

# **KERN COUNTY**

Revised Audit Report

## **HANDICAPPED AND DISABLED STUDENTS PROGRAM**

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

*July 1, 2000, through June 30, 2002*



**STEVE WESTLY**  
California State Controller

January 2007



**STEVE WESTLY**  
**California State Controller**

January 5, 2007

The Honorable Ann K. Barnett  
Auditor-Controller-County Clerk  
Kern County  
1115 Truxtun Avenue, Second Floor  
Bakersfield, CA 93301-4639

Dear Ms. Barnett:

The State Controller's Office audited the claims filed by Kern County for costs of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 127 4, Statutes of 1985) for the period of July 1, 2000, through June 30, 2002. This final report supersedes the original report issued April 22, 2005.

We are reissuing this report to increase allowable costs by \$69,129 as a result of the Commission on State Mandates (COSM) adopting *Parameters and Guidelines* for the Handicapped and Disabled Students II Program. This program was adopted subsequent to our issuing the original final report. Under the newly adopted program guidelines, medication support costs are reimbursable beginning in fiscal year 2001-02.

The county claimed \$3,921,001 (\$3,922,001 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$1,938,361 is allowable and \$1,982,640 is unallowable. The unallowable costs occurred primarily because the county claimed ineligible costs and understated revenue offsets. The State made no payments to the county. The State will pay allowable costs claimed, totaling \$1,938,361, 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 (COSM). 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 COSM's Web site at [www.csm.ca.gov](http://www.csm.ca.gov) (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at [csminfo@csm.ca.gov](mailto:csminfo@csm.ca.gov).

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

Sincerely,

*Original signed by:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/ams:vb

cc: Diane G. Koditek, Director  
Department of Mental Health Services  
Kern County  
Marvin Felli, Administrative Services Officer  
Department of Mental Health Services  
Kern County  
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Corrections and General Government  
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Robin Ulesich-Foemmel  
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Cynthia Wong, Manager  
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## Revised Audit Report

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# Revised Audit Report

## Summary

The State Controller's Office (SCO) audited the claims filed by Kern 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, 2002. The last day of fieldwork was August 30, 2006.

The county claimed \$3,921,001 (\$3,922,001 less a \$1,000 penalty for filing a late claim) for the mandated program. The audit disclosed that \$1,938,361 is allowable and \$1,982,640 is unallowable. The unallowable costs occurred primarily because the county claimed ineligible costs and understated revenue offsets. The State made no payments to the county. The State will pay allowable costs claimed, totaling \$1,938,361, 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 on 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 (COSM) determined that Chapter 1747, Statutes of 1984, resulted in state-mandated costs that are reimbursable pursuant to *Government Code* Section 17561.

*Parameters and Guidelines* establishes the state mandate and defines reimbursement criteria. The COSM adopted *Parameters and Guidelines* on August 22, 1991, and it was last amended on August 29, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies 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. Furthermore, this legislation states that, for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of those 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 COSM 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 COSM 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, 2000, through June 30, 2002.

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. 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, Kern County claimed \$3,921,001 (\$3,922,001 less a \$1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$1,938,361 is allowable and \$1,982,640 is unallowable.

For FY 2000-01, our audit disclosed that \$704,321 is allowable. The State will pay that amount contingent upon available appropriations.

For FY 2001-02, our audit disclosed that \$1,234,138 is allowable. The State will pay that amount contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft report on February 18, 2005. Ann K. Barnett, the county's Auditor-Controller-County Clerk, responded by letter dated March 17, 2005, disagreeing with Finding 1 and agreeing with the remaining findings. The county's response is included as an attachment to this audit report.

Subsequent to the issuance of our final report dated April 22, 2005, the COSM adopted *Parameters and Guidelines* for Handicapped and Disabled Students II. Under the newly adopted program guidelines, medication support costs are reimbursable beginning in FY 2001-02. This change impacts all four findings, increasing allowable costs by \$69,129. On August 30, 2006, we informed Glenn Spenser, Division Chief, Office of the Auditor-Controller and Julie Williams, Accountant, Department of Mental Health Services of the audit adjustments and reissuance of the final report. The Kern County staff did not object to the revised findings.

**Restricted Use**

This report is solely for the information and use of Kern 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

