

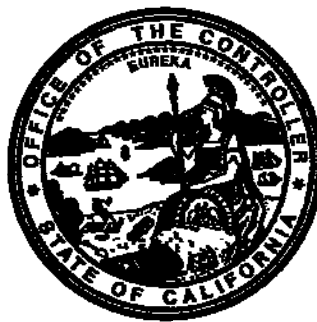
# **CITY AND COUNTY OF SAN FRANCISCO**

Audit Report

## **SERIOUSLY EMOTIONALLY DISTURBED (SED) PUPILS: OUT-OF-STATE MENTAL HEALTH SERVICES PROGRAM**

Chapter 654, Statutes of 1996

*July 1, 2002, through June 30, 2005*



**JOHN CHIANG**  
California State Controller

December 2008



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

December 31, 2008

The Honorable Aaron Peskin, President  
Board of Supervisors  
City and County of San Francisco  
City Hall  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco, CA 94102

Dear Mr. Peskin:

The State Controller's Office audited the costs claimed by the City and County of San Francisco for the legislatively mandated Seriously Emotionally Disturbed (SED) Pupils: Out-of-State Mental Health Services Program (Chapter 654, Statutes of 1996) for the period of July 1, 2002, through June 30, 2005.

The city and county claimed \$883,507 (\$884,507 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$372,249 is allowable and \$511,258 is unallowable. The costs are unallowable primarily because the city and county claimed ineligible vendor payments for out-of-state residential placement of SED pupils in facilities owned and operated for profit, and duplicated costs already reimbursed under the Handicapped and Disabled Students Program. The State paid the city and county \$430,206. The amount paid exceeds allowable costs claimed by \$57,957.

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](http://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](mailto: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:vb

cc: Benjamin Rosenfield, Controller  
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City and County of San Francisco  
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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the City and County of San Francisco for the legislatively mandated Seriously Emotionally Disturbed (SED) Pupils: Out-of-State Mental Health Services Program (Chapter 654, Statutes of 1996) for the period of July 1, 2002, through June 30, 2005.

The city and county claimed \$883,507 (\$884,507 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$372,249 is allowable and \$511,258 is unallowable. The costs are unallowable primarily because the city and county claimed ineligible vendor payments for out-of-state residential placement of SED pupils in facilities owned and operated for profit, and duplicated costs already reimbursed under the Handicapped and Disabled Students Program. The State paid the city and county \$430,206. The amount paid exceeds allowable costs claimed by \$57,957.

## Background

Government Code section 7576 (added and amended by Chapter 654, Statutes of 1996) allows new fiscal and programmatic responsibilities for counties to provide mental health services to SED pupils placed in out-of-state residential programs. Counties' fiscal and programmatic responsibilities, including those set forth in California Code of Regulations section 60100, provide that residential placements for a SED pupil may be made out-of-state only when no in-state facility can meet the pupil's needs.

On May 25, 2000, the Commission on State Mandates (CSM) determined that Chapter 654, Statutes of 1996, imposed a state mandate reimbursable under Government Code section 17561 for the following:

- Payment of out-of-state residential placements for SED pupils;
- Case management of out-of-state residential placements for SED pupils. Case management includes supervision of mental health treatment and monitoring of psychotropic medications;
- Travel to conduct quarterly face-to-face contacts at the residential facility to monitor level of care, supervision, and the provision of mental health services as required in the pupil's Individualized Education Plan;
- Program management, which includes parent notifications, as required, payment facilitation, and all other activities necessary to ensure a county's out-of-state residential placement program meets the requirements of Government Code section 7576.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted the parameters and guidelines on October 26, 2000. 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.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the SED Pupils: Out-of-State Mental Health Services 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 this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the city and 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 city and 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, the City and County of San Francisco claimed \$883,507 (\$884,507 less a \$1,000 penalty for filing a late claim) for costs of the SED Pupils: Out-of-State Mental Health Services Program. Our audit disclosed that \$372,249 is allowable and \$511,258 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State made no payment to the city and county. Our audit disclosed that \$58,910 is allowable. The State will pay allowable costs contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the city and county. Our audit disclosed that \$74,229 is allowable. The State will pay allowable costs contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the city and county \$430,206. Our audit disclosed that \$239,110 is allowable. The State will offset \$191,096 from other mandated program payments due to the city and county. Alternatively, the city and county may remit this amount to the State.

