ALAMEDA 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

May 2017

BETTY T. YEE
California State Controller

May 26, 2017

The Honorable Wilma Chan, President
Alameda County Board of Supervisors
1221 Oak Street, Suite 536
Oakland, CA 94612

Dear Ms. Chan:

The State Controller's Office audited the costs claimed by Alameda 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 $9,970,889 for the mandated program. Our audit found that $9,089,759 is allowable and $881,130 is unallowable. The costs are unallowable primarily because the county used incorrect units and unit rates to calculate costs, claimed ineligible and unsupported services, and miscalculated offsetting revenues. The State made no payments to the county. The State will pay allowable costs claimed that exceed the amount paid, totaling $9,089,759, 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/ls

cc: The Honorable Steve Manning, Auditor-Controller
Alameda County
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Alameda County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) 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 $9,970,889 for the mandated program. Our audit found that $9,089,759 is allowable and $881,130 is unallowable. The costs are unallowable primarily because the county used incorrect units and unit rates to calculate costs, claimed ineligible and unsupported services, and miscalculated offsetting revenues. The State made no payments to the county. The State will pay allowable costs claimed that exceed the amount paid, totaling $9,089,759, contingent upon available appropriations.

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 imposed 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 California State 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 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

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*, section 60100 (2 CCR 60100), which provides 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, imposed 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. 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 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.

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 GC 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.

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;

- Validated unit of service reports by tracing a sample of transactions from the reports to client files;
- Validated unit rates claimed by reconciling the claimed rates to rates within the county's cost reports;
- Performed a statistical sample of non-Short Doyle/Medi-Cal rehabilitation services and projected the results to the population;
- Determined whether indirect costs claimed were properly computed and applied;
- Determined if all relevant offsetting revenues were identified and properly applied; and
- Recalculated allowable costs claimed using audited data.

Conclusion

Our audit found instances of noncompliance with the requirements outlined in the Objectives section. 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, Alameda County claimed $9,970,889 for costs of the Consolidated HDS, HDS II, and SEDP Program. Our audit found that $9,089,759 is allowable and $881,130 is unallowable.

The State made no payments to the county. Our audit found that $9,089,759 is allowable. The State will pay allowable costs claimed, totaling $9,089,759, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on April 28, 2017. James Wagner, Interim Deputy Director, responded by letter dated May 9, 2017 (Attachment), accepting Findings 1 and 3, and agreeing with Finding 2. The final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Alameda 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

May 26, 2017

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 2009, through June 30, 2010				
Direct and indirect costs[2]:				
Referral and mental health assessments	$ 23,855,054	$ 22,121,698	$ (1,733,356)	Finding 1
Authorize/issue payments to providers	4,545,406	4,377,810	(167,596)	Finding 2
Total direct and indirect costs	28,400,460	26,499,508	(1,900,952)	
Less other reimbursements	(18,429,571)	(17,409,749)	1,019,822	Finding 3
Total program cost	$ 9,970,889	9,089,759	$ (881,130)	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		$ 9,089,759		

[1]See the Findings and Recommendations section.

[2]The county incorrectly claimed direct and indirect costs in each cost component.

Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs and indirect costs

The county overstated assessment and treatment costs and indirect costs by $1,733,356 for the audit period. The county claimed assessment and treatment costs in the Referral and Mental Health Assessment cost component. The county overstated assessment and treatment costs by $1,673,895 and the related indirect costs by $59,461.

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 reporting services. In our analytical review, we found that the county had claimed rehabilitation services. During our testing of a selected haphazard sample, we found that a number of rehabilitation services tested included ineligible socialization or social skills training. We discussed this issue with the county and proposed that we perform a statistical sample of the rehabilitation services. The county accepted our proposal, and we selected a statistical sample of the rehabilitation services for testing.

