

EL DORADO COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

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

July 1, 2002, through June 30, 2005



JOHN CHIANG
California State Controller

December 2007



JOHN CHIANG
California State Controller

December 19, 2007

The Honorable Joe Harn
Auditor-Controller
El Dorado County
360 Fair Lane
Placerville, CA 95667

Dear Mr. Harn:

The State Controller's Office audited the costs claimed by El Dorado County for 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, 2002, through June 30, 2005.

The county claimed \$1,644,757 for the mandated program. Our audit disclosed that \$1,512,311 is allowable and \$132,446 is unallowable. The unallowable costs occurred because the county claimed ineligible services, applied incorrect rates and units of service, and understated revenue offsets. The State paid the county \$589,334. The State will pay allowable costs claimed that exceed the amount paid, totaling \$922,977, 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 (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, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

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: John Bachman

Mental Health Director

El Dorado County

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Audit Report

Summary

The State Controller’s Office (SCO) audited the costs claimed by El Dorado County for 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, 2002, through June 30, 2005. The last day of fieldwork was June 19, 2007.

The county claimed \$1,644,757 for the mandated program. Our audit disclosed that \$1,512,311 is allowable and \$132,446 is unallowable. The unallowable costs occurred because the county claimed ineligible services, applied incorrect rates and units of service, and understated revenue offsets. The State paid the county \$589,334. The State will pay allowable costs claimed that exceed the amount paid, totaling \$922,977, contingent upon available appropriations.

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.

Parameters and Guidelines establishes the state mandate and defines 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 for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

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.

Parameters and Guidelines for the Handicapped and Disabled Students II Program states 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.

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, 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, El Dorado County claimed \$1,644,757 for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$1,512,311 is allowable and \$132,446 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State made no payment to the county. Our audit disclosed that \$533,045 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$533,045, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$526,170 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$526,170, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$589,334. Our audit disclosed that \$453,096 is allowable. The State will offset \$136,238 from other mandated program payments due to the county. Alternatively, the county may remit this amount to the State.

**Views of
Responsible
Officials**

We issued a draft audit report on August 31, 2007. We contacted Joe Harn, Auditor-Controller, in person on October 17, 2007, and by telephone on November 19, 2007, and December 14, 2007. The county did not respond to the draft audit report.

Restricted Use

This report is solely for the information and use of El Dorado County 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, 2002, through June 30, 2005**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Assessment and case management costs	\$ —	\$ 763,447	\$ 763,447	Finding 1
Administrative costs	—	109,262	109,262	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	—	(224,993)	(224,993)	Finding 3
State categorical funds (EPSDT)	—	(166,142)	(166,142)	Finding 3
Net assessment and case management costs	—	481,574	481,574	
Treatment costs	925,418	57,433	(867,985)	Finding 1
Administrative costs	118,760	8,224	(110,536)	Finding 2
Offsetting revenues:				
State categorical funds (EPSDT)	—	(6,026)	(6,026)	Finding 3
Short-Doyle/Medi-Cal (FFP only)	(473,817)	(8,160)	465,657	Finding 3
Net treatment costs	570,361	51,471	(518,890)	
Total program costs	<u>\$ 570,361</u>	533,045	<u>\$ (37,316)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 533,045</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Assessment and case management costs	\$ 577,573	\$ 749,188	\$ 171,615	Finding 1
Administrative costs	—	111,756	111,756	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	—	(173,859)	(173,859)	Finding 3
State categorical funds (EPSDT)	—	(119,352)	(119,352)	Finding 3
Net assessment and case management costs	577,573	567,733	(9,840)	
Treatment costs	388,566	77,458	(311,108)	Finding 1
Administrative costs	62,966	11,554	(51,412)	Finding 2
Offsetting revenues:				
State categorical funds (EPSDT)	(163,495)	(20,754)	142,741	Finding 3
Short-Doyle/Medi-Cal (FFP only)	(225,989)	(30,231)	195,758	Finding 3
Other: IDEA Fund	(79,590)	(79,590)	—	Finding 3
Net treatment costs	17,542	(41,563)	(24,021)	
Total program costs	<u>\$ 560,031</u>	526,170	<u>\$ (33,861)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 526,170</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Assessment and case management costs	\$ 37,283	\$ 297,886	\$ 260,603	Finding 1
Administrative costs	—	61,888	61,888	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(9,909)	(68,461)	(58,552)	Finding 3
State categorical funds (EPSDT)	(4,237)	(52,374)	(48,137)	Finding 3
Net assessment and case management costs	<u>23,137</u>	<u>238,939</u>	<u>215,802</u>	
Treatment costs	651,382	379,394	(271,988)	Finding 1
Administrative costs	105,555	78,821	(26,734)	Finding 2
Offsetting revenues:				
State categorical funds (EPSDT)	(81,448)	(71,805)	9,643	Finding 3
Short-Doyle/Medi-Cal (FFP only)	(184,261)	(93,865)	90,396	Finding 3
Other: IDEA Fund	—	(78,388)	(78,388)	Finding 3
Net treatment costs	<u>491,228</u>	<u>214,157</u>	<u>(277,071)</u>	
Total program costs	<u>\$ 514,365</u>	453,096	<u>\$ (61,269)</u>	
Less amount paid by the State		<u>(589,334)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ (136,238)</u>	
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Assessment and case management costs	\$ 614,856	\$ 1,810,521	\$1,195,665	Finding 1
Administrative costs	—	282,906	282,906	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(9,909)	(467,313)	(457,404)	Finding 3
State categorical funds (EPSDT)	(4,237)	(337,868)	(333,631)	Finding 3
Net assessment and case management costs	<u>600,710</u>	<u>1,288,246</u>	<u>687,536</u>	
Treatment costs	1,965,366	514,285	(1,451,081)	Finding 1
Administrative costs	287,281	98,599	(188,682)	Finding 2
Offsetting revenues:				
State categorical funds (EPSDT)	(244,943)	(98,585)	146,358	Finding 3
Short-Doyle/Medi-Cal (FFP only)	(884,067)	(132,256)	751,811	Finding 3
Other: IDEA Fund	(79,590)	(157,978)	(78,388)	Finding 3
Net treatment costs	<u>1,044,047</u>	<u>224,065</u>	<u>(819,982)</u>	
Total program costs	<u>\$ 1,644,757</u>	1,512,311	<u>\$ (132,446)</u>	
Less amount paid by the State		<u>(589,334)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ 922,977</u>	

