

LOS ANGELES COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

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

July 1, 1998, through June 30, 2001



STEVE WESTLY
California State Controller

October 2004



STEVE WESTLY
California State Controller

October 28, 2004

Mr. J. Tyler McCauley
Auditor-Controller
Los Angeles County
500 West Temple Street, Room 525
Los Angeles, CA 90012

Dear Mr. McCauley:

The State Controller's Office audited the claims filed by Los Angeles 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, 1998, through June 30, 2001.

The county claimed \$42,168,694 (\$42,170,694 less \$2,000 in penalties for filing late claims) for the mandated program. Our audit disclosed that \$33,410,798 is allowable and \$8,757,896 is unallowable. The unallowable costs occurred because the county claimed ineligible and unsupported costs and understated offsetting revenues. The State paid the county \$27,927,778. Allowable costs claimed exceed the amount paid by \$5,483,020.

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: Gurubanda Singh Khalsa
Director of Finance
Department of Mental Health
Los Angeles County
Leonard Kaye, SB 90 Coordinator
Los Angeles County
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 claims filed by Los Angeles 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, 1998, through June 30, 2001. The last day of fieldwork was April 27, 2004.

The county claimed \$42,168,694 (\$42,170,694 less \$2,000 in penalties for filing late claims) for the mandated program. Our audit disclosed that \$33,410,798 is allowable and \$8,757,896 is unallowable. The unallowable costs occurred because the county claimed ineligible and unsupported costs and understated offsetting revenues. The State paid the county \$27,927,778. Allowable costs claimed exceed the amount paid by \$5,483,020.

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."

On April 26, 1990, the Commission on State Mandates (COSM) determined that this legislation resulted in state-mandated costs, which are reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines criteria for reimbursement. COSM adopted the *Parameters and Guidelines* on August 22, 1991, and amended it August 29, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated program 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. As a result, allowable mental health treatment costs for Los Angeles County increased by \$18,990,983 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, 1998, 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 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

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, Los Angeles County claimed \$42,168,694 (\$42,170,694 less \$2,000 in penalties for filing late claims) for Handicapped and Disabled Students Program costs. Our audit disclosed that \$33,410,798 is allowable and \$8,757,896 is unallowable.

For FY 1998-99, the State paid the county \$10,241,434. Our audit disclosed that \$8,599,829 is allowable. The county should return \$1,641,605 to the State.

For FY 1999-2000, the State paid the county \$9,444,239. Our audit disclosed that \$9,695,927 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$251,688, contingent upon available appropriations.

For FY 2000-01, the State paid the county \$8,242,105. Our audit disclosed that \$15,115,042 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$6,872,937, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on September 24, 2004. J. Tyler McCauley, Auditor-Controller, responded by letter dated October 12, 2004, agreeing with the audit results. The county stated that it will be implementing policies and procedures to ensure that contractor and other costs claimed are eligible and supported. The final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Los Angeles 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, 1998, through June 30, 2001**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
July 1, 1998, through June 30, 1999				
Assessment/case management costs	\$ 4,331,923	\$ 3,857,700	\$ (474,223)	Finding 1
Administrative costs	564,764	505,411	(59,353)	Finding 1
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(734,695)	(503,178)	231,517	Finding 5
State categorical funding	—	(689,672)	(689,672) ²	
Case management—out of state	—	—	—	
Net assessment/case management costs	<u>4,161,992</u>	<u>3,170,261</u>	<u>(991,731)</u>	
Treatment costs	13,121,604	11,715,268	(1,406,336)	Findings 2, 3
Administrative costs	937,890	839,061	(98,829)	Findings 2, 3
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(5,047,438)	(4,881,819)	165,619	Finding 5
State categorical funding	(2,778,722)	(2,089,050)	689,672 ²	
Children's system of care funds	(131,492)	(131,492)	—	
SAMHSA ³ grants	—	—	—	
Private third-party payer funds	(22,400)	(22,400)	—	
Other local fund revenue	—	—	—	
Other prior year/final adjustments	—	—	—	
Net treatment costs	<u>6,079,442</u>	<u>5,429,568</u>	<u>(649,874)</u>	
Total costs	10,241,434	8,599,829	(1,641,605)	
Less late penalty	—	—	—	
Total program costs	<u>\$ 10,241,434</u>	8,599,829	<u>\$(1,641,605)</u>	
Less amount paid by the State		<u>(10,241,434)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(1,641,605)</u>		
July 1, 1999, through June 30, 2000				
Assessment/case management costs	\$ 5,468,933	\$ 5,175,977	\$ (292,956)	Finding 1
Administrative costs	777,691	740,053	(37,638)	Finding 1
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(1,112,678)	(1,149,817)	(37,139)	Finding 5
State categorical funding	—	(642,183)	(642,183) ²	
Case management—out of state	(186,593)	(186,593)	—	
Net assessment/case management costs	<u>4,947,353</u>	<u>3,937,437</u>	<u>(1,009,916)</u>	
Treatment costs	18,195,111	15,411,549	(2,783,562)	Findings 2, 3
Administrative costs	1,529,950	1,301,491	(228,459)	Findings 2, 3

