

SAN DIEGO COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

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

July 1, 2002, through June 30, 2005



JOHN CHIANG
California State Controller

February 2008



JOHN CHIANG
California State Controller

February 15, 2008

Tracy M. Sandoval
Assistant Chief Financial Officer/Auditor and Controller
San Diego County
1600 Pacific Highway, Room 166
San Diego, CA 92101

Dear Ms. Sandoval:

The State Controller's Office audited the costs claimed by San Diego County for the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes 1985) for the period of July 1, 2002, through June 30, 2005.

The county claimed \$12,897,313 (\$12,900,313 less a \$3,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$12,808,420 is allowable and \$88,893 is unallowable. The unallowable costs resulted primarily because the county overstated its assessment and treatment costs, administrative costs, and offsetting revenues. The State paid the county \$3,167,500. Allowable costs claimed exceed the amount paid by \$9,640,920.

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/sk

cc: Gil Enriquez

Senior Accountant
San Diego County

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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Restricted Use	4
Schedule 1—Summary of Program Costs.....	5
Findings and Recommendations	8
Attachment—County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Diego 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 \$12,897,313 (\$12,900,313 less a \$3,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$12,808,420 is allowable and \$88,893 is unallowable. The unallowable costs resulted primarily because the county overstated its assessment and treatment costs, administrative costs, and offsetting revenue. The State paid the county \$3,167,500. Allowable costs claimed exceed the amount paid by \$9,640,920.

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 them on August 29, 1996. In compliance with 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 . . .” and that the finding by the Legislature is “declaratory of existing law” (emphasis added.)

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 costs 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 the audit reports.” Consequently, we are allowing medication support costs commencing on July 1, 2001.

On May 26, 2005, the CSM also adopted a statement of decision on reconsideration of Handicapped and Disabled Students. The CSM found that the 1990 statement of decision for Handicapped and Disabled Students correctly concluded that the test claim legislation imposes a reimbursable state-mandated program on counties pursuant to Article XIII B, section 6, of the California Constitution. The CSM determined, however, that the 1990 statement of decision does not fully identify all of the activities mandated by the statutes and regulations pled in the test claim or the offsetting revenue applicable to the claim. In addition, the existing parameters and guidelines reflect prior law enacted by the Short-Doyle Act, whereby counties were entitled to 10% reimbursement for mental health treatment services. This prior finding is not consistent with current law or the CSM’s decision. Thus, the CSM, on reconsideration, identified the activities expressly required by the test claim legislation and the offsetting revenue that must be identified and deducted from the costs claimed. The CSM adopted the parameters and guidelines on reconsideration of Handicapped and Disabled Students on January 26, 2006, with a reimbursement period beginning July 1, 2004.

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, San Diego County claimed \$12,897,313 (\$12,900,313 less a \$3,000 penalty for filing late claims) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$12,808,420 is allowable and \$88,893 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State made no payments to the county. Our audit disclosed that \$7,401,948 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$7,401,948, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payments to the county. Our audit disclosed that \$2,327,865 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$2,327,865, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$3,167,500. Our audit disclosed that \$3,078,607 is allowable. The State will offset \$88,893 from other mandated program payments due to the county. Alternatively, the county may remit this amount to the State.

