

# NEVADA COUNTY

Audit Report

## **HANDICAPPED AND DISABLED STUDENTS II PROGRAM**

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

*July 1, 2002, through June 30, 2005*



**JOHN CHIANG**  
California State Controller

May 2008



**JOHN CHIANG**  
California State Controller

May 16, 2008

Ted S. Owens, Board Chairman  
Nevada County Board of Supervisors  
Eric W. Rood Administrative Center  
950 Maidu Avenue  
Nevada City, CA 95959

Dear Mr. Owens:

The State Controller's Office audited the costs claimed by Nevada 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, 2002, through June 30, 2005.

The county claimed \$68,662 for the mandated program. Our audit disclosed that the entire amount is unallowable primarily because the county claimed costs that were already allocated to another mandated program. The State made no payments to the county for fiscal year (FY) 2002-03 through FY 2004-05.

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:vb

cc: The Honorable Marcia Salter  
Auditor-Controller  
County of Nevada  
Martin Polt  
Administrative Services Officer  
Health & Human Services Agency  
Behavioral Health Services  
Todd Jerue, Program Budget Manager  
Corrections and General Government  
Department of Finance  
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 Nevada 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, 2002, through June 30, 2005.

The county claimed \$68,662 for the mandated program. Our audit disclosed that the entire amount is unallowable primarily because the county claimed costs that were already allocated to another mandated program. The State made no payments to the county for fiscal year (FY) 2002-03 through FY 2004-05.

## 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 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* [emphasis added] to fund assessments, psychotherapy, and other mental health services . . .” and that the finding by the Legislature is “declaratory of existing law.”

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 identifies 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, we will reissue the audit reports.” Consequently, we are allowing medication support costs commencing on July 1, 2001.

## **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, 2002, 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 the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county’s financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

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 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, Nevada County claimed \$68,662 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  
Officials**

We issued a draft audit report on March 12, 2008. Michael Heggarty, Director, Nevada County Department of Mental Health, responded by letter (Attachment) agreeing with the audit results. The final report includes the county's response.

**Restricted Use**

This report is solely for the information and use of Nevada 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

May 16, 2008

**Schedule 1—  
Summary of Program Costs  
July 1, 2002, through June 30, 2005**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference<sup>1</sup></u>
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Interagency agreements	\$ 1,602	\$ —	\$ (1,602)	
Referral and mental health assessments	1,632	—	(1,632)	
Transfers and interim placements	753	—	(753)	
Psychotherapy or other treatment services	<u>10,912</u>	<u>—</u>	<u>(10,912)</u>	
Total direct costs	14,899	—	(14,899)	Finding 1
Indirect costs	<u>7,439</u>	<u>—</u>	<u>(7,439)</u>	Finding 2
Total program costs <sup>2</sup>	<u>\$ 22,338</u>	<u>—</u>	<u>\$ (22,338)</u>	
Less amount paid by the State		<u>—</u>		
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	\$ 1,994	\$ —	\$ (1,994)	
Transfers and interim placements	920	—	(920)	
Psychotherapy or other treatment services	<u>12,419</u>	<u>—</u>	<u>(12,419)</u>	
Total direct costs	15,333	—	(15,333)	Finding 1
Indirect costs	<u>7,464</u>	<u>—</u>	<u>(7,464)</u>	Finding 2
Total program costs	<u>\$ 22,797</u>	<u>—</u>	<u>\$ (22,797)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Referral and mental health assessments	\$ 2,462	\$ —	\$ (2,462)	
Transfers and interim placements	1,136	—	(1,136)	
Psychotherapy or other treatment services	<u>13,566</u>	<u>—</u>	<u>(13,566)</u>	
Total direct costs	17,164	—	(17,164)	Finding 1
Indirect costs	<u>6,363</u>	<u>—</u>	<u>(6,363)</u>	Finding 2
Total program costs	<u>\$ 23,527</u>	<u>—</u>	<u>\$ (23,527)</u>	
Less amount paid by the State		<u>—</u>		
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	Reference <sup>1</sup>
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Direct costs:				
Interagency agreements	\$ 1,602	\$ —	\$ (1,602)	
Referral and mental health assessments	6,088	—	(6,088)	
Transfers and interim placements	2,809	—	(2,809)	
Psychotherapy or other treatment services	<u>36,897</u>	<u>—</u>	<u>(36,897)</u>	
Total direct costs	47,396	—	(47,396)	
Indirect costs	<u>21,266</u>	<u>—</u>	<u>(21,266)</u>	
Total program costs	<u>\$ 68,662</u>	—	<u>\$ (68,662)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> The county claimed costs relating to the Handicapped and Disabled Students (HDS) II Program under the HDS Program. We moved the entire FY 2002-03 claimed amount of \$22,338 to the correct mandated program.