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
July 1, 1999, through June 30, 2000 (continued)				
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(6,870,824)	(7,305,400)	(434,576)	Finding 5
State categorical funding	(2,778,722)	(2,136,539)	642,183 ²	
Children's system of care funds	(242,753)	(242,753)	—	
SAMHSA ³ grants	—	—	—	
Private third-party payer funds	(26,273)	(26,273)	—	
Other local fund revenue	(205,558)	(205,558)	—	
Other prior year/final adjustments	(1,037,027)	(1,037,027)	—	
Net treatment costs	<u>8,563,904</u>	<u>5,759,490</u>	<u>(2,804,414)</u>	
Total costs	13,511,257	9,696,927	(3,814,330)	
Less late penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total program costs	<u>\$ 13,510,257</u>	9,695,927	<u>\$(3,814,330)</u>	
Less amount paid by the State		<u>(9,444,239)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 251,688</u>		
July 1, 2000, through June 30, 2001				
Assessment/case management costs	\$ 5,957,323	\$ 5,679,577	\$ (277,746)	Finding 1
Administrative costs	946,666	817,806	(128,860)	Findings 1, 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(1,130,429)	(491,086)	639,343	Finding 5
State categorical funding	—	(575,746)	(575,746) ²	
Case management—out of state	<u>(226,532)</u>	<u>(226,532)</u>	<u>—</u>	
Net assessment/case management costs	<u>5,547,028</u>	<u>5,204,019</u>	<u>(343,009)</u>	
Treatment costs	22,832,763	19,292,482	(3,540,281)	Findings 2, 3
Administrative costs	1,730,127	1,473,951	(256,176)	Findings 2, 3
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(9,452,764)	(9,191,005)	261,759	Finding 5
State categorical funding	(2,778,722)	(2,202,976)	575,746 ²	
Children's system of care	(15,269)	(15,269)	—	
SAMHSA ³ grants	(46,469)	(46,469)	—	
Private third-party payer funds	(97,031)	(97,031)	—	
Other local fund revenue			—	
Other prior year/final adjustments	<u>698,340</u>	<u>698,340</u>	<u>—</u>	
Net treatment costs	<u>12,870,975</u>	<u>9,912,023</u>	<u>(2,958,952)</u>	
Total costs	18,418,003	15,116,042	(3,301,961)	
Less late penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total program costs	<u>\$ 18,417,003</u>	15,115,042	<u>\$(3,301,961)</u>	
Less amount paid by the State		<u>(8,242,105)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 6,872,937</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
Summary: July 1, 1998, through June 30, 2001				
Assessment/case management costs	\$ 15,758,179	\$ 14,713,254	\$(1,044,925)	Finding 1
Administrative costs	2,289,121	2,063,270	(225,851)	Findings 1, 4
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(2,977,802)	(2,144,081)	833,721	Finding 5
State categorical funding	—	(1,907,601)	(1,907,601) ²	
Case management—out of state	<u>(413,125)</u>	<u>(413,125)</u>	<u>—</u>	
Net assessment/case management costs	<u>14,656,373</u>	<u>12,311,717</u>	<u>(2,344,656)</u>	
Treatment costs	54,149,478	46,419,299	(7,730,179)	Findings 2, 3
Administrative costs	4,197,967	3,614,503	(583,464)	Findings 2, 3
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(21,371,026)	(21,378,224)	(7,198)	Finding 5
State categorical funding	(8,336,166)	(6,428,565)	1,907,601 ²	
Children's system of care funds	(389,514)	(389,514)	—	
SAMHSA ³ grants	(46,469)	(46,469)	—	
Private third-party payer funds	(145,704)	(145,704)	—	
Other local fund revenue	(205,558)	(205,558)	—	
Other prior year/final adjustments	<u>(338,687)</u>	<u>(338,687)</u>	<u>—</u>	
Net treatment costs	<u>27,514,321</u>	<u>21,101,081</u>	<u>(6,413,240)</u>	
Total costs	42,170,694	33,412,798	(8,757,896)	
Less late penalties	<u>(2,000)</u>	<u>(2,000)</u>	<u>—</u>	
Total program costs	<u>\$42,168,694</u>	33,410,798	<u>\$(8,757,896)</u>	
Less amount paid by the State		<u>(27,927,778)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,483,020</u>		

¹ See Findings and Recommendations section.

