



JOHN CHIANG
California State Controller

August 27, 2013

Lauren Klein, CPA, Auditor-Controller
Stanislaus County
1010 Tenth Street, Suite 5100
Modesto, CA 95354

Dear Ms. Klein:

The State Controller's Office (SCO) reviewed the costs claimed by Stanislaus 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, 2007; and July 1, 2008, through June 30, 2009. Our review was limited to ensuring that offsetting reimbursements received by the county were properly offset against claimed costs. We did not review the costs claimed for the period of July 1, 2007, through June 30, 2008, because that claim had previously been adjusted to zero.

The county claimed \$1,408,006 for the mandated program; the entire amount is unallowable. The costs are unallowable because the county understated offsetting reimbursements, as described in the attached Summary of Program Costs, and the Findings and Recommendations.

For the fiscal year (FY) 2006-07 claim, the State paid the county \$273,492. Our review found that the claimed costs are unallowable.

For the FY 2008-09 claim, the State made no payment to the county. Our review found that the claimed costs are unallowable.

We discussed the review results with Jessica Tucker, Financial Services Manager; Laurie Lusk, Business Office Manager; and Kashmir Gill, Assistant Auditor-Controller on June 27, 2013, and July 10, 2013. The county disagreed with the review results.

The county disagreed with Finding 1 on the basis that the claims under review were prepared in a matter consistent with prior year claims and that no prior SCO audits produced the same finding. We disagree in that fiscal year 2006-07 is the first year claims were filed under the Consolidated HDS, HDS II and SEDP program and the cost categories are different than in the previous unconsolidated claims.

The county disagreed with the methodology used in Finding 2 by the SCO to apply offsetting reimbursements to program costs. Specifically, the county disagreed with the allocation of Early and Periodic Screening, Diagnosis and Treatment (EPSDT) funds, citing that related program costs are part of the base and only costs in excess of the base should be offset. The county also

disagreed with the amount of California Department of Mental Health categorical funding. The county did not provide any documentation to support its assertions in either matter; therefore, the review results remain unchanged.

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, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

Attachments

RE: S13-MCC-927

cc: Jessica Tucker, Financial Services Manager
Stanislaus County
Erika Cristo, Manager
California Department of Mental Health
Chris Essman, Manager
California Department of Education
Carol Bingham, Director
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, 2007
and July 1, 2008, through June 30, 2009**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Participation as member of IEP team	\$ 107,009	\$ 107,009	\$ —	Finding 1
Psychotherapy/other mental health services	3,281,085	3,281,085	—	Finding 1
Total direct costs	3,388,094	3,388,094	—	
Indirect costs	429,822	429,822	—	Finding 1
Total direct and indirect costs	3,817,916	3,817,916	—	
Less offsetting reimbursements	(2,655,912)	(4,325,071)	(1,669,159)	Findings 1, 2
Subtotal	1,162,004	(507,155)	(1,669,159)	
Adjustment to eliminate negative balance	—	507,155	507,155	
Total program costs	<u>\$ 1,162,004</u>	—	<u>\$(1,162,004)</u>	
Less amount paid by State ²		(273,492)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (273,492)</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Participation as member of IEP team	\$ 98,433	\$ 98,433	\$ —	Finding 1
Psychotherapy/other mental health services	3,336,428	3,336,428	—	Finding 1
Total direct costs	3,434,861	3,434,861	—	
Indirect costs	345,614	345,614	—	Finding 1
Total direct and indirect costs	3,780,475	3,780,475	—	
Less offsetting reimbursements	(3,534,473)	(4,905,342)	(1,370,869)	Findings 1, 2
Subtotal	246,002	(1,124,867)	(1,370,869)	
Adjustment to eliminate negative balance	—	1,124,867	1,124,867	
Total program costs	<u>\$ 246,002</u>	—	<u>\$(246,002)</u>	
Less amount paid by State				
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>Summary: July 1, 2006, through June 30, 2007; and July 1, 2008 through June 30, 2009</u>				
Direct costs:				
Participation as member of IEP team	\$ 205,442	\$ 205,442	\$ —	
Psychotherapy/other mental health services	6,617,513	6,617,513	—	
Total direct costs	6,822,955	6,822,955	—	
Indirect costs	775,436	775,436	—	
Total direct and indirect costs	7,598,391	7,598,391	—	
Less offsetting reimbursements	(6,190,385)	(9,230,413)	(3,040,028)	
Subtotal	1,408,006	(1,632,022)	(3,040,028)	
Adjustment to eliminate negative balance	—	1,632,022	1,632,022	
Total program costs	<u>\$ 1,408,006</u>	—	<u>\$(1,408,006)</u>	
Less amount paid by State		(273,492)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (273,492)</u>		

¹ See Attachment 2, Findings and Recommendations.

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

**Attachment 2—
Findings and Recommendations
July 1, 2006, through June 30, 2007
and July 1, 2008, through June 30, 2009**

**FINDING 1—
Miscategorized costs
and revenues**

For fiscal year (FY) 2006-07 and FY 2008-09, the county did not separately report on its claims direct costs, indirect costs, and offsetting reimbursements for the following two reimbursable components claimed: (1) Participation as member of IEP team, and (2) Psychotherapy/Other Mental Health Services as required by the State Controller's Office claiming instructions. During the review, we recategorized the county's direct costs, indirect costs, and offsetting reimbursements into the appropriate claim components based on the county's claims and information provided by the county.

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 \$3,040,028 for the review period.

The county identified and applied the appropriate revenue sources with the exception of AB 3632 funding received from the California Department of Mental Health (DMH) in both fiscal years under review, and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) funding in FY 2006-07. We determined that the county understated DMH categorical funding by \$2,101,765 and EPSDT funding by \$938,263.

The following table summarizes the understated offsetting reimbursements:

	<u>Actual Costs Claimed</u>	<u>Allowable per Review</u>	<u>Review Adjustments</u>
<u>FY 2006-07:</u>			
Short Doyle/Medi-Cal Federal Financial Participation (SD/MC FFP)	\$ (1,217,990)	\$ (1,217,990)	\$ —
Individuals with Disabilities Education Act (IDEA)	(1,426,031)	(1,426,031)	—
DMH categorical	—	(730,896)	(730,896)
EPSDT	—	(938,263)	(938,263)
Other	(11,891)	(11,891)	—
Subtotal	<u>\$ (2,655,912)</u>	<u>\$ (4,325,071)</u>	<u>\$ (1,669,159)</u>

	<u>Actual Costs Claimed</u>	<u>Allowable per Review</u>	<u>Review Adjustments</u>
<u>FY 2008-09:</u>			
SD/MC FFP	\$ (1,360,481)	\$ (1,360,481)	\$ —
IDEA	(1,442,332)	(1,442,332)	—
DMH categorical	—	(1,370,869)	(1,370,869)
EPSDT	(715,667)	(715,667)	—
Other	<u>(15,993)</u>	<u>(15,993)</u>	<u>—</u>
Subtotal	<u>(3,534,473)</u>	<u>(4,905,342)</u>	<u>(1,370,869)</u>
Total	<u>\$ (6,190,385)</u>	<u>\$ (9,230,413)</u>	<u>\$ (3,040,028)</u>

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 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 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.