

# **VENTURA COUNTY**

Audit Report

## **HANDICAPPED AND DISABLED STUDENTS PROGRAM**

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

*July 1, 2003, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

January 2009



**JOHN CHIANG**  
**California State Controller**

January 23, 2009

The Honorable Peter C. Foy, Chair  
Ventura County Board of Supervisors  
980 Enchanted Way, #203  
Simi Valley, CA 93063

Dear Mr. Foy:

The State Controller's Office audited the costs claimed by Ventura 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, 2003, through June 30, 2006.

The county claimed \$7,207,518 for the mandated program. Our audit disclosed that \$5,348,372 is allowable and \$1,859,146 is unallowable. The costs are unallowable primarily because the county miscalculated administrative costs and overstated treatment costs. The State paid the county \$5,188,680. Allowable costs claimed exceed the amount paid by \$159,692.

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

cc: The Honorable Christine L. Cohen, Auditor-Controller  
Ventura County  
Raja Perera, Fiscal Manager II, Behavioral Health  
Ventura County  
Todd Jerue, Program Budget Manager  
Corrections and General Government  
Department of Finance  
Stacey Wofford  
Special Education Program  
Department of Mental Health  
Carol Bingham, Director  
Fiscal Policy Division  
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 Ventura 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, 2003, through June 30, 2006.

The county claimed \$7,207,518 for the mandated program. Our audit disclosed that \$5,348,372 is allowable and \$1,859,146 is unallowable. The costs are unallowable primarily because the county miscalculated administrative costs and overstated treatment costs. The State paid the county \$5,188,680. Allowable costs claimed exceed the amount paid by \$159,692.

## 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) requires 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 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* [emphasis added] to fund assessments, psychotherapy, and other mental health services . . .” and that the finding by the Legislature is “declaratory of existing law.”

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 cost 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 January 26, 2006, CSM amended the parameters and guidelines for the Handicapped and Disabled Students Program allowing reimbursement for out-of-home residential placements 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, 2003, through June 30, 2006.

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 this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county’s financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the county’s internal controls to gain 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, Ventura County claimed \$7,207,518 for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$5,348,372 is allowable and \$1,859,146 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$1,733,683 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,733,683, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$2,714,093. Our audit disclosed that \$1,487,941 is allowable. The State will offset \$1,226,152 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2005-06 claim, the State paid the county \$2,474,587. Our audit disclosed that \$2,126,748 is allowable. The State will offset \$347,839 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

**Views of  
Responsible  
Officials**

We issued a draft audit report on November 5, 2008. Christine L. Cohen, Auditor-Controller, responded by letter dated December 12, 2008 (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 Ventura 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

