

# **PLACER 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

February 2008



**JOHN CHIANG**  
**California State Controller**

February 13, 2008

The Honorable Katherine Martinis  
Auditor-Controller  
Placer County  
2970 Richardson Drive  
Auburn, CA 95603

Dear Ms. Martinis:

The State Controller's Office audited the costs claimed by Placer 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 \$6,525,938 (\$6,527,938 less a \$2,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$6,351,378 is allowable and \$174,560 is unallowable. The unallowable costs resulted because the county computed the claimed costs by applying rates that were not based on actual costs incurred and incorrectly calculated administrative rates and revenue offsets. The State paid the county \$2,341,662. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,009,716, 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](http://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](mailto: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: Richard Knecht, Director  
Children's System of Care  
Placer County  
Jim Nissen, Fiscal and Budget Manager  
Children's System of Care  
Placer County  
Todd Jerue, Program Budget Manager  
Corrections and General Government  
Department of Finance  
Robin Foemmel-Bie  
Special Education Program  
Department of Mental Health  
Cynthia Wong, Manager  
Special Education Division  
California Department of Education

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Placer 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 \$6,525,938 (\$6,527,938 less a \$2,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$6,351,378 is allowable and \$174,560 is unallowable. The unallowable costs resulted because the county computed the claimed costs by applying rates that were not based on actual costs incurred and incorrectly calculated administrative rates and revenue offsets. The State paid the county \$2,341,662. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,009,716, 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," and 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 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 the reimbursement criteria. The CSM adopted the parameters and guidelines for the Handicapped and Disabled Students Program on August 22, 1991, and last amended them on January 21, 2006. In compliance with Government Code section 17558, the SCO issues claiming instructions for mandated programs, 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 sec (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 it 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 that 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, Placer County claimed \$6,525,938 (\$6,527,938 less a \$2,000 penalty for filing late claims) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$6,351,378 is allowable and \$174,560 is unallowable. The State paid the county \$2,341,662. Our audit disclosed that \$2,157,153 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,009,716, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft audit report on November 14, 2007. Katherine Martinis, Auditor-Controller, responded by letter dated December 11, 2007, agreeing with the audit results. This final audit report includes the county's response.

**Restricted Use**

This report is solely for the information and use of Placer 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

February 13, 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 <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
Assessment and case management costs	\$ 321,813	\$ 1,371,319	\$ 1,049,506	Finding 1
Administrative costs	47,548	179,198	131,650	Finding 2
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(46,503)	(177,002)	(130,499)	Finding 3
State categorical funds (EPSDT)	(7,046)	(120,278)	(113,232)	Finding 3
Other: School district contract	(13,360)	(13,360)	—	
Net assessment and case management costs	<u>302,452</u>	<u>1,239,877</u>	<u>937,425</u>	
Treatment costs	2,245,730	1,196,238	(1,049,492)	Finding 1
Administrative costs	327,364	158,912	(168,452)	Finding 2
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(392,290)	(204,702)	187,588	Finding 3
State categorical funds (EPSDT)	(57,470)	(139,099)	(81,629)	Finding 3
Other: School district contract	(93,073)	(93,073)	—	
Net treatment costs	<u>2,030,261</u>	<u>918,276</u>	<u>(1,111,985)</u>	
Subtotal	2,332,713	2,158,153	(174,560)	
Less late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 2,331,713</u>	2,157,153	<u>\$ (174,560)</u>	
Less amount paid by the state		(17)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,157,136</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Assessment and case management costs	\$ 339,823	\$ 1,829,953	\$ 1,490,130	Finding 1
Administrative costs	54,393	242,299	187,906	Finding 2
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(66,842)	(188,925)	(122,083)	Finding 3
State categorical funds (EPSDT)	(35,642)	(124,625)	(88,983)	Finding 3
Other: School district contract	(11,670)	(11,670)	—	
Net assessment and case management costs	<u>280,062</u>	<u>1,747,032</u>	<u>1,466,970</u>	
Treatment costs	2,805,234	1,398,021	(1,407,213)	Finding 1
Administrative costs	441,019	182,787	(258,232)	Finding 2
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(378,773)	(196,744)	182,029	Finding 3
State categorical funds (EPSDT)	(201,973)	(129,784)	72,189	Finding 3
Other: School district contract	(105,032)	(105,032)	—	
IDEA Fund	(986,957)	(989,957)	(3,000)	Finding 3
Net treatment costs	<u>1,573,518</u>	<u>159,291</u>	<u>(1,414,227)</u>	



## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2003, through June 30, 2004 (continued)</u>				
Subtotal	1,853,580	1,906,323	52,743	
Less late claim penalty	(1,000)	(1,000)	—	
Less allowable costs that exceeds claimed costs <sup>2</sup>	—	(52,743)	(52,743)	
Total program costs	<u>\$ 1,852,580</u>	1,852,580	<u>\$ —</u>	
Less amount paid by the state		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,852,580</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Assessment and case management costs	\$ 438,399	\$ 2,272,385	\$ 1,833,986	Finding 1
Administrative costs	71,823	354,776	282,953	Finding 2
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(80,741)	(298,823)	(218,082)	Finding 3
State categorical funds (EPSDT)	(51,733)	(229,439)	(177,706)	Finding 3
Other: School district contract	(5,837)	(5,837)	—	
Net assessment and case management costs	<u>371,911</u>	<u>2,093,062</u>	<u>1,721,151</u>	
Treatment costs	3,496,365	1,622,051	(1,874,314)	Finding 1
Administrative costs	558,225	256,907	(301,318)	Finding 2
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(643,937)	(327,826)	316,111	Finding 3
State categorical funds (EPSDT)	(412,584)	(251,703)	160,881	Finding 3
Other: School district contract	(52,537)	(52,537)	—	
IDEA Fund	(975,798)	(975,798)	—	
Net treatment costs	<u>1,969,734</u>	<u>271,094</u>	<u>(1,698,640)</u>	
Subtotal	2,341,645	2,364,156	22,511	
Less allowable costs that exceeds claimed costs <sup>2</sup>	—	(22,511)	(22,511)	
Total program costs	<u>\$ 2,341,645</u>	2,341,645	<u>\$ —</u>	
Less amount paid by the state		(2,341,645)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Assessment and case management costs	\$ 1,100,035	\$ 5,473,657	\$ 4,373,622	
Administrative costs	173,764	776,273	602,509	
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(194,086)	(664,750)	(470,664)	
State categorical funds (EPSDT)	(94,421)	(474,342)	(379,921)	
Other: School district contract	(30,867)	(30,867)	—	
Net assessment and case management costs	<u>954,425</u>	<u>5,079,971</u>	<u>4,125,546</u>	

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>Summary: July 1, 2002, through June 30, 2005 (continued)</u>				
Treatment costs	8,547,329	4,216,310	(4,331,019)	
Administrative costs	1,326,608	598,606	(728,002)	
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(1,415,000)	(729,272)	685,728	
State categorical funds (EPSDT)	(672,027)	(520,586)	151,441	
Other: School district contract	(250,642)	(250,642)	—	
IDEA Fund	<u>(1,962,755)</u>	<u>(1,965,755)</u>	<u>(3,000)</u>	
Net treatment costs	<u>5,573,513</u>	<u>1,348,661</u>	<u>(4,224,852)</u>	
Subtotal	6,527,938	6,428,632	(99,306)	
Less late claim penalty	(2,000)	(2,000)	—	
Less allowable costs that exceeds claimed costs	<u>—</u>	<u>(75,254)</u>	<u>(75,254)</u>	
Total program costs	<u>\$ 6,525,938</u>	6,351,378	<u>\$ (174,560)</u>	
Less amount paid by the state		<u>(2,341,662)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,009,716</u>		

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

<sup>2</sup> 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—  
Understated assessment  
costs and overstated  
treatment costs**

The county understated assessment costs and overstated treatment costs, resulting in an understatement of costs by \$42,603 for the audit period.

The county computed the claimed costs by applying rates that were not based on actual costs incurred for the reimbursable activities. We recalculated total program costs using rates that were supported by the cost report and any contractual agreements between the county and the service providers.

The program’s parameters and guidelines for the Handicapped and Disabled Students Program specify that the State will reimburse only actual increased costs incurred in the performance of the mandated activities and supported by source documents showing the validity of such costs.

