# LOS ANGELES 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

June 2010

# JOHN CHIANG
## California State Controller

June 30, 2010

Gloria Molina, Chair
Los Angeles County Board of Supervisors
Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Ms. Molina:

The State Controller's Office audited the costs claimed by Los Angeles 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 $26,924,935 ($26,925,935 less a $1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that $8,542,409 is allowable and $18,382,526 is unallowable. The costs are unallowable because the county claimed ineligible, unsupported, and duplicate services; overstated indirect costs by applying indirect cost rates toward ineligible direct costs; and overstated offsetting revenues by using inaccurate Medi-Cal units, applying incorrect funding percentages for Early and Periodic, Screening, Diagnosis and Treatment (EPSDT) for FY 2005-06, including unsupported revenues, and applying revenue to ineligible direct and indirect costs. The State paid the county $20,549,722. The State will offset $12,007,313 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

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 the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

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

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

# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Los Angeles 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 $26,924,935 ($26,925,935 less a $1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that $8,542,409 is allowable and $18,328,526 is unallowable. The costs are unallowable because the county claimed ineligible, unsupported, and duplicate services; overstated indirect costs by applying indirect cost rates toward ineligible direct costs; and overstated offsetting revenues by using inaccurate Medi-Cal units, applying incorrect funding percentages for Early and Periodic, Screening, Diagnosis and Treatment (EPSDT) for FY 2005-06, including unsupported revenues, and applying revenue to ineligible direct and indirect costs. The State paid the county $20,549,722. The State will offset $12,007,313 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

## 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 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 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, the CSM amended the parameters and guidelines for the Handicapped and Disabled Students Program and corrected them on July 21, 2006, 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 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, Los Angeles County claimed $26,924,935 ($26,925,935 less a $1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that $8,542,409 is allowable and $18,382,526 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our audit disclosed that none of the costs are allowable.

For the FY 2004-05 claim, the State paid the county $8,061,754. Our audit disclosed that $3,095,357 is allowable. The State will offset $4,966,397 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 $12,487,968. Our audit disclosed that $5,447,052 is allowable. The State will offset $7,040,916 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 May 19, 2010. Wendy L. Watanabe, Auditor-Controller, responded by letter dated June 16, 2010 (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 Los Angeles 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

June 30, 2010

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

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustment | Reference [1] |
|---|---|---|---|---|
| July 1, 2003, through June 30, 2004 | | | | |
| Assessment/case management costs | $ 5,929,138 | $ 5,787,859 | $ (141,279) | Finding 1 |
| Administrative costs | 805,396 | 353,303 | (452,093) | Finding 2 |
| Offsetting revenues: | | | | |
| Short-Doyle/Medi-Cal funds | (1,270,666) | (1,514,027) | (243,361) | Finding 3 |
| State categorical funds (EPSDT) | — | (1,139,639) | (1,139,639) | Finding 3 |
| State categorical funds (IDEA) [2] | (3,546,463) | (3,546,463) | — | Finding 3 |
| Other | — | (400,621) | (400,621) | Finding 3 |
| State general/realignment funds | — | — | — | Finding 3 |
| 40% board and care | — | — | — | Finding 3 |
| Net assessment/case management costs | 1,917,405 | (459,588) | (2,376,993) | |
| Treatment costs | 22,783,049 | 16,106,240 | (6,676,809) | Finding 1 |
| Administrative costs | 1,865,725 | 697,215 | (1,168,510) | Finding 2 |
| Offsetting revenues: | | | | |
| Short-Doyle/Medi-Cal funds | (6,494,214) | (4,380,033) | 2,114,181 | Finding 3 |
| State categorical funds (EPSDT) | — | (3,296,940) | (3,296,940) | Finding 3 |
| State categorical funds (IDEA) [2] | — | (9,621,191) | (9,621,191) | Finding 3 |
| Other | (15,778,344) | — | 15,778,344 | Finding 3 |
| Net treatment costs | 2,376,216 | (494,709) | (2,870,925) | |
| Subtotal | 4,293,621 | (954,297) | (5,247,918) | |
| Adjustment to eliminate negative balance [3] | — | 954,297 | 954,297 | |
| Less late claim penalty | — | — | — | |
| Total program costs | $ 4,293,621 | — | $ (4,293,621) | |
| Less amount paid by the State | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | $ — | | |
| July 1, 2004, through June 30, 2005 | | | | |
| Assessment/case management costs | $ 19,680,965 | $ 17,224,873 | $ (2,456,092) | Finding 1 |
| Administrative costs | 553,202 | 105,740 | (447,462) | Finding 2 |
| Offsetting revenues: | | | | |
| Short-Doyle/Medi-Cal funds | (192,927) | (459,581) | (266,654) | Finding 3 |
| State categorical funds (EPSDT) | — | (393,026) | (393,026) | Finding 3 |
| State categorical funds (IDEA) [2] | (1,099,786) | (1,099,786) | — | Finding 3 |
| Other | (14,230,658) | (523,883) | 13,706,775 | Finding 3 |
| State general/realignment funds | — | (5,929,000) | (5,929,000) | Finding 3 |
| 40% board and care | — | (5,951,419) | (5,951,419) | Finding 3 |
| Net assessment/case management costs | 4,710,796 | 2,973,918 | (1,736,878) | |

