

CONTRA COSTA COUNTY

Revised Audit Report

CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS), HDS II, AND SEDP PROGRAM

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

July 1, 2006, through June 30, 2009



JOHN CHIANG
California State Controller

June 2014



JOHN CHIANG
California State Controller

June 2, 2014

The Honorable Karen Mitchoff
Chair, Board of Supervisors
Contra Costa County
2151 Salvio Street, Suite R
Concord, CA 94520

Dear Ms. Mitchoff:

The State Controller's Office audited the costs claimed by Contra Costa 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, 2006, through June 30, 2009.

This revised final report supersedes our previous report dated February 16, 2012. Subsequent to the issuance of our final report, the California Department of Mental Health finalized its Early and Periodic Screening, Diagnosis and Treatment (EPSDT) reimbursements for fiscal year (FY) 2008-09, and the county provided the results of its statistical sample of rehabilitation service costs, to identify the eligible portion of services provided. We recalculated EPSDT revenues for FY 2008-09 and revised Finding 5 to reflect the actual funding percentages based on the final settlements. We reviewed the county's sample results and revised Findings 1 and 4 to reflect the eligible portion of rehabilitation service costs. These revisions increased allowable costs by \$973,100, from \$6,480,314 to \$7,453,414.

The county claimed \$11,941,983 for the mandated program. Our audit found that \$7,453,414 is allowable and \$4,488,569 is unallowable. The costs are unallowable because the county overstated mental health services unit costs, claimed duplicate direct salaries, benefits, and travel costs, overstated residential placement costs, claimed unsupported due process hearing costs, overstated administrative costs, and overstated offsetting revenues and other reimbursements. The State paid the county \$2,714,101. Allowable costs claimed exceed the amount paid by \$4,739,313.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCForm.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/kw

cc: Robert Campbell, Auditor Controller
Auditor-Controller's Office
Contra Costa County
Pat Godley, Chief Operating and Financial Officer
Health Services Department
Contra Costa County
Dorothy Sansoe, Senior Deputy County Administrator
Contra Costa County
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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Contra Costa County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and 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, 2006, through June 30, 2009.

The county claimed \$11,941,983 for the mandated program. Our audit found that \$7,453,414 is allowable and \$4,488,569 is unallowable. The costs are unallowable because the county overstated mental health services unit costs, claimed duplicate direct salaries, benefits, and travel costs, overstated residential placement costs, claimed unsupported due process hearing costs, overstated administrative costs, and overstated offsetting revenues and other reimbursements. The State paid the county \$2,714,101. Allowable costs claimed exceed the amount paid by \$4,739,313.

Background

Handicapped and Disabled Students (HDS) Program

Chapter 26 of the Government Code, commencing with section 7570, and Welfare and Institutions Code section 5651 (added and amended by Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) require counties to participate in the mental health assessment for "individuals with exceptional needs," participate in the expanded "Individualized Education Program" (IEP) team, and provide case management services for "individuals with exceptional needs" who are designated as "seriously emotionally disturbed." These requirements impose a new program or higher level of service on counties.

On April 26, 1990, the Commission on State Mandates (CSM) adopted the statement of decision for the HDS Program and determined that this legislation imposed a state mandate reimbursable under Government Code section 17561. The CSM adopted the parameters and guidelines for the HDS Program on August 22, 1991, and last amended it on January 25, 2007.

The parameters and guidelines for the HDS Program state that only 10% of mental health treatment costs are reimbursable. However, on September 30, 2002, Assembly Bill 2781 (Chapter 1167, Statutes of 2002) changed the regulatory criteria by stating that the percentage of treatment costs claimed by counties for fiscal year (FY) 2000-01 and prior fiscal years is not subject to dispute by the SCO. Furthermore, this legislation states that, for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of these costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by Welfare and Institutions Code section 17600 et seq. (realignment funds).

Furthermore, Senate Bill 1895 (Chapter 493, Statutes of 2004) states that realignment funds used by counties for the HDS Program “are eligible for reimbursement from the state for all allowable costs to fund assessments, psychotherapy, and other mental health services” and that the finding by the Legislature is “declaratory of existing law” (emphasis added).

