

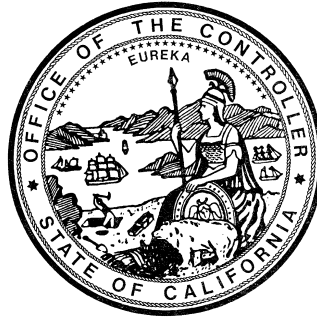
CONTRA COSTA COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

Chapter 1747, Statutes of 1984,
and Chapter 1274, Statutes of 1985

July 1, 2000, through June 30, 2001



STEVE WESTLY
California State Controller

September 2004



STEVE WESTLY
California State Controller

September 17, 2004

The Honorable Kevin J. Corcoran
Auditor-Controller
Contra Costa County
625 Court Street, Room 103
Martinez, CA 94553

Dear Mr. Corcoran:

The State Controller's Office audited the claim filed by Contra Costa County for costs of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2000, through June 30, 2001.

The county claimed \$1,928,799 (\$1,929,799 in costs, less a \$1,000 penalty for filing late) for the mandated program. Our audit disclosed that \$1,717,966 is allowable and \$210,833 is unallowable. The unallowable costs resulted because the county claimed costs that were ineligible for reimbursement, overstated administrative costs, and understated offsetting revenues. The State paid the county \$420,266. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,297,700, contingent upon available appropriations.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/jj

cc: Patrick Godley, Chief Financial Officer
Contra Costa County Department of Health Services
Jane Drazick, Finance Manager
Contra Costa Department of Mental Health
James Tilton, Program Budget Manager
Corrections and General Government
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the claim filed by Contra Costa County for costs of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2000, through June 30, 2001. The last day of fieldwork was March 22, 2004.

The county claimed \$1,928,799 (\$1,929,799 in costs, less a \$1,000 penalty for filing late) for the mandated program. Our audit disclosed that \$1,717,966 is allowable and \$210,833 is unallowable. The unallowable costs resulted because the county claimed costs that were ineligible for reimbursement, overstated administrative costs, and understated offsetting revenues. The State paid the county \$420,266. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,297,700, contingent upon available appropriations.

Background

Chapter 26 of the *Government Code*, commencing with Section 7570, and *Welfare and Institutions Code* Section 45651 (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."

On April 26, 1990, the Commission on State Mandates (COSM) determined that this legislation imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted the *Parameters and Guidelines* on August 22, 1991, and last amended it on August 29, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

Parameters and Guidelines states 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. As a result, allowable mental health treatment costs for the County of Contra Costa increased by \$1,547,070 during the audit period.

**Objective,
Scope, and
Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Handicapped and Disabled Students Program for the period of July 1, 2000, through June 30, 2001.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and 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* Section 17558.5. We did not audit the county's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed 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

The 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, Contra Costa County claimed \$1,928,799 (\$1,929,799 less a \$1,000 penalty for filing a late claim) for Handicapped and Disabled Students Program costs. The audit disclosed that \$1,717,966 is allowable and \$210,833 is unallowable. The State paid the county \$420,266. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,297,700, contingent upon available appropriations.

**Views of
Responsible
Officials**

We discussed the audit results with the county's representatives during an exit conference conducted on March 22, 2004. Jana Drazich, Finance Manager; George Saad, SB 90 Reimbursement Manager; Bill Ullom, Information Systems Analyst; Thomas Mathew, Accountant; Harjit Nahal, SB 90 Coordinator; and Laura Ing, Program Manager, agreed with the audit results. Ms. Drazich declined a draft audit report and agreed that we could issue the audit report as final. Subsequent to the exit conference, we received a letter dated April 12, 2004, from Patrick Godley, Chief Financial Officer, Contra Costa County Department of Health Services, agreeing with the audit results.

Restricted Use

This report is solely for the information and use of Contra Costa 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

