

PLACER 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

September 2014



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California State Controller

September 11, 2014

The Honorable Jack Duran, Chair
Board of Supervisors
Placer County
175 Fulweiler Avenue
Auburn, CA 95603

Dear Mr. Duran:

The State Controller's Office audited the costs claimed by Placer 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 \$6,231,352 for the mandated program. Our audit found that \$5,485,544 is allowable (\$5,495,544 less a \$10,000 penalty for filing a late claim) and \$745,808 is unallowable. The costs are unallowable primarily because the county overstated mental health service costs by including ineligible costs and using preliminary unit rates; overstated due process hearing costs by including unsupported costs; and understated offsetting reimbursements. The State made no payment to the county. The State will pay allowable costs claimed totaling \$5,485,544, contingent upon available appropriations.

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: The Honorable Andrew Sisk
Auditor Controller
Jim Nissen, Administration and Fiscal Operations Manager
Placer 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

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Placer 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 \$6,231,352 for the mandated program. Our audit found that \$5,485,544 is allowable (\$5,495,544 less a \$10,000 penalty for filing a late claim) and \$745,808 is unallowable. The costs are unallowable primarily because the county overstated mental health service costs by including ineligible costs and using preliminary unit rates; overstated due process hearing costs by including unsupported costs; and understated offsetting reimbursements. The State made no payment to the county. The State will pay allowable costs totaling \$5,485,544, 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 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 (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 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 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 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 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 HDS, HDS II, and 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, Placer County claimed \$6,231,352 for costs of the Consolidated HDS, HDS II, and SEDP Program. Our audit found that \$5,485,544 is allowable (\$5,495,544 less a \$10,000 penalty for filing a late claim) and \$745,808 is unallowable.

The State made no payment to the county. Our audit found that \$5,485,544 is allowable. The State will pay allowable costs totaling \$5,485,544, contingent upon available appropriations.

Views of Responsible Official

We issued a draft audit report on August 4, 2014. Andrew Sisk, Auditor-Controller, responded by letter dated August 20, 2014 (Attachment), agreeing with the audit results except for Finding 5. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Placer 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

September 11, 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:				
Designation of lead case manager	\$ 4,354	\$ 4,354	\$ —	Finding 1
Authorize/issue payments to providers	105,224	101,635	(3,589)	Finding 1,2
Psychotherapy/other mental health services	5,741,360	5,042,069	(699,291)	Finding 1,3
Total direct costs	5,850,938	5,148,058	(702,880)	
Indirect costs	1,634,899	1,304,516	(330,383)	Finding 5
Total direct and indirect costs	7,485,837	6,452,574	(1,033,263)	
Less other reimbursements	(4,097,507)	(3,800,052)	297,455	Finding 6
Total program cost	<u>\$ 3,388,330</u>	2,652,522	<u>\$ (735,808)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,652,522</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Designation of lead case manager	\$ 5,171	\$ 5,171	\$ —	Finding 1
Authorize/issue payments to providers	154,783	279,659	124,876	Finding 1,2
Psychotherapy/other mental health services	5,026,711	5,219,527	192,816	Finding 1,3
Participation in due process hearings	27,610	4,687	(22,923)	Finding 4
Total direct costs	5,214,275	5,509,044	294,769	
Indirect costs	1,237,695	1,404,135	166,440	Finding 5
Total direct and indirect costs	6,451,970	6,913,179	461,209	
Less other reimbursements	(6,024,798)	(6,439,067)	(414,269)	Finding 6
Total claimed costs	427,172	474,112	46,940	
Less allowable costs that exceed costs claimed ²	—	(46,940)	(46,940)	
Less late claim penalty ³	—	(10,000)	(10,000)	
Total program cost	<u>\$ 427,172</u>	417,172	<u>\$ (10,000)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 417,172</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Designation of lead case manager	\$ 4,882	\$ 4,882	\$ —	Finding 1
Authorize/issue payments to providers	97,903	266,943	169,040	Finding 1,2
Psychotherapy/other mental health services	4,590,643	4,573,720	(16,923)	Finding 1,3
Participation in due process hearings	29,682	20,600	(9,082)	Finding 4
Total direct costs	4,723,110	4,866,145	143,035	
Indirect costs	1,297,231	1,866,432	569,201	Finding 5