The CSM 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 (HDS) II Program

On May 26, 2005, the CSM 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 CSM 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 (SEDP) Program

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

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

- Payment of 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 a county's out-of-state residential placement program meets the requirements of Government Code section 7576.

The CSM 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 CSM stated that Statutes of 2011, Chapter 43, "eliminated the mandated programs for counties and transferred responsibility to school districts, effective July 1, 2011. Thus, beginning July 1, 2011, these programs no longer constitute reimbursable state-mandated programs for counties." The consolidated program replaced the prior HDS, HDS II, and SEDP mandated programs. The parameters and guidelines establish the state mandate and define reimbursable criteria. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the 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, 2006, through June 30, 2009.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Contra Costa County claimed \$11,941,983 for costs of the Consolidated HDS, HDS II, and SEDP Program. Our audit found that \$7,453,414 is allowable and \$4,488,569 is unallowable.

For the fiscal year (FY) 2006-07 claim, the State paid the county \$2,714,101. Our audit found that \$2,303,809 is allowable. The State will offset \$410,292 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2007-08 claim, the State made no payment to the county. Our audit found that \$4,452,404 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,452,404, contingent upon available appropriations.

For the FY 2008-09 claim, the State made no payment to the county. Our audit found that \$697,201 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$697,201, contingent upon available appropriations.

**Views of
Responsible
Official**

On February 16, 2012, we issued a final audit report for the Consolidated HDS, HDS II, and SEDP Program for the period of July 1, 2006, through June 30, 2009.

Subsequently, we revised our audit report based on finalized Early and Periodic Screening, Diagnosis and Treatment revenues by the California Department of Mental Health for FY 2008-09, and the results of the statistical sample of rehabilitation service costs performed by the county. We recalculated offsetting reimbursements and revised Finding 5. We reviewed the results of the statistical sample and revised Findings 1 and 4. These revisions decreased the audit adjustment by \$973,100 from \$5,461,669 to \$4,488,569. On February 25, 2014, we advised Marie Rulloda, Chief Accountant, Auditor-Controller's Office, and Ronald Perseveranda, Reimbursement Manager, Health Services Department, of the revisions. Patrick Godley, Chief Operating and Financial Officer, Health Services Department, responded by letter dated May 1, 2014 (Attachment), agreeing with the revised audit results. This revised report includes the county's response.

Restricted Use

This report is solely for the information and use of Contra Costa County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

