

CITY AND COUNTY OF SAN FRANCISCO

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

September 2004



STEVE WESTLY
California State Controller

September 10, 2004

Edward M. Harrington, Controller
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102

Dear Mr. Harrington:

The State Controller's Office audited the claim filed by the City and County of San Francisco 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 city and county claimed \$4,281,685 for the mandated program. Our audit disclosed that \$4,281,685 in costs is allowable. The net claim is understated by \$596,812. The underclaimed costs occurred because the city and county understated actual cost per unit, claimed ineligible medication monitoring costs, and understated offsetting revenues. The city and county did not file an amended claim for the understated costs. *Government Code* Section 17561(d)(3) limits the city and 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 city and county was paid \$3,678,862. Allowable costs claimed in excess of the amount paid, totaling \$602,823, will be paid by the State contingent upon 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/jj

cc: Gregg Sass
Chief Financial Officer
Department of Public Health
City and County of San Francisco
James Tilton, Program Budget Manager
Corrections and General Government
Department of Finance

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Officials	2
Restricted Use	3
Schedule 1—Summary of Program Costs	4
Findings and Recommendations	5
Attachment—City and County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the claim filed by the City and County of San Francisco 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 October 30, 2003.

The city and county claimed \$4,281,685 for the mandated program. The audit disclosed that \$4,281,685 in costs is allowable. The net claim is understated by \$596,812. The underclaimed costs occurred because the city and county understated actual cost per unit, claimed ineligible medication monitoring costs, and understated offsetting revenues. The city and county did not file an amended claim for the understated costs. *Government Code* Section 17561(d)(3) limits the city and 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 city and county was paid \$3,678,862. Allowable costs claimed in excess of the amount paid, totaling \$602,823, will be paid by the State contingent upon 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" (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 pursuant to *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 on August 29, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandate 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 FY 2000-01 and prior fiscal years is not subject to dispute by the SCO. As a result, allowable mental health treatment costs for the City and County of San Francisco increased by \$3,527,812 during the audit period.

**Objective,
Scope, and
Methodology**

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1247, Statutes of 1985) 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 in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority provided by *Government Code* Section 17558.5. The SCO did not audit the city and 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.

Our review of the city and county's internal controls was limited 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, the City and County of San Francisco claimed \$4,281,685 for costs of the Handicapped and Disabled Students Program. The audit disclosed that \$4,281,685 in costs is allowable.

**Views of
Responsible
Officials**

We issued a draft audit report on June 25, 2004. Gregg Sass, Chief Financial Officer, responded by letter dated August 5, 2004, disagreeing with the audit results. The final report includes the city and county's response.

Restricted Use

This report is solely for the information and use of the City and County of San Francisco, 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
Assessment/case management costs	\$ 1,411,005	\$ 1,398,102	\$ (12,903)	Finding 1
Offsetting revenues:				
State categorical funds	—	(191,455)	(191,455)	Finding 2
Short-Doyle/Medi-Cal funds	(314,759)	(239,196)	75,563	Finding 2
Other	(100,858)	(8,745)	92,113	Finding 2
Net assessment/case management costs	<u>995,388</u>	<u>958,706</u>	<u>(36,682)</u>	
Treatment costs	4,902,093	6,301,325	1,399,232	Finding 1
Offsetting revenues:				
State categorical funds	(319,405)	(991,432)	(672,027)	Finding 2
Short-Doyle/Medi-Cal funds	(37,458)	(1,329,369)	(1,291,911)	Finding 2
Other	(1,258,933)	(60,733)	1,198,200	Finding 2
Net treatment costs	<u>3,286,297</u>	<u>3,919,791</u>	<u>633,494</u>	
Total costs	<u>\$ 4,281,685</u>	4,878,497	<u>\$ 596,812</u>	
Adjustment to reduce allowable costs to claimed costs		<u>(596,812)</u>		
Subtotal		4,281,685		
Less amount paid by the State		<u>(3,678,862)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 602,823</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Understated assessment and treatment costs

The city and county claimed costs that were not based on actual costs to implement the mandated program. To determine the claimed amount, the city and county used the lesser of the state maximum allowance or actual cost per unit of service. The SCO auditor adjusted costs claimed to reflect the actual cost per unit, resulting in a net increase of \$1,386,329, which excludes ineligible costs of \$492,979 for medication monitoring.

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 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.

As a result of claiming costs that are not based on actual cost per unit, the city and county understated its net claim as follows:

	<u>Total</u>
Assessment costs	\$ (12,903)
Treatment costs	<u>1,399,232</u>
Audit adjustment	<u>\$ 1,386,329</u>

Recommendation

We recommend that the city and county implement policies and procedures to ensure that it utilizes the actual cost per unit to prepare its claim and that all claimed costs are eligible increased costs incurred as a result of the mandate.