**Views of  
Responsible  
Official**

We issued a draft audit report on October 17, 2008. Ben Rosenfield, Controller, responded by letter dated November 25, 2008 (Attachment), agreeing with the audit results except for Finding 1. This final audit 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

December 31, 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 <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Vendor reimbursements:				
Mental health services	\$ 56,302	\$ 29,554	\$ (26,748)	Finding 1
Room and board	40,123	—	(40,123)	Finding 1
Program management costs	<u>135,260</u>	<u>27,168</u>	<u>(108,092)</u>	Finding 2
Total direct costs	231,685	56,722	(174,963)	
Indirect costs	<u>—</u>	<u>2,188</u>	<u>2,188</u>	Finding 3
Total program costs	<u>\$ 231,685</u>	58,910	<u>\$ (172,775)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 58,910</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Vendor reimbursements:				
Mental health services	\$ 65,671	\$ 22,422	\$ (43,249)	Finding 1
Room and board	64,873	—	(64,873)	Finding 1
Travel	4,695	—	(4,695)	Finding 2
Program management costs	<u>67,879</u>	<u>47,870</u>	<u>(20,009)</u>	Finding 2
Total direct costs	203,118	70,292	(132,826)	
Indirect costs	<u>—</u>	<u>3,937</u>	<u>3,937</u>	Finding 3
Total program costs	<u>\$ 203,118</u>	74,229	<u>\$ (128,889)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 74,229</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Vendor reimbursements:				
Mental health services	\$ 106,871	\$ 63,622	\$ (43,249)	Finding 1
Room and board	299,518	176,488	(123,030)	Finding 1
Travel	4,759	—	(4,759)	Finding 2
Program management costs	<u>34,691</u>	<u>—</u>	<u>(34,691)</u>	Finding 2
Total direct costs	445,839	240,110	(205,729)	
Indirect costs	<u>3,865</u>	<u>—</u>	<u>(3,865)</u>	Finding 2
Subtotal	449,704	240,110	(209,594)	
Less late claim penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total program costs	<u>\$ 448,704</u>	239,110	<u>\$ (209,594)</u>	
Less amount paid by the State		<u>(430,206)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (191,096)</u>		



**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Direct costs:				
Vendor reimbursements:				
Mental health services	\$ 228,844	\$ 115,598	\$ (113,246)	
Room and board	404,514	176,488	(228,026)	
Travel	9,454	—	(9,454)	
Program management costs	<u>237,830</u>	<u>75,038</u>	<u>(162,792)</u>	
Total direct costs	880,642	367,124	(513,518)	
Indirect costs	<u>3,865</u>	<u>6,125</u>	<u>2,260</u>	
Subtotal	884,507	373,249	(511,258)	
Less late claim penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total program costs	<u>\$ 883,507</u>	372,249	<u>\$ (511,258)</u>	
Less amount paid by the State		<u>(430,206)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (57,957)</u>		

<sup>1</sup> The city and county claimed \$18,498 in out-of-state mental health services under the Handicapped and Disabled Students Program. These costs were moved to the Seriously Emotionally Disturbed (SED) Pupils Program.

# Findings and Recommendations

**FINDING 1—  
Unallowable vendor costs**

The City and County of San Francisco claimed out-of-state vendor payments of \$633,358, \$614,860 for Seriously Emotionally Disturbed (SED) Pupils: Out-of-State Mental Health Services Program and \$18,498 for the Handicapped and Disabled Students Program for the audit period. Of that amount, \$341,272 related to unallowable vendor payments.

The unallowable costs occurred because the city and county:

- Claimed ineligible vendor payments of \$248,881 (board-and-care costs of \$135,635 and treatment costs of \$113,685) for out-of-state residential placement of SED pupils in facilities that are owned and operated for profit. The costs represent 60% of the total board-and-care costs.
- Duplicated board-and-care costs of \$38,924.
- Claimed 40% Department of Social Services reimbursement for board-and-care costs of \$41,998.
- Claimed \$11,469 in costs for services after the clients had left the facilities.