June 2, 2014

**Revised Schedule 1—
Summary of Program Costs
July 1, 2006, through June 30, 2009**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006 through June 30, 2007</u>				
Direct costs:				
Referral and mental health assessments	\$ 1,239,396	\$ 959,354	\$ (280,042)	Finding 1
Transfers and interim placements	839,174	789,000	(50,174)	Finding 1
Designation of lead case manager	20,190	—	(20,190)	Finding 2
Authorize/issue payments to providers	2,869,000	2,598,630	(270,370)	Finding 3
Psychotherapy/other mental health services	4,428,892	3,719,551	(709,341)	Findings 1, 3
Total direct costs	9,396,652	8,066,535	(1,330,117)	
Indirect costs	787,191	634,957	(166,716)	Finding 4
Total direct and indirect costs	10,183,843	8,701,492	(1,482,351)	
Less offsetting revenues ²	(2,764,022)	(2,764,022)	—	
Less other reimbursements	(4,205,440)	(3,633,661)	571,779	Finding 5
Total program cost	<u>\$ 3,214,381</u>	2,303,809	<u>\$ (910,572)</u>	
Less amount paid by State ³		(2,714,101)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (410,292)</u>		
<u>July 1, 2007 through June 30, 2008</u>				
Direct costs:				
Referral and mental health assessments	\$ 2,203,193	\$ 1,510,125	\$ (693,068)	Finding 1
Transfers and interim placements	1,038,841	972,578	(66,263)	Finding 1
Designation of lead case manager	39,119	—	(39,119)	Finding 2
Authorize/issue payments to providers	2,908,010	2,723,871	(184,139)	Finding 3
Psychotherapy/other mental health services	6,694,139	5,741,193	(952,946)	Findings 1, 3
Total direct costs	12,883,302	10,947,767	(1,935,535)	
Indirect costs	1,243,797	896,758	(347,039)	Finding 4
Total direct and indirect costs	14,127,099	11,844,525	(2,282,574)	
Less offsetting revenues ²	(3,961,561)	(3,879,929)	81,632	Finding 5
Less other reimbursements	(4,802,709)	(3,512,192)	1,290,517	Finding 5
Total program cost	<u>\$ 5,362,829</u>	4,452,404	<u>\$ (910,425)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,452,404</u>		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008 through June 30, 2009</u>				
Direct costs:				
Referral and mental health assessments	\$ 2,844,469	\$ 1,504,400	\$ (1,340,069)	Finding 1
Transfers and interim placements	1,150,365	1,102,155	(48,210)	Finding 1
Designation of lead case manager	50,416	—	(50,416)	Finding 2
Authorize/issue payments to providers	2,780,955	2,542,214	(238,741)	Finding 3
Psychotherapy/other mental health services	9,247,134	7,247,355	(1,999,779)	Findings 1, 3
Total direct costs	16,073,339	12,396,124	(3,677,215)	
Indirect costs	1,438,389	696,571	(741,818)	Finding 4
Total direct and indirect costs	17,511,728	13,092,695	(4,419,033)	
Less offsetting revenues ²	(7,691,301)	(7,572,560)	118,741	Finding 5
Less other reimbursements	(6,455,654)	(4,822,934)	1,632,720	Finding 5
Total program cost	<u>\$ 3,364,773</u>	697,201	<u>\$ (2,667,572)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 697,201</u>		
<u>Summary: July 1, 2006 through June 30, 2009</u>				
Direct costs:				
Referral and Mental health assessments	\$ 6,287,058	\$ 3,973,879	\$ (2,313,179)	Finding 1
Transfers and interim placements	3,028,380	2,863,733	(164,647)	Finding 1
Designation of lead case manager	109,725	—	(109,725)	Finding 2
Authorize/issue payments to providers	8,557,965	7,864,715	(693,250)	Finding 3
Psychotherapy/other mental health services	20,370,165	16,708,099	(3,662,066)	Findings 1, 3
Total direct costs	38,353,293	31,410,426	(6,942,867)	
Indirect costs	3,469,377	2,228,286	(1,241,091)	Finding 4
Total direct and indirect costs	41,822,670	33,638,712	(8,183,958)	
Less offsetting revenues ²	(14,416,884)	(14,216,511)	200,373	Finding 5
Less other reimbursements	(15,463,803)	(11,968,787)	3,495,016	Finding 5
Total program cost	<u>\$ 11,941,983</u>	7,453,414	<u>\$ (4,488,569)</u>	
Less amount paid by State		(2,714,101)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,739,313</u>		

¹ See the Findings and Recommendations section.

² The county inappropriately classified offsetting revenues as offsetting savings.

³ County received categorical payment from the California Department of Mental Health from FY 2009-10 budget.

Revised Findings and Recommendations

**FINDING 1—
Overstated mental
health services unit
costs**

The county overstated mental health services unit costs by \$5,581,034 for the audit period.

The county claimed mental health service costs to implement the mandated program that are not fully based on actual costs. The county determined its service costs based on preliminary units and rates. The county ran unit-of-service reports to support its claims. These reports did not fully support the units of service claimed and contained unallowable costs including therapeutic behavioral services (TBS), group rehabilitation, rehabilitation support, and non-billable services.

The county claimed rehabilitation costs for group rehabilitation and rehabilitation support services. The services are provided in accordance with a definition that includes a broad range of services including certain adjunct services such as social skills, daily living skills, meal preparation skills, personal hygiene, and grooming. Based on the Commission on State Mandates’ (CSM) statement of decision dated May 26, 2011, the portions of rehabilitation services related to socialization are not reimbursable under the parameters and guidelines. The statement of decision relates to an incorrect reduction claim filed by Santa Clara County for the Handicapped and Disabled Students (HDS) Program. In light of the CSM statement of decision, the county must separate and exclude the ineligible portions of the rehabilitation service.