Views of Responsible Officials

We issued a draft audit report on Handicapped and Disabled Students Program for the period July 1, 2002, through June 30, 2005, on November 14, 2007. Terry Hogan, Group Finance Director, Health and Human Services Agency, and Christopher P. Gilmore, Deputy Controller responded by letter dated January 10, 2008, agreeing with the audit results except for Finding 3. The final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of the San Diego County, 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 15, 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
<u>July 1, 2002, through June 30, 2003</u>				
Assessment/case management costs	\$ 1,470,327	\$ 1,671,991	\$ 201,664	Finding 1
Administrative costs	163,525	130,531	(32,994)	Finding 2
Offsetting revenues:				
State categorical funds	—	(256,684)	(256,684)	Finding 3
Short-Doyle/Medi-Cal funds	(320,574)	(319,823)	751	Finding 3
Other	(242,516)	—	242,516	Finding 3
Net assessment/case management costs	<u>1,070,762</u>	<u>1,226,015</u>	<u>155,253</u>	
Treatment costs	9,258,410	9,062,978	(195,432)	Finding 1
Administrative costs	362,782	285,638	(77,144)	Finding 2
Offsetting revenues:				
State general/realignment funds	(1,430,054)		1,430,054	Finding 3
State categorical funds	—	(1,315,153)	(1,315,153)	Finding 3
Short-Doyle/Medi-Cal funds	(1,890,345)	(1,638,652)	251,693	Finding 3
Other	(100,523)	(76,681)	23,842	Finding 3
Net treatment costs	<u>6,200,270</u>	<u>6,318,130</u>	<u>117,860</u>	
Subtotal	7,271,032	7,544,145	273,113	
Adjustment for costs claimed under wrong mandate ²	131,916	—	(131,916)	
Late claim penalty	(1,000)	(1,000)	—	
Adjustment to reduce allowable costs to claimed costs ³	—	(141,197)	(141,197)	
Total program costs	<u>\$ 7,401,948</u>	7,401,948	<u>\$ —</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs in excess of (less than) amount paid		<u>\$ 7,401,948</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Assessment/case management costs	\$ 2,023,360	\$ 1,710,054	\$ (313,306)	Finding 1
Administrative costs	172,435	153,954	(18,481)	Finding 2
Offsetting revenues:				
State categorical funds	—	(806,930)	(806,930)	Finding 3
Short-Doyle/Medi-Cal funds	(333,741)	(327,140)	6,601	Finding 3
Other	(818,125)	—	818,125	Finding 3
Net assessment/case management costs	<u>1,043,929</u>	<u>729,938</u>	<u>(313,991)</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004 (continued)</u>				
Treatment costs	8,738,686	8,639,392	(99,294)	Finding 1
Administrative costs	322,124	293,142	(28,982)	Finding 2
Offsetting revenues:				
State general/realignment funds	(5,002,511)	—	5,002,511	Finding 3
State categorical funds	—	(4,949,911)	(4,949,911)	Finding 3
Short-Doyle/Medi-Cal funds	(1,966,457)	(1,952,304)	14,153	Finding 3
Other	(806,906)	(20,825)	786,081	Finding 3
Net treatment costs	<u>1,284,936</u>	<u>2,009,494</u>	<u>724,558</u>	
Subtotal	2,328,865	2,739,432	410,567	
Late claim penalty	(1,000)	(1,000)	—	
Adjustment to reduce allowable costs to claimed costs ³	<u>—</u>	<u>(410,567)</u>	<u>(410,567)</u>	
Total program costs	<u>\$ 2,327,865</u>	2,327,865	<u>\$ —</u>	
Amount paid by the State		<u>—</u>		
Allowable costs in excess of less than amount paid		<u>\$ 2,327,865</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Assessment/case management costs	\$ 2,337,395	\$ 2,337,395	\$ —	Finding 1
Administrative costs	189,372	189,372	—	Finding 2
Offsetting revenues:				
State categorical funds	—	(988,803)	(988,803)	Finding 3
Short-Doyle/Medi-Cal funds	(292,888)	(264,677)	28,211	Finding 3
Other	(1,128,799)	—	1,128,799	Finding 3
Net assessment/case management costs	<u>1,105,080</u>	<u>1,273,287</u>	<u>168,207</u>	
Treatment costs	7,766,576	7,766,576	—	Finding 1
Administrative costs	187,895	187,895	—	Finding 2
Offsetting revenues:				
State general/realignment funds	(4,334,035)	—	4,334,035	Finding 3
State categorical funds	—	(4,562,925)	(4,562,925)	Finding 3
Short-Doyle/Medi-Cal funds	(1,543,792)	(1,572,002)	(28,210)	Finding 3
Other	(13,224)	(13,224)	—	Finding 3
Net treatment costs	<u>2,063,420</u>	<u>1,806,320</u>	<u>(257,100)</u>	
Subtotal	3,168,500	3,079,607	(88,893)	
Late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 3,167,500</u>	3,078,607	<u>\$ (88,893)</u>	
Amount paid by the State		<u>(3,167,500)</u>		
Allowable costs in excess of less than amount paid		<u>\$ (88,893)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
Summary: July 1, 2002, through June 30, 2005				
Assessment/case management costs	\$ 5,831,082	\$ 5,719,440	\$ (111,642)	
Administrative costs	525,332	473,857	(51,475)	
Offsetting revenues:				
State categorical funds	—	(2,052,417)	(2,052,417)	
Short-Doyle/Medi-Cal funds	(947,203)	(911,640)	35,563	
Other	(2,189,440)	—	2,189,440	
Net assessment/case management costs	<u>3,219,771</u>	<u>3,229,240</u>	<u>9,469</u>	
Treatment costs	25,763,672	25,468,946	(294,726)	
Administrative costs	872,801	766,675	(106,126)	
Offsetting revenues:				
State general/realignment funds	(10,766,600)	—	10,766,600	
State categorical funds	—	(10,827,989)	(10,827,989)	
Short-Doyle/Medi-Cal funds	(5,400,594)	(5,162,958)	237,636	
Other	(920,653)	(110,730)	809,923	
Net treatment costs	<u>9,548,626</u>	<u>10,133,944</u>	<u>585,318</u>	
Subtotal	12,768,397	13,363,184	594,787	
Adjustment for costs claimed under wrong mandate ²	131,916	—	(131,916)	
Late claim penalty	(3,000)	(3,000)	—	
Adjustment to reduce allowable costs to claimed costs (by fiscal year) ³	—	(551,764)	(551,764)	
Total program costs	<u>\$ 12,897,313</u>	12,808,420	<u>\$ (88,893)</u>	
Amount paid by the State		<u>(3,167,500)</u>		
Allowable costs in excess of less than amount paid		<u>\$ 9,640,920</u>		