The population consisted of all rehabilitation service transactions that did not include any direct offsetting reimbursements such as Short Doyle/Medi-Cal (SD/MC); Early and Periodic Screening, Diagnosis, and Treatment (EPSDT); and Healthy Families (HF). To select the sample size, we adhered to a 95% confidence interval, +/- 8% sampling error, and a 50% expected true error rate. We tested the sampled transactions to determine which services included ineligible socialization activities. We then projected the error rate to the total costs of the population to determine the total audit adjustment.

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 claimed costs. The use of preliminary unit rates lead to the county's misstatement of assessment and treatment costs for the audit period.

We recalculated costs based on actual, supporting units of service provided to eligible clients using the appropriate unit rates that represented the actual cost to the county. We excluded costs of aforementioned unsupported services and unallowable costs determined by the statistical sample.

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, the county applied its indirect cost rate to unsupported and ineligible direct unit costs. This lead to the county overstating its indirect costs claimed.

We recalculated the indirect costs by applying the county's indirect cost rate claimed to the total direct unit costs of contract providers allowed in the audit.

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

	Amount Claimed	Amount Allowable	Audit Adjustment
Fiscal Year (FY) 2009-10			
Referral and mental health assessments	$ 23,855,054	$ 22,121,698	$ (1,733,356)

The following table summarizes the calculation of allowable costs:

	FY 2009-10
Total claimed costs	$ 23,855,054
Ineligible rehabilitation services	(1,297,203)
Preliminary unit-of-service reports/unit rates	(376,692)
Overstated indirect costs	(59,461)
Allowable costs	$ 22,121,698

Criteria

The program's parameters and guidelines (section IV (H)) 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 when providing mental health treatment services the activities of socialization and vocation services are not reimbursable.

The parameters and guidelines (section IV) 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 (section V) state that indirect costs that are incurred in the performance of the mandated activities and adequately documented are reimbursable. The parameters and guidelines further state 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 report, as the consolidated program no longer is mandated.

Auditee's Response

The county acknowledges and accepts the finding.

FINDING 2— Overstated residential placement costs

The county overstated residential placement costs by $167,596 for the audit period. The county claimed the residential placement costs in the Authorize/Issue Payments to Providers cost component and overstated net costs by claiming unsupported costs, including ineligible vendor costs, and omitting eligible vendor costs.

The county claimed residential placement costs for board-and-care, mental health treatment, and unspecified special education services. The county supported its board-and-care and mental health treatment costs with reports from its CalWIN system. However, the county did not provide any supporting documentation for $191,023 in claimed special education costs. With no documentation supporting the costs, we disallowed the entire amount of unsupported special education costs.

We verified, on a sample basis, support for residential placement services. In our review, we found that the county had claimed costs based on the month when services were paid rather than incurred. This resulted in the county claiming costs from outside the audit period and leaving potential eligible costs unclaimed. We requested updated CalWIN reports prepared based on the effective month of residential placements. Upon review of the updated reports, we found that the county had understated board-and-care costs and mental health treatment costs by $53,531 for the audit period.

We verified the eligibility of each vendor claimed using supporting documents provided by the county. After completing our review, we found that the county claimed ineligible out-of-state residential placement costs of $30,104 for facilities that are owned and operated for profit. Only placements in facilities that are owned and operated on a nonprofit basis are eligible for reimbursement. The costs included both board-and-care and mental health treatment costs paid to vendors. Furthermore, the county claimed the residential placement costs net of the 40% reimbursement provided by the California Department of Social Services.

Based on the aforementioned adjustments, we recalculated supported costs based on the month in which costs were incurred. We excluded costs from vendors that are owned operated on a for-profit basis.

The following table summarizes the overstated residential placement costs claimed:

	Amount Claimed	Amount Allowable	Audit Adjustment
FY 2009-10			
Authorize/issue payments to providers	$ 4,545,406	$ 4,377,810	$ (167,596)

The following table summarizes the calculation of allowable costs:

	FY 2009-10
Total claimed costs	$ 4,545,406
Unsupported special education costs	(191,023)
Ineligible for-profit vendor costs	(30,104)
Omitted residential placement costs	53,531
Allowable costs	$ 4,377,810

Criteria

The program's parameters and guidelines (section IV (C)) specify that the State 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.