# Findings and Recommendations

**FINDING 1—  
Overstated direct costs**

The county overstated direct costs by \$47,396. For fiscal year (FY) 2002-03, the costs related to the Handicapped and Disabled Students (HDS) Program. Therefore, we moved the costs to that program. For FY 2003-04 and FY 2004-05, the county claimed certain costs under the cost-report method when it filed the HDS Program claims and under the direct-cost method when it filed the HDS II Program claims. The duplicated costs claimed related to Interagency Agreements, Referral and Mental Health Assessments, Transfer and Interim Placements, and Psychotherapy or Other Treatment Services. As all of these costs are included in the total costs in the cost reports, they are already allocated to the HDS Program as a unit-of-service cost and/or administrative cost. Allowing the above costs as direct costs in the HDS II Program claims would result in duplicate reimbursement.

The following table summarizes the understated offsetting revenues:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Direct costs:				
Interagency agreements	\$ (1,602)	\$ —	\$ —	\$ (1,602)
Referral and mental health assessments	(1,632)	(1,994)	(2,462)	(6,088)
Transfers and interim placements	(753)	(920)	(1,136)	(2,809)
Psychotherapy or other treatment services	<u>(10,912)</u>	<u>(12,419)</u>	<u>(13,566)</u>	<u>(36,897)</u>
Audit adjustment	<u>\$ (14,899)</u>	<u>\$ (15,333)</u>	<u>\$ (17,164)</u>	<u>\$ (47,396)</u>

Recommendation

We recommend that the county ensure that it claims only eligible services in accordance with the mandated program and uses consistent claim preparation and submission methods.

County’s Response

The county agreed with the finding.

**FINDING 2—  
Overstated  
administrative costs**

The county overstated administrative costs by \$21,266. For FY 2002-03, the costs related to the HDS Program; therefore, we moved the costs to this program. For FY 2003-04 and FY 2004-05, the county miscalculated the indirect cost rate. We reviewed the indirect cost rates and noted inconsistencies with the method the county used to prepare the Indirect Cost Rate Proposals (ICRPs). However, we did not recalculate ICRP rates, as none of the direct costs were allowed (see Finding 1).

The following table summarizes the understated administration costs:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Administrative costs	\$ (7,439)	\$ (7,464)	\$ (6,363)	\$ (21,266)
Total adjustment	\$ (7,439)	\$ (7,464)	\$ (6,363)	\$ (21,266)

Recommendation

We recommend that the county prepare its claims consistent with the cost report submitted to the Department of Mental Health (DMH) and ensure that the indirect (administrative) rate is applied only to eligible direct costs.

County's Response

The county agreed with the finding.

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

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**NEVADA COUNTY  
HEALTH & HUMAN SERVICES  
AGENCY**

**BEHAVIORAL HEALTH DEPARTMENT**  
(Mental Health, Drug and Alcohol Program)

Health & Human Services  
Agency Director  
Jeffrey S. Brown, MPH, MSW

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Michael Heggarty, MFT

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Jim L. Spano  
Chief, Mandated Costs Audits Bureau  
State Controllers Office  
Division of Audits  
P.O. Box 942850  
Sacramento, California 94250-5874

Dear Mr. Spano,

Please accept this response to the draft audit report letter for Handicapped and Disabled Students II, dated March 12, 2008, received by our offices on March 24, 2008.

**Nevada County Department of Behavioral Health - Response to Audit Findings**

**Handicapped and Disabled Students II**

**Finding 1 – Overstated direct costs**

The county (Behavioral Health Department) acted upon the May 26, 2005 Statement of Decision for the Handicapped and Disabled Students II program, where some costs that were disallowed in prior years were made reimbursable. We submitted "direct cost" claims for reimbursement for interagency agreements (County Council charges), reimbursements for staff time, and other miscellaneous costs directly associated with providing eligible services under the statement of decision.

The county did not realize that the costs included in those claims had already indirectly been reimbursed in part through the DMH cost report process—the costs were included in the total department costs and thereby partially reimbursed through Medi-Cal and/or other sources of funding.

We agree with the audit finding. Future claims will be for only eligible services, for costs that were not previously claimed within the DMH cost report total department costs. We will pull any direct costs out of the DMH Cost report prior to completion, so that they can be claimed in the Handicapped and Disabled Students claims.

Finding 2 – Overstated Administrative Costs

The county is addressing the issues related to the finding, including implementation of methods consistent with those used in the DMH Cost Report and 2 CFR Part 225 (OMB Circular A-87), with consistent allocations of administrative costs, based on relative salaries and/or units of service provided to a given program.

If you have any questions, please call me at 530-470-2784, or our Administrative Services Officer, Martin Polt, at 530-470-2418.

Sincerely,



Michael Heggarty  
Director, Nevada County Department of Mental Health  
500 Crown Point Circle, Suite 120  
Grass Valley, CA 95945

CC: Marcia Salter, Nevada County Auditor-Controller

**State Controller's Office  
Division of Audits  
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