² The SCO allocated the Special Education Pupil (SEP) revenue in direct proportion to allowable assessment and treatment costs. The total SEP offset remains the same as there are no adjustments to the total amount of the offset.

³ United States Department of Health and Human Services Substance Abuse and Mental Health Services Administration.

Findings and Recommendations

FINDING 1— Ineligible and unsupported assessments and case management costs

The county claimed \$1,044,925 of ineligible and unsupported assessment and case management costs. The related indirect costs total \$133,254.

These errors occurred primarily because the county did not have any policies and procedures to ensure the integrity of costs claimed under the program. The county did not reconcile source data with information inputted into the management information system or identify input errors.

Our adjustments were based on actual records reviewed and or data analysis, and did not include any estimates or projections based on statistical analysis.

A brief summary of the unallowable assessment and case management costs is as follows:

Assessment Costs

Overbilled staff time: The county overbilled staff time by \$193,692. The county used the daily unit of service log to input unit of services to the management information system. The county's Department of Mental Health (DMH) Assessment Unit staff members made numerous errors when posting its daily unit of service log; for example, over 10 hours per service date were charged for individual staff members.

Data entry errors: County staff and its outside vendors' staff members made numerous data entry errors, resulting in overstated costs of \$162,684. Both of the Assessment Unit data entry clerks made numerous recurring errors. Minutes were inputted as hours, and units of services from source documents were duplicated or inputted two or three times. Also, hypothetical training exercise cases were inadvertently claimed.

Case Management Costs

Out-of-state costs: The county claimed \$362,029 of ineligible out-of-state costs. The county's DMH Case Management Unit's accounting system was unable to distinguish between allowable case management in-state and unallowable out-of-state placement costs for FY 1999-2000 and FY 2000-01.

Data entry errors: The Case Management Unit staff members made numerous data entry errors, resulting in overstated costs of \$122,330.

Overbilled staff time: The county overbilled staff time by \$32,669. The Case Management Unit's staff members made numerous errors when posting its daily unit of service log; for example, over 10 hours per service date were charged for individual staff. In addition, the Case Management Unit data entry clerks made numerous errors when inputting data into the database.

No support provided: Claimed costs totaling \$9,707 were unsupported.

Costs funded by other programs: The county claimed \$161,814 in contract service provider costs funded by other programs. Contracted service providers generally provide mental health services under multiple programs under the county's system of care. Many of the mandate-related children were also eligible under other state and federal programs that provided sufficient funding. The county did not reduce claimed costs by funds received from other programs.

A summary of the adjustments to assessment and case management costs is as follows:

	Fiscal Year			Total
	1998-99	1999-2000	2000-01	
Assessment costs:				
County DMH				
Assessment Unit:				
Overbilled staff time	\$ (49,481)	\$ (77,351)	\$ (66,860)	\$ (193,692)
Data entry errors	(43,493)	(51,681)	(67,510)	(162,684)
Case management costs:				
County DMH Case				
Management Unit:				
Out-of-state costs	(232,665)	(70,815)	(58,549)	(362,029)
Data entry errors	(91,685)	(11,158)	(19,487)	(122,330)
Overbilled staff time	(8,502)	(10,635)	(13,532)	(32,669)
No support provided	(7,250)	1,259)	(1,198)	(9,707)
Contracted service provider:				
Costs funded by other programs	<u>(41,147)</u>	<u>(70,057)</u>	<u>(50,610)</u>	<u>(161,814)</u>
Total assessment and case management costs	<u>\$ (474,223)</u>	<u>\$ (292,956)</u>	<u>\$ (277,746)</u>	<u>\$ (1,044,925)</u>
Indirect costs	<u>\$ (59,353)</u>	<u>\$ (37,638)</u>	<u>\$ (36,263)</u>	<u>\$ (133,254)</u>

Parameters and Guidelines for the program specifies that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

Recommendation

We recommend that the county implement policies and procedures to ensure that all costs claimed are eligible and supported.

County's Response

The county concurs with this finding.

**FINDING 2—
Ineligible treatment
costs**

The county claimed \$2,899,435 of ineligible treatment costs. The related indirect costs total \$222,308.

Treatment costs were incurred by the county's approximately 35 contracted service providers. The majority of contracted service providers we visited had no policies and procedures in place to perform daily reconciliations of actual source documents to data inputted into the MIS system. The county's DMH did not have policies and procedures to monitor the accuracy of its contracted service providers' billings to the county.