# Schedule 1 (continued)

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustment | Reference [1] |
|---|---|---|---|---|
| July 1, 2004, through June 30, 2005 (continued) | | | | |
| Treatment costs | 28,544,988 | 19,964,556 | (8,580,432) | Finding 1 |
| Administrative costs | 2,746,638 | 1,176,638 | (1,570,000) | Finding 2 |
| Offsetting revenues: | | | | |
| Short-Doyle/Medi-Cal funds | (6,569,210) | (4,466,386) | 2,102,824 | Finding 3 |
| State categorical funds (EPSDT) | — | (3,819,581) | (3,819,581) | Finding 3 |
| State categorical funds (IDEA) [2] | — | (12,732,788) | (12,732,788) | Finding 3 |
| Other | (19,288,866) | — | 19,288,866 | Finding 3 |
| Net treatment costs | 5,433,550 | 122,439 | (5,311,111) | |
| Subtotal | 10,144,346 | 3,096,357 | (7,047,989) | |
| Adjustment to eliminate negative balance [3] | — | — | — | |
| Less late claim penalty | (1,000) | (1,000) | — | |
| Total program costs | $ 10,143,346 | 3,095,357 | $ (7,047,989) | |
| Less amount paid by the State | | (8,061,754) | | |
| Allowable costs claimed in excess of (less than) amount paid | | $ (4,966,397) | | |
| July 1, 2005, through June 30, 2006 | | | | |
| Assessment/case management costs | $ 21,153,500 | $ 17,453,855 | $ (3,699,645) | Finding 1 |
| Administrative costs | 685,226 | 79,844 | (605,382) | Finding 2 |
| Offsetting revenues: | | | | |
| Short-Doyle/Medi-Cal funds | (423,898) | (546,639) | (122,741) | Finding 3 |
| State categorical funds (EPSDT) | — | (469,235) | (469,235) | Finding 3 |
| State categorical funds (IDEA) [2] | — | (1,449,671) | (1,449,671) | Finding 3 |
| Other | (17,512,485) | (568,041) | 16,944,444 | Finding 3 |
| State general/realignment funds | — | (5,929,000) | (5,929,000) | Finding 3 |
| 40% board and care | — | (6,041,974) | (6,041,974) | Finding 3 |
| Net assessment/case management costs | 3,902,343 | 2,529,139 | (1,373,204) | |
| Treatment costs | 24,382,255 | 18,513,247 | (5,869,008) | Finding 1 |
| Administrative costs | 2,138,697 | 1,007,135 | (1,131,562) | Finding 2 |
| Offsetting revenues: | | | | |
| Short-Doyle/Medi-Cal funds | (4,702,850) | (4,017,603) | 685,247 | Finding 3 |
| State categorical funds (EPSDT) | — | (3,448,710) | (3,448,710) | Finding 3 |
| State categorical funds (IDEA) [2] | — | (9,136,156) | (9,136,156) | Finding 3 |
| Other | (13,232,477) | — | 13,232,477 | Finding 3 |
| Net treatment costs | 8,585,625 | 2,917,913 | (5,667,712) | |
| Subtotal | 12,487,968 | 5,447,052 | (7,040,916) | |
| Adjustment to eliminate negative balance [3] | — | — | — | |
| Less late claim penalty | — | — | — | |
| Total program costs | $ 12,487,968 | 5,447,052 | $ (7,040,916) | |
| Less amount paid by the State | | (12,487,968) | | |
| Allowable costs claimed in excess of (less than) amount paid | | $ (7,040,916) | | |