The following table summarizes the understated assessment and treatment costs:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment costs	\$ 1,049,506	\$ 1,490,130	\$ 1,833,986	\$ 4,373,622
Treatment costs	(1,049,492)	(1,407,213)	(1,874,314)	(4,331,019)
Audit adjustment	\$ 14	\$ 82,917	\$ (40,328)	\$ 42,603

Recommendation

We recommend that the county ensure that it utilizes appropriate rates to compute claimed assessment and treatment costs.

County’s Response

The county agreed with the audit finding.

**FINDING 2—  
Overstated  
administrative costs**

The county overstated administrative costs by \$125,493 for the audit period.

The county calculated the administrative cost rate using a formula that excluded the direct payments (Short Doyle/Medi-Cal [FFP] and Utilization Review Funds) received from the State that are specifically allocated toward the program. The county’s formula was not consistent with the program’s parameters and guidelines. These direct payments should be applied as offsets against the total claimed costs.

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

Additionally, the parameters and guidelines specify that compensation is eligible for reimbursement utilizing the procedure provided in the Office of Management and Budget Circular A-87.

The following table summarizes the overstated administrative costs:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment costs	\$ 131,650	\$ 187,906	\$ 282,953	\$ 602,509
Treatment costs	(168,452)	(258,232)	(301,318)	(728,002)
Audit adjustment	<u>\$ (36,802)</u>	<u>\$ (70,326)</u>	<u>\$ (18,365)</u>	<u>\$ (125,493)</u>

### Recommendation

We recommend that the county ensure that it computes administrative costs using appropriate rates.

Additionally, we recommend that the county ensure that all applicable reimbursements are offset against reimbursable costs incurred for this program.

### County's Response

The county agreed with the audit finding.

## **FINDING 3— Overstated revenue offsets**

The county overstated revenue offsets by \$16,416 for the audit period.

The county incorrectly calculated 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 apply all of the revenues from the Individuals with Disabilities Education Act (IDEA) Fund.

The parameters and guidelines for the program 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 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 revenue offsets:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment revenues:				
Short-Doyle/Medi-Cal funds	\$ (130,499)	\$ (122,083)	\$ (218,082)	\$ (470,664)
State categorical funds	(113,232)	(88,983)	(177,706)	(379,921)
Total assessment revenues	<u>(243,731)</u>	<u>(211,066)</u>	<u>(395,788)</u>	<u>(850,585)</u>
Treatment revenues:				
Short-Doyle/Medi-Cal funds	187,588	182,029	316,111	685,728
State categorical funds	(81,629)	72,189	160,881	151,441
Other: IDEA Fund	—	(3,000)	—	(3,000)
Total treatment revenues	<u>105,959</u>	<u>251,218</u>	<u>476,992</u>	<u>834,169</u>
Audit adjustment	<u>\$ (137,772)</u>	<u>\$ 40,152</u>	<u>\$ 81,204</u>	<u>\$ (16,416)</u>

Recommendation

We recommend that the county ensure that its claimed costs are offset against any reimbursements from other sources.

County's Response

The county agreed with the audit finding.

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

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## COUNTY OF PLACER

## OFFICE OF AUDITOR-CONTROLLER

KATHERINE J. MARTINIS, CPA  
Auditor-Controller  
E-mail: [kmartini@placer.ca.gov](mailto:kmartini@placer.ca.gov)

ANDREW C. SISK, CPA  
Assistant Auditor-Controller  
E-mail: [asjsk@placer.ca.gov](mailto:asjsk@placer.ca.gov)

December 11, 2007

State Controller's Office  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250-5874

ATTN: Jim Spano, Chief,  
Mandated Cost Audits Bureau

Re: Handicapped and Disabled Students Program Audit  
Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985  
July 1, 2002 through June 30, 2005

Thank you for the opportunity to review the draft audit report of the costs claimed by Placer County for the Handicapped and Disabled Students Program. Following are our responses to your Findings and Recommendations.

**FINDING 1 – Understated assessment and treatment costs**

- The County concurs with this finding and will ensure that assessment and treatment costs claimed are based on the lower of contract or actual costs, as applicable.

**FINDING 2 – Overstated administrative costs**

- The County concurs with this finding.

**FINDING 3 – Overstated revenue offsets**

- The County concurs with this finding.

Sincerely,

  
Katherine J. Martinis  
Auditor-Controller

Cc: Richard Knecht  
Tim Farmer  
Jim Nissen

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

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