The audit adjustments were based on actual records reviewed and or data analysis, and did not include any estimates or projections based on statistical analysis.

A brief summary of unallowable treatment costs is as follows:

Coding errors: County personnel made numerous coding errors, resulting in overstated costs of \$1,608,581. Contracted service providers generally provide mental health services under several different programs under the county's system of care. A provider's representative stated that many of these activities resulted from miscoding to the wrong program. These costs were ineligible under the Handicapped and Disabled Students Program.

Costs funded by other program: The county claimed \$738,379 in costs that were completely funded by other programs. Many of the mandate-related children are also eligible under other state and federal programs that provide sufficient funding. The county did not reduce claimed costs by these funds.

Non-mandated codes claimed: A new contracted service provider inadvertently claimed non-mandated costs totaling \$233,176.

Data entry errors: The county made data entry errors, resulting in overstated costs of \$198,328. The contracted service providers made numerous recurring data entry errors. Minutes were inputted as hours, units of services from source documents were duplicated, units of services on progress notes were inputted two or three times, and numbers of minutes were keyed incorrectly.

Overbilled staff time: The county's contract service providers overbilled staff time by \$111,494 when inputting units of services to the management information system. The contracted service provider made numerous errors when posting its daily unit of service log; for example, over 10 hours per service date were charged for individual staff members. In addition, the key entry clerk made numerous errors when inputting data into the database.

Duplicate charges: The county's contract service providers duplicated \$6,501 in costs by erroneously duplicating day treatment services on the same date activity codes by the same service provider.

Ineligible costs: The county's contract service providers claimed \$2,986 in ineligible mental health treatment costs under the mandated program.

A summary of the adjustment to treatment costs incurred by contracted service providers is as follows:

	<u>Fiscal Year</u>			<u>Total</u>
	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	
Treatment costs:				
Coding errors	\$ —	\$ (631,828)	\$ (976,753)	\$(1,608,581)
Costs funded by other programs	(319,006)	(265,665)	(153,708)	(738,379)
Non-mandate codes claimed	—	(233,176)	—	(233,176)
Data entry errors	(37,579)	(64,169)	(96,580)	(198,328)
Overbilled staff time	(69,186)	(29,294)	(13,004)	(111,484)
Duplicate charges	(2,772)	(2,927)	(802)	(6,501)
Ineligible costs	—	—	(2,986)	(2,986)
Totals	<u>\$ (428,543)</u>	<u>\$ (1,227,059)</u>	<u>\$ (1,243,833)</u>	<u>\$(2,899,435)</u>
Indirect costs	<u>\$ (30,115)</u>	<u>\$ (101,413)</u>	<u>\$ (90,780)</u>	<u>\$ (222,308)</u>

Parameters and Guidelines for the program specifies that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable. In addition, *Parameters and Guidelines* specifies that only the following treatments services 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 implement policies and procedures to ensure that all costs claimed are eligible and supported.

County's Response

The county concurs with this finding.

**FINDING 3—
Ineligible medication
monitoring and crisis
intervention costs**

The county claimed treatment costs for medication monitoring and crisis intervention that are not reimbursable under this program.

Parameters and Guidelines 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. Medication monitoring and crisis intervention are not identified as reimbursable costs.

A summary of the adjustment to treatment costs is as follows:

	Fiscal Year			Total
	1998-99	1999-2000	2000-01	
Treatment costs:				
County DMH and contracted service providers:				
Medication monitoring	\$ (938,514)	\$(1,442,301)	\$(2,090,698)	\$(4,471,513)
Crisis intervention	(39,279)	(94,913)	(175,492)	(309,684)
Tri-City:				
Medication monitoring	—	(13,363)	(26,387)	(39,750)
Crisis intervention	—	(5,926)	(3,871)	(9,797)
Total treatment cost	<u>(977,793)</u>	<u>(1,556,503)</u>	<u>(2,296,448)</u>	<u>(4,830,744)</u>
Indirect costs	<u>(68,714)</u>	<u>(127,046)</u>	<u>(165,396)</u>	<u>(361,156)</u>
Total audit adjustment	<u>\$(1,046,507)</u>	<u>\$(1,683,549)</u>	<u>\$(2,461,844)</u>	<u>\$(5,191,900)</u>

COSM is reviewing this issue. The final report will incorporate any changes adopted by COSM.

Recommendation

We recommend that the county implement policies and procedures to ensure that all costs claimed are eligible.

