

SAN JOAQUIN 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, 2003



JOHN CHIANG
California State Controller

May 2007



JOHN CHIANG
California State Controller

May 23, 2007

The Honorable Adrian J. Van Houten, CPA
Auditor-Controller
San Joaquin County
24 South Hunter Street
Stockton, CA 95202

Dear Mr. Van Houten:

The State Controller's Office audited the costs claimed by San Joaquin 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 \$2,466,374 (\$2,467,374 less a \$1,000 penalty for filing a late claim). Our audit disclosed that \$1,225,643 is allowable and \$1,240,731 is unallowable. The unallowable costs occurred because the county overstated assessment and treatment costs and understated revenue offsets. The State paid the county \$160,831. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,064,812, 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/vb:jj

cc: Bruce Hopperstad, Director
Behavioral Health Services
San Joaquin 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
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Joaquin 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 \$2,466,374 (\$2,467,374 less a \$1,000 penalty for filing a late claim). Our audit disclosed that \$1,225,643 is allowable and \$1,240,731 is unallowable. The unallowable costs occurred because the county overstated assessment and treatment costs and understated revenue offsets. The State paid the county \$160,831. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,064,812, 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. COSM adopted the *Parameters and Guidelines* for the Handicapped and Disabled Students Program on August 22, 1991, and last amended it on August 29, 1996. In compliance with *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 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 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, this report allows 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, San Joaquin County claimed \$2,466,374 (\$2,467,374 less a \$1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$1,225,643 is allowable and \$1,240,731 is unallowable. The State paid the county \$160,831. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,064,812, contingent upon available appropriations.

For the fiscal year (FY) 2001-02 claim, the State paid the county \$160,826. Our audit disclosed that \$305,396 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$144,570, contingent upon available appropriations.

For the FY 2002-03 claim, the State paid the county \$5. Our audit disclosed that \$343,782 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$343,777, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$576,465 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$576,465, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on March 16, 2007. Adrian J. Van Houten, CPA, Auditor-Controller, responded by letter dated March 30, 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 San Joaquin 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 ¹
<u>July 1, 2001, through June 30, 2002</u>				
Assessment and case management costs	\$ —	\$ 676,099	\$ 676,099	Finding 1
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	—	(153,185)	(153,185)	Finding 2
State categorical funds (EPSDT)	—	(103,168)	(103,168)	Finding 2
Net assessment and case management costs	—	419,746	419,746	
Treatment costs	2,655,828	1,686,428	(969,400)	Finding 1
Less offsetting revenues:				
State general/realignment funds	(789,137)	(789,137)	—	
State categorical funds (EPSDT)	—	(302,217)	(302,217)	Finding 2
Short-Doyle/Medi-Cal (FFP only)	(805,411)	(448,738)	356,673	Finding 2
Other (SEP or IDEA fund)	(260,686)	(260,686)	—	
Net treatment costs	800,594	(114,350)	(914,944)	
Total program costs	<u>\$ 800,594</u>	305,396	<u>\$ (495,198)</u>	
Less amount paid by the State		(160,826)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 144,570</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Assessment and case management costs	\$ —	\$ 656,747	\$ 656,747	Finding 1
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	—	(190,658)	(190,658)	Finding 2
State categorical funds (EPSDT)	—	(137,758)	(137,758)	Finding 2
Net assessment and case management costs	—	328,331	328,331	
Treatment costs	2,608,456	1,840,549	(767,907)	Finding 1
Less offsetting revenues:				
State general/realignment funds	(784,524)	(784,524)	—	
State categorical funds (EPSDT)	—	(436,482)	(436,482)	Finding 2
Short-Doyle/Medi-Cal (FFP only)	(860,627)	(604,092)	256,535	Finding 2
Net treatment costs	963,305	15,451	(947,854)	
Total program costs	<u>\$ 963,305</u>	343,782	<u>\$ (619,523)</u>	
Less amount paid by the State		(5)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 343,777</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Assessment and case management costs	\$ 1,505,669	\$ 504,931	\$(1,000,738)	Finding 1
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(363,039)	(145,465)	217,574	Finding 2
State categorical funds (EPSDT)	(316,950)	(99,287)	217,663	Finding 2
Other (IDEA fund)	<u>(418,353)</u>	<u>(418,353)</u>	<u>—</u>	
Net assessment and case management costs	<u>407,327</u>	<u>(158,174)</u>	<u>(565,501)</u>	
Treatment costs	931,110	1,768,605	837,495	Finding 1
Less offsetting revenues:				
State general/realignment funds	—	—	—	
State categorical funds (EPSDT)	(175,375)	(314,088)	(138,713)	Finding 2
Short-Doyle/Medi-Cal (FFP only)	(200,877)	(460,168)	(259,291)	Finding 2
Other (SEP or IDEA fund)	<u>(258,710)</u>	<u>(258,710)</u>	<u>—</u>	
Net treatment costs	<u>296,148</u>	<u>735,639</u>	<u>439,491</u>	
Total costs	703,475	577,465	(126,010)	
Less late filing penalty	(1,000)	(1,000)	—	
Net costs	<u>\$ 702,475</u>	576,465	<u>\$ (126,010)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 576,465</u>		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Assessment and case management costs	\$ 1,505,669	\$ 1,837,777	\$ 332,108	Finding 1
Less offsetting revenues:				
Short-Doyle/Medi-Cal (FFP only)	(363,039)	(489,308)	(126,269)	Finding 2
State categorical funds (EPSDT)	(316,950)	(340,213)	(23,263)	Finding 2
Other (IDEA fund)	<u>(418,353)</u>	<u>(418,353)</u>	<u>—</u>	
Net assessment and case management costs	<u>407,327</u>	<u>589,903</u>	<u>182,576</u>	
Treatment costs	6,195,394	5,295,582	(899,812)	Finding 1
Less offsetting revenues:				
State general/realignment funds	(1,573,661)	(1,573,661)	—	
State categorical funds (EPSDT)	(175,375)	(1,052,787)	(877,412)	Finding 2
Short-Doyle/Medi-Cal (FFP only)	(1,866,915)	(1,512,998)	353,917	Finding 2
Other (SEP or IDEA fund)	<u>(519,396)</u>	<u>(519,396)</u>	<u>—</u>	
Net treatment costs	<u>2,060,047</u>	<u>636,740</u>	<u>(1,423,307)</u>	
Total costs	2,467,374	1,226,643	(1,240,731)	
Less late filing penalty	(1,000)	(1,000)	—	
Net costs	<u>\$ 2,466,374</u>	1,225,643	<u>\$ (1,240,731)</u>	
Less amount paid by the State		<u>(160,831)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,064,812</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated assessment and treatment costs by \$567,704 from fiscal year (FY) 2001-02 through FY 2003-04.