The program’s parameters and guidelines (section IV.C.1) specify that the mandate is to reimburse counties for payments to service vendors providing mental health services to SED pupils in out-of-state residential placements as specified in Government Code section 7576 and California Code of Regulations, Title 2, sections 60100 and 60110.

Title 2, California Code of Regulations, section 60100, subdivision (h), specifies that out-of-state residential placements shall be made only in residential programs that meet the requirements of the Welfare and Institutions Code section 11460, subsection (c)(2) and (c)(3). Welfare and Institutions Code section 11460, subdivision (c)(3), states that reimbursement shall only be paid to a group home organized and operated on a non-profit basis.

The program’s parameters and guidelines also state that all costs claimed must be traceable to source documents that show evidence of the validity of such costs and their relationship to the state mandated program.

The following table summarizes the unallowable vendor costs claimed:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Ineligible placements:				
Board-and-care costs	\$ (24,074)	\$ (38,924)	\$ (72,637)	\$(135,635)
Treatment costs	(26,748)	(43,249)	(43,249)	(113,246)
Duplicated board-and-care costs	—	—	(38,924)	(38,924)
Social Services 40% reimbursement	(16,049)	(25,949)	—	(41,998)
Non-utilized board-and-care costs	—	—	(11,469)	(11,469)
Audit adjustment	\$ (66,871)	\$(108,122)	\$(166,279)	\$(341,272)

### Recommendation

We recommend that the city and county ensure that out-of-state residential placements are made in accordance with laws and regulations. Further, we recommend that the city and county only claim eligible board and care and treatment costs.

### City and County's Response

The City does not agree with the finding that disallowed \$248,881 in vendor payments for board-and-care and treatment costs for out-of-state residential placement of SED pupils in for-profit facilities. The City and County of San Francisco believes that these costs are necessary to provide appropriate treatment to students with specialized needs when services are not available in the county. Also, given that there are few treatment options for children with highly specialized needs, the IRS tax status of a facility (as either a non-profit or for-profit) is irrelevant if there are a very limited number of specialty treatment facilities. The City and County of San Francisco believes that classification of a treatment facility based on IRS tax status interferes with appropriate clinical treatment decisions and is not consistent with the intent of the Handicapped and Disabled Students Program. It is clear from recent legislation that it is the intent of the Legislature to reimburse services regardless of the IRS tax status of the facility.

### SCO's Comment

The finding remains unchanged.

The city and county is prohibited from placing a client in a for-profit facility under the California Code of Regulations, Title 2, section 60100, subdivision (h), and Welfare and Institutions Code section 11460, subdivision (c)(2) through (c)(3). Welfare and Institutions Code section 11460, subdivision (c)(3), states that state reimbursement shall only be made to a group home organized and operated on a non-profit basis. The state-mandated program's parameters and guidelines do not provide reimbursement for out-of-state residential placements made outside the regulation.

The proponents of Assembly Bill 1805 sought to change the regulations and allow payment to for-profit facilities for placement of SED pupils. The legislation would have permitted retroactive application, so that any prior unallowable claimed costs identified by the SCO would be reinstated. However, the Governor vetoed this legislation on September 30, 2008. Therefore, counties must comply with the governing regulations cited in the SED Pupils: Out-of-State Mental Health Services Program's parameters and guidelines to receive reimbursements under the mandate.

**FINDING 2—  
Unallowable case  
management and  
travel costs**

The city and county claimed \$176,111 in unallowable case management costs, travel and related indirect costs for the audit period.

The city and county claimed program management and travel costs on the SED Pupils mandate claim that were also included in the pool of direct costs used to compute the unit rate in the city and county’s cost report submitted to the California Department of Mental Health. Consequently, program management costs and travel costs claimed on the SED Pupils mandate claim were also allocated through the unit rates to various mental health programs, including the Handicapped and Disabled Students Program.

The parameters and guidelines for the SED Pupils Program (section IV.C.2.) specify that the mandate reimburse counties for case management of SED pupils out-of-state residential placements, including supervision of mental health treatment and monitoring of psychotropic medications as specified in the Government Code section 7576 and Title 2, California Code of Regulations, section 60110.