We recalculated costs based on actual, supportable units of service provided to eligible clients using the appropriate unit rates that represented actual cost to the county. We excluded ineligible TBS, group rehabilitation, rehabilitation support, and non-billable services.

The following table summarizes the overstated mental health services unit costs claimed:

	Fiscal Year			Total
	2006-07	2007-08	2008-09	
Referral and mental health assessments:				
Rehabilitation support	\$ (218,817)	\$ (721,938)	\$ (1,433,437)	\$ (2,374,192)
Units of service/unit rates	(61,225)	28,870	93,368	61,013
Total referral and mental health assessments	(280,042)	(693,068)	(1,340,069)	(2,313,179)
Transfers and interim placements:				
Non-billable services	(48,537)	(64,708)	(35,541)	(148,786)
Units of service/unit rates	(1,637)	(1,555)	(12,669)	(15,861)
Total transfers and interim placements	(50,174)	(66,263)	(48,210)	(164,647)
Psychotherapy/other mental health services:				
Group rehabilitation	(14,045)	(54,331)	(59,890)	(128,266)
Therapeutic behavioral services	(332,482)	(930,737)	(943,820)	(2,207,039)
Units of service/unit rates	(283,591)	204,490	(688,802)	(767,903)
Psychotherapy/other mental health services	(630,118)	(780,578)	(1,692,512)	(3,103,208)
Audit adjustment	\$ (960,334)	\$ (1,539,909)	\$ (3,080,791)	\$ (5,581,034)

The program’s parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities and supported by source documents that show the validity of such costs. The parameters and guidelines do not identify TBS as an eligible service.

The parameters and guidelines (section IV.H.) reference Title 2, *California Code of Regulations (CCR)*, section 60020, subdivision (i), for reimbursable psychotherapy or other mental health treatment services. This regulation does not include socialization services. The CSM’s May 26, 2011 statement of decision also states that the portion of the services provided that relate to socialization are not reimbursable.

Recommendation

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

County’s Response

The county agreed with the finding.

**FINDING 2—
Duplicated direct
salary, benefit and
travel costs**

The county claimed \$109,725 in duplicate direct salary, benefit and travel costs for the audit period.

The county claimed allowable direct salary and benefit costs of employees who conduct quarterly face-to-face contacts with pupils at the residential facilities to monitor the level of care and supervision and the implementation of treatment services and the Individualized Education Program (IEP). In addition, the county claimed allowable travel costs associated with travel to perform case management services to clients placed in out-of-home facilities. The county also included these costs in the pool of direct costs used to compute the unit rates in the county’s cost reports submitted to the California Department of Mental Health (DMH). Consequently, direct salary, benefit, and travel costs claimed were also allocated through the unit rates to various mental health programs, including the Consolidated HDS, HDS II, and SEDP Program claims. Allowing the direct salary, benefit, and travel costs would result in duplicate reimbursement.

We did not allow the claimed direct salary, benefit, and travel costs because they resulted in a duplication of claimed costs.

The following table summarizes the duplicated direct salary, benefit, and travel costs claimed:

	Fiscal Year			Total
	2006-07	2007-08	2008-09	
Designation of lead case manager:				
Salary and benefit costs	\$ (9,016)	\$ (16,186)	\$ (20,005)	\$ (45,207)
Travel costs	(11,174)	(22,933)	(30,411)	(64,518)
Audit adjustment	<u>\$ (20,190)</u>	<u>\$ (39,119)</u>	<u>\$ (50,416)</u>	<u>\$ (109,725)</u>

The parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities and supported by source documents that show the validity of such costs.

Recommendation

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

County’s Response

The county agreed with the finding.

**FINDING 3—
Overstated residential
placement costs and
unsupported due
process hearing costs**

The county overstated residential placement and due process hearing costs by \$1,252,108 for the audit period.

