

SONOMA COUNTY

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, 2007, through June 30, 2010



JOHN CHIANG
California State Controller

August 2014



JOHN CHIANG
California State Controller

August 19, 2014

The Honorable David Rabbitt, Chair
Sonoma County Board of Supervisors
575 Administration Drive, Room 100A
Santa Rosa, CA 95403

Dear Mr. Rabbitt:

The State Controller's Office audited the costs claimed by Sonoma 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, 2007, through June 30, 2010.

The county claimed \$7,225,650 for the mandated program. Our audit found that \$5,819,194 is allowable (\$5,829,194 less a \$10,000 penalty for filing a late claim) and \$1,406,456 is unallowable. The costs are unallowable primarily because the county used preliminary unit and unit rate information to calculate its direct and indirect costs. Additionally, the county misstated its group services, included ineligible services, and omitted board-and-care costs. The State paid the county \$358,688. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,460,506, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission). 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 Commission'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

cc: David E. Sundstrom, Auditor-Controller-Treasurer-Tax Collector
Sonoma County
Melissa Estrella, Accountant-Auditor
Sonoma County
Michael Byrne, Principal Program Budget Analyst
Mandates Unit, Department of Finance
Carol Bingham, Senior Fiscal Policy Advisor
Government Affairs 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
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	3
Conclusion	4
Views of Responsible Officials.....	4
Restricted Use	4
Schedule 1—Summary of Program Costs	5
Findings and Recommendations.....	7
Attachment—County’s Response to Draft Review Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Sonoma 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, 2007, through June 30, 2010.

The county claimed \$7,225,650 for the mandated program. Our audit found that \$5,819,194 is allowable (\$5,829,194 less a \$10,000 penalty for filing a late claim) and \$1,406,456 is unallowable. The costs are unallowable primarily because the county used preliminary unit and unit rate information to calculate its direct and indirect costs. Additionally, the county misstated its group services, included ineligible services, and omitted board-and-care costs. The State paid the county \$358,688. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,460,506, contingent upon available appropriations.

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 mental health assessment for "individuals with exceptional needs," participate in the expanded "Individualized Education Program" (IEP) team, and provide case management services for "individuals with exceptional needs" who are designated as "seriously emotionally disturbed." These requirements impose a new program or higher level of service on counties.

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

The parameters and guidelines for the HDS Program state that only 10% of mental health treatment costs are reimbursable. However, on September 30, 2002, Assembly Bill 2781 (Chapter 1167, Statutes of 2002) changed the regulatory criteria by stating that the percentage of treatment costs claimed by counties for fiscal year (FY) 2000-01 and prior fiscal years is not subject to dispute by the SCO. Furthermore, this legislation states that, for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of these costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by 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 Commission amended the parameters and guidelines for the HDS Program on January 26, 2006, and corrected them on July 21, 2006, allowing reimbursement for out-of-home residential placements beginning July 1, 2004.

Handicapped and Disabled Students (HDS II) Program

On May 26, 2005, the Commission adopted a statement of decision for the HDS II Program that incorporates the above legislation and further identified medication support as a reimbursable cost effective July 1, 2001. The Commission adopted the parameters and guidelines for this new program on December 9, 2005, and last amended them on October 26, 2006.

The parameters and guidelines for the HDS II Program state that “Some costs disallowed by the State Controller’s Office in prior years are now reimbursable beginning July 1, 2001 (e.g., medication monitoring). Rather than claimants re-filing claims for those costs incurred beginning July 1, 2001, the State Controller’s Office will reissue the audit reports.” Consequently, we allow medication support costs beginning as of 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 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 Commission 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 Commission adopted the parameters and guidelines for the SEDP Program on October 26, 2000. The Commission determined that the following activities are reimbursable:

- Payment for out-of-state residential placements;
- Case management of out-of-state residential placements. Case management includes supervision of mental health treatment and monitoring of psychotropic medications;