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010 (continued)</u>				
Total direct and indirect costs	6,020,341	6,732,577	712,236	
Less other reimbursements	(3,604,491)	(3,816,599)	(212,108)	Finding 6
Total claimed amount	2,415,850	2,915,978	500,128	
Less allowable costs that exceed costs claimed ²	—	(500,128)	(500,128)	
Total program cost	<u>\$ 2,415,850</u>	2,415,850	<u>\$ —</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,415,850</u>		
<u>Summary: July 1, 2006, through June 30, 2010</u>				
Direct costs:				
Designation of lead case manager	\$ 14,407	\$ 14,407	\$ —	
Authorize/issue payments to providers	357,910	648,237	290,327	
Psychotherapy/other mental health services	15,358,714	14,835,316	(523,398)	
Participation in due process hearings	57,292	25,287	(32,005)	
Total direct costs	15,788,323	15,523,247	(265,076)	
Indirect costs	4,169,825	4,575,083	405,258	
Total direct and indirect costs	19,958,148	20,098,330	140,182	
Less other reimbursements	(13,726,796)	(14,055,718)	(328,922)	
Total claimed amount	6,231,352	6,042,612	(188,740)	
Less allowable costs that exceed costs claimed ²	—	(547,068)	(547,068)	
Less late claim penalty ³	—	(10,000)	(10,000)	
Total program cost	<u>\$ 6,231,352</u>	5,485,544	<u>\$ (745,808)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,485,544</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 2008-09 and FY 2009-10.

³ The county filed its FY 2008-09 initial reimbursement claim for \$139,296 by the due date specified in Government Code section 17560, and amended it to \$427,172 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— Misclassification of direct costs

For each fiscal year, the county did not separately report on its claim direct costs for the following three reimbursable components claimed: (1) Designation of Lead Case Manager, (2) Authorize/Issue Payments to Providers, and (3) Psychotherapy/Other Mental Health Services, as required by the State Controller's Office claiming instructions. The county reported costs related to the first two reimbursable components within the third reimbursable cost component. During the audit, we reclassified the county's direct costs into the appropriate claim components based on information the county provided.

Recommendation

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

County's Response

The county agreed with the finding.

FINDING 2— Understated residential placement costs

The county understated residential placement costs by \$290,327 for the audit period.

The county claimed the board-and-care and the associated mental health treatment costs of clients who were placed in out-of-state residential facilities. The net understatement of costs results primarily from the county's omission of a number of client's residential board-and-care and mental health treatment costs. Other adjustments include the claiming mental health treatment costs incurred outside of the claimed fiscal year and minor calculation errors.

In determining allowable costs, we considered the omitted residential placement costs and placed the vendor costs in the appropriate fiscal year based on when the costs were incurred. The county claimed the gross cost of board-and-care costs within this component and applied the California Department of Social Services (CDSS) 40% share of board-and-care costs as offsetting revenue. Furthermore, the county did not use Local Revenue Funds (realignment) to fund any of its residential board-and-care costs.

The following table summarizes the understated costs:

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2007-08</u>			
Board-and-care	\$ 63,935	\$ 72,355	\$ 8,420
Mental health treatment	41,289	29,280	(12,009)
Subtotal	<u>105,224</u>	<u>101,635</u>	<u>(3,589)</u>
<u>FY 2008-09</u>			
Board-and-care	115,239	208,544	93,305
Mental health treatment	39,544	71,115	31,571
Subtotal	<u>154,783</u>	<u>279,659</u>	<u>124,876</u>

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2009-10</u>			
Board-and-care	38,020	191,589	153,569
Mental health treatment	59,883	75,354	15,471
Subtotal	<u>97,903</u>	<u>266,943</u>	<u>169,040</u>
<u>Summary</u>			
Board-and-care	217,194	472,488	255,294
Mental health treatment	140,716	175,749	35,033
Total	<u>\$ 357,910</u>	<u>\$ 648,237</u>	<u>\$ 290,327</u>

The program's 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 finding.

FINDING 3— Overstated assessment and treatment costs

The county overstated assessment and treatment costs by \$523,398 for the audit period. The county claimed all its assessment and treatment costs within the Psychotherapy/Other Mental Health Services claim component.

Over the course of the audit period, the county overstated and understated costs. The county overstated costs in fiscal year (FY) 2007-08 and FY 2009-10, and understated costs in FY 2008-09. The county computed its claims using preliminary units of service and unit rates. In FY 2007-08 and FY 2009-10, the county claimed ineligible rehabilitation services. For FY 2007-08, the county claimed transactions that are part of and funded by the Wraparound Program. Furthermore, for FY 2008-09 and FY 2009-10, the county included costs related to settlement agreements that were incurred in other fiscal years.