The parameters and guidelines (section IV.C.3.) specify that the mandate reimburses counties for travel costs necessary to conduct quarterly face-to-face contacts at the residential facility to monitor level of care, supervision, and the provision of mental health services as required in the pupils IEP as specified in Title 2, California Code of Regulations, section 60110.

The parameters and guidelines also state that all costs claimed must be traceable to source documents that show evidence of the validity of such costs and their relationship to the state mandated program.

The following table summarizes the unallowable costs claimed:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Case management	\$ (108,092)	\$ (20,009)	\$ (34,691)	\$ (162,792)
Travel	—	(4,695)	(4,759)	(9,454)
Indirect costs	—	—	(3,865)	(3,865)
Audit adjustment	<u>\$ (108,092)</u>	<u>\$ (24,704)</u>	<u>\$ (43,315)</u>	<u>\$ (176,111)</u>

Recommendation

We recommend that the city and county use a consistent cost allocation methodology to minimize any potential duplication with other mental health programs.

City and County’s Response

The city and county agreed with the finding.

**FINDING 3—  
Understated indirect costs**

The city and county understated indirect costs by \$6,125 for the audit period. The county inadvertently omitted indirect costs from claimed costs for FY 2002-03 and FY 2003-04.

The parameters and guidelines for the SED Pupils Program allow a standard 10% indirect cost rate on direct labor, excluding fringe benefits, or require an approved indirect cost rate proposal if the indirect rate exceeds 10%.

For FY 2002-03, allowable salary costs total \$21,882; therefore, the reimbursable indirect costs are \$2,188. For FY 2003-04, allowable salary costs total \$39,370; therefore, reimbursable indirect costs are \$3,937.

The following table summarizes the allowable indirect costs:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Indirect costs	\$ 2,188	\$ 3,937	\$ —	\$ 6,125

Recommendation

We recommend that the city and county ensure that indirect costs are allocated to eligible services.

City and County’s Response

The city and county agreed with the finding.

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

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Ben Rosenfield  
Controller

Monique Zmuda  
Deputy Controller

November 25, 2008

Jim Spano  
Chief, Mandated Cost Audits Bureau  
State Controller's Office  
Division of Audits  
P. O. Box 942850  
Sacramento, CA 94520-5874

Re: *Response to draft audit of the Seriously Emotionally Disturbed (SED) Pupils: Out-of-State Mental Health Services Program*

Dear Mr. Spano:

The City and County of San Francisco has received the State Controller's Office draft audit findings for the SED state mandated cost program for the period of July 1, 2002 through June 30, 2005. The City appreciates the opportunity to respond to the draft audit.

**Finding 1: Unallowable vendor costs**

*Recommendation: We recommend that the city and county ensure that out-of-state residential placements are made in accordance with laws and regulations. Further, we recommend that the city and county only claim eligible board and care treatment costs.*

Response: The City does not agree with the finding that disallowed \$248,881 in vendor payments for board-and-care and treatment costs for out-of-state residential placement of SED pupils in for-profit facilities. The City and County of San Francisco believes that these costs are necessary to provide appropriate treatment to students with specialized needs when services are not available in the county. Also, given that there are few treatment options for children with highly specialized needs, the IRS tax status of a facility (as either non-profit or for-profit) is irrelevant if there are a very limited number of specialty treatment facilities. The City and County of San Francisco believes that classification of a treatment facility based on IRS tax status interferes with appropriate clinical treatment decisions and is not consistent with the intent of the Handicapped and Disabled Students Program. It is clear from recent legislation that it is the intent of the Legislature to reimburse services regardless of the IRS tax status of the facility.

**Finding 2: Unallowable case management and travel costs**

*Recommendation: We recommend that the city and county use a consistent cost allocation methodology to minimize any potential duplication with other mental health programs.*

Response: The City concurs with this finding.

**Finding 3: Understated indirect costs**

*Recommendation: We recommend that the city and county ensure that indirect costs are allocated to eligible services.*

Response: The City concurs with this finding.

Please contact me or Leo Levenson of my staff at (415) 554-4809 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Ben Rosenfield". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ben Rosenfield  
Controller



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

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