

VENTURA COUNTY

Revised Audit Report

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

July 1, 2006, through June 30, 2010



JOHN CHIANG
California State Controller

June 2014



JOHN CHIANG
California State Controller

June 9, 2014

The Honorable Steve Bennett, Chair
Ventura County Board of Supervisors
800 S. Victoria Avenue
Ventura, CA 93009

Dear Mr. Bennett:

The State Controller's Office audited the costs claimed by Ventura 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, 2010.

This revised final report supersedes our previous report dated March 21, 2014. 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) 2009-10. We recalculated EPSDT revenues for FY 2009-10 and revised Finding 4 to reflect the actual funding percentages based on the final settlement. The revision increased allowable costs by \$83,841, from \$8,933,803 to \$9,017,644.

The county claimed \$11,903,218 for the mandated program. Our audit found that \$9,017,644 is allowable (\$9,027,644 less a \$10,000 penalty for filing a late claim) and \$2,885,574 is unallowable. The costs are unallowable primarily because the county overstated assessment and treatment costs, understated residential placement costs, understated indirect costs, and understated offsetting reimbursements. The State paid the county \$1,870,125. Allowable costs claimed exceed the amount paid by \$7,147,519.

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/IRCFrm.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, CPA
Chief, Division of Audits

JVB/mh

cc: Jeffery S. Burgh, Assistant Auditor-Controller
Ventura County
Meloney Roy, Director
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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Ventura 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, 2010.

The county claimed \$11,903,218 for the mandated program. Our audit found that \$9,017,644 is allowable (\$9,027,644 less a \$10,000 penalty for filing a late claim) and \$2,885,574 is unallowable. The costs are unallowable primarily because the county claimed ineligible services, understated residential placement costs, and miscalculated offsetting reimbursements. The State paid the county \$1,870,125. Allowable costs claimed exceed the amount paid by \$7,147,519.

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 them on January 25, 2007.

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

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

The 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 incorporated 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 include those set forth in Title 2, *California Code of Regulations*, section 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 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 for out-of-state residential placements;
- Case management of out-of-state residential placements. Case management includes supervision of mental health treatment and monitoring of psychotropic medications;

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

The 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 Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Program for the period of July 1, 2006, through June 30, 2010.

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, Ventura County claimed \$11,903,218 for costs of the Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Program. Our audit found that \$9,017,644 is allowable (\$9,027,644 less a \$10,000 penalty for filing a late claim) and \$2,885,574 is unallowable.

For the fiscal year (FY) 2006-07 claim, the State paid the county \$1,870,125. Our audit found that \$931,490 is allowable. The State will offset \$938,635 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 \$2,900,309 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$2,900,309, contingent upon available appropriations.

For the FY 2008-09 claim, the State made no payment to the county. Our audit found that \$341,875 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$341,875, contingent upon available appropriations.

For the FY 2009-10 claim, the State made no payment to the county. Our audit found that \$4,843,970 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,843,970, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on February 18, 2014. Jeffery S. Burgh, Agency Director/Assistant Auditor-Controller, responded by letter dated March 6, 2014 (Attachment), agreeing with the audit results except for allowing costs only up to the amount claimed. We issued the final report on March 21, 2014.

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 2009-10. We recalculated offsetting reimbursements and revised Finding 4. As a result, allowable costs increased by \$83,841, from \$8,943,803 to \$9,027,644 for the audit period. On May 20, 2014, we advised Narcisa Egan, Associate Chief Financial Officer, Behavioral Health Department, of the revisions. This revised final report includes the county's response to our February 18, 2014, draft report. The county did not respond to the Finding 4 revision.

Restricted Use

This report is solely for the information and use of Ventura 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

