

SANTA CRUZ 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

September 2007



JOHN CHIANG
California State Controller

September 28, 2007

Mary Jo Walker
Auditor-Controller
Santa Cruz County
701 Ocean Street
Santa Cruz, CA 95060

Dear Ms. Walker:

The State Controller's Office audited the costs claimed by Santa Cruz 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 \$2,398,283 (\$2,399,283 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that the county supported \$2,398,283 in allowable costs. The State paid the county \$152,279. The State will pay allowable costs claimed that exceed the amount paid, totaling \$2,246,004, contingent upon available appropriations.

Our audit also disclosed that the county understated claimed costs by \$486,753 for the audit period by using incorrect rates to calculate service unit costs, administrative costs, and Medi-Cal revenue offsets. However, the county can no longer claim for these costs because statutory filing deadline has expired. 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.

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/vb:wm

cc: Leslie Tremaine, Ed.D., Director
Mental Health Division
Santa Cruz County
Carolyn Stewart, Deputy Director
Mental Health Division
Santa Cruz County
Rama Khalsa, Director
Health Services Agency
Santa Cruz 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 Santa Cruz 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 February 14, 2006.

The county claimed \$2,398,283 (\$2,399,283 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that the county supported \$2,398,283 in allowable costs. The State paid the county \$152,279. The State will pay allowable costs claimed that exceed the amount paid, totaling \$2,246,004, 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 (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 it 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 for 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.

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, Santa Cruz County claimed \$2,398,283 (\$2,399,283 less a \$1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that the entire amount is allowable. Our audit disclosed that the county supported \$2,398,283 in allowable costs. The State paid the county \$152,279. The State will pay allowable costs claimed that exceed the amount paid, totaling \$2,246,004, contingent upon available appropriations.

Our audit also disclosed that the county understated claimed costs by \$486,753 for the audit period by using incorrect rates to calculate service unit costs, administrative costs, and Medi-Cal revenue offsets. However, the county can no longer claim for these costs because statutory filing deadline has expired. 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.

