

# **SACRAMENTO COUNTY**

Audit Report

## **HANDICAPPED AND DISABLED STUDENTS PROGRAM**

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

*July 1, 2001, through June 30, 2004*



**JOHN CHIANG**  
California State Controller

May 2007



**JOHN CHIANG**  
California State Controller

May 23, 2007

Dave Irish  
Director of Finance  
Sacramento County  
700 H Street, Room 4650  
Sacramento, CA 95814

Dear Mr. Irish:

The State Controller's Office audited the costs claimed by Sacramento 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, 2001, through June 30, 2004.

The county claimed \$9,129,379 for the mandated program. Our audit disclosed that the entire amount is allowable. The State paid the county \$1,673,371. The State will pay allowable costs claimed that exceed the amount paid, totaling \$7,456,008, contingent upon available appropriations.

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

Sincerely,

*"Original signed by"*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/jj

cc: Lynn Frank, Director  
Department of Health and Human Services  
Sacramento County  
Todd Jerue, Program Budget Manager  
Corrections and General Government  
Department of Finance  
Robin Ulesich-Foemmel  
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 Sacramento 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, 2001, through June 30, 2004. The last day of fieldwork was March 27, 2006.

The county claimed \$9,129,379 for the mandated program. Our audit disclosed that the entire amount is allowable. The State paid the county \$1,673,371. The State will pay allowable costs claimed that exceed the amount paid, totaling \$7,456,008, 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 (COSM) determined that this legislation imposed a state mandate reimbursable under *Government Code* Section 17561.

*Parameters and Guidelines* establishes the state mandate and defines reimbursement criteria. The COSM adopted the *Parameters and Guidelines* on August 22, 1991, and last amended it on August 29, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, 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 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 . . ." 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 identifies 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, 2001, through June 30, 2004.

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, Sacramento County claimed \$9,129,379 for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$9,129,379 is allowable. The State paid the county \$1,673,371. The State will pay allowable costs claimed that exceed the amount paid, totaling \$7,456,008, contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft audit report on January 17, 2007. Lynn Frank, Director of Health and Human Services, responded by letter dated February 14, 2007 (Attachment), 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 Sacramento 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, 2001, through June 30, 2004**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Assessment and case management costs	\$ 6,410,441	\$ 166,089	\$ (6,244,352)	Finding 1
Less offsetting revenues:				
State categorical funds	—	(15,518)	(15,518)	Finding 2
Net assessment and case management costs	<u>6,410,441</u>	<u>150,571</u>	<u>(6,259,870)</u>	
Treatment costs	37,994,382	3,470,637	(34,523,745)	Finding 1
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(19,762,064)	—	19,762,064	Finding 2
State categorical funds	(339,791)	(324,273)	15,518	Finding 2
Other funds	<u>(21,663,329)</u>	<u>—</u>	<u>21,663,329</u>	Finding 2
Net treatment costs	<u>(3,770,802)</u>	<u>3,146,364</u>	<u>6,917,166</u>	
Subtotal	2,639,639	3,296,935	657,296	
Less allowable costs that exceed claimed costs <sup>2</sup>	—	(657,296)	(657,296)	
Total program costs	<u>\$ 2,639,639</u>	2,639,639	<u>\$ —</u>	
Less amount paid by the State		<u>(1,673,342)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 966,297</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Assessment and case management costs	\$ 585,167	\$ 782,239	\$ 197,072	Finding 1
Treatment costs	<u>3,088,593</u>	<u>3,964,073</u>	<u>875,480</u>	Finding 1
Subtotal	3,673,760	4,746,312	1,072,552	
Less allowable costs that exceed claimed costs <sup>2</sup>	—	(1,072,552)	(1,072,552)	
Total program costs	<u>\$ 3,673,760</u>	3,673,760	<u>\$ —</u>	
Less amount paid by the State		<u>(29)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 3,673,731</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Assessment and case management costs	\$ 818,916	\$ 1,025,734	\$ 206,818	Finding 1
Less offsetting revenues:				
Other funds	—	(367,171)	(367,171)	Finding 2
Net assessment and case management costs	<u>818,916</u>	<u>658,563</u>	<u>(160,353)</u>	
Treatment costs	3,837,511	4,112,071	274,560	Finding 1
Less offsetting revenues:				
Other funds	<u>(1,840,447)</u>	<u>(1,471,956)</u>	<u>368,491</u>	Finding 2
Net treatment costs	<u>1,997,064</u>	<u>2,640,115</u>	<u>643,051</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	2,815,980	3,298,678	482,698	
Less allowable costs that exceed claimed costs <sup>2</sup>	—	(482,698)	(482,698)	
Total program costs	<u>\$ 2,815,980</u>	2,815,980	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,815,980</u>		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Assessment and case management costs	\$ 7,814,524	\$ 1,974,062	\$ (5,840,462)	Finding 1
Less offsetting revenues:				
State categorical funds	—	(15,518)	(15,518)	Finding 2
Other funds	—	(367,171)	(367,171)	Finding 2
Net assessment and case management costs	<u>7,814,524</u>	<u>1,591,373</u>	<u>(6,223,151)</u>	
Treatment costs	44,920,486	11,546,781	(33,373,705)	Finding 1
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(19,762,064)	—	19,762,064	Finding 2
State categorical funds	(339,791)	(324,273)	15,518	Finding 2
Other funds	(23,503,776)	(1,471,956)	22,031,820	Finding 2
Net treatment costs	<u>1,314,855</u>	<u>9,750,552</u>	<u>8,435,697</u>	
Subtotal	9,129,379	11,341,925	2,212,546	
Less allowable costs that exceed claimed costs <sup>2</sup>	—	(2,212,546)	(2,212,546)	
Total program costs	<u>\$ 9,129,379</u>	9,129,379	<u>\$ —</u>	
Less amount paid by the State		(1,673,371)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 7,456,008</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 2001-02, FY 2002-03, and FY 2003-04.



