

ORANGE 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

April 2008



JOHN CHIANG
California State Controller

April 23, 2008

John M. W. Moorlach, CPA, CFP, Chair
Board of Supervisors
Orange County
333 W. Santa Ana Boulevard
Santa Ana, CA 92701

Dear Mr. Moorlach:

The State Controller's Office audited the costs claimed by Orange 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 \$30,698,167 (\$30,699,167 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$30,368,305 is allowable and \$329,862 is unallowable. The unallowable costs resulted because the county claimed out-of-state case management units already included in another claim, included ineligible crisis intervention services, applied incorrect rates per unit amounts, applied inaccurate funding percentages for offsetting revenues, and miscalculated administrative costs. The State paid the county \$4,974,249. The State will pay allowable costs claimed that exceed the amount paid, totaling \$25,394,056, 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/vb

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Orange 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 \$30,698,167 (\$30,699,167 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$30,368,305 is allowable and \$329,862 is unallowable. The unallowable costs resulted because the county claimed out-of-state case management units already included in another claim, included ineligible crisis intervention services, applied incorrect rates per unit amounts, applied inaccurate funding percentages for offsetting revenues, and miscalculated administrative costs. The State paid the county \$4,974,249. The State will pay allowable costs claimed that exceed the amount paid, totaling \$25,394,056, 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.

The program's parameters and guidelines establish the state mandate and define 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 the Government Code section 17558, the SCO issues claiming instructions, to assist local agencies and school districts in claiming mandated program reimbursable costs.

The 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 . . .” (emphasis added) and that the finding by the Legislature is “declaratory of existing law.”

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 its on July 21, 2006.

The parameters and guidelines for the Handicapped and Disabled Students II Program state 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, Orange County claimed \$30,698,167 (\$30,699,167 less a \$1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$30,368,305 is

allowable and \$329,862 is unallowable. The State paid the county \$4,974,249. The State will pay allowable costs claimed that exceed the amount paid, totaling \$25,394,056, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on January 18, 2008. We contacted Howard Thomas, Manager, Claims and Financial Reporting, Health Care Agency Accounting, by telephone on February 28, 2008. Mr. Thomas responded on March 4, 2008, by e-mail stating that the county will not appeal the audit findings.

Restricted Use

This report is solely for the information and use of Orange 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