# Schedule 1 (continued)

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustment | Reference [1] |
|---|---|---|---|---|
| Summary: July 1, 2003, through June 30, 2006 | | | | |
| Assessment/case management costs | $ 46,763,603 | $ 40,466,587 | $ (6,297,016) | |
| Administrative costs | 2,043,824 | 538,887 | (1,504,937) | |
| Offsetting revenues: | | | | |
| Short-Doyle/Medi-Cal funds | (1,887,491) | (2,520,247) | (632,756) | |
| State categorical funds (EPSDT) | — | (2,001,900) | (2,001,900) | |
| State categorical funds (IDEA) [2] | (4,646,249) | (6,095,920) | (1,449,671) | |
| Other | (31,743,143) | (1,492,545) | 30,250,598 | |
| State general/realignment funds | — | (11,858,000) | (11,858,000) | |
| 40% board and care | — | (11,993,393) | (11,993,393) | |
| Net assessment/case management costs | 10,530,544 | 5,043,469 | (5,487,075) | |
| Treatment costs | 75,710,292 | 54,584,043 | (21,126,249) | |
| Administrative costs | 6,751,060 | 2,880,988 | (3,870,072) | |
| Offsetting revenues: | | | | |
| Short-Doyle/Medi-Cal funds | (17,766,274) | (12,864,022) | 4,902,252 | |
| State categorical funds (EPSDT) | — | (10,565,231) | (10,565,231) | |
| State categorical funds (IDEA) [2] | — | (31,490,135) | (31,490,135) | |
| Other | (48,299,687) | — | 48,299,687 | |
| Net treatment costs | 16,395,391 | 2,545,643 | (13,849,748) | |
| Subtotal | 26,925,935 | 7,589,112 | (19,336,823) | |
| Adjustment to eliminate negative balance [3] | — | 954,297 | 954,297 | |
| Less late claim penalty | (1,000) | (1,000) | — | |
| Total program costs | $ 26,924,935 | 8,542,409 | $(18,382,526) | |
| Less amount paid by the State | | (20,549,722) | | |
| Allowable costs claimed in excess of (less than) amount paid | | $(12,007,313) | | |

[1] See the Findings and Recommendations section.

[2] The county received $14,034,309, $13,832,574, and $13,832,574 in Individuals with Disabilities Education Act funds for FY 2003-04, FY 2004-05, and FY 2005-06, respectively. The county allocated IDEA funds between Handicapped and Disabled Students (HDS) and Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services (SEDP). The portion of IDEA funds allocated to the HDS program are included in the Allowable per Audit column.

[3] The county overapplied IDEA funds to the HDS program. We moved the excess of IDEA funds, in the amount of $954,297, to the SEDP Program.

# Findings and Recommendations

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

The county overstated assessment and treatment costs by $27,423,265 for the audit period.