- Travel to conduct quarterly face-to-face contacts at the residential facility to monitor level of care, supervision, and the provision of mental health services as required in a 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 Commission consolidated the parameters and guidelines for the HDS, HDS II, and SEDP Programs for costs incurred commencing with FY 2006-07 on October 26, 2006, and last amended them on September 28, 2012. On September 28, 2012, the Commission stated that Statutes of 2011, Chapter 43, "eliminated the mandated programs for counties and transferred responsibility to school districts, effective July 1, 2011. Thus, beginning July 1, 2011, these programs no longer constitute reimbursable state-mandated programs for counties." The consolidated program replaced the prior HDS, HDS II, and SEDP mandated programs. The parameters and guidelines establish the State mandate and define reimbursable criteria. In compliance with 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, 2007, through June 30, 2010.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

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

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations.

To achieve our audit objectives, we performed the following audit procedures:

- Interviewed employees, completed the internal control questionnaire, and performed a walk-through of the cost components of each claim.

- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities.

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, Sonoma County claimed \$7,225,650 for costs of the Consolidated HDS, HDS II, and SEDP Program. Our audit found that \$5,819,194 is allowable (\$5,829,194 less a \$10,000 penalty for filing a late claim) and \$1,406,456 is unallowable.

The State paid the county \$358,688. Our audit found that \$5,819,194 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,460,506, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on July 23, 2014. Donna Dunk, Assistant Auditor-Controller, responded by letter dated August 4, 2014 (Attachment) agreeing with the audit results. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Sonoma 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

August 19, 2014

**Schedule 1—
Summary of Program Costs
July 1, 2007, through June 30, 2010**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Referral and mental health assessments	\$ 105,375	\$ 113,951	\$ 8,576	Finding 1
Authorize/issue payments to providers	275,397	1,200,781	925,384	Finding 2
Psychotherapy/other mental health services	2,348,501	2,183,702	(164,799)	Finding 1
Participation in due process hearings	7,919	7,919	—	
Total direct costs	2,737,192	3,506,353	769,161	
Indirect costs	65,964	105,397	39,433	Finding 3
Total direct and indirect costs	2,803,156	3,611,750	808,594	
Less other reimbursements	(2,001,902)	(1,659,454)	342,448	Finding 4
Total claimed amount	801,254	1,952,296	1,151,042	
Less allowable costs that exceed claimed ²	—	(1,151,042)	(1,151,042)	
Total program cost	<u>\$ 801,254</u>	801,254	<u>\$ —</u>	
Less amount paid by State ³		(358,688)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 442,566</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Referral and mental health assessments	\$ 111,630	\$ 99,360	\$ (12,270)	Finding 1
Authorize/issue payments to providers	1,964,181	1,974,908	10,727	Finding 2
Psychotherapy/other mental health services	3,255,287	2,600,801	(654,486)	Finding 1
Total direct costs	5,331,098	4,675,069	(656,029)	
Indirect costs	236,325	97,986	(138,339)	Finding 3
Total direct and indirect costs	5,567,423	4,773,055	(794,368)	
Less other reimbursements	(2,359,874)	(2,546,321)	(186,447)	Finding 4
Total claimed amount	3,207,549	2,226,734	(980,815)	
Less late claim penalty ⁴	—	(10,000)	(10,000)	
Total program cost	<u>\$ 3,207,549</u>	2,216,734	<u>\$ (990,815)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,216,734</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 121,496	\$ 116,016	\$ (5,480)	Finding 1
Authorize/issue payments to providers	1,904,423	1,776,435	(127,988)	Finding 2
Psychotherapy/other mental health services	3,035,820	2,593,339	(442,481)	Finding 1
Total direct costs	5,061,739	4,485,790	(575,949)	
Indirect costs	238,993	137,873	(101,120)	Finding 3
Total direct and indirect costs	5,300,732	4,623,663	(677,069)	
Less other reimbursements	(2,083,885)	(1,822,457)	261,428	Finding 4
Total program cost	<u>\$ 3,216,847</u>	2,801,206	<u>\$ (415,641)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,801,206</u>		
<u>Summary: July 1, 2007, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 338,501	\$ 329,327	\$ (9,174)	
Authorize/issue payments to providers	4,144,001	4,952,124	808,123	
Psychotherapy/other mental health services	8,639,608	7,377,842	(1,261,766)	
Participation in due process hearings	7,919	7,919	—	
Total direct costs	13,130,029	12,667,212	(462,817)	
Indirect costs	541,282	341,256	(200,026)	
Total direct and indirect costs	13,671,311	13,008,468	(662,843)	
Less other reimbursements	(6,445,661)	(6,028,232)	417,429	
Total claimed amount	7,225,650	6,980,236	(245,414)	
Less allowable costs that exceed claimed ²	—	(1,151,042)	(1,151,042)	
Less late claim penalty ⁴	—	(10,000)	(10,000)	
Total program cost	<u>\$ 7,225,650</u>	5,819,194	<u>\$ (1,406,456)</u>	
Less amount paid by State ³		(358,688)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,460,506</u>		