¹ See the Findings and Recommendations section.

² The county claimed in-state residential costs relating to the Handicapped and Disabled Students Program under the Seriously Emotionally Disturbed Out-of-State Mental Health Services Program. The adjustment moves the claimed costs to the correct mandated program.

³ 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 2002-03 and FY 2003-04.

Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county prepared the claims based on preliminary unit of service reports prior to the final settlement. In some cases, the county applied an inaccurate cost per unit. The county claimed ineligible services, including crisis intervention, unbilled services, and FY 2003-04 residential board and care costs.

We adjusted costs based on actual units of service provided to eligible clients using the appropriate unit cost, representing the actual cost to the county. The adjustment resulted in a net overstatement of \$406,368 for FY 2002-03 and FY 2003-04.

The program's parameters and guidelines for the program specify that only actual increased costs incurred in the performance of the mandated activities and 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 for the Handicapped and Disabled Students II Program added medication support costs; therefore, these costs are not considered in audit adjustments.

The CSM adopted the parameters and guidelines for the reconsideration of Handicapped and Disabled Students on January 26, 2006, allowing residential board and care costs effective July 1, 2004.

The following table summarizes the overstated assessment and treatment costs:

	Fiscal Year		Total
	2002-03	2003-04	
Assessment costs	\$ 201,664	\$ (313,306)	\$ (111,642)
Treatment costs	(195,432)	(99,294)	(294,726)
Total	<u>\$ 6,232</u>	<u>\$ (412,600)</u>	<u>\$ (406,368)</u>

Recommendation

We recommend that the county use the actual units of service, costs per unit, and claim only eligible services in accordance with the mandate program.

County's Response

The county agreed with the audit finding.

**FINDING 2—
Overstated
administrative costs**

The county overstated administrative costs by \$157,601 for FY 2002-03 and FY 2003-04 because it did not include all offsetting revenue in its calculation. The county included Short Doyle/Medi-Cal utilization review costs in administrative costs but did not offset these costs with appropriate revenues. We adjusted costs by the offsetting revenue, reducing the administrative rate and administrative costs. The indirect rate changed from 12.52% to 9.99% for FY 2002-03, and from 15% to 14.03% for FY 2003-04.

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

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

The following table summarizes the overstated administration costs:

	Fiscal Year		Total
	2002-03	2003-04	
Assessment costs	\$ (32,994)	\$ (18,481)	\$ (51,475)
Treatment costs	(77,144)	(28,982)	(106,126)
Total	<u>\$ (110,138)</u>	<u>\$ (47,463)</u>	<u>\$ (157,601)</u>

Recommendation

We recommend that the county include all related offsetting revenue in the calculation of the administrative costs rate and then apply the rate to eligible direct costs.