County’s Response

The county concurs with this finding. The county believes that unallowable costs totaling \$5,191,900 will be reinstated if COSM determines that treatment costs for medication monitoring and crisis intervention are reimbursable.

SCO’s Comment

The finding and recommendation remain unchanged.

Reimbursement of the treatment costs would be dependent on COSM’s adoption of proposed amendments to the *Parameters and Guidelines*. Based on the dates that the activities were incorporated into proposed amendments, we believe that medication monitoring would be reimbursable beginning with FY 2001-02 and crisis intervention would be reimbursable beginning with FY 2002-03, if the amendments are adopted. Therefore, we believe that the proposed amendments would not affect reimbursement claims filed in the current audit period.

**FINDING 4—
Ineligible indirect costs**

The county claimed \$92,597 of ineligible indirect costs for FY 2000-01. The county applied a preliminary indirect cost rate of 15.90% to total assessment costs of \$5,952,480, which was later revised based on the county’s final indirect cost rate of 14.34%.

The auditor recomputed the indirect costs for FY 2000-01 by multiplying the total assessment costs reported on form HDS-6 by the final indirect cost rate of 14.34%.

Parameters and Guidelines for the program specifies that actual increased costs incurred in the performance of the mandated activities including indirect costs are reimbursable.

A summary of the adjustment to indirect costs is as follows:

	<u>FY 2000-01</u>
Total direct costs per form HDS-6	\$ 5,952,489
Indirect cost rate	<u>× 14.34%</u>
Allowable indirect costs	853,587
Less indirect costs claimed	<u>(946,184)</u>
Total audit adjustment	<u>\$ (92,597)</u>

Recommendation

We recommend that the county implement policies and procedures to ensure that all costs claimed are eligible and supported.

County’s Response

The county concurs with this finding.

**FINDING 5—
Overstated Medi-Cal revenue offsets**

The county overclaimed Medi-Cal revenue offsets because of the adjustments made in Findings 1, 2, and 3. A summary of the overstated revenue offsets is as follows:

	<u>Fiscal Year</u>			
	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>Total</u>
Medi-Cal offsets:				
Allowed	\$ 5,384,997	\$ 8,455,217	\$ 9,682,091	\$ 23,522,305
Claimed	<u>(5,782,133)</u>	<u>(7,983,502)</u>	<u>(10,583,193)</u>	<u>(24,348,828)</u>
Adjustment	<u>\$ (397,136)</u>	<u>\$ 471,715</u>	<u>\$ (901,102)</u>	<u>\$ (826,523)</u>

Recommendation

No recommendation is necessary because the county properly offset Medi-Cal funding based on costs claimed. The adjustment resulted from the findings identified in this report.

County’s Response

The county concurs with this finding.

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



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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October 12, 2004

Mr. Vincent P. Brown
Chief Operating Officer
State Controller's Office
300 Capitol Mall, Suite 518
Sacramento, California 95814

Dear Mr. Brown:

**Los Angeles County Comments
State Controller's Office Draft Audit Report
Handicapped and Disabled Students' Program**

We concur with your findings that of the \$42,168,694 claimed for the subject program for the period July 1, 1998 through June 30, 2001, \$8,757,896 is presently not allowable.

We agree with your position that \$5,191,900 of the \$8,757,896 of unallowable costs will be reinstated as allowable costs if the Commission on State Mandates determines that medication monitoring costs [\$4,511,263], crisis intervention costs [\$319,481] and related indirect costs [\$361,156] are reimbursable.

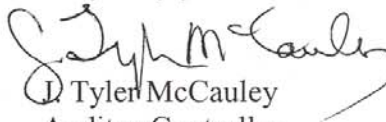
We note that your examination of transactions at our seventy-seven (77) contractor service sites revealed that, in some cases, contractors failed to obtain a valid individual education plan before beginning treatment, resulting in contractors overcharging the County by \$1,608,242. Also, contractors erroneously billed the County in cases where a contractor's costs were paid for by other programs [\$900,193] or miscalculated as a result of data processing errors [\$549,489] or otherwise improper [\$2,986].

As you recommend, we will be implementing policies and procedures to ensure that contractor and other costs claimed are eligible and supported.

Mr. Vincent P. Brown
October 12, 2004
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Leonard Kaye of my staff is available at (213) 974-8564 to answer questions you may have concerning this submission.

Very truly yours,


J. Tyler McCauley
Auditor-Controller

cc: Gurubanda Singh Khalsa
Director of Finance
Department of Mental Health
Los Angeles County
Paul McIver
District Chief, Countywide Programs
Children System of Care
Department of Mental Health
Los Angeles County

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