¹ See the Findings and Recommendations section.

² 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.

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

⁴ The county filed its FY 2008-09 reimbursement claim for \$1,691,200 by the due date specified in Government Code section 17560, and amended it to \$3,207,549 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.

Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated assessment and treatment costs by \$1,270,940 for the audit period. The county claimed assessment costs in the Referral and Mental Health Assessments cost component, and mental health treatment costs in the Psychotherapy/Other Mental Health Services cost component.

The county computed its claims using preliminary unit-of-service reports. During fieldwork, the county re-ran these reports to support its claims. The re-run reports did not fully support claimed amounts, resulting in a significant reduction to group therapy costs. The county miscalculated its group therapy and group rehabilitation units by applying the total service time to each client rather than by dividing the time among all of the clients participating in the session.

We verified, on a sample basis, support for the reported services. In our testing, we found that the county claimed rehabilitation services that included ineligible socialization activities. We discussed this issue with the county and proposed to perform a statistical sample to identify the eligible portion of rehabilitation costs. Upon acceptance of the sampling proposal, we prepared the populations for our sample selection.

For each fiscal year, the sample population included individual and group rehabilitation services that were not funded by Short Doyle/Medical (SD/MC) and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) revenues. To select the sample sizes for each population, we adhered to a 95% confidence interval, 8% sampling error, and a 50% expected true error rate. We tested the sample transactions to determine which services included ineligible activities. Based on the sample results, we computed the error rate and projected it to the population to determine the portion of ineligible rehabilitation services costs.

We verified the unit rates used to compute costs for county-operated facilities and contract providers. In our review, we found that the county did not compute its costs using unit rates that represented the actual costs to the county. We found instances where the county used preliminary or incorrect rates to calculate its costs.

We recalculated costs based on actual, supportable units of service provided to eligible clients using the appropriate unit rates that represented the actual costs to the county. Additionally, we excluded ineligible costs related to the aforementioned statistical sample of rehabilitation services.

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

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2007-08</u>			
Referral and mental health assessments	\$ 105,375	\$ 113,951	\$ 8,576
Psychotherapy/other mental health services	2,348,501	2,183,702	(164,799)
Subtotal	<u>\$ 2,453,876</u>	<u>\$ 2,297,653</u>	<u>\$ (156,223)</u>
<u>FY 2008-09</u>			
Referral and mental health assessments	\$ 111,630	\$ 99,360	\$ (12,270)
Psychotherapy/other mental health services	3,255,287	2,600,801	(654,486)
Subtotal	<u>\$ 3,366,917</u>	<u>\$ 2,700,161</u>	<u>\$ (666,756)</u>
<u>FY 2009-10</u>			
Referral and mental health assessments	\$ 121,496	\$ 116,016	\$ (5,480)
Psychotherapy/other mental health services	3,035,820	2,593,339	(442,481)
Subtotal	<u>\$ 3,157,316</u>	<u>\$ 2,709,355</u>	<u>\$ (447,961)</u>
<u>Summary</u>			
Referral and mental health assessments	\$ 338,501	\$ 329,327	\$ (9,174)
Psychotherapy/other mental health services	8,639,608	7,377,842	(1,261,766)
Total	<u>\$ 8,978,109</u>	<u>\$ 7,707,169</u>	<u>\$ (1,270,940)</u>