# Findings and Recommendations

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

The county overstated assessment and treatment costs by \$39,214,167 for the audit period.

The county misclassified cost and revenue elements in the fiscal year (FY) 2001-02 Cost Report. Furthermore, the county included ineligible services—costs of crisis intervention and crisis stabilization—totaling \$21,653 for FY 2001-02, \$30,067 for FY 2002-03, and \$29,293 for FY 2003-04. In some instances, the county used incorrect rates from the cost report to calculate claimed costs. The rate should have been the actual cost incurred by county facilities. For the contracted providers, the rate should be the lesser of the actual cost or the state maximum allowable cost. The county also used units we could not fully trace to detailed reports generated by the accounting system. We used only units that are traceable to detail reports to determine the reimbursable costs.

*Parameters and Guidelines* for the Handicapped and Disabled Students Program specifies that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

Additionally, *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. There is no mention of medication support, crisis intervention, or residential placement. *Parameters and Guidelines* for the Handicapped and Disabled Students II Programs allows medication support costs beginning in FY 2001-02.

By claiming ineligible services and using incorrect rates, the county overstated claimed costs as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment cost	\$ (6,244,352)	\$ 197,072	\$ 206,818	\$ (5,840,462)
Treatment cost	(34,523,745)	875,480	274,560	(33,373,705)
Audit adjustment	\$(40,768,097)	\$ 1,072,552	\$ 481,378	\$(39,214,167)

Recommendation

We recommend that the county ensure that it uses proper rates to compute assessment and treatment costs. Additionally, we recommend that the county claim only eligible services in accordance with the program’s *Parameters and Guidelines*.

County’s Response

The county agrees with the audit finding.

SCO’s Comment

The finding and recommendation remain unchanged.

**FINDING 2—  
Overstated revenue  
offsets**

The county overstated revenue offsets by \$41,426,713 for the audit period. The county misclassified cost and revenue elements in the FY 2001-02 Cost Report.

The county applied all the offsetting revenues to treatment services; it applied no offsetting revenues to assessment services. We recalculated the revenues by using predetermined units of service and appropriate rates. We excluded revenues related to unallowable services of crisis intervention and crisis stabilization discussed in Finding 1.

*Parameters and Guidelines* for the Handicapped and Disabled Students Program specifies 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.

By using incorrect units of service and percentages for the revenue sources, the county overstated its revenue offsets as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment revenues:				
State categorical funds \$	(15,518)	\$ —	\$ —	\$ (15,518)
Other	—	—	(367,171)	(367,171)
Total	(15,518)	—	(367,171)	(382,689)
Treatment revenues:				
Short-Doyle/				
Medi-Cal funds	19,762,064	—	—	19,762,064
State categorical funds	15,518	—	—	15,518
Other	21,663,329	—	368,491	22,031,820
Total	41,440,911	—	368,491	41,809,402
Audit adjustment	\$ 41,425,393	\$ —	\$ 1,320	\$ 41,426,713

Recommendation

We recommend that the county ensure that all applicable revenues are offset against reimbursable costs incurred for this program. Furthermore, we recommend that the county apply revenues based on actual units of service provided for the program.

County's Response

The county agrees with the audit finding.

SCO's Comment

The finding and recommendation remain unchanged.

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

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Countywide Services Agency

**Department of Health and  
Human Services**

Lynn Frank, Director



Terry Schutten, County Executive  
Penelope Clarke, Agency Administrator

**County of Sacramento**

February 9, 2007

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

The County of Sacramento submits the following response to the California State Controller Handicapped and Disabled Students Program Draft Audit Report. We appreciate the opportunity to review and comment on the draft report. It is our understanding that our comments will be incorporated into the appropriate sections of the final audit report.

**Findings & Recommendations**

**Finding 1. Overstated assessment and treatment costs**

**Finding 2. Overstated revenue offsets**

Page 6, first paragraph & page 7, first paragraph: the draft report states...*The county misclassified cost and revenue elements in the fiscal year (FY) 2001-02 Cost Report.* Due to a rotation in resources, personnel without prior Short Doyle Medi-Cal Cost Report experience prepared this complex report. These misclassifications when netted did not impact claimed / allowable costs totaling \$9,129,379.

**General Comments**

We concur with the accuracy of the audit findings as well as allowable costs totaling \$9,129,379.

Sincerely,

A handwritten signature in black ink, appearing to read "Lynn Frank".

Lynn Frank, Director  
Department of Health and Human Services

C: Dave Irish  
Mary Ann Luke

**State Controller's Office  
Division of Audits  
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**<http://www.sco.ca.gov>**