January 23, 2009

**Schedule 1—  
Summary of Program Costs  
July 1, 2003, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Assessment/case management costs	\$ 1,101,440	\$ 1,102,427	\$ 987	Finding 1
Administrative costs	167,938	121,925	(46,013)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(157,648)	(154,005)	3,643	Finding 3
State categorical funds	—	(63,884)	(63,884)	Finding 3
Other	(657,004)	(595,674)	61,330	Finding 3
Net assessment/case management costs	<u>454,726</u>	<u>410,789</u>	<u>(43,937)</u>	
Treatment costs	3,915,337	3,865,598	(49,739)	Finding 1
Administrative costs	595,207	384,430	(210,777)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(620,187)	(592,611)	27,576	Finding 3
State categorical funds	—	(245,824)	(245,824)	Finding 3
Other	(2,334,770)	(2,088,699)	246,071	Finding 3
Net treatment costs	<u>1,555,587</u>	<u>1,322,894</u>	<u>(232,693)</u>	
Total program costs	<u>\$ 2,010,313</u>	<u>1,733,683</u>	<u>\$ (276,630)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,733,683</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Assessment/case management costs	\$ 1,101,841	\$ 1,110,837	\$ 8,996	Finding 1
Administrative costs	199,486	125,999	(73,487)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(127,944)	(101,364)	26,580	Finding 3
State categorical funds	(13,780)	(51,974)	(38,194)	Finding 3
Other	(593,084)	(674,227)	(81,143)	Finding 3
Net assessment/case management costs	<u>566,519</u>	<u>409,271</u>	<u>(157,248)</u>	
Treatment costs	4,318,600	3,503,451	(815,149)	Finding 1
Administrative costs	796,254	419,167	(377,087)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(568,939)	(474,315)	94,624	Finding 3
State categorical funds	(61,277)	(243,201)	(181,924)	Finding 3
Other	(2,328,539)	(2,126,432)	202,107	Finding 3
Net treatment costs	<u>2,156,099</u>	<u>1,078,670</u>	<u>(1,077,429)</u>	
Total program costs	<u>\$ 2,722,618</u>	<u>1,487,941</u>	<u>\$(1,234,677)</u>	
Less amount paid by the State		(2,714,093)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (1,226,152)</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<b>July 1, 2005, through June 30, 2006</b>				
Direct costs:				
Assessment/case management costs	\$ 1,262,066	\$ 1,286,907	\$ 24,841	Finding 1
Administrative costs	262,206	173,298	(88,908)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(191,350)	(178,725)	12,625	Finding 3
State categorical funds	(64,758)	(107,055)	(42,297)	Finding 3
Other	<u>(694,633)</u>	<u>(658,741)</u>	<u>35,892</u>	Finding 3
Net assessment/case management costs	<u>573,531</u>	<u>515,684</u>	<u>(57,847)</u>	
Treatment costs	4,317,475	4,242,125	(75,350)	Finding 1
Administrative costs	952,191	540,366	(411,825)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(667,388)	(625,375)	42,013	Finding 3
State categorical funds	(225,861)	(374,596)	(148,735)	Finding 3
Other	<u>(2,475,361)</u>	<u>(2,171,456)</u>	<u>303,905</u>	Finding 3
Net treatment costs	<u>1,901,056</u>	<u>1,611,064</u>	<u>(289,992)</u>	
Total program costs	<u>\$ 2,474,587</u>	2,126,748	<u>\$ (347,839)</u>	
Less amount paid by the State		<u>(2,474,587)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (347,839)</u>		
<b>Summary: July 1, 2003, through June 30, 2006</b>				
Direct costs:				
Assessment/case management costs	\$ 3,465,347	\$ 3,500,171	\$ 34,824	
Administrative costs	629,630	421,222	(208,408)	
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(476,942)	(434,094)	42,848	
State categorical funds	(78,538)	(222,913)	(144,375)	
Other	<u>(1,944,721)</u>	<u>(1,928,642)</u>	<u>16,079</u>	
Net assessment/case management costs	<u>1,594,776</u>	<u>1,335,744</u>	<u>(259,032)</u>	
Treatment costs	12,551,412	11,611,174	(940,238)	
Administrative costs	2,343,652	1,343,963	(999,689)	
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(1,856,514)	(1,692,301)	164,213	
State categorical funds	(287,138)	(863,621)	(576,483)	
Other	<u>(7,138,670)</u>	<u>(6,386,587)</u>	<u>752,083</u>	
Net treatment costs	<u>5,612,742</u>	<u>4,012,628</u>	<u>(1,600,114)</u>	
Total program costs	<u>\$ 7,207,518</u>	5,348,372	<u>\$(1,859,146)</u>	
Less amount paid by the State		<u>(5,188,680)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 159,692</u>		

<sup>1</sup> See Findings and Recommendations section.



# Findings and Recommendations

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

The county overstated costs claimed by \$905,414 for the audit period.

The county claimed costs that are not fully based on actual costs to implement the mandate program. For treatment costs, the county included ineligible costs, used incorrect rates for contract services providers, and overstated units in all three years. The county understated assessment costs because the county did not include all in-state residential placement costs in the FY 2004-05 and FY 2005-06 claims.