June 9, 2014

**Revised Schedule 1—
Summary of Program Costs
July 1, 2006, through June 30, 2010**

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	\$ 496,249	\$ 496,228	\$ (21)	Finding 1
Transfers and interim placements	1,018,608	705,114	(313,494)	Finding 2
Designation of lead case manager	1,013,915	1,014,046	131	Finding 1
Psychotherapy/other mental health services	4,881,862	4,592,587	(289,275)	Finding 1
Total direct costs	7,410,634	6,807,975	(602,659)	
Indirect costs	873,526	819,120	(54,406)	Finding 3
Total direct and indirect costs	8,284,160	7,627,095	(657,065)	
Less other reimbursements	(5,961,077)	(6,695,605)	(734,528)	Finding 4
Total program cost	<u>\$ 2,323,083</u>	931,490	<u>\$ (1,391,593)</u>	
Less amount paid by State ²		(1,870,125)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (938,635)</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Referral and mental health assessments	\$ 579,493	\$ 613,308	\$ 33,815	Finding 1
Transfers and interim placements	1,103,065	976,301	(126,764)	Finding 2
Designation of lead case manager	1,226,754	1,239,473	12,719	Finding 1
Authorize/issue payments to providers	—	2,944,433	2,944,433	Finding 2
Psychotherapy/other mental health services	5,643,503	5,742,909	99,406	Finding 1
Total direct costs	8,552,815	11,516,424	2,963,609	
Indirect costs	941,981	1,095,522	153,541	Finding 3
Total direct and indirect costs	9,494,796	12,611,946	3,117,150	
Less other reimbursements	(6,594,487)	(8,772,144)	(2,177,657)	Finding 4
Total claimed amount	2,900,309	3,839,802	939,493	
Less allowable costs that exceed costs claimed ³	—	(939,493)	(939,493)	
Total program cost	<u>\$ 2,900,309</u>	2,900,309	<u>\$ —</u>	
Less amount paid by State ²		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,900,309</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Referral and mental health assessments	\$ 552,483	\$ 589,272	\$ 36,789	Finding 1
Transfers and interim placements	717,104	764,928	47,824	Finding 2
Designation of lead case manager	1,403,910	1,411,164	7,254	Finding 1
Authorize/issue payments to providers	—	2,861,667	2,861,667	Finding 2
Psychotherapy/other mental health services	6,011,437	6,111,765	100,328	Finding 1
Total direct costs	8,684,934	11,738,796	3,053,862	
Indirect costs	921,631	1,215,364	293,733	Finding 3
Total direct and indirect costs	9,606,565	12,954,160	3,347,595	
Less other reimbursements	(9,264,690)	(11,458,572)	(2,193,882)	Finding 4

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009 (continued)</u>				
Total claimed amount	341,875	1,495,588	1,153,713	
Less allowable costs that exceed costs claimed ³	—	(1,153,713)	(1,153,713)	
Total program cost	<u>\$ 341,875</u>	<u>341,875</u>	<u>\$ —</u>	
Less amount paid by State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 341,875</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 481,858	\$ 477,509	\$ (4,349)	Finding 1
Transfers and interim placements	592,953	498,570	(94,383)	Finding 2
Designation of lead case manager	1,236,460	1,176,509	(59,951)	Finding 1
Authorize/issue payments to providers	4,206,533	3,104,966	(1,101,567)	Finding 2
Psychotherapy/other mental health services	5,792,592	5,490,039	(302,553)	Finding 1
Total direct costs	12,310,396	10,747,593	(1,562,803)	
Indirect costs	954,061	1,078,645	124,584	Finding 3
Total direct and indirect costs	13,264,457	11,826,238	(1,438,219)	
Less other reimbursements	(6,926,506)	(6,972,268)	(45,762)	Finding 4
Total claimed amount	6,337,951	4,853,970	(1,483,981)	
Less late claim penalty ⁴	—	(10,000)	(10,000)	
Total program cost	<u>\$ 6,337,951</u>	<u>4,843,970</u>	<u>\$ (1,493,981)</u>	
Less amount paid by State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,843,970</u>		
<u>Summary: July 1, 2006, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 2,110,083	\$ 2,176,317	\$ 66,234	
Transfers and interim placements	3,431,730	2,944,913	(486,817)	
Designation of lead case manager	4,881,039	4,841,192	(39,847)	
Authorize/issue payments to providers	4,206,533	8,911,066	4,704,533	
Psychotherapy/other mental health services	22,329,394	21,937,300	(392,094)	
Total direct costs	36,958,779	40,810,788	3,852,009	
Indirect costs	3,691,199	4,208,651	517,452	
Total direct and indirect costs	40,649,978	45,019,439	4,369,461	
Less other reimbursements	(28,746,760)	(33,898,589)	(5,151,829)	
Total claimed amount	11,903,218	11,120,850	(782,368)	
Less allowable costs that exceed costs claimed ³	—	(2,093,206)	(2,093,206)	
Less late claim penalty ⁴	—	(10,000)	(10,000)	
Total program cost	<u>\$ 11,903,218</u>	<u>9,017,644</u>	<u>\$ (2,885,574)</u>	
Less amount paid by State ²		<u>(1,870,125)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 7,147,519</u>		

¹ See the Revised Findings and Recommendations section.

² County received categorical payment from the California Department of Mental Health from FY 2009-10 budget.