The following table summarizes the calculation of allowable costs:

	<u>Fiscal Year</u>			<u>Total</u>
	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	
Total supported costs	\$ 2,210,936	\$ 2,976,933	\$ 2,833,110	\$ 8,020,979
Incorrect unit rates	150,076	(231,532)	(97,493)	(178,949)
Ineligible rehabilitation services	<u>(63,359)</u>	<u>(45,240)</u>	<u>(26,262)</u>	<u>(134,861)</u>
Allowable mental health services costs	<u>\$ 2,297,653</u>	<u>\$ 2,700,161</u>	<u>\$ 2,709,355</u>	<u>\$ 7,707,169</u>

The program's parameters and guidelines provide reimbursement for mental health services when required by a pupil's Individualized Education Program. These services include assessments, collateral, case management, individual and group psychological therapy, medication monitoring, intensive day treatment, and day rehabilitation services. The parameters and guidelines further specify that when providing mental health treatment services, the activities of socialization and 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 \$808,123 for the audit period. These costs are claimed within the Authorize/Issue Payments to Providers cost component.

The county claimed mental health treatment and board-and-care costs for clients placed in out-of-home residential facilities. However, the county omitted board-and-care costs from its fiscal year (FY) 2007-08 claim. The county asked us to consider the omitted costs. In our review, we did not consider payments to ineligible for-profit vendors. The county also didn't prepare its claims based on when the costs were incurred. Instead, the county identified costs using the payment issuance month. This misreporting of costs lead to an understatement of costs in FY 2008-09, and an overstatement of costs in FY 2009-10.

Based on the aforementioned issues, we placed eligible and supported residential placement costs in the appropriate fiscal year representing when the costs were incurred. Furthermore, for out-of-state residential placements we included only payments to eligible nonprofit vendors.

The following table summarizes the understated residential placement costs claimed:

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2007-08</u>			
Board-and-care costs	\$ —	\$ 925,384	\$ 925,384
Mental health treatment costs	<u>275,397</u>	<u>275,397</u>	<u>—</u>
Subtotal	<u>\$ 275,397</u>	<u>\$ 1,200,781</u>	<u>\$ 925,384</u>
<u>FY 2008-09</u>			
Board-and-care costs	\$ 1,516,349	\$ 1,527,076	\$ 10,727
Mental health treatment costs	<u>447,832</u>	<u>447,832</u>	<u>—</u>
Subtotal	<u>\$ 1,964,181</u>	<u>\$ 1,974,908</u>	<u>\$ 10,727</u>
<u>FY 2009-10</u>			
Board-and-care costs	\$ 1,441,225	\$ 1,313,237	\$ (127,988)
Mental health treatment costs	<u>463,198</u>	<u>463,198</u>	<u>—</u>
Subtotal	<u>\$ 1,904,423</u>	<u>\$ 1,776,435</u>	<u>\$ (127,988)</u>
<u>Summary</u>			
Board-and-care costs	\$ 2,957,574	\$ 3,765,697	\$ 808,123
Mental health treatment costs	<u>1,186,427</u>	<u>1,186,427</u>	<u>—</u>
Total	<u>\$ 4,144,001</u>	<u>\$ 4,952,124</u>	<u>\$ 808,123</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.

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—
Overstated indirect costs**

The county overstated indirect costs by \$200,026 for the audit period.

The county overstated indirect costs because it used preliminary information, made calculation errors, and applied indirect rates to ineligible direct costs. In all fiscal years, the county used an acceptable method to compute and allocate indirect costs. However, the county made calculation and rounding errors in its allocations. The county also used preliminary information to calculate its indirect cost rates and applied them to ineligible direct costs. For FY 2007-08, the county applied its indirect cost rates to only a portion of the total direct costs. These errors led to an understatement of indirect costs for FY 2007-08, and an overstatement of indirect costs for FY 2008-09 and FY 2009-10.