The county inadvertently claimed $4,901,331 in mental health assessment costs twice for fiscal year (FY) 2004-05 and FY 2005-06. We allowed eligible assessment costs once, eliminating the duplication in the affected fiscal years.

The county claimed mental health service costs that are not fully based on actual costs to implement the mandated program. For the audit period, the county did not provide support for the claim in a testable format that could be verified. The county ran unit-of-service reports to support its claims. This process was repeated multiple times because the initial reports were run based on incorrect parameters. In the course of testing these reports, we noted errors including, but not limited to, duplicate transactions, ineligible clients, incorrect activity code/procedure code usage, missing progress notes, addition errors, and under- and over-billing.

We worked with the county to correct the query parameters before it reran the unit-of-service reports for the fourth time. The fourth generation reports resolved most of the aforementioned issues, resulting in fewer units of service. However, the reports still contained instances of overbilled, duplicate, and ineligible units of service. To remedy this situation, we excluded all overbilled services (i.e., single-client service visits in excess of ten hours), duplicate day services, and the ineligible individual and group rehabilitation services.

The county also claimed ineligible case management support costs. The services consist of pre- and post-IEP case management support services that are not eligible in accordance with the program's parameters and guidelines, and underlying state regulations that form the basis of the state-mandated cost program. Further, the services are not included in the fourth generation unit of service reports because they are not tracked by client and are based on manually prepared telephone contact logs.

In our review of the county's reports and underlying documentation used to support the case management support costs, we noted other significant issues. In the reports provided to support the case management support services, the units of service did not reconcile to the units claimed, and duplicate services were included. Concerning the latter, in some instances, the total number of telephone contacts in a given day was reported twice.

In our review of the telephone logs, we noted a number of other problematic issues. The county did not maintain records concerning the identity of the client served; it maintained only a log documenting that a contact was made concerning a program-related client. As such, we could not verify the eligibility of clients served. The logs also document telephone contacts with non-program related clients. Also, the increment of time concerning each telephone contact was not documented; the

county used a standardized 15-minute increment regardless of the actual time taken to perform the activity. This increment could result in inconsistencies in the amount of time reported to provide the service. Further, one of the county facilities providing the services shredded the telephone logs for a portion of the audit period, resulting in a lack of supporting documentation to justify the services provided.

In the course of testing the in-state, out-of-home residential placement costs, we noted ineligible services and unsupported costs. The county inappropriately claimed Community Treatment Facilities (CTF) funds as part of the residential board and care costs of clients placed out-of-home. Concerning our testing of residential placements, we noted instances of ineligible and unsupported costs including missing client files, unsupported vendor payments, and intake/discharge date errors. The latter resulted in the county claiming costs outside of the client's authorized placement period.

To correct the unit based mental health service costs, we recalculated costs based on actual, supportable units of service provided to eligible clients using the appropriate unit cost, representing the actual cost to the county. Further, we reclassified the mental health services placing each in a consistent category (i.e., assessment or treatment). For residential placement costs, we did not allow unsupported and ineligible costs, and excluded CTF funds from placement costs.

The following table summarizes the overstated costs claimed:

| | Fiscal Year | | | |
|---|---|---|---|---|
| | 2003-04 | 2004-05 | 2005-06 | Totals |
| Assessment: | | | | |
| Mental health: | | | | |
| Duplicate assessment | $ — | $ (2,076,865) | $ (2,824,466) | $ (4,901,331) |
| Reclassification of units | 749,970 | 1,064,320 | 585,557 | 2,399,847 |
| Single client visits over 10 hours | (15,050) | (18,925) | (2,033) | (36,008) |
| Case management support | (852,594) | (681,587) | (1,011,668) | (2,545,849) |
| Unsupported units | (23,605) | (94,348) | (47,403) | (165,356) |
| Total mental health | (141,279) | (1,807,405) | (3,300,013) | (5,248,697) |
| Residential placement: | | | | |
| Missing case files | — | (184,754) | — | (184,754) |
| Missing board-and-care support | — | (69,780) | — | (69,780) |
| Services outside of authorized period | — | — | (52,596) | (52,596) |
| Ineligible CTF funds | — | (394,153) | (347,036) | (741,189) |
| Total residential placement | — | (648,687) | (399,632) | (1,048,319) |
| Total assessment | (141,279) | (2,456,092) | (3,699,645) | (6,297,016) |
| Treatment: | | | | |
| Reclassification of units | (749,970) | (1,064,320) | (585,557) | (2,399,847) |
| Single client visits over 10 hours | (15,930) | (22,557) | (28,106) | (66,593) |
| Rehabilitation | (175,441) | (1,025,483) | (1,141,887) | (2,342,811) |
| Duplicate day services | (1,238) | (2,881) | (685) | (4,804) |
| Unsupported units | (5,734,230) | (6,465,191) | (4,112,773) | (16,312,194) |
| Total treatment | (6,676,809) | (8,580,432) | (5,869,008) | (21,126,249) |
| Total adjustments | $ (6,818,088) | $ (11,036,524) | $ (9,568,653) | $ (27,423,265) |

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

The parameter and guidelines also provide that costs must be traceable to source documentation to show evidence of the validity of such costs.

Title 2, California Code of Regulation (CCR), section 60020, subdivision (i), which forms the basis for the services in the state-mandated cost program, does not include case management support services and rehabilitation services. As such, these costs are not included in the program's parameters and guidelines.

Concerning case management support services (pre- and post-IEP services), Government Code, section 7576, subdivision (h), states that the county mental health agency does not have fiscal or legal responsibility for costs it incurs prior to approval of IEP, except for costs associated with conducting a mental health assessment.

Recommendation

We recommend that the county implement policies and procedures to ensure that only actual and supported costs for program eligible clients are claimed in accordance with the mandate program. We also recommend that the county ensure that it claims costs only once and places them in the correct category of cost.

County's Response

The county agreed with the finding.

**FINDING 2—Overstated administrative costs**

The county overstated administrative costs by $5,375,009 for the audit period.

The county applied administrative cost rates to ineligible costs. In all three fiscal years, the county claimed direct costs that were not based on actual program costs. Further, the county applied administrative costs rates to overbilled services, ineligible services, and duplicated day services. The county also commingled assessment and treatment direct costs and the corresponding administrative costs. For FY 2004-05 and FY 2005-06, the county inadvertently claimed assessment administrative costs twice.

The county misclassified Short Doyle/Medi-Cal (SD/MC), EPSDT, and the portion of out-of-state case management administrative revenues, resulting in an inconsistent application of these revenues to direct costs. Also, in some cases, the county applied the same administrative revenues twice in the same fiscal year. The county also applied a portion of unsupported revenues to administrative costs.

We applied administrative cost rates to eligible direct costs. We also applied the portion of SD/MC, EPSDT, and out-of-state case management administrative cost revenues to the corresponding assessment and treatment administrative costs.

The following table summarizes the overstated administrative costs claimed:

| | Fiscal Year | | | |
|---|---|---|---|---|
| | 2003-04 | 2004-05 | 2005-06 | Total |
| Assessment | $ (452,093) | $ (447,462) | $ (605,382) | $ (1,504,937) |
| Treatment | (1,168,510) | (1,570,000) | (1,131,562) | (3,870,072) |
| Total adjustment | $(1,620,603) | $(2,017,462) | $(1,736,944) | $ (5,375,009) |

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

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

Recommendation

We recommend that the county apply administrative cost rates to eligible and supported direct costs. Further, we recommend that the county ensure that all relevant and supported administrative revenues are applied to valid administrative costs.

County's Response

The county agreed with the finding.