Views of Responsible Officials

We issued a draft audit report on May 27, 2007. We contacted the Auditor-Controller on August 22, 2007, regarding a response to the draft audit report. Leslie Tremaine, Ed.D., Director of Mental Health responded by letter on August 29, 2007, stating Santa Cruz County agrees with the audit findings. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Santa Cruz 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	\$ 132,530	\$ 136,342	\$ 3,812	Finding 1
Administrative costs	23,185	24,542	1,357	Finding 1
Offsetting revenues:				
Short Doyle Medi-Cal (FFP)	(28,750)	(28,724)	26	Finding 1
EPSDT and County Match	—	(2,059)	(2,059)	Finding 3
State Categorical Funding	(27,224)	(27,224)	—	
Other	(9,177)	(9,177)	—	
Net assessment and case management costs	<u>90,564</u>	<u>93,700</u>	<u>3,136</u>	
Treatment costs	1,253,376	1,353,302	99,926	Findings 1, 2
Administrative costs	201,347	233,048	31,701	Finding 1
Offsetting revenues:				
Short Doyle Medi-Cal (FFP)	(292,179)	(265,721)	26,458	Findings 1, 2
EPSDT and County Match	—	(20,791)	(20,791)	Finding 3
State Categorical Funding	(256,830)	(256,830)	—	
Other	(80,130)	(80,130)	—	
Net treatment costs	<u>825,584</u>	<u>962,878</u>	<u>137,294</u>	
Subtotal	916,148	1,056,578	140,430	
Less late claim penalty	(1,000)	(1,000)	—	
Subtotal	915,148	1,055,578	140,430	
Less allowable costs that exceed costs claimed ²	—	(140,430)	(140,430)	
Total program costs	<u>\$ 915,148</u>	915,148	<u>\$ —</u>	
Less amount paid by the State		(152,269)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 762,879</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Assessment and case management costs	\$ 147,763	\$ 318,197	\$ 170,434	Finding 1
Administrative costs	18,324	35,574	17,250	Finding 1
Offsetting revenues:				
Short Doyle Medi-Cal (FFP)	(67,081)	(51,288)	15,793	Finding 1
EPSDT and County Match	—	(11,747)	(11,747)	Finding 3
Other	(8,218)	(8,218)	—	
Net assessment and case management costs	<u>90,788</u>	<u>282,518</u>	<u>191,730</u>	
Treatment costs	1,230,453	1,409,704	179,251	Findings 1, 2
Administrative costs	143,498	151,328	7,830	Finding 1
Offsetting revenues:				
Short Doyle Medi-Cal (FFP)	(297,200)	(280,586)	16,614	Findings 1, 2
EPSDT and County Match	—	(52,602)	(52,602)	Finding 3
Other	(73,271)	(73,271)	—	
Net treatment costs	<u>1,003,480</u>	<u>1,154,573</u>	<u>151,093</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003 (continued)</u>				
Subtotal	1,094,268	1,437,091	342,823	
Less allowable costs that exceed costs claimed ²	—	(342,823)	(342,823)	
Total program costs	<u>\$ 1,094,268</u>	(1,094,268)	<u>\$ —</u>	
Less amount paid by the State		(10)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,094,258</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Assessment and case management costs	\$ 219,456	\$ 401,963	\$ 182,507	Finding 1
Administrative costs	22,814	42,729	19,915	Finding 1
Offsetting revenues:				
Short Doyle Medi-Cal (FFP)	(87,569)	(51,191)	36,378	Finding 1
Other	(48,550)	(48,550)	—	
Net assessment and case management costs	<u>106,151</u>	<u>344,951</u>	<u>238,800</u>	
Treatment costs	983,207	765,813	(217,394)	Finding 1
Administrative costs	97,691	78,040	(19,651)	Finding 1
Offsetting revenues:				
Short Doyle Medi-Cal (FFP)	(151,399)	(149,654)	1,745	Finding 1
Other	(646,783)	(646,783)	—	
Net treatment costs	<u>282,716</u>	<u>47,416</u>	<u>(235,300)</u>	
Subtotal	388,867	392,367	3,500	
Less allowable costs that exceed costs claimed ²	—	(3,500)	(3,500)	
Total program costs	<u>\$ 388,867</u>	388,867	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 388,867</u>		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Assessment and case management costs	\$ 499,749	\$ 856,502	\$ 356,753	Finding 1
Administrative costs	64,323	102,845	38,522	Finding 1
Offsetting revenues:				
Short Doyle Medi-Cal (FFP)	(183,400)	(131,203)	52,197	Finding 1
EPSDT and County Match	—	(13,806)	(13,806)	Finding 3
State Categorical Funding	(27,224)	(27,224)	—	
Other	(65,945)	(65,945)	—	
Net assessment and case management costs	<u>287,503</u>	<u>721,169</u>	<u>433,666</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2001, through June 30, 2004 (continued)</u>				
Treatment costs	3,467,036	3,528,819	61,783	Findings 1, 2
Administrative costs	442,536	462,416	19,880	Finding 1
Offsetting revenues:				
Short Doyle Medi-Cal (FFP)	(740,778)	(695,961)	44,817	Findings 1, 2
EPSDT and County Match	—	(73,393)	(73,393)	Finding 3
State Categorical Funding	(256,830)	(256,830)	—	
Other	(800,184)	(800,184)	—	
Net treatment costs	<u>2,111,780</u>	<u>2,164,867</u>	<u>53,087</u>	
Subtotal	2,399,283	2,886,036	486,753	
Less late claim penalty	(1,000)	(1,000)	—	
Subtotal	2,398,283	2,885,036	486,753	
Less allowable costs that exceed costs claimed ²	—	(486,753)	(486,753)	
Total program costs	<u>\$ 2,398,283</u>	2,398,283	<u>\$ —</u>	
Less amount paid by the State		(152,279)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,246,004</u>		

¹ See the Findings and Recommendations section.

² 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 and FY 2002-03.

Findings and Recommendations

**FINDING 1—
Misstated rates**

The county used incorrect rates to calculate service unit costs, administrative costs, and Medi-Cal revenue offsets, understating costs by \$577,881 for the audit period.

The county understated claimed costs by \$425,017 for the audit period because of errors in service unit rates. The rates claimed by the county for Short-Doyle services differed from the rates in the county’s database and in its annual cost reports submitted to the California Department of Mental Health.

The county understated administrative costs by \$58,402 for the audit period. The rate used by the county for claiming administrative costs did not agree with the administrative rate in the cost report. As the claimed costs for services were based on the cost report, it is consistent to base the administrative rate on the cost report rate, as well.

The county overstated Medi-Cal federal financial participation (FFP) share revenue by \$94,462 for the audit period. The claimed reimbursements from Medi-Cal did not agree with the amounts in the cost reports. The audited offsets were calculated using the actual unit reimbursement rate times the actual reimbursement percentage.

The Handicapped and Disabled Students Program’s parameters and guidelines specify that only increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

The Handicapped and Disabled Students Program’s parameters and guidelines state that any offsetting savings or reimbursements received by the county from any source as a result to the mandate shall be identified and deducted from the claim.