April 23, 2008

**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
July 1, 2002, through June 30, 2003				
Assessment/case management cost	\$ 6,929,720	\$ 6,625,668	\$ (304,052)	Finding 1
Administrative costs	2,401,491	2,400,303	(1,188)	Finding 3
Offsetting revenues:				
State categorical funds	(433,556)	(428,858)	4,698	Finding 2
Short-Doyle/Medi-Cal funds	(511,724)	(497,306)	14,418	Finding 2
Net assessment/case management costs	<u>8,385,931</u>	<u>8,099,807</u>	<u>(286,124)</u>	
Treatment costs	10,566,005	10,491,195	(74,810)	Finding 1
Administrative costs	2,876,975	2,859,882	(17,093)	Finding 3
Offsetting revenues:				
State categorical funds	(694,001)	(678,350)	15,651	Finding 2
Short-Doyle/Medi-Cal funds	(819,132)	(786,618)	32,514	Finding 2
Other	(92,549)	(92,549)	—	
Net treatment costs	<u>11,837,298</u>	<u>11,793,560</u>	<u>(43,738)</u>	
Total program cost	<u>\$ 20,223,229</u>	19,893,367	<u>\$ (329,862)</u>	
Less amount paid by the state		(163)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 19,893,204</u>		
July 1, 2003, through June 30, 2004				
Assessment/case management cost	\$ 5,369,701	\$ 5,367,927	\$ (1,774)	Finding 1
Administrative costs	1,737,570	1,736,503	(1,067)	Finding 3
Offsetting revenues:				
State categorical funds	(345,092)	(331,318)	13,774	Finding 2
Short-Doyle/Medi-Cal funds	(422,062)	(423,346)	(1,284)	Finding 2
Other	(4,122,634)	(4,122,634)	—	
Net assessment/case management costs	<u>2,217,483</u>	<u>2,227,132</u>	<u>9,649</u>	
Treatment costs	8,636,042	8,633,890	(2,152)	Finding 1
Administrative costs	2,073,636	2,070,793	(2,843)	Finding 3
Offsetting revenues:				
State categorical funds	(504,048)	(482,657)	21,391	Finding 2
Short-Doyle/Medi-Cal funds	(616,470)	(616,722)	(252)	Finding 2
Other	(6,304,791)	(6,304,791)	—	
Net treatment costs	<u>3,284,369</u>	<u>3,300,513</u>	<u>16,144</u>	
Total direct and indirect costs	5,501,852	5,527,645	25,793	
Less allowable costs that exceed claimed ²	—	(25,793)	(25,793)	
Less late claim penalty	(1,000)	(1,000)	—	
Total program cost	<u>\$ 5,500,852</u>	5,500,852	<u>\$ —</u>	
Less amount paid by the state		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,500,852</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
July 1, 2004, through June 30, 2005				
Assessment/case management cost	\$ 4,939,846	\$ 4,935,931	\$ (3,915)	Finding 1
Administrative costs	1,748,251	1,586,114	(162,137)	Finding 3
Offsetting revenues:				
State categorical funds	(461,062)	(470,940)	(9,878)	Finding 2
Short-Doyle/Medi-Cal funds	(530,939)	(530,939)	—	
Other	<u>(3,759,799)</u>	<u>(3,759,799)</u>	<u>—</u>	
Net assessment/case management costs	<u>1,936,297</u>	<u>1,760,367</u>	<u>(175,930)</u>	
Treatment costs	7,807,242	7,769,814	(37,428)	Finding 1
Administrative costs	2,225,047	2,454,483	229,436	Finding 3
Offsetting revenues:				
State categorical funds	(589,942)	(602,552)	(12,610)	Finding 2
Short-Doyle/Medi-Cal funds	(679,354)	(679,314)	40	Finding 2
Other	<u>(5,725,204)</u>	<u>(5,725,204)</u>	<u>—</u>	
Net treatment costs	<u>3,037,789</u>	<u>3,217,227</u>	<u>179,438</u>	
Total direct and indirect costs	4,974,086	4,977,594	3,508	
Less allowable costs that exceed claimed ²	—	(3,508)	(3,508)	
Total program cost	<u>\$ 4,974,086</u>	4,974,086	<u>\$ —</u>	
Less amount paid by the state		<u>(4,974,086)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
Summary: July 1, 2002, through June 30, 2005				
Assessment/case management cost	\$ 17,239,267	\$ 16,929,526	\$ (309,741)	
Administrative costs	5,887,312	5,722,920	(164,392)	
Offsetting revenues:				
State categorical funds	(1,239,710)	(1,231,116)	8,594	
Short-Doyle/Medi-Cal funds	(1,464,725)	(1,451,591)	13,134	
Other	<u>(7,882,433)</u>	<u>(7,882,433)</u>	<u>—</u>	
Net assessment/case management costs	<u>12,539,711</u>	<u>12,087,306</u>	<u>(452,405)</u>	
Treatment costs	27,009,289	26,894,899	(114,390)	
Administrative costs	7,175,658	7,385,158	209,500	
Offsetting revenues:				
State categorical funds	(1,787,991)	(1,763,559)	24,432	
Short-Doyle/Medi-Cal funds	(2,114,956)	(2,082,654)	32,302	
Other	<u>(12,122,544)</u>	<u>(12,122,544)</u>	<u>—</u>	
Net treatment costs	<u>18,159,456</u>	<u>18,311,300</u>	<u>151,844</u>	
Total direct and indirect costs	30,699,167	30,398,606	(300,561)	
Less allowable costs that exceed claimed ²	—	(29,301)	(29,301)	
Less late claim penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total program cost	<u>\$ 30,698,167</u>	30,368,305	<u>\$ (329,862)</u>	
Less amount paid by the state		<u>(4,974,249)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 25,394,056</u>		

¹ See the Findings and Recommendations section.

² Government Code section 17561 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2003-04 and FY 2004-05.

Findings and Recommendations

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

The county overstated costs by \$424,131 for the period. The county failed to deduct case management units for out-of-state clients that are already included in the Seriously Emotionally Disturbed Pupils mandated claim. The county also claimed ineligible crisis intervention costs and, in some cases, used an incorrect cost per unit to compute costs. We recalculated costs based on the actual units of eligible services and applied the appropriate cost per unit.