## FINDING 3— Overstated offsetting revenues

The county overstated offsetting revenues by $13,461,451 for the audit period.

The county miscalculated offsetting revenues by using inaccurate Medi-Cal units for audit period and applied an incorrect funding percentage for EPSDT for FY 2005-06. The county also applied revenues toward ineligible and unsupported direct costs.

The county did not apply assessment and treatment revenues consistently from year to year. Many of assessment revenues were duplicated because multiple forms were used to generate the claims. In addition, the county comingled assessment and treatment costs, and comingled the corresponding revenues during the claim process. The county also included unsupported revenue allocations.

We recalculated revenues related to eligible assessment and treatment costs by applying the appropriate cost per unit to actual, supported Medi-Cal units, using the correct funding percentages for SD/MC and EPSDT, and excluding unsupported revenues. To clearly identify the offsetting revenues, we reclassified revenues by placing each in a separate and distinct category.

For residential placement costs, the county applied offsetting revenues to ineligible and unsupported costs in FY 2004-05 and FY 2005-06. We recalculated the California Department of Social Services board and care reimbursement by applying the 40% cost-sharing mechanism to eligible residential placement costs. We also reviewed the county's application of realignment funds to offset residential placement costs; we noted no anomalies in the county's allocation and application of realignment funds for FY 2004-05 and FY 2005-06.

The following table summarizes the overstated offsetting revenues claimed:

| | Fiscal Year | | | |
|---|---|---|---|---|
| | 2003-04 | 2004-05 | 2005-06 | Total |
| Assessment offsetting revenues: | | | | |
| Short-Doyle/Medi-Cal funds | $ (243,361) | $ (266,654) | $ (122,741) | $ (632,756) |
| State categorical funds (EPSDT) | (1,139,639) | (393,026) | (469,235) | (2,001,900) |
| State categorical funds (IDEA) | — | — | (1,449,671) | (1,449,671) |
| Other | (400,621) | 13,706,775 | 16,944,444 | 30,250,598 |
| State general/realignment funds | — | (5,929,000) | (5,929,000) | (11,858,000) |
| 40% board and care | — | (5,951,419) | (6,041,974) | (11,993,393) |
| Subtotal | (1,783,621) | 1,166,676 | 2,931,823 | 2,314,878 |
| Treatment offsetting revenues: | | | | |
| Short-Doyle/Medi-Cal funds | 2,114,181 | 2,102,824 | 685,247 | 4,902,252 |
| State categorical funds (EPSDT) | (3,296,940) | (3,819,581) | (3,448,710) | (10,565,231) |
| State categorical funds (IDEA) | (9,621,191) | (12,732,788) | (9,136,156) | (31,490,135) |
| Other | 15,778,344 | 19,288,866 | 13,232,477 | 48,299,687 |
| Subtotal | 4,974,394 | 4,839,321 | 1,332,858 | 11,146,573 |
| Total offsetting revenues | $ 3,190,773 | $ 6,005,997 | $ 4,264,681 | $ 13,461,451 |

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.

Welfare and Institutions Code section 15200, subdivision (c)(1), provides the cost sharing mechanism whereby the California Department of Social Services reimburses counties for 40% of the 24-hour out-of-home residential board-and-care costs.

Recommendation

We recommend that the county ensure that appropriate revenues are identified and applied to valid costs. In addition, we recommend that the county apply the appropriate EPSDT reimbursement percentages. Further, we recommend that the county ensure that revenues are applied once to the correct category of cost, and that it maintains supporting documentation for all applicable offsetting revenues.

County's Response

The county agreed with the finding.