City and County’s Response

The City and County of San Francisco does not concur with the finding that excludes ineligible costs of \$492,979 for medication monitoring and for costs for crisis intervention services. The City and County of San Francisco believes it was the intent of the Legislature when it revised Section 38. Section 5701.3 of the Welfare and Institutions Code in September 2002 to provide reimbursement for all mental health services, including medication monitoring and crisis intervention services, which are both integral components of a mental health treatment plan.

Section 38 states:

“5701.3. Consistent with the annual Budget Act, this chapter shall not affect **the responsibility of the state to fund psychotherapy and other mental health services** (emphasis added) required by Chapter 26.5 of Division 7 of Title 1 of the Government Code, and the state

shall reimburse counties for **all** (emphasis added) allowable costs incurred by counties in providing services pursuant to that chapter.”

Furthermore, the City and County of San Francisco believes it was the intent of the Legislature when it revised this section to apply this revision to all mental health services irrespective of the year in which services were delivered. This is contrary to recent opinions by the State that have applied this provision to mean that medication monitoring is reimbursable beginning with FY 2001-02 and crisis intervention is reimbursable beginning in FY 2002-03. The City and County of San Francisco does not agree with recent State opinions that apply this provision to mean that medication monitoring is reimbursable beginning with FY 2001-02 and crisis intervention is reimbursable beginning in FY 2002-03.

SCO’s Comment

The finding and recommendation remain unchanged. The \$492,979 in ineligible costs identified in this finding only relates to medication monitoring. The city and county did not claim crisis intervention costs.

Parameters and Guidelines, Section V(B)2, specifies the following treatment services, when required by a child’s Individualized Education Program (IEP), 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. Each treatment service above is defined under Title 9, Section 543, of the *California Administrative Code*. Medication monitoring and crisis intervention were both defined in regulation at the time *Parameters and Guidelines* was adopted and were not included as reimbursable costs. Therefore, these costs are not currently reimbursable.

COSM is currently examining whether medication monitoring and crisis intervention should be reimbursable activities. The final report will be amended for any changes adopted by COSM.

FINDING 2— Understated offsetting revenues

The city and county understated offsetting revenues by \$789,517. This calculation excluded revenues related to the unallowable medication monitoring discussed in Finding 1.

The city and county did not include Early Periodic Screening Diagnosis and Treatment (EPSDT) funds, and applied incorrect reimbursement percentages for Short Doyle/Medi-Cal (Federal Financing Participation (FFP) portion) and Healthy Families funds. Offsetting revenues (Short Doyle/Medi-Cal FFP and Healthy Families) increase as costs increase because the offsets are allocated based on a percentage of costs charged. The SCO auditor recalculated the offsetting revenues by allocating EPSDT funds across all eligible clients based on a percentage, and applied the correct funding percentages for Short Doyle/Medi-Cal FFP and Healthy Families to the actual costs.

In addition, the city and county miscategorized Short-Doyle/Medi-Cal, Healthy Families, and Special Education Fund revenues on the claim. The SCO auditor also corrected this error. However, the miscategorization of offsets does not impact the net adjustment to claimed costs.

Parameters and Guidelines 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 excluding EPSDT funds and using the incorrect percentages for some of the revenues sources, the city and county understated its offsetting revenues as follows:

	<u>Offsetting Revenues</u>
Assessment costs:	
State categorical funds	\$ (191,455)
Short-Doyle/Medi-Cal funds	75,563
Other (Healthy Families and private insurance)	92,113
	<hr/>
Total assessment cost offsetting revenues	<u>(23,779)</u>
Treatment costs:	
State categorical funds	(672,027)
Short-Doyle/Medi-Cal funds	(1,291,911)
Other (Healthy Families and private insurance)	1,198,200
	<hr/>
Total treatment cost offsetting revenues	<u>(765,738)</u>
Total audit adjustment	<u>\$ (789,517)</u>

Recommendation

We recommend that the city and county implement policies and procedures to ensure that all applicable reimbursements are offset against reimbursable costs incurred for the program.

City and County’s Response

The City and County of San Francisco does not concur with the finding that excludes ineligible costs for medication monitoring and for costs for crisis intervention services as stated above in the response to Finding 1. The City and County of San Francisco concurs with the other issues discussed in the finding.

SCO’s Comment

The finding and recommendation remain unchanged.

As discussed in Finding 1, the adopted *Parameters and Guidelines* does not include medication monitoring and crisis intervention as reimbursable costs. Therefore, the offsetting revenues associated with these costs are also excluded from the claim.

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

City and County of San Francisco



Department of Public Health

Gregg Sass
Chief Financial Officer

August 5, 2004

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

Dear Mr. Spano,

The City and County of San Francisco, Department of Public Health is responding to the recent draft audit of claims 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. Per the letter dated June 25, 2004, the City and County of San Francisco claimed \$4,281,685. The SCO audit disclosed that \$4,878,497 is allowable resulting in \$602,823 to be paid by the State.

