>	1,493,644	<u>\$ (964,714)</u>	
Less amount paid by State ²		(2,458,358)		
Amount paid in excess of allowable costs claimed		<u>\$ (964,714)</u>		

¹ See the Findings and Recommendations section.

² Payment information current as of March 21, 2019.

Findings and Recommendations

**FINDING 1—
Ineligible travel costs**

During our testing of travel costs, we found that the county claimed \$24,218 in ineligible direct travel costs and \$2,129 in related indirect costs. The county claimed the costs under the Participation as Member of IEP Team cost component. Costs were overstated because the county misinterpreted the parameters and guidelines, and claimed ineligible costs incurred outside of the audit period.

The county claimed direct and indirect costs of performing on-site visits with clients placed at out-of-state residential facilities. These costs were supported by Travel Expense Claims and receipts. We reviewed the county’s supporting documentation and found that the travel costs were incurred in FY 2007-08. As only costs incurred during the audit period are eligible for reimbursement, we are disallowing the \$24,218 in direct travel costs and the related \$2,129 in indirect costs.

The following table summarizes the ineligible travel costs claimed:

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2008-09</u>			
Participation as member of IEP team	\$ 24,218	\$ -	\$ (24,218)
Indirect costs	2,129	-	(2,129)
Total	<u>\$ 26,347</u>	<u>\$ -</u>	<u>\$ (26,347)</u>

Criteria

Section IV (F) of the program’s parameters and guidelines provide reimbursement for conducting quarterly face-to-face contacts with the pupil at residential facilities to monitor the level of care, supervision, and implementation of treatment services and the IEP.

Section IV of the parameters and guidelines also specify that the State will reimburse only actual 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 this finding.

**FINDING 2—
Understated
residential treatment
costs**

During our testing of residential treatment costs, we found that the county understated costs by \$19,926 for the audit period. The county claimed costs under the Authorize/Issue Payments to Providers cost component. Costs were understated because the county misinterpreted the parameters and guidelines, and did not claim eligible residential treatment costs in its FY 2008-09 claim. Furthermore, the county claimed residential treatment costs for ineligible clients in FY 2009-10.

The county claimed residential treatment costs for clients placed in out-of-home facilities in its FY 2009-10 claim. The county tracks and records payments for these services in its general ledger based on monthly invoices received from the treatment facilities. The county neglected to claim these costs in its FY 2008-09 claim. However, the county provided supporting documentation for FY 2008-09 residential treatment costs during audit fieldwork. The auditor reviewed the supporting documentation and agreed to include the costs in our audit testing.

We verified support for residential placement services on a sample basis. In our review, we found that the county's claim reconciled to monthly invoices and general ledger reports. However, during eligibility testing, we found that the county claimed costs for clients who were not eligible for the mandate program. This resulted in the county claiming \$426,826 in ineligible client costs in its FY 2009-10 claim. For FY 2008-09, we found that the county was able to support \$446,752 in eligible residential treatment costs. We added these costs to the county's FY 2008-09 claim to offset adjustments made in other claim components.

Based on the aforementioned adjustments, we recalculated supported costs based on the amounts found in the county's general ledger reports and provider invoices. We excluded costs for clients who were ineligible for the mandate program.

The following table summarizes the adjustments to residential treatment costs:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2008-09	\$ -	\$ 446,752	\$ 446,752
2009-10	903,493	476,667	(426,826)
Total	\$ 903,493	\$ 923,419	\$ 19,926

Criteria

Section IV (G) of the parameters and guidelines specifies 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 by GC section 7581 and Title 2, CCR, section 60200.

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 this finding.

**FINDING 3—
Overstated
assessment and
treatment costs**

During our testing of assessment and treatment costs, we found that the county overstated costs by \$1,716,830 for the audit period. The county claimed assessment and treatment costs under the Psychotherapy/Other Mental Health Services cost component. Costs were overstated because the county misinterpreted the parameters and guidelines, used FY 2007-08 cost report data to prepare its FY 2008-09 claim, and used preliminary unit-of-service (UOS) reports to prepare its claim for FY 2009-10.