**Revised Schedule 1—  
Summary of Program Costs  
July 1, 2000, through June 30, 2002**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<b>July 1, 2000, through June 30, 2001</b>				
Treatment costs	\$ 1,764,465	\$ 1,752,118	\$ (12,347)	Findings 1, 2
Administrative costs	—	107,296	107,296	Finding 3
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(515,130)	(515,130)	Finding 4
EPSDT funds	—	(423,257)	(423,257)	Finding 4
State categorical funds	(215,804)	(215,804)	—	
Subtotal	1,548,661	705,223	(843,438)	
Less late penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 1,547,661</u>	704,223	<u>\$ (843,438)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 704,223</u>		
<b>July 1, 2001, through June 30, 2002</b>				
Treatment costs	\$ 2,589,144	\$ 2,516,817	\$ (72,327)	Findings 1, 2
Administrative costs	—	116,078	116,078	Finding 3
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(651,126)	(651,126)	Finding 4
EPSDT funds	—	(531,827)	(531,827)	Finding 4
State categorical funds	(215,804)	(215,804)	—	
Subtotal	2,373,340	1,234,138	(1,139,202)	
Less late penalty	—	—	—	
Total program costs	<u>\$ 2,373,340</u>	1,234,138	<u>\$ (1,139,202)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,234,138</u>		
<b>Summary: July 1, 2000, through June 30, 2002</b>				
Treatment costs	\$ 4,353,609	\$ 4,268,935	\$ (84,674)	Findings 1, 2
Administrative costs	—	223,374	223,374	Finding 3
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(1,166,256)	(1,166,256)	Finding 4
EPSDT funds	—	(955,084)	(955,084)	Finding 4
State categorical funds	(431,608)	(431,608)	—	
Subtotal	3,922,001	1,939,361	(1,982,640)	
Less late penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 3,921,001</u>	1,938,361	<u>\$ (1,982,640)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,938,361</u>		

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



# Revised Findings and Recommendations

## FINDING 1— Ineligible treatment costs claimed

The county overstated treatment costs by \$220,090 for the audit period.

*Parameters and Guidelines* for the Handicapped and Disabled Students Program specifies that only the following treatment services are reimbursable: individual therapy; collateral therapy and contacts; group therapy; day treatment; and the mental health portion of residential treatment in excess of California Department of Social Services payments for residential placement. *Parameters and Guidelines* for the Handicapped and Disabled Students II Program allows medication support costs commencing on July 1, 2001.

As a result, we have adjusted claimed treatment costs as follows.

	Fiscal Year		Total
	2000-01	2001-02	
Treatment costs:			
Medication support	\$ (111,051)	\$ —	\$ (111,051)
Crisis intervention	<u>(35,536)</u>	<u>(73,503)</u>	<u>(109,039)</u>
Audit adjustment	<u>\$ (146,587)</u>	<u>\$ (73,503)</u>	<u>\$ (220,090)</u>

### Recommendation

We recommend that the county ensure that costs claimed are eligible increased costs incurred as a result of the mandate.

### County's Response

The county disagreed with the finding, stating that both medication support and crisis intervention are “in the scope of practice of mental health professionals” and that, therefore, they “should be allowable.”

### SCO's Comment

The finding has been updated to allow medication support costs for FY 2001-02.

Subsequent to the issuance of our final report dated April 22, 2005, the COSM adopted the *Parameters and Guidelines* for Handicapped and Disabled Students II Program. Under the newly adopted program guidelines, medication support costs are allowable beginning fiscal year (FY) 2001-02. Therefore, we reduced unallowed costs by \$127,814, from \$201,317 to \$73,503 for FY 2001-02. However, the finding for FY 2000-01 remains the same as stated in the audit report.

Crisis intervention was not included in the *Parameters and Guidelines* for Handicapped and Disabled Students II Program. Therefore, the finding remains unchanged relative to crisis intervention costs.

As currently amended, *Parameters and Guidelines* limits reimbursement to 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 for residential placement. Each treatment service is defined under Title 9, Section 543, of *California Administrative Code*. Crisis intervention was defined in regulation at the time the *Parameters and Guidelines* was adopted and was not included as a reimbursable cost.

**FINDING 2—  
Units of service  
understated**

The county understated the number of units of treatment services provided in FY 2000-01 and FY 2001-02. The units of service (minutes) were understated because the county (1) inadvertently omitted procedure code 682 and 692 services from its claims, and (2) discovered various other eligible service minutes after it submitted its claims. For FY 2000-01 and FY 2001-02, the county understated services by 123,986 minutes and 155 minutes, respectively. We also revised the finding to incorporate units of service for medication monitoring.

*Parameters and Guidelines* for the Handicapped and Disabled Students Program specifies that the actual increased costs incurred to provide eligible mental health services are reimbursable.

As a result, we have adjusted claimed treatment costs as follows.

	Fiscal Year		Total
	2000-01	2001-02	
Treatment costs	\$ 134,240	\$ 1,176	\$ 135,416

Recommendation

We recommend that the county ensure that costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

County’s Response

The county concurred with the finding.

SCO’s Comment

The finding for FY 2001-02 has increased by \$53, from \$1,123 to \$1,176 because medication support costs are now reimbursable beginning in FY 2001-02 (see Finding 1). The finding remains unchanged for FY 2000-01.

**FINDING 3—  
Administrative costs  
not claimed**

The county inadvertently failed to claim administrative costs related to mental health treatment services totaling \$223,374. We computed allowable administrative costs based on administrative cost data contained in the county’s annual cost reports submitted to the California Department of Mental Health. We revised the finding to incorporate administrative costs associated with medication monitoring.

*Parameters and Guidelines* for the Handicapped and Disabled Students Program specifies that administrative costs incurred in providing eligible mental health treatment services are reimbursable.

As a result, we have adjusted claimed treatment costs for the unclaimed administrative costs as follows.