County’s Response

The county agreed with the audit finding.

**FINDING 3—
Overstated offsetting
revenues**

The county overstated offsetting revenues by \$1,158,756 for the audit period because it used preliminary unit of service reports to compute offsetting revenues. In some cases, the county applied an inaccurate cost per unit, and applied revenues to ineligible services. The county applied all relevant offsetting revenues, including Short Doyle/Medi-Cal (SD/MC), Early Periodic Screening Diagnosis and Treatment (EPSDT), Individuals With Disabilities Education Act (IDEA), and third-party payer funds.

We recalculated the offsetting revenues by using correct units and costs per unit, including all relevant revenues. The county overstated its revenues by \$377,019 for FY 2002-03 and by \$870,630 for FY 2003-04. The overstatements for FY 2002-03 and 2003-04 are primarily due to the county using preliminary SD/MC reports, its miscalculation of the reimbursement percentage for EPSDT, and its inclusion of revenues

related to unallowable costs. In addition, the overstatement for FY 2003-04 is due to inaccurate third party payer revenue reports. The county understated its revenue by \$88,893 for FY 2004-05 by using an estimated EPSDT reimbursement rate.

The parameters and guidelines specify that any direct payments (categorical funds, SD/MC, 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 offsetting revenue:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment costs	\$ (13,417)	\$ 17,796	\$ 168,207	\$ 172,586
Treatment costs	390,436	852,834	(257,100)	986,170
Totals	<u>\$ 377,019</u>	<u>\$ 870,630</u>	<u>\$ (88,893)</u>	<u>\$1,158,756</u>

Recommendation

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 adjustment identified in the finding but disputed the overall adjustment to reduce total costs to the claimed amount for FY 2002-03 and FY 2003-04. For the county's full response, refer to the attachment.

SCO's Comment

The finding remains unchanged. We agree that the costs claimed are understated for FY 2002-03 and FY 2003-04, largely due to the county's use of incorrect third-party revenue reports. However, the obligation of the State to reimburse the county is limited to costs claimed by the county. Government Code section 17561, subdivision (d)(3), 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 2002-03 and FY 2003-04.

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



County of San Diego

DONALD F. STEUER
CHIEF FINANCIAL OFFICER
(619) 531-5413
FAX (619) 531-5219

AUDITOR AND CONTROLLER
1800 PACIFIC HIGHWAY STE 168, SAN DIEGO, CALIFORNIA 92101-2478

TRACY M. SANDOVAL
ASST. CHIEF FINANCIAL OFFICER/
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(619) 531-5413
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January 10, 2008

Jim L. Spano, Chief
Mandated Cost Audits Bureau
California State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Dear Chief Spano:

**RESPONSE TO HANDICAPPED AND DISABLED STUDENTS (HDS) PROGRAM AUDIT FOR
THE PERIOD JULY 1, 2002 - JUNE 30, 2005**

The County of San Diego (County) is in receipt of the State Controller's Office draft audit report of the costs claimed by the County for the legislatively mandated Handicapped and Disabled Students (HDS) Program for the period July 1, 2002 through June 30, 2005. The County received the report on November 27, 2007 and received an extension from Jim Spano, Chief of the Mandated Audits Bureau to submit its response to the report on or before January 11, 2008. The County is submitting this response in compliance with that extension.

The County concurs with Findings 1 and 2, but disputes Finding 3 – Overstated Offsetting Revenues. The County overstated its revenues by \$377,019 in Fiscal Year (FY) 2002/03 and \$870,630 in FY 2003/04 and revenues were understated by \$88,893 in FY 2004/05. The net overstatement of \$1,158,756 resulted in additional claimable costs in the amount of \$551,764 that was adjusted to reduce the allowable costs. The County disputes this adjustment and asserts that a total of \$10,192,684 is allowable and due to the County for the aforementioned audit period. The County is submitting the attached response and Exhibit A in support of its position.

If you have any questions, please contact Gil Enriquez, Principal Accountant of the Health and Human Services Agency at (619) 338-2629.