³ Government Code section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2007-08 and FY 2008-09.

⁴ The county filed its FY 2009-10 annual reimbursement claim for \$3,767,613 by the due date specified in Government Code section 17560, and amended it to \$6,337,951 after the due date. Pursuant to Government Code section 17568, the State assessed a late filing penalty equal to 10% of allowable costs, not to exceed \$10,000.

Revised Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated mental health services costs by \$365,707 for the audit period.

The audit adjustment represents the difference during the audit period between the amount claimed, totaling \$29,320,516, and reimbursable costs the county supported totaling \$28,954,809.

The county initially provided support for its costs in an untestable format; the information lacked sufficient detail to validate the services provided. The county subsequently re-ran its unit-of-service reports to provide sufficient detail for verification. However, the re-run unit-of-service reports did not reconcile to the units and costs claimed.

We recalculated mental health services costs based on actual, supportable units of service provided to eligible clients using the appropriate unit rates that represented the actual cost to the county. We excluded the costs related to unsupported rehabilitation services and services to clients that are not reimbursable under the mandated program. In determining allowable costs, we did not allow the following services included in the re-run unit of service reports:

- For FY 2006-07, we excluded \$285,683 of rehabilitation services. These services are provided in accordance with the definition that includes a broad range of services, including social skills, daily living skills, meal preparation skills, personal hygiene, grooming and vocational skills. The county did not identify and support the eligible portion of the costs.
- For FY 2008-09 and FY 2009-10, we excluded services provided to clients that are not reimbursable under the mandated program, totaling \$11,719 for FY 2008-09, and \$76,660 for FY 2009-10.
- For FY 2009-10, we excluded duplicated services totaling \$22,979.

The Commission on State Mandates (CSM) issued a statement of decision on dated May 26, 2011, stating that the portions of rehabilitation services related to socialization are not reimbursable under the parameters and guidelines. The statement of decision was issued in reference 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 mental health services costs based on actual, supportable units of service provided to eligible clients using the appropriate unit rates that represented the actual cost to the county. We excluded the costs related to unsupported rehabilitation services.

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

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
Referral and mental health assessments	\$ 496,249	\$ 496,228	\$ (21)
Designation of lead case manager	1,013,915	1,014,046	131
Psychotherapy/other mental health services	4,881,862	4,592,587	(289,275)
Subtotal	<u>\$ 6,392,026</u>	<u>\$ 6,102,861</u>	<u>\$ (289,165)</u>
<u>FY 2007-08</u>			
Referral and mental health assessments	\$ 579,493	\$ 613,308	\$ 33,815
Designation of lead case manager	1,226,754	1,239,473	12,719
Psychotherapy/other mental health services	5,643,503	5,742,909	99,406
Subtotal	<u>\$ 7,449,750</u>	<u>\$ 7,595,690</u>	<u>\$ 145,940</u>
<u>FY 2008-09</u>			
Referral and mental health assessments	\$ 552,483	\$ 589,272	\$ 36,789
Designation of lead case manager	1,403,910	1,411,164	7,254
Psychotherapy/other mental health services	6,011,437	6,111,765	100,328
Subtotal	<u>\$ 7,967,830</u>	<u>\$ 8,112,201</u>	<u>\$ 144,371</u>
<u>FY 2009-10</u>			
Referral and mental health assessments	\$ 481,858	\$ 477,509	\$ (4,349)
Designation of lead case manager	1,236,460	1,176,509	(59,951)
Psychotherapy/other mental health services	5,792,592	5,490,039	(302,553)
Subtotal	<u>\$ 7,510,910</u>	<u>\$ 7,144,057</u>	<u>\$ (366,853)</u>
<u>Summary</u>			
Referral and mental health assessments	\$ 2,110,083	\$ 2,176,317	\$ 66,234
Designation of lead case manager	4,881,039	4,841,192	(39,847)
Psychotherapy/other mental health services	22,329,394	21,937,300	(392,094)
Total	<u>\$ 29,320,516</u>	<u>\$28,954,809</u>	<u>\$ (365,707)</u>

The following table summarizes the calculation of allowable costs:

	Fiscal Year				Total
	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	
Total supported costs	\$ 6,388,544	\$ 7,595,690	\$ 8,123,920	\$ 7,243,696	\$ 29,351,850
Unsupported rehabilitation services	(285,683)	—	—	—	(285,683)
Ineligible clients in local community programs	—	—	(11,719)	(49,946)	(61,665)
Ineligible clients funded by Mental Health					
Services Act funds	—	—	—	(26,714)	(26,714)
Duplicated costs	—	—	—	(22,979)	(22,979)
Allowable mental health services costs	<u>\$ 6,102,861</u>	<u>\$ 7,595,690</u>	<u>\$ 8,112,201</u>	<u>\$ 7,144,057</u>	<u>\$ 28,954,809</u>

The program's parameters and guidelines provide reimbursement for mental health services when required by the pupil's IEP, 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 vocational services are not reimbursable.

