

MARIN 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

August 2004



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California State Controller

August 31, 2004

The Honorable Richard Arrow
Auditor-Controller
Marin County
Civic Center Drive, Room 225
San Rafael, CA 94903

Dear Mr. Arrow:

The State Controller's Office audited the claim filed by Marin 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 \$2,024,210 (\$2,025,210 less a \$1,000 penalty for filing late) for the mandated program. Our audit disclosed that the entire amount is allowable. The net claim is understated by \$84,475 primarily because the county did not use the actual costs per unit to compute total costs. The county did not file an amended claim. *Government Code* Section 17561(d)(3) limits the county's authority to seek reimbursement of the fiscal year 2000-01 claim, if amended, to one year after the filing deadline of January 15, 2002. The county was paid \$36,821. Allowable costs claimed in excess of the amount paid, totaling \$1,987,389, will be paid by the State based on 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/ams

cc: Bruce Gurganus, MFT, Director
Division of Community Mental Health Services
Marin County Department of Health and Human Services
Maureen Lewis, Chief Fiscal Officer, Office of Finance
Marin County Department of Health and Human Services
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 Marin 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 December 8, 2003.

The county claimed \$2,024,210 (\$2,025,210 less a \$1,000 penalty for filing late) for the mandated program. The audit disclosed that the entire amount is allowable. The net claim is understated by \$84,475 primarily because the county did not use the actual costs per unit to compute total costs. The county did not file an amended claim. *Government Code* Section 17561(d)(3) limits the county's authority to seek reimbursement of the fiscal year (FY) 2000-01 claim, if amended, to one year after the filing deadline of January 15, 2002. The county was paid \$36,821. Allowable costs claimed in excess of the amount paid, totaling \$1,987,389, will be paid by the State based on available appropriations.

Background

Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985, added and amended *Government Code* Section 7570 and *Welfare and Institutions Code* Section 5651 by requiring counties to participate in the mental health assessment for "individuals with exceptional needs," participate in the expanded Individualized Education Program 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 that are reimbursable pursuant to *Government Code* Section 17561.

COSM adopted the *Parameters and Guidelines* on August 22, 1991, and amended it on August 29, 1996. COSM establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandated program 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 FY 2000-01 and prior fiscal years is not subject to dispute by the SCO. As a result, allowable mental health treatment costs for Marin County increased by \$1,898,717 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.

The auditor performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs 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* 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 amounts claimed for reimbursement 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, Marin County claimed \$2,024,210 (\$2,025,210 less a \$1,000 penalty for filing late) for costs of the legislatively mandated Handicapped and Disabled Students Program. The audit disclosed that \$2,024,210 is allowable.

For FY 2000-01, the county was paid \$36,821 by the State. The audit disclosed that \$2,024,210 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$1,987,389, will be paid by the State based on available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on June 30, 2004. Maureen Lewis, Chief Fiscal Officer of Marin County Health and Human Services, responded by e-mail on August 13, 2004. Ms. Lewis stated that the county will not respond to the draft report.

Restricted Use

This report is solely for the information and use of Marin 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**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
July 1, 2000, through June 30, 2001				
Assessment costs	\$ 1,258,653	\$ 1,740,958	\$ 482,305	Finding 2
Administrative costs	<u>61,376</u>	<u>227,854</u>	<u>166,478</u>	Finding 4
Total assessment costs	1,320,029	1,968,812	648,783	
Offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(148,812)	(203,914)	(55,102)	Finding 3
Amount received from others	<u>(48,048)</u>	<u>(48,048)</u>	<u>—</u>	
Net assessment costs	<u>1,123,169</u>	<u>1,716,850</u>	<u>593,681</u>	
Treatment costs	1,067,553	812,422	(255,131)	Finding 1
Administrative costs	<u>240,707</u>	<u>—</u>	<u>(240,707)</u>	Finding 4
Total treatment costs	1,308,260	812,422	(495,838)	
Offsetting revenues:				
State categorical funding	(151,052)	(151,052)	—	
Short-Doyle/Medi-Cal	(146,186)	(159,554)	(13,368)	Finding 3
Amount received from others	<u>(108,981)</u>	<u>(108,981)</u>	<u>—</u>	
Net treatment costs	<u>902,041</u>	<u>392,835</u>	<u>(509,206)</u>	
Total costs	2,025,210	2,109,685	84,475	
Less late penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Net costs	<u>\$ 2,024,210</u>	2,108,685	<u>\$ 84,475</u>	
Allowable costs in excess of amount claimed		<u>(84,475)</u>		
Subtotals		2,024,210		
Amount paid by the State		<u>(36,821)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,987,389</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Ineligible treatment costs claimed

