



JOHN CHIANG
California State Controller

August 27, 2013

Paul Angulo, CPA, MA
Auditor-Controller
Riverside County
4080 Lemon Street, 11th Floor
Riverside, CA 92505

Dear Mr. Angulo:

The State Controller's Office reviewed the costs claimed by Riverside 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, 2008. Our review was limited to validating (1) vendor payments for the out-of-state residential placement of seriously emotionally disturbed pupils, and (2) offsetting reimbursements allocated by the California Department of Mental Health and the California Department of Education.

The county claimed \$1,323,924 for the mandated program. Our review found that \$548,872 is allowable and \$775,052 is unallowable. The costs are unallowable because the county claimed ineligible vendor costs for the out-of-state residential placement of seriously emotionally disturbed pupils, and understated offsetting reimbursements, as described in the attached Summary of Program Costs, and Finding and Recommendation.

For the fiscal year (FY) 2006-07 claim, the State paid the county \$412,321. Our review found that the claimed costs are unallowable. The State will offset \$412,321 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 review found that \$548,872 is allowable. The State will pay that amount contingent upon available appropriations.

We discussed the review results with Stephanie Johnson-Creswell, Supervising Accountant, and others on August 14, 2013. Ms. Johnson-Creswell stated that the county agrees with Finding 2 and did not comment on Finding 1, as it plans on performing additional research.

If you disagree with the review 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, CPA
Chief, Division of Audits

JVB/kw

Attachments

RE: S12-MCC-935

cc: Russell Dominski, Principal Accountant
Auditor-Controller's Office
Riverside County
Amy McCann, Administrative Services Manager I
Department of Mental Health
Riverside County
Carol Bingham, Director
Fiscal Policy Division
California Department of Education
Erika Cristo
Special Education Program
California Department of Mental Health
Chris Essman, Manager
Special Education Division
California Department of Education
Michael Byrne, Principal Program Budget Analyst
Mandates Unit, California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

**Attachment 1—
Summary of Program Costs
July 1, 2006, through June 30, 2008**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Referral and mental health assessments	\$ 189,602	\$ 189,602	\$ —	
Participation as member of IEP team	502,158	239,353	(262,805)	Finding 1
Designation of lead case manager	72,474	72,474	—	
Psychotherapy/other mental health services	4,078,559	4,078,559	—	
Total direct costs	4,842,793	4,579,988	(262,805)	
Indirect costs	6,541	6,541	—	
Total direct and indirect costs	4,849,334	4,586,529	(262,805)	
Less offsetting reimbursements	(4,100,334)	(4,688,547)	(588,213)	Finding 2
Total claimed amount	749,000	(102,018)	(851,018)	
Adjustment to eliminate negative balance	—	102,018	102,018	
Total program cost	<u>\$ 749,000</u>	—	<u>\$ (749,000)</u>	
Less amount paid by State ²		(412,321)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (412,321)</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Referral and mental health assessments	\$ 272,765	\$ 272,765	\$ —	
Participation as member of IEP team	964,968	938,916	(26,052)	Finding 1
Designation of lead case manager	66,909	66,909	—	
Psychotherapy/other mental health services	3,331,278	3,331,278	—	
Participation in due process hearings	392,592	392,592	—	
Total direct costs	5,028,512	5,002,460	(26,052)	
Indirect costs	5,622	5,622	—	
Total direct and indirect costs	5,034,134	5,008,082	(26,052)	
Less offsetting reimbursements	(4,459,210)	(4,459,210)	—	
Total claimed amount	574,924	548,872	(26,052)	
Adjustment to eliminate negative balance	—	—	—	
Total program cost	<u>\$ 574,924</u>	548,872	<u>\$ (26,052)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 548,872</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment
<u>Summary: July 1, 2006, through June 30, 2008</u>			
Direct and indirect costs:			
Referral and mental health assessments	\$ 462,367	\$ 462,367	\$ —
Participation as member of IEP team	1,467,126	1,178,269	(288,857)
Designation of lead case manager	139,383	139,383	—
Psychotherapy/other mental health services	7,409,837	7,409,837	—
Participation in due process hearings	392,592	392,592	—
Total direct costs	9,871,305	9,582,448	(288,857)
Indirect Costs	12,163	12,163	—
Total direct and indirect costs	9,883,468	9,594,611	(288,857)
Less offsetting reimbursements	(8,559,544)	(9,147,757)	(588,213)
Total claimed amount	1,323,924	446,854	(877,070)
Adjustment to eliminate negative balance	—	102,018	102,018
Total program cost	<u>\$ 1,323,924</u>	548,872	<u>\$ (775,052)</u>
Less amount paid by State ²		(412,321)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 136,551</u>	

¹ See Attachment 2, Findings and Recommendations.

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

Attachment 2— Findings and Recommendations July 1, 2006, through June 30, 2008

**FINDING 1—
Ineligible vendor costs**

The county claimed ineligible vendor costs of \$288,857. The ineligible costs related to vendor payments for the out-of-state residential placement of seriously emotionally disturbed pupils in facilities that are organized and operated for profit. Only payments to facilities that are organized and operated on a nonprofit basis are eligible for reimbursement.

The following table summarizes the ineligible vendor costs:

	Actual Costs Claimed	Allowable Per Review	Review Adjustment
Ineligible vendor costs:			
FY 2006-07	\$ 502,158	\$ 239,353	\$ (262,805)
FY 2007-08	964,968	938,916	(26,052)
Total	\$ 1,467,126	\$ 1,178,269	\$ (288,857)

The Commission on State Mandates (CSM) consolidated the parameters and guidelines for the Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) programs for costs incurred commencing with fiscal year (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.

The program’s parameters and guidelines specify that the mandate is to reimburse counties for payments to vendors providing placement of seriously emotionally disturbed pupils in out-of-state residential facilities as specified in Government Code section 7581 and Title 2, CCR, section 60200.

Title 2, CCR section 60100, subdivision (h), specified that out-of-state residential placements shall be made in residential programs that meet the requirements of Welfare and Institution 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.

Recommendation

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

**FINDING 2—
Understated offsetting
reimbursements**

The county understated offsetting reimbursements by \$588,213 in FY 2006-07. The county did not identify and apply all reimbursements received. We found that the county understated the Individuals with Disabilities in Education Act (IDEA) funds received from the California Department of Education by \$60,569, and did not report AB 3632 funds received from the California Department of Mental Health (DMH) totaling \$527,644.

The following table summarizes the understated offsetting reimbursements:

<u>Offsetting Reimbursements</u>	<u>Actual Costs Claimed</u>	<u>Allowable Per Review</u>	<u>Review Adjustment</u>
FY 2006-07			
IDEA	\$ (2,878,691)	\$ (2,939,260)	\$ (60,569)
DMH categorical	-	(527,644)	(527,644)
Short Doyle/Medi-Cal Federal Financial Participation	(975,805)	(975,805)	-
Early and Periodic Screening, Diagnosis, and Treatment	(180,937)	(180,937)	-
Other Revenue	(64,901)	(64,901)	-
Total	<u>\$ (4,100,334)</u>	<u>\$ (4,688,547)</u>	<u>\$ (588,213)</u>

The parameters and guidelines specify that any direct payments or categorical funding received from the state that is specifically allocated to any service provided under this program, shall be identified and deducted from the claim.

Recommendation

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