The parameters and guidelines 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.

Recommendation

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

County's Response

The county agreed with the audit finding.

FINDING 2— Understated residential placement costs

The county understated residential placement costs by \$4,217,716 for the audit period.

The county claimed portions of its residential placement costs in two components: 1) Transfers and Interim Placements, and 2) Authorize/Issue Payments to Providers. In each fiscal year, the county claimed mental health treatment costs for clients placed in residential facilities, but claimed the corresponding board-and-care costs only for FY 2009-10. For the audit period, we found that the county included ineligible and unsupported costs, and omitted allowable costs. In determining allowable costs, we made the following adjustments:

- For the audit period, we excluded ineligible vendor payments to for-profit facilities totaling \$401,074. These costs included board-and-care costs of \$27,638 and mental health treatment costs of \$373,436. Only placements in facilities that are owned and operated on a nonprofit basis are eligible for reimbursement.
- For the audit period, we excluded unsupported costs totaling \$265,479. These costs included mental health treatment costs for clients placed in residential facilities of \$232,518 and due process hearing costs of \$32,961.
- For FY 2007-08 and FY 2008-09, we included unclaimed allowable residential board-and-care costs totaling \$5,806,100.
- For FY 2008-09, we included unclaimed allowable mental health treatment costs totaling \$152,098.
- For FY 2009-10, we excluded ineligible residential board-and-care costs incurred in prior fiscal years totaling \$1,073,929. These costs are included in the unclaimed costs identified for FY 2007-08 and FY 2008-09.

Based on the aforementioned adjustments, we placed eligible and supported costs in the appropriate fiscal year representing when the costs were incurred. We did not consider unclaimed residential placement costs for FY 2006-07 because the county utilized Local Revenue Funds (realignment funds) to fund its 60% share of the residential board-and-care costs.

The following table summarizes the understated costs by reimbursable components:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
Transfers and interim placements	\$ 1,018,608	\$ 705,114	\$ (313,494)
Subtotal	<u>\$ 1,018,608</u>	<u>\$ 705,114</u>	<u>\$ (313,494)</u>
<u>FY 2007-08</u>			
Transfers and interim placements	\$ 1,103,065	\$ 976,301	\$ (126,764)
Authorize/issue payments to providers	—	2,944,433	2,944,433
Subtotal	<u>\$ 1,103,065</u>	<u>\$ 3,920,734</u>	<u>\$ 2,817,669</u>
<u>FY 2008-09</u>			
Transfers and interim placements	\$ 717,104	\$ 764,928	\$ 47,824
Authorize/issue payments to providers	—	2,861,667	2,861,667
Subtotal	<u>\$ 717,104</u>	<u>\$ 3,626,595</u>	<u>\$ 2,909,491</u>
<u>FY 2009-10</u>			
Transfers and interim placements	\$ 592,953	\$ 498,570	\$ (94,383)
Authorize/issue payments to providers	4,206,533	3,104,966	(1,101,567)
Subtotal	<u>\$ 4,799,486</u>	<u>\$ 3,603,536</u>	<u>\$ (1,195,950)</u>
<u>Summary</u>			
Transfers and interim placements	\$ 3,431,730	\$ 2,944,913	\$ (486,817)
Authorize/issue payments to providers	4,206,533	8,911,066	4,704,533
Total	<u>\$ 7,638,263</u>	<u>\$ 11,855,979</u>	<u>\$ 4,217,716</u>

The following table summarizes the understated costs by type of error:

	Fiscal Year				Total
	2006-07	2007-08	2008-09	2009-10	
Ineligible vendor payments to for-profit facilities:					
Mental health treatment costs	\$ (283,679)	\$ (20,910)	\$ (52,185)	\$ (16,662)	\$ (373,436)
Board and care costs	—	—	—	(27,638)	(27,638)
Unsupported costs:					
Mental health treatment costs	(6,630)	(105,854)	(42,313)	(77,721)	(232,518)
Due process hearing costs	(23,185)	—	(9,776)	—	(32,961)
Unclaimed costs:					
Mental health treatment costs	—	—	152,098	—	152,098
Board and care costs	—	2,944,433	2,861,667	—	5,806,100
Costs incurred outside of eligible period	—	—	—	(1,073,929)	(1,073,929)
Total	<u>\$ (313,494)</u>	<u>\$ 2,817,669</u>	<u>\$ 2,909,491</u>	<u>\$ (1,195,950)</u>	<u>\$ 4,217,716</u>

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 Government Code section 7581 and Title 2, *California Code of Regulations* (CCR), section 60200.