# Attachment—
# County's Response to
# Draft Audit Report

# COUNTY OF LOS ANGELES
# DEPARTMENT OF AUDITOR-CONTROLLER

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June 16, 2010

Mr. Jeffrey V. Brownfield, Chief
Division of Audits
State Controller's Office
300 Capitol Mall, Suite 518
Sacramento, California 95814

Dear Mr. Brownfield:

## LOS ANGELES COUNTY'S RESPONSE TO THE STATE CONTROLLER'S DRAFT AUDIT REPORT HANDICAPPED AND DISABLED STUDENTS (HDS) PROGRAM CHAPTER 1747, STATUTES OF 1984

The County of Los Angeles has reviewed the State's draft audit report dated May 19, 2010 for the HDS program, for the period July 1, 2003 through June 30, 2006. The draft audit report concluded that, of the $26,924,935 claimed under HDS, $8,542,409 is allowable. The remaining $18,382,526 is not allowable pursuant to the Parameters and Guidelines adopted by the Commission on State Mandates on August 29, 1996.

The County's attached response indicates agreement with the audit findings and the actions that the County will take to implement policies and procedures to ensure that the costs claimed under HDS are eligible, mandate related, and supported. We also recognize that if the County subsequently provides additional information to support its $18,382,526 of unallowable costs, or if there are any changes in the laws and regulations, the State will revise the final audit report to include such additional allowable costs.

If you have any questions, please contact Hasmik Yaghobyan at (213) 893-0792 or via e-mail at hyaghobyan@auditor.lacounty.gov.

Very truly yours,

Wendy L. Watanabe
Auditor-Controller

WLW:MMO:JN:CY:hy
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Attachment

Attachment I

**LOS ANGELES COUNTY'S RESPONSE**
**TO THE STATE CONTROLLER'S DRAFT AUDIT REPORT**
**HANDICAPPED AND DISABLED STUDENTS (HDS) PROGRAM**
**CHAPTER 1747, STATUTES OF 1984**

**Finding 1 – Overstated assessment and treatment costs**

The County overstated assessment and treatment costs by $27,423,265 for the audit period. The County inadvertently claimed mental health assessment costs twice in the amount of $4,901,331 for Fiscal Year (FY) 2004-05 and FY 2005-06. We allowed eligible assessment costs once, eliminating the duplication in the affected fiscal years.

The County claimed mental health service costs that are not fully based on actual costs to implement the mandated program. For the audit period, the County did not provide support for the claim in a testable format that could be verified. The County ran unit-of-service reports to support its claims.

The County also claimed ineligible case management support costs. The services consist of pre- and post Individualized Education Program (IEP) case management support services that are not eligible in accordance with the program's parameters and guidelines, and underlying state regulations that form the basis of the state mandated cost program. Further, the services are not included in the fourth generation unit of service reports because they are not tracked by client and are based on manually prepared telephone contact logs.

***State's Recommendation***

We recommend that the County implement policies and procedures to ensure that only actual and supported costs for program eligible clients are claimed in accordance with the mandate program. We also recommend that the County ensure that it claims costs only once and places them in the correct category of cost.

***County's Response***

We agree with the recommendation. The County will strengthen the policies and procedures to ensure that only actual units of service for eligible clients are claimed in accordance with the mandated program. The County will ensure all staff members are trained on the applicable policies and procedures.

The County followed the claiming instructions and did not intentionally submit a duplicate claim. The audit finding for duplicate assessment costs claims for FY 2004-05 and FY 2005-06 were actual assessment costs claimed in Chapter 1747 and were re-filed in compliance with the instructions in the Amended Parameters and Guidelines (Ps and Gs) for Handicapped and Disabled Students (04-RL-4282-10), that states "*In addition, estimated and actual claims filed for fiscal years 2004-2005 and 2005-2006 pursuant to the parameters and guidelines and claiming instructions for Handicapped and Disabled Students (CSM 4282) shall be re-filed under these*

*parameters and guidelines". (Please see attached Ps and Gs pages 3 to 6).* The amended parameters and guidelines include activities for assessment and residential placements. The County re-filed the assessment costs merely for reporting purposes and was not aware that the State would pay for the re-filed claims.