The program’s parameters and guidelines specify that only actual increased costs that were incurred in the performance of the mandated activities and were adequately documented are reimbursable.

The parameters and guidelines specify that only the following services are reimbursable: case management, assessment, individual therapy, collateral therapy and contacts, group therapy, and day treatment. The parameters and guidelines of the Handicapped and Disabled Students II add medication support costs; therefore, these are not considered in the audit adjustments.

The following table summarizes the unallowable assessment and treatment costs:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment	\$ (304,052)	\$ (1,774)	\$ (3,915)	\$ (309,741)
Treatment	(74,810)	(2,152)	(37,428)	(114,390)
Audit adjustment	<u>\$ (378,862)</u>	<u>\$ (3,926)</u>	<u>\$ (41,343)</u>	<u>\$ (424,131)</u>

Recommendation

We recommend that the county ensure that it uses the actual units of service, claims only eligible services in accordance with the mandate program, and applies appropriate costs per unit.

County’s Response

The county stated that it will not appeal the audit finding.

**FINDING 2—
Overstated offsetting
revenues**

The county overstated offsetting revenues by \$78,462 for the period. The county miscalculated revenues by applying incorrect funding percentages for Short-Doyle/Medi-Cal (SD/MC) and Early Periodic Screening Diagnosis and Treatment (EPSDT).

We recalculated total revenues applying the appropriate cost per unit to eligible units of service and using the current funding percentages for SD/MC and EPSDT. We excluded revenues related to disallowed costs.

The program’s parameters and guidelines specify that any direct payments (categorical funds, Short-Doyle/Medi-Cal FFP, and other offsets such as private insurance) received from the State that are not

specifically allocated to the program, and/or any other reimbursement received as a result of the mandate, must be deducted from the claim.

The following table summarizes the overstated offsetting revenues:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment	\$ 19,116	\$ 12,490	\$ (9,878)	\$ 21,728
Treatment	48,165	21,139	(12,570)	56,734
Audit adjustment	\$ 67,281	\$ 33,629	\$ (22,448)	\$ 78,462

Recommendation

We recommend that the county apply appropriate reimbursement percentages when computing offsetting revenues.

County's Response

The county stated that it will not appeal the audit finding.

FINDING 3— Miscalculated administrative costs

The county understated administrative costs by \$45,108 for the period because it miscalculated its administrative cost rates. Over the course of the audit period, the county used two methods to calculate its costs. In the first two fiscal years, the county used a method based on units of service. In this method, total costs are first allocated by mode and then, within each mode, allocated by unit. For fiscal year (FY) 2002-03, the county included duplicate and ineligible services and, for FY 2003-04, the county used inaccurate unit-of-service reports to compute administrative costs. These errors resulted in an overstatement in both years.

In FY 2004-05, the county divided mandated units of service by the total units of all modes to arrive at an administrative rate, which it applied to total administrative costs. As the units of service in each mode are not homogenous, the resulting allocation is inaccurate.

We recalculated the administrative costs in the first two years using the correct units, and in the last year applied an allocation methodology that is consistent with the cost report allocation. This results in an overstatement of administrative costs by \$18,281 and \$3,910 for FY 2002-03 and FY 2003-04, respectively, and an understatement of administrative costs by \$67,299 for FY 2004-05.

The program's parameters and guidelines specify that administrative costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

The parameters and guidelines further specify that, to the extent that the California Department of Mental Health has not already compensated reimbursable indirect costs from categorical funding sources, these costs may be claimed.

The following table summarizes the understated administrative costs:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment	\$ (1,188)	\$ (1,067)	\$ (162,137)	\$ (164,392)
Treatment	(17,093)	(2,843)	229,436	209,500
Audit adjustment	\$ (18,281)	\$ (3,910)	\$ 67,299	\$ 45,108

Recommendation

We recommend that the county apply a methodology that is consistent with the allocations in the cost report submitted to the California Department of Mental Health and ensure that the information used to allocate administrative costs is complete and accurate.

County's Response

The county stated that it will not appeal the audit finding.

**State Controller's Office
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