Title 2 CCR, section 60100, subdivision (h), specifies that out-of-state residential placements shall be made in residential programs that meet the requirements of Welfare and Institutions Code 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 also provide that Welfare and Institutions Code 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 Welfare and Institutions Code section 17600 and receives these funds.

Recommendation

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

County’s Response

The county agreed with the audit finding.

**FINDING 3—
Understated indirect costs**

The county understated indirect costs by \$517,452 for the audit period.

The county miscalculated its rates for FY 2006-07, FY 2007-08, and FY 2008-09. The county also used a methodology that was not consistent with the allocations in cost reports it submitted to the California Department of Mental Health (DMH) for FY 2006-07 and FY 2007-08.

We recalculated indirect cost rates consistent with the allocations in the county’s cost reports and applied them to allowable direct costs. The rates are calculated net of associated revenues and are applied to eligible direct costs of services provided at county-run facilities in the following cost components: (1) Referral and Mental Health Assessments, (2) Designation of Lead Case Manager and (3) Psychotherapy/Other Mental Health Services.

The following table summarizes the understated indirect costs:

	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>Total</u>
Direct costs of county-run facilities	\$ 5,271,040	\$ 6,274,465	\$ 6,655,884	\$ 5,480,920	
Indirect rates	15.54%	17.46%	18.26%	19.68%	
Allowable indirect costs	819,120	1,095,522	1,215,364	1,078,645	
Claimed indirect costs	873,526	941,981	921,631	954,061	
Audit adjustments	<u>\$ (54,406)</u>	<u>\$ 153,541</u>	<u>\$ 293,733</u>	<u>\$ 124,584</u>	<u>\$ 517,452</u>

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

The parameters and guidelines further specify that indirect costs may be claimed to the extent that they have not already been reimbursed by the DMH from categorical funding sources.

Recommendation

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

County’s Response

The county agreed with the audit finding.

**FINDING 4—
Understated offsetting
reimbursements**

The county understated offsetting reimbursements by \$5,151,829 for the audit period.

The understatement resulted from the county applying Short Doyle/Medi-Cal (SD/MC), and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) funding percentages to inaccurate direct costs, and using preliminary funding percentages to calculate EPSDT reimbursements. Furthermore, the county did not consistently apply Individuals with Disabilities Education Act (IDEA) and DMH categorical funds to the full extent of the funding provided.

We recalculated allowable offsetting reimbursements for all relevant funding sources and applied the appropriate rates for SD/MC and EPSDT to eligible direct costs. We excluded offsetting reimbursements related to ineligible costs. In relation to the omitted residential placement costs, we included offsets for the California Department of Social Services (CDSS) 40% share and Local Revenue Funds (realignment).

The following table summarizes the understated offsetting reimbursements:

	<u>Amount Claimed</u>	<u>Amount Audited</u>	<u>Audit Adjustment</u>
<u>FY 2006-07</u>			
IDEA	\$ (2,646,059)	\$ (2,697,277)	\$ (51,218)
DMH categorical	(1,779,371)	(1,873,021)	(93,650)
SD/MC	(1,069,323)	(1,285,416)	(216,093)
EPSDT	<u>(466,324)</u>	<u>(839,891)</u>	<u>(373,567)</u>
Subtotal	<u>\$ (5,961,077)</u>	<u>\$ (6,695,605)</u>	<u>\$ (734,528)</u>