The County has agreed to the audit disallowances for Case Management Support Costs. However, the County reserves the right to claim these unallowed costs in future fiscal year claims in the event that these costs are in compliance with the Parameters and Guidelines for this mandate.

**Finding 2 – Overstated administrative costs**

The County overstated administrative costs by $5,375,009 for the audit period.

The County applied administrative cost rates to ineligible costs. In all three fiscal years, the County claimed direct costs that were not based on actual program costs. Further, the County applied administrative costs rates to overbilled services, ineligible services, and duplicated day services. The County also comingled assessment and treatment direct costs and corresponding administrative costs. For FY 2004-05 and FY 2005-06, the County inadvertently claimed assessment administrative costs twice.

***State's Recommendation***

We recommend that the County apply administrative cost rates to eligible and supported direct costs. Further, we recommend that the County ensure that all relevant and supported administrative revenues are applied to valid administrative costs.

***County's Response***

We agree with the recommendation. As stated in the County's Response for Finding 1, the County will strengthen the policies and procedures to ensure that only actual units of service for eligible clients are claimed in accordance with the mandated program and will ensure the administrative cost rates are applied appropriately. At the time of claim preparation, it was the County's understanding that the administrative cost rates were applied to eligible and supported direct costs. The State auditor's discovery of ineligible units of service resulted in the ineligibility of the administrative costs. The County has and will continue to apply administrative cost rates to eligible and supported direct costs at the time of claim preparation and make its best effort to assure that all units of service are eligible. The County will follow the State audit method to include both the County and non governmental agencies targeted case management services (Mode 15 Service Function Codes (SFC) 03 and 04) and psychological testing services (Mode 15 SFC 33 and 34) in the Assessment component.

Attachment I

**LOS ANGELES COUNTY'S RESPONSE**
**TO THE STATE CONTROLLER'S DRAFT AUDIT REPORT**
**HANDICAPPED AND DISABLED STUDENTS (HDS) PROGRAM**
**CHAPTER 1747, STATUTES OF 1984**

For FY 2004-05 and FY 2005-06, the County did not claim assessment administrative costs twice. As stated in the County's response for Finding 1, the County re-filed the assessment costs merely for reporting purposes, per the amended parameters and guidelines, and without the knowledge that the State would pay the re-filed claims. In view of this, the County requests that the audit findings on duplicate assessment administrative costs claims for FY 2004-05 and FY 2005-06 be removed from the total gross claimed amount and the total audit findings.

**Finding 3 – Overstated offsetting revenues**

The County overstated offsetting revenues by $13,461,451 for the audit period.

The County miscalculated offsetting revenues by using inaccurate Medi-Cal units for audit period and applied an incorrect funding percentage for Early and Periodic, Screening, Diagnosis and Treatment (EPSDT) for FY 2005-06. The County also applied revenues toward ineligible and unsupported direct costs.

***State's Recommendation***

We recommend that the County ensure that the appropriate revenues are identified and applied to valid costs. In addition, we recommend that the County apply the appropriate EPSDT reimbursement percentages. Further, we recommend that the County ensure that the revenues applied once to the correct category of costs, and it maintains supporting documentation for all applicable offsetting revenues.

***County's Response***

We agree with the recommendation. It is always the County's intent to apply the applicable offsetting revenues (including federal, state, and local reimbursements) to eligible costs, which are supported by source documentation. However, final Medi-Cal reimbursement and EPSDT reimbursement percentages will not be available until the State issues the Medi-Cal and EPSDT settlement. The State did not incorporate the actual reimbursement percentages into the cost report process, which is the basis for this mandated claim. To show diligence, it has been the County's practice to adjust the difference between the claimed and final settlement amounts in the subsequent year claims to reflect the final Medi-Cal revenue per settlement. The County has and will continue to follow policies and procedures making its best effort to ensure the most accurate revenues are applied to valid program costs.

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