The county claimed assessment and treatment costs that were not fully based on actual costs to implement the mandated program. For the audit period, the county provided UOS reports that represented finalized UOS rendered to eligible clients. These reports were based on invoices submitted to the county's Special Education Local Plan Areas. We reviewed the reports and noted that reported units did not reconcile to claimed units for either fiscal year under audit. Units did not reconcile because the county used FY 2007-08 cost report data for its FY 2008-09 claim and preliminary UOS reports to determine its FY 2009-10 claimed costs.

We verified support for reporting services on a sample basis. We selected a haphazard, non-statistical sample of service transactions; we found that all clients were eligible for the program and the services were properly supported by a progress note. We verified unit rates used to compute costs of county-operated facilities. In our review, we found that the unit rates in the FY 2008-09 updated UOS reports reconciled to the county's annual cost report. However, in FY 2009-10, the county claimed rates that were inconsistent with the rates in its annual cost report.

We recalculated allowable costs based on actual, supported units of service provided to eligible clients using the allowable unit rates that represented the actual costs to the county. After our recalculation, we found that the county overstated costs by \$1,222,296 in FY 2008-09 and \$494,534 in FY 2009-10, for a total overstatement of \$1,716,830.

The following table summarizes the overstated assessment and treatment costs:

Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
2008-09	\$ 2,557,904	\$ 1,335,608	\$ (1,222,296)
2009-10	1,835,332	1,340,798	(494,534)
Total	<u>\$ 4,393,236</u>	<u>\$ 2,676,406</u>	<u>\$ (1,716,830)</u>

Criteria

Section IV (H) of the 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, the activities of socialization and vocation services are not reimbursable.

Section IV of the parameters and guidelines also 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 this finding.

FINDING 4— Overstated offsetting reimbursements

During our analysis of offsetting reimbursements, we found that the county overstated offsetting reimbursements by \$758,537 for the audit period.

Offsetting reimbursements were overstated primarily because the county misinterpreted the parameters and guidelines, used FY 2007-08 cost report data to prepare its FY 2008-09 claim, and used preliminary UOS reports to determine reimbursements for FY 2009-10. The county also overstated

Individuals with Disabilities Education Act (IDEA) funds and CDMH categorical grant funds received. Furthermore, the county did not claim relevant Short-Doyle/Medi-Cal Federal Financing Participation funds (SD/MC), and Early and Periodic Screening, Diagnosis and Treatment (EPSDT) revenues related to residential treatment costs.

We recalculated allowable offsetting reimbursements for all relevant funding sources, and applied appropriate rates for SD/MC and EPSDT to eligible direct costs. We excluding offsetting reimbursements related to ineligible and unsupported direct costs. We applied all relevant revenues to the full extent of funding provided, including IDEA funds and CDMH categorical grants.

After our recalculations, we found that the county overstated offsetting reimbursements by \$608,911 in FY 2008-09 and \$149,626 in FY 2009-10.

The following table summarizes the adjustments to offsetting reimbursements:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2008-09</u>			
SD/MC	\$ (605,141)	\$ (401,942)	\$ 203,199
EPSDT	(605,141)	(253,932)	351,209
CDMH	(106,558)	(73,257)	33,301
IDEA	(384,083)	(362,881)	21,202
Subtotal	<u>\$ (1,700,923)</u>	<u>\$ (1,092,012)</u>	<u>\$ 608,911</u>
<u>FY 2009-10</u>			
SD/MC	\$ (800,914)	\$ (416,584)	\$ 384,330
EPSDT	-	(234,704)	(234,704)
IDEA	(362,881)	(362,881)	-
Subtotal	<u>\$ (1,163,795)</u>	<u>\$ (1,014,169)</u>	<u>\$ 149,626</u>
<u>Summary</u>			
SD/MC	\$ (1,406,055)	\$ (818,526)	\$ 587,529
EPSDT	(605,141)	(488,636)	116,505
CDMH	(106,558)	(73,257)	33,301
IDEA	(746,964)	(725,762)	21,202
Total	<u>\$ (2,864,718)</u>	<u>\$ (2,106,181)</u>	<u>\$ 758,537</u>

Criteria

Section VII of the parameters and guidelines specifies 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, 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 this finding.

**State Controller's Office
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