	<u>Amount Claimed</u>	<u>Amount Audited</u>	<u>Audit Adjustment</u>
<u>FY 2007-08</u>			
IDEA	\$ (2,646,059)	\$ (2,705,700)	\$ (59,641)
DMH categorical	(1,837,981)	(1,837,981)	—
SD/MC	(1,319,029)	(1,662,054)	(343,025)
EPSDT	(791,418)	(1,132,524)	(341,106)
CDSS (40% share)	—	(1,177,773)	(1,177,773)
Realignment	—	(256,112)	(256,112)
Subtotal	<u>\$ (6,594,487)</u>	<u>\$ (8,772,144)</u>	<u>\$ (2,177,657)</u>
<u>FY 2008-09</u>			
IDEA	\$ (2,646,059)	\$ (2,966,284)	\$ (320,225)
DMH categorical	(3,890,135)	(3,890,135)	—
SD/MC	(1,955,350)	(2,304,905)	(349,555)
EPSDT	(773,146)	(1,152,581)	(379,435)
CDSS (40% share)	—	(1,144,667)	(1,144,667)
Subtotal	<u>\$ (9,264,690)</u>	<u>\$ (11,458,572)</u>	<u>\$ (2,193,882)</u>
<u>FY 2009-10</u>			
IDEA	\$ (2,646,059)	\$ (2,824,667)	\$ (178,608)
SD/MC	(1,982,050)	(2,017,097)	(35,047)
EPSDT	(662,202)	(888,518)	(226,316)
CDSS (40% share)	(1,636,195)	(1,241,986)	394,209
Subtotal	<u>\$ (6,926,506)</u>	<u>\$ (6,972,268)</u>	<u>\$ (45,762)</u>
<u>Summary</u>			
IDEA	\$ (10,584,236)	\$ (11,193,928)	\$ (609,692)
DMH categorical	(7,507,487)	(7,601,137)	(93,650)
SD/MC	(6,325,752)	(7,269,472)	(943,720)
EPSDT	(2,693,090)	(4,013,514)	(1,320,424)
CDSS (40% share)	(1,636,195)	(3,564,426)	(1,928,231)
Realignment	—	(256,112)	(256,112)
Total	<u>\$ (28,746,760)</u>	<u>\$ (33,898,589)</u>	<u>\$ (5,151,829)</u>

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

Recommendation

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

County's Response

The county agreed with the audit finding.

SCO's Comment

Subsequent to the issuance of our final report on March 21, 2014, the DMH issued its EPSDT settlement for FY 2009-10. We recalculated offsetting reimbursements and revised Finding 4 to reflect the actual funding percentage. As a result, offsetting reimbursements decreased by \$83,841, from \$33,982,430 to \$33,898,589.

The recommendation and remaining adjustment remain unchanged.

**OTHER ISSUES –
Unclaimed costs**

The county response includes a comment related to unclaimed costs.

County's Response

The County disagrees with the disallowances of allowable claims pursuant to Government Code Section 17568 as noted on page 6 of the draft audit report, foot note #3.

SCO's Comment

Schedule 1, footnote 3, of the draft and final audit reports show that the county incurred eligible costs that exceeded the amounts claimed for FY 2007-08 of \$939,493, and FY 2008-09 of \$1,153,713. As noted in the footnote, Government Code section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. The filing deadlines pursuant to Government Code sections 17560 and 17561 have expired for both fiscal years. Therefore, to approve reimbursement of costs not claimed in a timely manner would constitute a gift of public funds.

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

COUNTY OF VENTURA
800 SOUTH VICTORIA AVE.
VENTURA, CA 93009-1540



**ASSISTANT
AUDITOR-CONTROLLER**
JEFFERY S. BURGH

CHIEF DEPUTIES
SANDRA BICKFORD
BARBARA BEATTY
JOANNE McDONALD
VALERIE BARRAZA

March 6, 2014

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

SUBJECT: CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS(HDS), HDS II, AND SERIOUSLY EMOTIONALLY DISTURBED PUPILS(SEDP) PROGRAM DRAFT AUDIT FINDINGS

Dear Mr. Spano:

The purpose of this letter is to respond as requested to the draft of the State Controller's Office report regarding the claims of Ventura County for the legislatively mandated Consolidated Handicapped and Disabled Students 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, 2006, through June 30, 2010.

We have reviewed the enclosed draft report and concur with the summary findings and recommendations indicated in the report.

The County disagrees with the disallowance of allowable claims pursuant to Government Code Section 17568 as noted on page 6 of the draft audit report, foot note #3. The County reserves the right to file an "Incorrect Reduction Claim" with the Commission on State Mandates within three years of the State Controller's Office notification of adjustment regarding the Government Code Section 17568 claim reduction.

If you have any questions, please contact Joanne McDonald, Chief Deputy Auditor-Controller, at (805) 654-3191.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeffery S. Burgh", written over a blue circular stamp or watermark.

JEFFERY S. BURGH
Agency Director/Assistant Auditor-Controller

Attachment

Cc: Narcisa Egan, Interim Health Care Agency Chief Financial Officer

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

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