Attached is the response to the audit findings. The City and County of San Francisco, Department of Public Health requests your consideration of this response.

If you have any questions, please contact me at (415) 554-2610.

Sincerely,

A handwritten signature in black ink that reads "Gregg Sass".

Gregg Sass
Chief Financial Officer

cc: Ed Harrington, Controller, City and County of San Francisco
Anne Okubo
Nelly Lee

City and County of San Francisco
Department of Public Health
Handicapped and Disabled Students Program
Chapter 1747, Statutes of 1984 and Chapter 1274, Statutes of 1985
July 1, 2000 through June 30, 2001
Response to Draft Audit Report

The City and County of San Francisco, Department of Public Health has reviewed the draft report from the State Controller's Office on the audit of claims for the Handicapped and Disabled Students Program for the period July 1, 2000, through June 30, 2001. The City and County of San Francisco wishes to respond to the findings.

I. **FINDING 1 – Understated Assessment and Treatment Costs**

The city and county claimed costs that were not based on actual costs to implement the mandated program. To determine the claimed amount, the city and county used the lesser of the state maximum allowance or actual cost per unit of service. The SCO auditor adjusted costs claimed to reflect the actual cost per unit, resulting in a net increase of \$1,386,329, which excludes ineligible costs of \$492,979 for medication monitoring.

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 treatment services are reimbursable: individual therapy; collateral therapy and contracts; group therapy; day treatment; and the mental health portion of residential treatment in excess of California Department of Social Services payments for residential placement.

As a result of claiming costs that are not based on actual cost per unit, the city and county understated its net claim by \$1,386,329.

Recommendation: The city and county should implement policies and procedures to ensure that it utilizes the actual cost per unit to prepare its claim and that all claimed costs are eligible increased costs incurred as a result of the mandate.

Response: The City and County of San Francisco does not concur with the finding that excludes ineligible costs of \$492,979 for medication monitoring and for costs for crisis intervention services. The City and County of San Francisco believes it was the intent of the Legislature when it revised Section 38. Section 5701.3 of the Welfare and Institutions Code in September 2002 to provide reimbursement for all mental health services, including medication monitoring and crisis intervention services, which are both integral components of a mental health treatment plan.

Section 38 states:

"5701.3. Consistent with the annual Budget Act, this chapter shall not affect **the responsibility of the state to fund psychotherapy and other mental health services** (emphasis added) required by Chapter 26.5 of Division 7 of Title 1 of the Government Code, and the state shall reimburse counties for **all** (emphasis added) allowable costs incurred by counties in providing services pursuant to that chapter."

Furthermore, the City and County of San Francisco believes it was the intent of the Legislature when it revised this section to apply this revision to all mental health services irrespective of the

year in which services were delivered. This is contrary to recent opinions by the State that have applied this provision to mean that medication monitoring is reimbursable beginning with FY 2001-02 and crisis intervention is reimbursable beginning in FY 2002-03. The City and County of San Francisco does not agree with recent State opinions that apply this provision to mean that medication monitoring is reimbursable beginning with FY 2001-02 and crisis intervention is reimbursable beginning in FY 2002-03.

The City and County of San Francisco concurs with the other issues discussed in the finding.

II. FINDING 2 – Understated Offsetting Revenues

The city and county understated offsetting revenues by \$789,517. This calculation excluded revenues related to the unallowable medication monitoring discussed in Finding 1.

The city and county did not include Early Periodic Screening Diagnosis and Treatment (EPSDT) funds, and applied incorrect reimbursement percentages for Short Doyle/Medi-Cal (Federal Financing Participating (FFP) portion) and Healthy Families funds. Offsetting revenues (Short Doyle/Medi-Cal FFP and Healthy Families) increase as cost increases because the offsets are allocated based on a percentage of costs charged. The SCO auditor recalculated the offsetting revenues by allocating EPSDT funds across all eligible clients based on a percentage, and applied the correct funding percentages for Short Doyle/Medi-Cal FFP and Healthy Families to the actual costs.

In addition, the city and county miscategorized Short Doyle/Medi-Cal, Healthy Families and Special Education Fund revenues on the claim. The SCO auditor also corrected this error. However, the miscategorization of offsets does not impact the net adjustment to claimed costs.

Parameters and Guidelines 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 excluding EPSDT funds and using the incorrect percentages for some of the revenues sources, the city and county understated its offsetting revenues by \$789,517.

Recommendation: The city and county should implement policies and procedures to ensure that all applicable reimbursements are offset against reimbursable costs incurred for the program.

Response: The City and County of San Francisco does not concur with the finding that excludes ineligible costs for medication monitoring and for costs for crisis intervention services as stated above in the response to Finding 1. The City and County of San Francisco concurs with the other issues discussed in the finding.

**State Controller's Office
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