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Overstated assessment
and treatment costs**

The county claimed unallowable assessment and treatment costs by \$255,416 for the audit period.

The county included ineligible therapeutic behavioral services and crisis intervention in their claim. The county also applied rates that were not traceable to the cost report and units of service that were not traceable to the units' detail report. Furthermore, the county claimed several services provided by outside contractors as their own, affecting the rates used to process claims.

The program's parameters and guidelines for the program 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 parameters and guidelines do not identify therapeutic behavioral services and crisis intervention as allowable activities.

By applying incorrect rates and ineligible services, the county overstated claimed assessment and treatment costs by \$255,416 as follows.

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment costs	\$ 763,447	\$ 171,615	\$ 260,603	\$ 1,195,665
Treatment costs	<u>(867,985)</u>	<u>(311,108)</u>	<u>(271,988)</u>	<u>(1,451,081)</u>
Audit adjustment	<u>\$ (104,538)</u>	<u>\$ (139,493)</u>	<u>\$ (11,385)</u>	<u>\$ (255,416)</u>

Recommendation

We recommend that the county ensure that it uses eligible units and proper rates to compute the assessment and treatment costs.

County's Response

The county did not respond to the audit finding.

**FINDING 2—
Understated
administrative costs**

The county understated administrative costs by \$94,224 for the audit period.

The county’s method for computing administrative costs did not account for the direct payments received from the State, which are specifically allocated to offset program costs (i.e. Short Doyle/Medi-Cal (Federal Financial Participation [FFP]), Healthy Families, and Utilization Review Funds). Additionally, the total mode costs in the formula should not include the administrative and utilization review costs to arrive at the rate. The simplified method divides administrative and utilization review costs, less any payments received from the State, by total mode costs.

The program’s parameters and guidelines specify that compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in Office of Management and Budget (OMB) Circular A-87.

Additionally, the parameters and guidelines state that any direct payments received from the State that are specifically allocated to the program, and/or any other reimbursement received as a result of the mandate (categorical funds, Short Doyle/Medi-Cal FFP, and other offsets such as private insurance), must be deducted from the claim.

By using a different method and rate, the county understated its administrative costs for the audit period by \$94,224 as follows.

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment costs	\$ 109,262	\$ 111,756	\$ 61,888	\$ 282,906
Treatment costs	(110,536)	(51,412)	(26,734)	(188,682)
Audit adjustment	\$ (1,274)	\$ 60,344	\$ (35,154)	\$ 94,224

Recommendation

We recommend that the county ensure that all applicable administrative reimbursements are offset against administrative costs incurred for this program.

County’s Response

The county did not respond to the audit finding.

**FINDING 3—
Understated revenue
offsets**

The county understated revenue offsets by \$28,746 for the audit period.

The county used different rates to calculate the state matching funds received under the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) program, which partially reimburses the county for the cost of services provided to Medi-Cal clients. Furthermore, the county did not include \$78,388 of IDEA funds as offsetting revenue in FY 2004-05. We excluded any revenue offsets related to the unallowable therapeutic behavioral services and crisis intervention, as discussed in Finding 1.

The program’s parameters and guidelines specify that any direct payments received from the State that are specifically allocated to the program, and/or any other reimbursement received as a result of the mandate (categorical funds, Short Doyle/Medi-Cal FFP and other offsets such as private insurance), must be deducted from the claim.

By using different rates to calculate the state matching funds received under the EPSDT program and excluding IDEA funds, the county understated offsetting revenues by \$28,746 as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment revenues:				
State categorical funds	\$ (166,142)	\$ (119,352)	\$ (48,137)	\$ (333,631)
Short-Doyle/Medi-Cal funds	(224,993)	(173,859)	(58,552)	(457,404)
Total	(391,135)	(293,211)	(106,689)	(791,035)
Treatment revenues:				
State categorical funds	(6,026)	142,741	9,643	146,358
Short-Doyle/Medi-Cal funds	465,657	195,758	90,396	751,811
Other: IDEA Fund	—	—	(78,388)	(78,388)
Total	459,631	338,499	21,651	819,781
Audit adjustment	\$ 68,496	\$ 45,288	\$ (85,038)	\$ 28,746

Recommendation

We recommend that the county ensure that all applicable revenues are offset against the claimed costs.

County’s Response

The county did not respond to the audit finding.

**State Controller's Office
Division of Audits
Post Office Box 942850
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<http://www.sco.ca.gov>