The county claimed rehabilitation costs; these 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, grooming and vocational

skills. Based on the Commission on State Mandates' (Commission) 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 Commission's statement of decision, the county must separate and exclude the ineligible portions of the rehabilitation service. The county has not identified the eligible portion of rehabilitation services.

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 rehabilitation and Wraparound Program services.

The following table summarizes the overstated costs:

	Amount Claimed	Amount Allowable	Audit Adjustment
FY 2007-08	\$ 5,741,360	\$ 5,042,069	\$ (699,291)
FY 2008-09	5,026,711	5,219,527	192,816
FY 2009-10	4,590,643	4,573,720	(16,923)
Total	<u>\$ 15,358,714</u>	<u>\$ 14,835,316</u>	<u>\$ (523,398)</u>

The following table summarizes the adjustments to assessment and treatment costs:

	Fiscal Year			Total
	2007-08	2008-09	2009-10	
Claimed costs	\$ 5,741,360	\$ 5,026,711	\$ 4,590,643	\$ 15,358,714
Audit adjustments				
Unit/rate adjustments	(256,779)	192,366	(12,015)	(76,428)
Ineligible wraparound	(314,674)	—	—	(314,674)
Ineligible rehabilitation	(127,838)	—	(4,583)	(132,421)
Timing differences	—	450	(325)	125
Allowable costs	<u>\$ 5,042,069</u>	<u>\$ 5,219,527</u>	<u>\$ 4,573,720</u>	<u>\$ 14,835,316</u>

The parameters and guidelines provide reimbursement for mental health services when required by the pupil's Individualized Education Plan, 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 finding.

**FINDING 4—
Unsupported due
process hearing costs**

The county overstated due process hearing costs by \$32,005 for the audit period.

For FY 2008-09 and FY 2009-10, the county claimed costs incurred by the county counsel for participation in due process hearings related to program participants. We reviewed the county's support to verify that costs were related to eligible activities. However, the county provided support only for a portion of the costs claimed.

The following table summarizes the unsupported costs:

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
FY 2008-09	\$ 27,610	\$ 4,687	\$ (22,923)
FY 2009-10	<u>29,682</u>	<u>20,600</u>	<u>(9,082)</u>
Total	<u>\$ 57,292</u>	<u>\$ 25,287</u>	<u>\$ (32,005)</u>

The parameters and guidelines specify reimbursement for activities performed while participating in due process hearings relating to mental health assessments or services. These activities include retaining county counsel, preparing witnesses and correspondence, participating in conferences, attending due process hearings, and paying for treatment services required by an order of a hearing officer or a settlement agreement. The parameters and guidelines further specify that when parents prevail in due process hearings and in negotiated settlement agreements, the parent's attorney fees 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.

County's Response

The county agreed with the finding.

**FINDING 5—
Understated indirect
costs**

The county understated indirect costs by \$405,258 for the audit period.

Over the course of the audit period, the county overstated and understated indirect costs. The county overstated its costs for FY 2007-08 and understated its costs for FY 2008-09 and FY 2009-10. The county used a methodology that was not consistent with the allocations in cost reports it submitted to the California Department of Mental Health (CDMH). This methodology resulted in the county miscalculating its indirect cost rates for each fiscal year. The county also applied the rates to inaccurate direct costs, as discussed in Finding 3.

We recalculated indirect cost rates consistent with the allocations in the county's cost reports. The rates are calculated net of associated revenues and are applied to eligible direct costs of services provided at county-run facilities in the Psychotherapy/Other Mental Health Services cost component.

The following table summarizes the understated indirect costs:

Indirect costs	Fiscal Year			Total
	2007-08	2008-09	2009-10	
Direct costs from county facilities	\$ 4,634,161	\$ 4,870,395	\$ 4,309,471	
Indirect cost rate	28.15%	28.83%	43.31%	
Allowable indirect costs	1,304,516	1,404,135	1,866,432	
Claimed indirect costs	1,634,899	1,237,695	1,297,231	
Audit adjustments	\$ (330,383)	\$ 166,440	\$ 569,201	\$ 405,258

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 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 accepts the audit finding although it believes the county methodology was acceptable.

SCO's Comment

The finding remains unchanged. The county used a methodology that was not consistent with the allocations in cost reports it submitted to the CDMH.

**FINDING 6—
Understated offsetting
reimbursements**

The county understated offsetting reimbursements by \$328,922 for the audit period.