The county claimed costs for treatment services totaling \$255,131 (\$253,523 in medication monitoring and \$1,608 in crisis intervention) that are not reimbursable under program guidelines.

The county claimed 67,219 units of treatment services for medication monitoring (function code 60) and 590 units of service for crisis intervention (function code 70).

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.

Recommendation

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

FINDING 2— Understated assessment costs

The county understated assessment costs by \$482,305 because it claimed estimated rates rather than actual unit cost rates.

We determined actual unit cost rates using the county's approved cost report from the California Department of Mental Health Services. This report was not available to assist with the preparation of the FY 2001-02 claim until several months after the claim was filed with the SCO.

Parameters and Guidelines states that costs incurred by county participation in the Individualized Education Program are fully reimbursable.

Recommendation

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

FINDING 3— Understated offsetting revenues

The county understated the offsets of the Federal Financial Participation (FFP) portion of Medi-Cal from claimed costs by \$68,470 (\$55,102 in assessments and \$13,368 in treatment services).

The county used an incorrect allocation factor of 50% rather than 51.355% (estimated versus the actual revenue allocation percentage) to determine Short-Doyle/Medi-Cal revenues applicable to the mandate program.

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.

Recommendation

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

FINDING 4— Overstated administrative costs

The county overstated claimed administrative costs by \$74,229.

The county claimed administrative costs using an administrative cost rate of 14.8%. However, when calculating the rate, the county divided net mandate program costs into total direct program costs. Office of Management and Budget (OMB) Circular A-87 states that net administrative costs (net of applicable offsetting revenues) be divided into total direct program costs.

In addition, total direct program costs were overstated by the inclusion of contract services costs. OMB Circular A-87 states, “the distribution base used in computing the indirect cost rate for each function must be (1) total direct costs (excluding capital expenditures and other distorting items such as pass-through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.” Since a major portion of indirect costs were incurred by the county through direct services under this program, using contract services in the base calculation would result in an inequitable distribution of costs. After adjusting for these items, the county’s administrative cost rate was 13.46%.

The misstated administrative costs are summarized as follows:

	<u>Assessment</u>	<u>Treatment</u>	<u>Total</u>
Total allowable program costs	\$1,740,958	\$ 812,422	\$2,553,380
Less contract services costs	<u>(48,138)</u>	<u>(812,422)</u>	<u>(860,560)</u>
Allowable direct costs	1,692,820	—	1,692,820
Audited administrative cost rate	<u>× 13.46%</u>	<u>× 13.46%</u>	<u>× 13.46%</u>
Allowable administrative costs	227,854	—	227,854
Less claimed administrative costs	<u>(61,376)</u>	<u>(240,707)</u>	<u>(302,083)</u>
Total audit adjustment	<u>\$ 166,478</u>	<u>\$ (240,707)</u>	<u>\$ (74,229)</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 in full compliance with OMB Circular A-87.

Recommendation

We recommend that the county ensure the administrative costs allocable to mandate program costs are calculated in accordance with OMB Circular A-87 guidelines.

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

<http://www.sco.ca.gov>