The parameters and guidelines (section IV (G)) 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 for this report, as the consolidated program no longer is mandated.

Auditee's Response

The county agrees with the finding.

FINDING 3— Overstated offsetting reimbursements

The county overstated offsetting reimbursements by $1,019,822 for the audit period. The overstatement results primarily from the county's use of preliminary unit-of-service reports and unit rates to determine SD/MC, EPSDT, and HF offsetting reimbursements. In addition, the county used an estimated EPSDT funding percentage to calculate the revenue offset.

We recalculated allowable offsetting reimbursements for all relevant funding sources and applied the appropriate rates for SD/MC, EPSDT, and HF to eligible direct costs. For EPSDT, we recomputed the funding percentage using final cost settlement information from the CDMH. We excluded offsetting reimbursements related to ineligible and unsupported direct costs. We applied all relevant revenues to the full extent of the funding provided, including Individuals with Disabilities Education Act (IDEA) funds.

The following table summarizes the adjustment to offsetting reimbursements:

	Amount Claimed	Amount Allowable	Audit Adjustment
SD/MC	$ (9,455,187)	$ (8,606,232)	$ 848,955
EPSDT	(4,714,616)	(4,651,753)	62,863
IDEA	(4,084,381)	(4,084,381)	-
HF	(175,387)	(67,383)	108,004
Total	$ (18,429,571)	$ (17,409,749)	$ 1,019,822

Criteria

The parameters and guidelines (section VII) 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 report, as the consolidated program no longer is mandated.

Auditee's Response

The county acknowledges and accepts the finding.

Attachment—
County's Response to Draft Audit Report

ALAMEDA COUNTY
Behavioral Health Care Services
ALCOHOL, DRUG & MENTAL HEALTH SERVICES
DON KINGDON, PhD, INTERIM DIRECTOR

Oakland, California 94606
(510) 567-8100 / TTY (510) 533-5018

May 9, 2017

Jim L. Spano, Chief
Mandated Cost Audits Bureau
State Controller's Office
Division of Audit
P.O. Box 942850
Sacramento, CA 94250-5874

SUBJECT: Alameda County Response to Consolidated HDS, HDS II and SEDP program Audit Report (July 1, 2009 through June 30, 2010)

Dear Mr. Spano:

Below is our response to the findings in your letter dated April 28, 2017, regarding the audit for the period 7/1/2009 through 6/30/2010:

Finding 1 – Overstated assessment and treatment costs and indirect costs

We acknowledge that the units of service provided in the rerun report were less than the units used to calculate the original claim due to system limitations. We acknowledge and accept this finding.

Finding 2 – Overstated residential placement costs

The County agrees with the finding on the FY 2009-10 residential placement costs claim which was overstated by $167,596:

- The County was not able to provide supporting documentation for $191,023 in claimed special education costs.
- Among the out-of-state residential placement costs, $30,104 was claimed on one facility that is owned and operated for profit.
- The County applied incorrect methodology to calculate residential placement services as based on the month when services were paid rather than incurred. Upon request by the auditor, County had prepared a revised calculation based on the effective month of residential placements. The result is the County had understated board-and-care costs and mental health treatment costs by $53,531 for the audit period.

With above audit issues, the County agrees the FY 2009-10 residential placement costs allowable amount should be adjusted from $4,545,406 to $4,377,810.

Finding 3 – Overstated offsetting reimbursements

We acknowledge and accept the results of this finding.

This concludes our response to the audit findings. If you have any questions, please contact me.

Sincerely,

James Wagner, Interim Deputy Director, Alameda County Behavioral Health Care Services
Alameda County

JW/pn

cc: Sona Basra, BHCS
Peter Coletto, CAO
Leda Frediani, BHCS
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