As a result of the county’s use of incorrect rates, costs and revenues have been adjusted as follows.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Assessment and case management costs:				
Service unit rates	\$ 3,812	\$170,434	\$ 182,507	\$ 356,753
Administrative rates	1,357	17,250	19,915	38,522
Medi-Cal FFP revenue offsets	26	15,793	36,378	52,197
Subtotal	5,195	203,477	238,800	447,472
Treatment costs:				
Service unit rates	105,433	180,225	(217,394)	68,264
Administrative rates	31,701	7,830	(19,651)	19,880
Medi-Cal FFP revenue offsets	24,140	16,380	1,745	42,265
Subtotal	161,274	204,435	(235,300)	130,409
Audit adjustment	\$ 166,469	\$ 407,912	\$ 3,500	\$ 577,881

Recommendation

We recommend that the county ensure that all costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

County’s Response

The county concurs with the finding.

**FINDING 2—
Ineligible treatment costs**

The county overstated treatment costs by \$3,929 for the audit period. The county claimed treatment costs for therapeutic behavioral services and crisis intervention, which are not reimbursable under the program guidelines.

The Handicapped and Disabled Students Program’s parameters and guidelines specify that only the following treatment services are reimbursable: one-time revision of interagency agreements related to individual education plans (IEP), mental health referrals and assessments, transfers and interim placements, IEP participation, case management of residential care pupils, payment authorization for out-of-home residential care providers, and psychotherapy. The Handicapped and Disabled Students II Program allows medication monitoring beginning in FY 2001-02.

As a result, we have adjust claimed treatment costs and related revenues as follows.

	Fiscal Year		Total
	2001-02	2002-03	
Therapeutic behavioral services	\$ (3,180)	\$ —	\$ (3,180)
Crisis intervention	(2,327)	(974)	(3,301)
Total costs	(5,507)	(974)	(6,481)
Related indirect costs	2,318	234	2,552
Audit adjustment	<u>\$ (3,189)</u>	<u>\$ (740)</u>	<u>\$ (3,929)</u>

Recommendation

We recommend that the county ensure that costs claimed are eligible increased costs incurred as a result of the mandate.

County’s Response

The county concurs with the finding.

**FINDING 3—
Unclaimed revenue offsets**

The county understated revenue offsets by \$87,199 for FY 2001-02 and FY 2002-03. The county did not report state matching funds received from the State Department of Mental Health under the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program

The Handicapped and Disabled Students Program’s parameters and guidelines specify that any direct payments received from the State that

are specifically allocable to the program, and any other reimbursement received as a result of the mandate, must be deducted from the claims.

The resulting adjustment is based on the county’s determination of the correct allocation of EPSDT funds to the Medi-Cal services.

	Fiscal Year		Total
	2001-02	2002-03	
Assessment and case management	\$ (2,059)	\$ (11,747)	\$ (13,806)
Treatment	(20,791)	(52,602)	(73,393)
Audit adjustment	<u>\$ (22,850)</u>	<u>\$ (64,349)</u>	<u>\$ (87,199)</u>

Recommendation

We recommend that the county ensure that all applicable reimbursements received are correctly offset against costs claimed.

County’s Response

The county concurs with the finding.

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



County of Santa Cruz

HEALTH SERVICES AGENCY

1400 EMELINE AVENUE Santa Cruz, CA 95060
(831) 454-4170 FAX: (831) 454-4663 TDD: (800) 523-1786

Mental Health and Substance Abuse Services

August 29, 2007

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

Dear Chief Spano,

We received the draft report of the State Controller's Office audit of the costs claimed by Santa Cruz County for the legislatively mandated Handicapped and Disabled Students program for the period of July 1, 2001, through June 30, 2004. We agree with your conclusion that the County supported all \$2,398,283 of allowable costs.

In addition, your report identified three findings and recommendations:

Misstated rates were used to calculate service unit costs, administrative costs and Medi-cal revenue offsets due to errors in service unit rates.

Ineligible treatment costs were claimed for therapeutic behavioral services and crisis intervention not reimbursable under the program guidelines.

Unclaimed revenue offsets were not reported for the state matching funds received from the State Department of Mental Health under the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program.

Applicable staff and managers have reviewed these findings to ensure that these areas will be reviewed before future claims are submitted.

Sincerely,
Leslie Tremaine, Director of Mental Health, County of Santa Cruz

Cc: Mary Jo Walker, Auditor-Controller
Glenn Kulm, Director of HSA Administrative Services
David McCollum, Chief of HSA Fiscal Services

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

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