Sincerely,

TERRY HOGAN, Group Finance Director
Health and Human Services Agency

CHRISTOPHER P. GILMORE
Deputy Controller

RCA:MF:lc

Attachments

**COUNTY OF SAN DIEGO'S RESPONSE TO
HANDICAPPED AND DISABLED STUDENTS (HDS) - PROGRAM AUDIT
FOR THE PERIOD OF JULY 1, 2002 THROUGH JUN 30, 2005**

Summary:

The State Controller's Office audited the costs claimed by the County for the legislatively mandated Handicapped and Disabled Students Program for the period of July 1, 2002 through June 30, 2005. The County claimed \$12,768,397 for the mandated program, and the State found \$13,363,184 allowable costs that should have resulted to a total of \$594,787 additional claimable costs. The increased claimable costs are due in part to incorrect revenue offsets in FY 2002/03 and FY 2003/04. The State made an adjustment of \$551,764 (ref. Schedule 1, page 6 of the draft audit report) to reduce the allowable costs citing Government Code Section 17581, where it stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in SCO's claiming instructions. The County disputes this adjustment and asserts that the additional amounts identified in the audit are true allowable costs and should not be adjusted.

The County concurs to the State audit that identified and made appropriate adjustments for unallowable costs claimed as a result of incorrect application of cost per unit. However, the County disputes what the State disallowed resulting in increased claimable costs citing Government Code Section 17581. The audit is a vehicle to identify appropriate and/or inappropriate charges and should provide a fair treatment of such audit findings by disallowing incorrectly claimed costs and allowing properly identified claimable costs whether they are in excess of the original claim or not. In support of the County's position, below is an excerpt from the GAO/PCIE Financial Audit Manual (FAM) under Section 540:

In July 2001 the GAO and the President's Council on Integrity and Efficiency (PCIE) jointly issued the GAO/PCIE Financial Audit Manual (FAM). The FAM presents a methodology to perform financial statements audits of Federal entities in accordance with professional standards. The last major revisions to the FAM were issued in July 2004 and the existing version of FAM under Section 540 states:

REVIEW OF MISSTATEMENTS WITH MANAGEMENT

- .07 After accumulating and summarizing the adjustments, the auditor
- must bring all misstatements found (except those below the auditor-designated amount at which misstatements need not be accumulated) to the attention of appropriate entity management;
 - should encourage entity management to adjust the entity's records to correct all known misstatements;

Conclusion:

In conclusion, the County asserts that the cost of \$10,192,684 as set forth in Exhibit A should be allowed.

EXHIBIT A

SUMMARY OF PROGRAM COSTS

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable Per Audit</u>	<u>Audit Adjustment</u>
<u>July 1, 2002 through June 30, 2005</u>			
Assessment/case management costs	\$ 5,831,082	\$ 5,719,440	(\$ 111,642)
Administrative costs	525,332	473,857	(51,475)
Offsetting revenues:			
State categorical funds	-	(2,052,417)	(2,052,417)
Short-Doyle/Medi-Cal funds	(947,203)	(911,640)	35,563
Other	(2,189,440)	-	2,189,440
Net assessment/case mgt costs	<u>3,219,771</u>	<u>3,229,240</u>	<u>9,469</u>
Treatment costs	25,763,672	25,468,946	(294,726)
Administrative costs	872,801	766,675	(106,126)
Offsetting revenues:			
State general/realignment funds	(10,766,600)	-	10,766,600
State categorical fund	-	(10,827,989)	(10,827,989)
Short-Doyle/Medi-Cal funds	(5,400,594)	(5,182,958)	237,636
Other	(920,653)	(110,730)	809,923
Net treatment costs	<u>9,548,826</u>	<u>10,133,944</u>	<u>585,318</u>
Subtotal	12,768,397	13,363,184	594,787
Adjustment for costs claimed under wrong mandate	131,916	-	(131,916)
Late claim penalty	(3,000)	(3,000)	-
Total Program Costs	<u>\$ 12,897,313</u>	<u>\$ 13,360,184</u>	<u>\$ 462,871</u>
Amount paid by State		(3,167,500)	
Allowable costs in excess of less than amount paid		<u>\$ 10,192,684</u>	

**State Controller's Office
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