Over the course of the audit period, the county overstated and understated reimbursements. The county overstated reimbursements for FY 2007-08 and understated its reimbursements for FY 2008-09 and FY 2009-10. The net understatement resulted primarily from using preliminary Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) funding percentages, and applying those percentages to inaccurate direct costs. The county also did not consistently apply Individuals with Disabilities Education Act (IDEA) and CDMH categorical funds to the full extent of the funding provided. Furthermore, the county applied Short Doyle/Medi-Cal (SD/MC) to inaccurate direct costs and misapplied state foster care payments, which resulted in overstating reimbursements.

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 CDSS 40% share.

The following table summarizes the understated offsetting reimbursements:

	<u>Amount Claimed</u>	<u>Amount Audited</u>	<u>Audit Adjustment</u>
<u>FY 2007-08</u>			
IDEA	\$ (994,686)	\$ (997,792)	\$ (3,106)
CDMH categorical	(1,455,743)	(1,455,743)	—
SD/MC	(1,018,244)	(745,235)	273,009
EPSDT	(541,524)	(572,340)	(30,816)
CDSS (40% share)	(27,310)	(28,942)	(1,632)
State foster care	(60,000)	—	60,000
Subtotal	<u>\$ (4,097,507)</u>	<u>\$ (3,800,052)</u>	<u>\$ 297,455</u>
<u>FY 2008-09</u>			
IDEA	\$ (771,802)	\$ (975,798)	\$ (203,996)
CDMH categorical	(3,690,279)	(3,694,791)	(4,512)
SD/MC	(1,111,811)	(1,085,458)	26,353
EPSDT	(404,810)	(599,602)	(194,792)
CDSS (40% share)	(46,096)	(83,418)	(37,322)
Subtotal	<u>\$ (6,024,798)</u>	<u>\$ (6,439,067)</u>	<u>\$ (414,269)</u>
<u>FY 2009-10</u>			
IDEA	\$ (843,423)	\$ (1,041,664)	\$ (198,241)
CDMH categorical	(1,381,359)	(1,437,299)	(55,940)
SD/MC	(1,088,118)	(856,190)	231,928
EPSDT	(276,390)	(404,810)	(128,420)
CDSS (40% share)	(15,201)	(76,636)	(61,435)
Subtotal	<u>\$ (3,604,491)</u>	<u>\$ (3,816,599)</u>	<u>\$ (212,108)</u>

	<u>Amount Claimed</u>	<u>Amount Audited</u>	<u>Audit Adjustment</u>
<u>Summary</u>			
IDEA	\$ (2,609,911)	\$ (3,015,254)	\$ (405,343)
CDMH categorical	(6,527,381)	(6,587,833)	(60,452)
SD/MC	(3,218,173)	(2,686,883)	531,290
EPSDT	(1,222,724)	(1,576,752)	(354,028)
CDSS (40% share)	(88,607)	(188,996)	(100,389)
State foster care	<u>(60,000)</u>	<u>—</u>	<u>60,000</u>
Total	<u>\$ (13,726,796)</u>	<u>\$ (14,055,718)</u>	<u>\$ (328,922)</u>

The parameters and guidelines specify that any 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 finding.

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



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

ANDREW C. SISK, CPA
Auditor-Controller
E-mail: asisk@placer.ca.gov

NICOLE C. HOWARD, CPA
Assistant Auditor-Controller
E-mail: nhoward@placer.ca.gov

August 20, 2014

State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Attn: Jim Spano, Chief
Mandated Cost Audits Bureau

Re: Handicapped and Disabled Students Audit
July 1, 2007 through June 30, 2010

Dear Mr. Spano:

Thank you for the opportunity to review the draft audit report of the costs claimed by Placer County for the Handicapped and Disabled Students Program. Following are our responses to your Findings and Recommendations.

Finding 1 – Misclassification of direct costs

- The county agreed with the audit finding.

Finding 2 – Understated residential placement costs

- The county agreed with the audit finding.

Finding 3 – Overstated assessment and treatment costs

- The county agreed with the audit finding.

Finding 4 – Unsupported due process hearing costs

- The county agreed with the audit finding.

Finding 5 – Understated indirect costs

- The county accepts the audit finding although it believes the county methodology is acceptable. The State Department of Healthcare Services recently completed an audit of the county Mental Health Cost report for Fiscal Year 2008-09. Using the results of this audit and applying the State Controller's methodology would substantially reduce the understatement for that Fiscal Year.

Finding 6 – Understated offsetting reimbursements

- The county agreed with the audit finding.

Sincerely,

A handwritten signature in blue ink that reads "Andrew C. Sisk". The signature is written in a cursive style.

Andrew C. Sisk, CPA
Auditor-Controller

Cc: Jeffrey Brownfield
Jim Nissen

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

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