We recalculated the indirect cost rates consistent with the county’s methodology, using the supported cost information. The rates were calculated net of associated revenues and were applied to eligible units of service provided at county-run facilities for the following cost components: (1) Referral and Mental Health Assessments and (2) Psychotherapy/Other Mental Health Services.

The following table summarizes the overstated indirect costs.

	Fiscal Year			Total
	2007-08	2008-09	2009-10	
Direct costs at county-run facilities	\$ 1,282,200	\$ 1,364,709	\$ 1,503,524	
Indirect cost rates	8.22%	7.18%	9.17%	
Allowable indirect costs	105,397	97,986	137,873	
Claimed indirect costs	65,964	236,325	238,993	
Audit adjustments	\$ 39,433	\$ (138,339)	\$ (101,120)	\$ (200,026)

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 California Department of Mental Health (CDMH) 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—
Overstated offsetting
reimbursements**

The county overstated offsetting reimbursements by \$417,429 for the audit period.

The overstatement resulted primarily from the county using preliminary units of service and unit rates to compute the revenue offsets for SD/MC and EPSDT. The county also used incorrect funding percentages to calculate EPSDT reimbursements. In FY 2007-08, the county misstated its CDMH categorical funding and made errors computing its SD/MC reimbursements.

We recalculated 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.

The following table summarizes the understated offsetting reimbursements:

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustments</u>
<u>FY 2007-08</u>			
SD/MC	\$ (464,848)	\$ (328,063)	\$ 136,785
EPSDT	(464,849)	(259,367)	205,482
CDMH categorical	(112,061)	(111,880)	181
IDEA	(957,154)	(957,154)	—
Other	(2,990)	(2,990)	—
Subtotal	<u>\$ (2,001,902)</u>	<u>\$ (1,659,454)</u>	<u>\$ 342,448</u>
<u>FY 2008-09</u>			
SD/MC	\$ (625,933)	\$ (710,007)	\$ (84,074)
EPSDT	(308,335)	(410,708)	(102,373)
CDMH categorical	(465,116)	(465,116)	—
IDEA	(957,154)	(957,154)	—
Other	(3,336)	(3,336)	—
Subtotal	<u>\$ (2,359,874)</u>	<u>\$ (2,546,321)</u>	<u>\$ (186,447)</u>
<u>FY 2009-10</u>			
SD/MC	\$ (758,814)	\$ (568,976)	\$ 189,838
EPSDT	(364,808)	(293,218)	71,590
CDMH categorical	—	—	—
IDEA	(957,154)	(957,154)	—
Other	(3,109)	(3,109)	—
Subtotal	<u>\$ (2,083,885)</u>	<u>\$ (1,822,457)</u>	<u>\$ 261,428</u>
<u>Summary</u>			
SD/MC	\$ (1,849,595)	\$ (1,607,046)	\$ 242,549
EPSDT	(1,137,992)	(963,293)	174,699
CDMH categorical	(577,177)	(576,996)	181
IDEA	(2,871,462)	(2,871,462)	—
Other	(9,435)	(9,435)	—
Total	<u>\$ (6,445,661)</u>	<u>\$ (6,028,232)</u>	<u>\$ 417,429</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.

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

DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER
TREASURER -TAX COLLECTOR

585 FISCAL DRIVE, SUITE 100
SANTA ROSA, CA 95403
PHONE (707) 565-2631
FAX (707) 565-3489



DONNA DUNK, CPA
ASSISTANT
AUDITOR-CONTROLLER

JONATHAN KADLEC
ASSISTANT
TREASURER-TAX COLLECTOR

August 4, 2014

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

RE: Consolidate Handicapped and Disabled Students (HDS), HDS II Program
July 1, 2007, through June 30, 2010


The County of Sonoma has reviewed the Draft Audit Report dated July 23, 2014. The finding and management response are as follows:

Finding:

Overstated assessment and treatment costs.
Understand residential placement costs.
Overstated indirect costs.
Overstated offsetting reimbursements

Management Response:

The County concurs with the findings. No changes are applicable as the consolidated program is no longer a mandate.



Donna Dunk
Assistant Auditor Controller
County of Sonoma

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

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