The county computed total costs by applying rates that were not based on actual cost incurred. Additionally, some units of service were not based on the detailed report generated by the accounting system. We recalculated the program costs using actual units traceable to the Total Units Detail Report and rates traceable to the Cost Report. Furthermore, the county included ineligible crisis intervention services when computing claimed costs for FY 2002-03.

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.

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 crisis intervention.

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	\$ 676,099	\$ 656,747	\$ (1,000,738)	\$ 332,108
Treatment cost	(969,400)	(767,907)	837,495	(899,812)
Audit adjustment	\$ (293,301)	\$ (111,160)	\$ (163,243)	\$ (567,704)

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 finding.

SCO's Comment

The finding and recommendation remain unchanged.

**FINDING 2—
Understated offsetting
revenues**

The county understated offsetting revenues by \$673,027 from FY 2001-02 through FY 2003-04.

During FY 2001-02 and FY 2002-03, the county did not apply the state matching fund 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 used negotiated rates to calculate Medi-Cal revenues, which understated claimed costs. In addition, we excluded revenues relating to ineligible crisis intervention services discussed in Finding 1.

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 the State matching fund received under the EPSDT program and using negotiated rates to calculate Medi-Cal revenues, the county understated offsetting revenues as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment revenues:				
State categorical funds	\$ (103,168)	\$ (137,758)	\$ 217,663	\$ (23,263)
Short-Doyle/Medi-Cal funds	(153,185)	(190,658)	217,574	(126,269)
Total	<u>(256,353)</u>	<u>(328,416)</u>	<u>435,237</u>	<u>(149,532)</u>
Treatment revenues:				
State categorical funds	(302,217)	(436,482)	(138,713)	(877,412)
Short-Doyle/Medi-Cal funds	356,673	256,535	(259,291)	353,917
Total	<u>54,456</u>	<u>(179,947)</u>	<u>(398,004)</u>	<u>(523,495)</u>
Audit adjustment	<u>\$ (201,897)</u>	<u>\$ (508,363)</u>	<u>\$ 37,233</u>	<u>\$(673,027)</u>

Recommendation

We recommend that the county ensure that all applicable revenues are offset against the claims. Additionally, we recommend that the county ensure that the offsetting revenues are not higher than the actual costs incurred.

County's Response

The county agrees with the finding.

SCO's Comment

The finding and recommendation remain unchanged.

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



ADRIAN J. VAN HOUTEN, CPA
AUDITOR-CONTROLLER
SAN JOAQUIN COUNTY



ASSISTANT AUDITOR-CONTROLLER
Angela Hou, CPA

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March 30, 2007

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

Dear Mr. Spano:

San Joaquin County has reviewed the audit report for Handicapped and Disabled Students Program for the period July 1, 2001 through June 30, 2003. We had recorded in error on Fiscal Years 2001-02 (\$789,137) and 2002-03 (\$784,524) realignment funds as offset revenues totaling \$1,573,661. Amended claims have been submitted per our discussion at the Exit Conference.

San Joaquin County concurs with all of the findings and recommendations:

Finding 1: The county overstated assessment and treatment costs by \$567,704 from fiscal year FY 2001-02 through FY 2003-04.

Recommendation: The county will ensure that it uses proper rates to compute assessment and treatment costs and will only claim eligible services in accordance with the program's Parameters and Guidelines.

Finding 2: The county understated offsetting revenues by \$673,027 from FY 2001-02 through FY 2003-04.

Recommendation: The county will ensure that all appropriate revenues will be offset against the claims.

If you have any questions, please contact Bruce Mahan at (209)468-9815 or e-mail him at bmahan@sjcbhs.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Adrian J. Van Houten".

Adrian J. Van Houten
Auditor-Controller

Cc: Bruce Hopperstad, Director
Beth A. Way, Deputy Finance Director
San Joaquin County Behavioral Health Services

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