We recalculated costs based on the actual units of eligible service and applied the appropriate cost per unit, and confirmed the amounts of contracted services for in-state residential placement.

The program’s parameters and guidelines specify that only actual increased costs incurred in the performance of the mandated activities that are adequately documented are reimbursable.

The following table summarizes the overstated assessment and treatment costs:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ 987	\$ 8,996	\$ 24,841	\$ 34,824
Treatment	(49,739)	(815,149)	(75,350)	(940,238)
Total adjustment	\$ (48,752)	\$ (806,153)	\$ (50,509)	\$ (905,414)

Recommendation

We recommend that the county implement policies and procedures to ensure that it utilizes the actual units of service and applies appropriate costs.

County’s Response

The county agreed with the finding.

**FINDING 2—  
Overstated  
administrative costs**

The county overstated administrative costs by \$1,208,097 for the audit period.

The county miscalculated its administrative cost rates by not reducing the administrative costs by related administrative revenues, and allocating inconsistent pools of cost. During the audit, the county provided a recalculated administrative percentage that included administrative revenues and applied an allocation methodology that is consistent with the cost report allocation.

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

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

The following table summarizes the overstated administrative costs:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ (46,013)	\$ (73,487)	\$ (88,908)	\$ (208,408)
Treatment	(210,777)	(377,087)	(411,825)	(999,689)
Total adjustment	\$ (256,790)	\$ (450,574)	\$ (500,733)	\$ (1,208,097)

Recommendation

We recommend that the county apply a methodology that is consistent with the cost report submitted to the State Department of Mental Health. In doing so, the county should ensure that the information used to allocate administrative costs is complete and accurate.

County’s Response

The county agreed with the finding.

**FINDING 3—  
Overstated offsetting  
revenues**

The county overstated offsetting revenues by \$254,365 for the audit period.

The county miscalculated revenues by not applying Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) in its FY 2003-04 claim, and applying Short-Doyle/Medi-Cal (SD/MC) administrative revenues to direct costs. The county also did not include the correct amount of Individuals with Disabilities Act (IDEA) funding in its claims.

We recalculated total revenues applying the appropriate cost per unit to eligible units of service and using the correct funding percentages for SD/MC and EPSDT. We also applied SD/MC administrative revenues as an offset to administrative costs.

The parameters and guidelines specify 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.

The following table summarizes the overstated offsetting revenues:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ 1,089	\$ (92,757)	\$ 6,220	\$ (85,448)
Treatment	27,823	114,807	197,183	339,813
Total adjustment	\$ 28,912	\$ 22,050	\$ 203,403	\$ 254,365

Recommendation

We recommend that the county include all relevant offsetting revenues when preparing its claims, using the appropriate funding percentages and grant amounts.

County's Response

The county agreed with the finding.

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

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CHRISTINE L. COHEN  
AUDITOR-CONTROLLER  
County of Ventura  
800 South Victoria Avenue  
Ventura, CA 93009-1540



CHIEF DEPUTIES  
LOUISE WEBSTER  
SANDRA BICKFORD  
BARBARA BEATTY  
JOANNE McDONALD

December 12, 2008

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

SUBJECT: HANDICAPPED and DISABLED STUDENTS PROGRAM DRAFT AUDIT FINDINGS

Dear Mr. Spano:

The purpose of this letter is to respond as requested to the draft of the State Controller's Office report regarding the claims of Ventura 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, 2003, through June 30, 2006.

We have reviewed the enclosed draft report and concur with the summary findings and recommendations indicated in the report.

If you have any questions, please contact Joanne McDonald, Chief Deputy Auditor-Controller, at (805) 654-3191.

Sincerely,

A handwritten signature in black ink, appearing to read "Christine L. Cohen". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

CHRISTINE L. COHEN  
Auditor-Controller

Enclosure

Cc: Michael Powers, Director, Health Care Agency  
Catherine Rodriguez, CFO, Health Care Agency  
Meloney Roy, Director, Behavioral Health

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