**Schedule 1—
Summary of Program Costs
July 1, 2000, through June 30, 2001**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference</u> ¹
<u>July 1, 2000, through June 30, 2001</u>				
Assessment costs	\$ 1,103,832	\$ 1,103,832	\$ —	
Administrative costs	<u>165,574</u>	<u>144,270</u>	<u>(21,304)</u>	Finding 2
Total assessment-related costs	1,269,406	1,248,102	(21,304)	
Offsetting revenues:				
State categorical funding	(390,688)	(390,688)	—	
Short-Doyle/Medi-Cal (FFP only)	(153,052)	(157,123)	(4,071)	Finding 3
Amount received from others	<u>(117,522)</u>	<u>(117,522)</u>	<u>—</u>	
Net assessment costs	<u>608,144</u>	<u>582,769</u>	<u>(25,375)</u>	
Treatment costs	1,945,231	1,824,278	(120,953)	Finding 1
Administrative costs	<u>291,785</u>	<u>238,433</u>	<u>(53,352)</u>	Findings 1, 2
Total treatment costs	2,237,016	2,062,711	(174,305)	
Offsetting revenues:				
State categorical funding	(86,673)	(86,673)	—	
Short-Doyle/Medi-Cal	(419,304)	(430,457)	(11,153)	Finding 3
Amount received from others	<u>(409,384)</u>	<u>(409,384)</u>	<u>—</u>	
Net treatment costs	<u>1,321,655</u>	<u>1,136,197</u>	<u>(185,458)</u>	
Total costs	1,929,799	1,718,966	(210,833)	
Less late penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total program costs	<u>\$ 1,928,799</u>	1,717,966	<u>\$ (210,833)</u>	
Less amount paid by the State		<u>(420,266)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,297,700</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Overstated treatment costs**

The county claimed costs for treatment services totaling \$120,953 (\$112,884 for medication monitoring and \$8,069 for crisis intervention) that are not reimbursable under program guidelines. The related administrative costs total \$18,143.

The county claimed 22,933 units of treatment services for medication monitoring (function code 60) and 1,696 units of service for crisis intervention (function code 70).

Parameters and Guidelines states that the following treatment services, when required by a child’s individualized education program (IEP), are reimbursable: individual therapy, collateral therapy and contacts, group therapy, day treatment, and the mental health portion of residential treatment in excess of the California Department of Social Services’ payments for residential placement.

Recommendation

We recommend that the county ensure all costs claimed are eligible for reimbursement.

**FINDING 2—
Overstated administrative costs**

The county overstated administrative costs by \$56,513.

The county claimed administrative costs using an administrative cost rate of 15%. However, when calculating the rate the county did not reduce incurred costs by the amounts reimbursed through Medi-Cal, State General Fund Share, State General Funds Other Mental Health Share, and other revenues. After adjusting for these reimbursements, the county’s administrative cost rate was 13.07%.

The overstated administrative costs are as follows:

	<u>Assessment Costs</u>	<u>Treatment Costs</u>	<u>Total</u>
Allowable administrative rate	13.07%	13.07%	
Claimed administrative rate	<u>(15.00)%</u>	<u>(15.00)%</u>	
Overstated administrative rate	<u>(1.93)%</u>	<u>(1.93)%</u>	
Allowable direct costs	\$1,103,832	\$1,824,278	
Overstated administrative rate	<u>× (1.93)%</u>	<u>× (1.93)%</u>	
Total audit adjustment	<u>\$ (21,304)</u>	<u>\$ (35,209)</u>	<u>\$(56,513)</u>

Parameters and Guidelines states that if an indirect cost rate greater than 10% is being claimed, it must be supported by the preparation of an Indirect Cost Rate Proposal (ICRP) in full compliance with Office of Management and Budget (OMB) Circular A-87.

Recommendation

We recommend that the county calculate the administrative cost rate in compliance with OMB Circular A-87.

**FINDING 3—
Understated offsetting
revenues**

The county understated offsets of claimed costs by \$15,224.

The county used an incorrect allocation factor to determine the Federal Financing Participation (FFP) of Short-Doyle/Medi-Cal revenues applicable to the mandated program. Specifically, the county used an allocation factor of 50% instead of the correct 51.355% factor.

The understated revenues are summarized as follows:

	<u>Assessment Costs</u>	<u>Treatment Costs</u>	<u>Total</u>
Short Doyle/Medi-Cal (FFP only):			
Offsets audited	\$ 157,123	\$ 430,457	\$ 587,580
Offsets claimed	<u>(153,052)</u>	<u>(419,304)</u>	<u>(572,356)</u>
Adjustments	<u>\$ 4,071</u>	<u>\$ 11,153</u>	<u>\$ 15,224</u>

Parameters and Guidelines states that any direct payments (categorical funding) received from the State which are specifically allocated to this program shall be deducted from the claim.

Parameters and Guidelines states that any direct payments (Short-Doyle/Medi-Cal revenues) received from the State which are specifically allocated to the program, and any other reimbursements received as a result of the mandate, must be correctly deducted from the claim.

Recommendation

We recommend that the county ensure all applicable reimbursements are offset against reimbursable costs incurred.

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>