	Fiscal Year		Total
	2000-01	2001-02	
Treatment costs:			
Administrative costs	<u>\$ 107,296</u>	<u>\$ 116,078</u>	<u>\$ 223,374</u>

Recommendation

We recommend that the county ensure that costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

County’s Response

The county concurred with the finding.

SCO’s Comment

The finding for FY 2001-02 has increased by \$4,864, from \$111,214 to \$116,078 because medication support costs are now reimbursable beginning in FY 2001-02 (see Finding 1). The finding remains unchanged for FY 2000-01.

**FINDING 4—  
Offsetting revenues  
not deducted from  
claimed costs**

The county did not report revenues received from the California Department of Mental Health as reimbursement for services provided to Medi-Cal clients. The county failed to report the federal financing participation (FFP) share of Short-Doyle/Medi-Cal costs on its claims, as well as the state matching funds received under the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program. We revised the finding to incorporate the offsetting revenues for medication support costs.

*Parameters and Guidelines* for the Handicapped and Disabled Students Program specifies that any direct payments (categorical funds) received from the State which are specifically allocated to the program, and any other reimbursements received as a result of the mandate, must be deducted from the claims.

As a result, we have adjusted claimed costs as follows.

	<u>Fiscal Year</u>		<u>Total</u>
	<u>2000-01</u>	<u>2001-02</u>	
Offsetting revenues:			
Short-Doyle/Medi-Cal funds (FFP)	\$ (515,130)	\$ (651,126)	\$(1,166,256)
EPSDT and county matching funds	<u>(423,257)</u>	<u>(531,827)</u>	<u>(955,084)</u>
Audit adjustment	<u>\$ (938,387)</u>	<u>\$ (1,182,953)</u>	<u>\$ (2,121,340)</u>

Recommendation

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

County's Response

The county concurred with the finding.

SCO's Comment

The finding for FY 2001-02 has increased by \$63,504, from \$1,119,449 to \$1,182,953 because medication support costs are now reimbursable beginning in FY 2001-02 (see Finding 1). We increased revenue offsets in proportion to the increase in allowable medication support costs. The finding for FY 2000-01 remains unchanged.

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

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**ANN K. BARNETT**  
**Auditor-Controller-County Clerk**

Glenn S. Spencer  
Assistant Auditor-Controller-County Clerk

County Administrative Center  
1115 Truxtun Avenue, Second Floor  
Bakersfield, CA 93301-4639  
FAX 661-868-3560



Auditor-Controller: 661-868-3599  
County Clerk: 661-868-3588

Registrar of Voters (Elections):  
661-868-3590  
800-452-VOTE  
TTY Relay 800-735-2929

March 17, 2005

Jim L. Spano, Chief  
Compliance Audits Bureau  
State Controller's Office  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250-5874

Subject: Response to Audit Findings - Handicapped and Disabled Students Program for the  
Period of 07/01/00 to 06/30/02

Dear Mr. Spano,

The following is our response to the audit findings and recommendations identified in your draft audit report received on March 8<sup>th</sup>, 2005:

Finding 1-Ineligible Treatment Costs Claimed

The county claimed costs for medication support and crisis intervention that are ineligible.

Recommendation

We recommend that the county ensure costs claimed are eligible increased costs incurred as a result of the mandate.

Response

The county wishes to appeal this finding. As noted in the background on page one of the report the statutes "...require counties to participate in the mental health assessment for 'individuals with exceptional needs,' participate on the expanded Individual Education Program (IEP) team, and provide case management services for 'individuals with exceptional needs' who are designated as 'seriously emotionally disturbed.'"

The severity of the disorder for these students could result in behaviors that require either medication support and/or crisis intervention. Medication support and crisis intervention services are in the scope of practice of mental health professionals. Therefore we believe these services should be allowable.

Finding 2-Units of Service Understated

The county understated the number of units of treatment services provided in fiscal year (FY) 2000-01 and FY 2001-02. The units of service (minutes) were understated because (1) the county inadvertently omitted procedure code 682 and 692 services from its claims, and (2) it discovered

various other eligible service minutes after it submitted its claims. For FY 2000-01 and FY 2001-02, services were understated by 123,986 minutes and 155 minutes, respectively.

Recommendation

We recommend that the county ensure costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

Response

The county agrees with this recommendation.

Finding 3-Administrative Costs not Claimed

The county inadvertently failed to claim administrative costs related to mental health treatment services. We computed allowable administrative costs based on administrative cost data contained in the county's annual cost reports submitted to the California Department of Mental Health.

Recommendation

We recommend that the county ensure costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

Response

The county agrees with this recommendation.

Finding 4-Offsetting Revenues not Deducted From Claimed Costs

The county did not report revenues received from the California Department of Mental Health as reimbursement for services provided to Medi-Cal clients. The county failed to report the federal financing participation (FFP) share of Short-Doyle/Medi-Cal costs on its claims, as well as the state matching funds received under the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program.

Recommendation

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

Response

The county agrees with this recommendation.

If you have any additional questions for us, please feel free to contact Glenn S. Spencer, Assistant Auditor-Controller-County Clerk at 661-868-3548.

Sincerely,



Ann K. Barnett  
Auditor-Controller-County Clerk

cc: Kern County Mental Health Department

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

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