

FRESNO COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS II PROGRAM

Chapter 1128, Statutes of 1994, and
Chapter 654, Statutes of 1996

July 1, 2001, through June 30, 2005



JOHN CHIANG
California State Controller

June 2009



JOHN CHIANG
California State Controller

June 30, 2009

The Honorable Susan Anderson
Chairman, Fresno County Board of Supervisors
2281 Tulare Street, #301
Fresno, CA 93221-2198

Dear Ms. Anderson:

The State Controller's Office audited the costs claimed by Fresno County for the legislatively mandated Handicapped and Disabled Students II Program (Chapter 1128, Statutes of 1994, and Chapter 654, Statutes of 1996) for the period of July 1, 2001, through June 30, 2005.

The county claimed \$3,426,076 for the mandated program. Our audit disclosed that the entire amount is unallowable because the county claimed costs that are already claimed under another mandate program. The State made no payments to the county.

If you disagree with the audit finding, 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 CSM's Web site link 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
Chief, Division of Audits

JVB/sk

cc: Linda Collins, CMA Deputy Director
Human Services Finance Division
Fresno County
The Honorable Vicki Crow, CPA
Auditor-Controller/Treasurer-Tax Collector
Fresno County
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance
Carol Bingham, Director
Fiscal Policy Division
California Department of Education
Stacey Wofford
Special Education Program
Department of Mental Health
Cynthia Wong, Manager
Special Education Division
California Department of Education

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Fresno County for the legislatively mandated Handicapped and Disabled Students II Program (Chapter 1128, Statutes of 1994, and Chapter 654, Statutes of 1996) for the period of July 1, 2001, through June 30, 2005.

The county claimed \$3,426,076 for the mandated program. Our audit disclosed that the entire amount is unallowable because the county claimed costs that are already claimed under another mandate program. The State made no payments to the county.

Background

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) determined that this legislation imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines for the Handicapped and Disabled Students Program on August 22, 1991, and last amended it on August 29, 1996. 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 parameters and guidelines for the Handicapped and Disabled Students 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 Handicapped and Disabled Students 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.)

On May 26, 2005, the CSM adopted a Statement of Decision for the Handicapped and Disabled Students II Program that incorporates 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 made technical corrections to it on July 21, 2006.

The parameters and guidelines for the Handicapped and Disabled Students 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.

On January 26, 2006, CSM amended the parameters and guidelines for the Handicapped and Disabled Students Program and corrected them on July 21, 2006, allowing reimbursement for out-of-home residential placements beginning July 1, 2004.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Handicapped and Disabled Students II Program for the period of July 1, 2001, through June 30, 2005.

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 disclosed an instance of noncompliance with the requirements outlined above. This instance is described in the accompanying Summary of Program Costs (Schedule 1) and in the Finding and Recommendation section of this report.

For the audit period, Fresno County claimed \$3,426,076 for costs of the Handicapped and Disabled Students II Program. Our audit disclosed that the entire amount is unallowable. The State made no payments to the county.

**Views of
Responsible
Official**

We issued a draft audit report on May 22, 2009. Linda Collins, Deputy Director, Human Services Finance, Auditor-Controller's Office, responded by e-mail dated June 26, 2009, agreeing with the audit results.

Restricted Use

This report is solely for the information and use of Fresno 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
Chief, Division of Audits

June 30, 2009

**Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2005**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2001, through June 30, 2002</u>			
Direct costs:			
Referral and mental health assessments	\$ 19,076	\$ —	\$ (19,076)
Case management duties for pupils	122,152	—	(122,152)
Psychotherapy or other treatment services	481,304	—	(481,304)
Total direct costs	622,532	—	(622,532)
Indirect costs	61,776	—	(61,776)
Total program costs	<u>\$ 684,308</u>	—	<u>\$ (684,308)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Referral and mental health assessments	\$ 19,209	\$ —	\$ (19,209)
Case management duties for pupils	167,831	—	(167,831)
Psychotherapy or other treatment services	981,350	—	(981,350)
Total direct costs	1,168,390	—	(1,168,390)
Indirect costs	116,839	—	(116,839)
Total program costs	<u>\$ 1,285,229</u>	—	<u>\$ (1,285,229)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Referral and mental health assessments	\$ 43,684	\$ —	\$ (43,684)
Case management duties for pupils	109,480	—	(109,480)
Psychotherapy or other treatment services	632,269	—	(632,269)
Total direct costs	785,433	—	(785,433)
Indirect costs	78,543	—	(78,543)
Total program costs	<u>\$ 863,976</u>	—	<u>\$ (863,976)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Referral and mental health assessments	\$ 52,814	\$ —	\$ (52,814)
Case management duties for pupils	75,827	—	(75,827)
Psychotherapy or other treatment services	410,053	—	(410,053)
Total direct costs	538,694	—	(538,694)
Indirect costs	53,869	—	(53,869)
Total program costs	<u>\$ 592,563</u>	—	<u>\$ (592,563)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>Summary: July 1, 2001, through June 30, 2005</u>			
Direct costs:			
Referral and mental health assessments	\$ 134,783	\$ —	\$ (134,783)
Case management duties for pupils	475,290	—	(475,290)
Psychotherapy or other treatment services	2,504,976	—	(2,504,976)
Total direct costs	3,115,049	—	(3,115,049)
Indirect costs	311,027	—	(311,027)
Total program costs	<u>\$ 3,426,076</u>	—	<u>\$ (3,426,076)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	

¹ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Duplicate costs**

The county overstated costs claimed by \$3,426,076 for the audit period.

The county claimed costs that are already included in the Handicapped and Disabled Students (HDS) claims. The duplicated costs relate to referral and mental health assessments, case management duties for pupils, and psychotherapy or other treatment services categories. The county also applied an administrative rate to the duplicated direct costs. As there are no direct costs to which to apply an administrative rate, the associated indirect costs are disallowed as well. Allowing the aforementioned costs in the HDS II claims would result in duplicate reimbursement.

The program’s parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities and supported by source documents that show the validity of such costs.

The following table summarizes the overstated costs:

	Fiscal Year				Total
	2001-02	2002-03	2003-04	2004-05	
Referral and mental health assessments	\$ (19,076)	\$ (19,209)	\$ (43,684)	\$ (52,814)	\$ (134,783)
Case management duties for pupils	(122,152)	(167,831)	(109,480)	(75,827)	(475,290)
Psychotherapy or other treatment services	(481,304)	(981,350)	(632,269)	(410,053)	(2,504,976)
Indirect costs	(61,776)	(116,839)	(78,543)	(53,869)	(311,027)
Total adjustment	\$ (684,308)	\$ (1,285,229)	\$ (863,976)	\$ (592,563)	\$ (3,426,076)

Recommendation

We recommend that the county ensure that it uses consistent claim preparation and submission methods in order to eliminate the potential for duplicate cost claims.

County’s Response

The county agreed with the finding and recommendation.

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

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