The county claimed board-and-care costs and mental health treatment “patch” costs for residential placements in out-of-state facilities which are operated on a for-profit basis. Only placements in facilities which are operated on a not-for-profit basis are eligible for reimbursement. Additionally, the county claimed due process hearing costs, which were not adequately supported by client files or itemizations of costs.

We did not allow costs associated with placements at out-of-state facilities which are operated on a for-profit basis, as well as due process hearing costs which were not fully supported by appropriate documentation.

The following table summarizes the unallowable residential placement and unsupported due process hearing costs claimed:

	Fiscal Year			Total
	2006-07	2007-08	2008-09	
Authorize/issue payments to providers:				
Residential placement board-and-care	\$ (270,370)	\$ (184,139)	\$ (238,741)	\$ (693,250)
Total authorize/issue payments to providers	(270,370)	(184,139)	(238,741)	(693,250)
Psychotherapy/other mental health services:				
Residential placement “patch”	(60,238)	(90,467)	(174,198)	(324,903)
Due process hearing costs	(18,985)	(81,901)	(133,069)	(233,955)
Total psychotherapy/other mental health services	(79,223)	(172,368)	(307,267)	(558,858)
Audit adjustment	\$ (349,593)	\$ (356,507)	\$ (546,008)	\$ (1,252,108)

The parameters and guidelines (section IV.C.1) specify that the mandate is to reimburse counties for payments to vendors providing mental health services to pupils in out-of-state residential placements as specified in Government Code section 7576, and Title 2, CCR, sections 60100 and 60110.

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

Recommendation

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

County’s Response

The county agreed with the finding.

**FINDING 4—
Overstated indirect
(administrative) costs**

The county overstated indirect (administrative) costs by \$1,241,091 for the audit period.

The county miscalculated its indirect cost rates and applied the rates to ineligible costs. In all three fiscal years reviewed, county incorrectly computed its rate by incorrectly allocating administrative costs to total county and total contractor costs that are not under the oversight of the county. Additionally, the county allocated administrative costs to unallowable costs including TBS, group rehabilitation, rehabilitation support, and non-billable services. Furthermore, the county did not reduce administrative costs by any relevant revenues.

The county claimed rehabilitation costs for group rehabilitation and rehabilitation support services. The services are provided in accordance with a definition that includes a broad range of services including certain adjunct services such as social skills, daily living skills, meal preparation skills, personal hygiene, and grooming. Based on the CSM’s statement of decision dated May 26, 2011, the portions of rehabilitation services related to socialization are not reimbursable under the parameters and guidelines. In light of the CSM statement of decision, the county must separate the ineligible portions of service.

We recalculated indirect cost rates using a method that is consistent with the cost reports submitted to the DMH. We applied the rates to eligible direct costs. We also applied relevant administrative revenues including Short-Doyle/Medi-Cal Federal Financing Participation Funds (SD/MC FFP) administration funds.

The following table summarizes the overstated administrative costs claimed:

	Fiscal Year			Total
	2006-07	2007-08	2008-09	
Indirect costs	\$ (152,234)	\$ (347,039)	\$ (741,818)	\$ (1,241,091)
Audit adjustment	\$ (152,234)	\$ (347,039)	\$ (741,818)	\$ (1,241,091)

The parameters and guidelines specify that indirect costs incurred to implement the mandated activities and adequately documented are reimbursable. They further specify that, to the extent if the DMH has not already compensated reimbursable indirect costs from categorical funding sources, they may be claimed.

Recommendation

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

County's Response

The county agreed with the finding.

FINDING 5— Overstated offsetting revenues and other reimbursements

The county overstated offsetting revenues and other reimbursements by \$3,695,389 for the audit period.

The county overstated the State's 40% share of Seriously Emotionally Disturbed (SED) costs by applying it to payments made to ineligible for-profit facilities. Furthermore, the county overstated Local Revenue Funds by also applying them to SED costs that resulted from payments to ineligible for-profit facilities. The county overstated SD/MC FFP and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) revenues by applying the funding shares to service costs not fully based on actual costs. The county determined its service costs based on preliminary units and rates. The county ran unit-of-service reports to support its claims. These reports did not fully support the units of service claimed and contained unallowable costs including TBS, group rehabilitation, rehabilitation support, and non-billable services.

The county claimed costs for group rehabilitation and rehabilitation support services that may include ineligible socialization services which are not reimbursable under the parameters and guidelines. Based on the CSM's statement of decision dated May 26, 2011, the portions of rehabilitation services related to socialization are not reimbursable under the parameters and guidelines. The county must separate the ineligible portions of the rehabilitation service. To date, the county has not provided our office any documentation that identifies the eligible portion of claimed rehabilitation services that were billed to SD/MC FFP and EPSDT. Therefore, we are excluding the portion of revenues that relate to claimed rehabilitation services.

The following table summarizes the overstated offsetting revenues and other reimbursements claimed:

	Fiscal Year			Total
	2006-07	2007-08	2008-09	
Offsetting revenues:				
Local revenue funds	\$ —	\$ 7,977	\$ 23,244	\$ 31,221
State 40% SED share	—	73,655	95,497	169,152
DMH categorical	—	—	—	—
IDEA	—	—	—	—
Total offsetting revenues	—	81,632	118,741	200,373
Other reimbursements:				
SD/MC FFP:				
Group rehabilitation	4,510	21,524	31,204	57,238
Rehabilitation support	67,823	280,076	610,831	958,730
Therapeutic behavioral services	166,241	448,002	550,496	1,164,739
Units of service/unit rates	(3,028)	(28,494)	19,255	(12,267)
Total SD/MC FFP	235,546	721,108	1,211,786	2,168,440
EPSDT				
Group rehabilitation	3,563	17,241	18,556	39,360
Rehabilitation support	53,580	224,341	346,733	624,654
Therapeutic behavioral services	131,331	358,850	320,475	810,656
Units of service/unit rates	(71)	(31,023)	(264,830)	(295,924)
Total EPSDT	188,403	569,409	420,934	1,178,746
Third-party payors	—	—	—	—
Realignment	39,682	—	—	39,682
State 40% SED share	108,148	—	—	108,148
Total other reimbursements	571,779	1,290,517	1,632,720	3,495,016
Audit adjustment	\$ 571,779	\$ 1,372,149	\$ 1,751,461	\$ 3,695,389

The parameters and guidelines specify that any direct payments (categorical funds, SD/MC FFP, EPSDT, Individuals with Disabilities Education Act (IDEA), and other offsets such as private insurance) received from the State that are specifically allocated to the program, and/or any other reimbursement received as a result of the mandate, must be deducted from the claim.

The parameters and guidelines (section IV.G.) reference Welfare and Institutions Code (WIC), section 18355.5, which prohibits a county from claiming reimbursement for its 60% share of the total residential and non-educational costs of 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 audit, as the consolidated program no longer is mandated.

County’s Response

The county agreed with the finding.

**Attachment—
County’s Response to
Revised Final Audit Report**

WILLIAM B. WALKER, M. D.
HEALTH SERVICES DIRECTOR
PATRICK GODLEY
CHIEF OPERATING OFFICER/CHIEF FINANCIAL OFFICER



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50 Douglas Drive
Martinez, California
94553

Ph (925) _____
Suite 310-B
Suite 310-C
Suite 310-D
Suite 310-E

May 1, 2014

Mr. Jim L. Spano
Chief, Mandated Costs Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

Dear Mr. Spano,

Contra Costa County agrees with the Revised Audit Report for the CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS), HDS II, AND SEDP PROGRAM for the period July 1, 2006 through June 30, 2009.

The Revised Audit Report was sent to us on April 22, 2014 by Mr. Christopher B. Ryan, CIA, Audit Manager, State Controller's Office for our review.

If you have any questions, you may contact Ronald Perseveranda of my staff at (925) 957-5432.

Sincerely,

Patrick Godley
Chief Operating Officer and Chief Financial Officer
Contra Costa County Health Services Department

Cc: Steve Hahn-Smith, Mental Health Department
Marie Rulloda, Chief Accountant, Auditor Controller's Office



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

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