

# MONTEREY 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

October 2008



**JOHN CHIANG**  
California State Controller

October 17, 2008

The Honorable Fernando Armenta, Chairman  
Board of Supervisors  
Monterey County  
168 West Alisal Street, 2<sup>nd</sup> Floor  
Salinas, CA 93901

Dear Supervisor Armenta:

The State Controller's Office audited the costs claimed by Monterey 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 \$3,321,089 for the mandated program. Our audit disclosed that \$2,774,308 is allowable and \$546,781 is unallowable. The county claimed the unallowable costs primarily because it (1) applied incorrect units and rates, (2) claimed ineligible crisis intervention costs, and (3) omitted contract providers' costs. The State paid the county \$1,023,709. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,750,599, contingent upon available appropriations.

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: Wayne Clark, Ph.D., Director  
Behavioral Health Division  
Monterey County  
The Honorable Michael J. Miller, Auditor-Controller  
Monterey County  
Todd Jerue, Program Budget Manager  
Corrections and General Government  
Department of Finance  
Stacey Wofford  
Special Education Program  
Department of Mental Health  
Cynthia Wong, Manager  
Special Education Division  
California Department of Education

# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>3</b>
<b>Views of Responsible Official .....</b>	<b>3</b>
<b>Restricted Use .....</b>	<b>3</b>
<b>Schedule 1—Summary of Program Costs.....</b>	<b>4</b>
<b>Findings and Recommendations .....</b>	<b>6</b>
<b>Attachment—County’s Response to Draft Audit Report</b>	

# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Monterey County for the legislatively mandated Handicapped and Disabled Students (HDS) 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 \$3,321,089 for the mandated program. Our audit disclosed that \$2,774,308 is allowable and \$546,781 is unallowable. The county claimed the unallowable costs primarily because it (1) applied incorrect units and rates, (2) claimed ineligible crisis intervention costs, and (3) omitted contract providers' costs. The State paid the county \$1,023,709. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,750,599, 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 mandated program reimbursable costs.

The parameters and guidelines for the HDS 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 HDS II Program that incorporates the above legislation and further identifies 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 HDS 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 1, 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 HDS 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, Monterey County claimed \$3,321,089 for costs of the HDS Program. Our audit disclosed that \$2,774,308 is allowable and \$546,781 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$1,750,599 is allowable. The State will pay allowable costs claimed, totaling \$1,750,599, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$1,023,709. Our audit disclosed that \$1,023,709 is allowable.

**Views of  
Responsible  
Official**

We issued a draft audit report on June 12, 2008. The Honorable Michael J. Miller, Auditor-Controller, responded by letter dated August 14, 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 Monterey 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

October 17, 2008

**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>				
Assessment and case management costs	\$ 540,443	\$ 518,459	\$ (21,984)	Finding 1
Administrative costs	84,103	85,345	1,242	Finding 2
Less offsetting revenues:				
State categorical funds	(142,278)	(119,294)	22,984	Finding 3
Short-Doyle/Medi-Cal	<u>(158,087)</u>	<u>(169,557)</u>	<u>(11,470)</u>	Finding 3
Net assessment and case management costs	<u>324,181</u>	<u>314,953</u>	<u>(9,228)</u>	
Treatment costs	2,965,753	3,911,711	945,958	Finding 1
Administrative costs	461,529	625,862	164,333	Finding 2
Less offsetting revenues:				
State categorical funds	(688,776)	(735,231)	(46,455)	Finding 3
Short-Doyle/Medi-Cal	(765,307)	(1,045,007)	(279,700)	Finding 3
IDEA Fund	<u>—</u>	<u>(1,321,689)</u>	<u>(1,321,689)</u>	Finding 3
Net treatment costs	<u>1,973,199</u>	<u>1,435,646</u>	<u>(537,553)</u>	
Total program costs	<u>\$ 2,297,380</u>	<u>1,750,599</u>	<u>\$ (546,781)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,750,599</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Assessment and case management costs	\$ 597,406	\$ 622,132	\$ 24,726	Finding 1
Administrative costs	101,966	91,120	(10,846)	Finding 2
Less offsetting revenues:				
State categorical funds	(158,078)	(159,664)	(1,586)	Finding 3
Short-Doyle/Medi-Cal	<u>(175,642)</u>	<u>(196,776)</u>	<u>(21,134)</u>	Finding 3
Net assessment and case management costs	<u>365,652</u>	<u>356,812</u>	<u>(8,840)</u>	
Treatment costs	2,929,449	3,614,738	685,289	Finding 1
Administrative costs	398,034	516,346	118,312	Finding 2
Less offsetting revenues:				
State categorical funds	(647,346)	(731,967)	(84,621)	Finding 3
Short-Doyle/Medi-Cal	(719,274)	(902,100)	(182,826)	Finding 3
IDEA Fund	<u>(1,302,806)</u>	<u>(1,302,806)</u>	<u>—</u>	Finding 3
Net treatment costs	<u>658,057</u>	<u>1,194,211</u>	<u>536,154</u>	
Subtotal	1,023,709	1,551,023	527,314	
Less allowable costs that exceed costs claimed <sup>2</sup>	<u>—</u>	<u>(527,314)</u>	<u>(527,314)</u>	
Total program costs	<u>\$ 1,023,709</u>	<u>1,023,709</u>	<u>\$ —</u>	
Less amount paid by the State		<u>(1,023,709)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		



## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>Summary: July 1, 2003, through June 30, 2006 <sup>3</sup></u>				
Assessment and case management costs	\$ 1,137,849	\$ 1,140,591	\$ 2,742	
Administrative costs	186,069	176,465	(9,604)	
Less offsetting revenues:				
State categorical funds	(300,356)	(278,958)	21,398	
Short-Doyle/Medi-Cal	(333,729)	(366,333)	(32,604)	
IDEA Fund	—	—	—	
Net assessment and case management costs	<u>689,833</u>	<u>671,765</u>	<u>(18,068)</u>	
Treatment costs	5,895,202	7,526,449	1,631,247	
Administrative costs	859,563	1,142,208	282,645	
Less offsetting revenues:				
State categorical funds	(1,336,122)	(1,467,198)	(131,076)	
Short-Doyle/Medi-Cal	(1,484,581)	(1,947,107)	(462,526)	
IDEA Fund	<u>(1,302,806)</u>	<u>(2,624,495)</u>	<u>(1,321,689)</u>	
Net treatment costs	<u>2,631,256</u>	<u>2,629,857</u>	<u>(1,399)</u>	
Subtotal	3,321,089	3,301,622	(19,467)	
Less allowable costs that exceed costs claimed <sup>2</sup>	—	<u>(527,314)</u>	<u>(527,314)</u>	
Total program costs	<u>\$ 3,321,089</u>	2,774,308	<u>\$ (546,781)</u>	
Less amount paid by the State		<u>(1,023,709)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,750,599</u>		

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

<sup>2</sup> 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 2004-05.

<sup>3</sup> FY 2005-06 costs were claimed under HDS II Program.

# Findings and Recommendations

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

The county understated assessment and treatment costs by \$1,633,989 for the audit period.

The county computed claimed costs by using incorrect units of service and applying rates that were not based on actual costs incurred for the reimbursable activities. We re-calculated total program costs using rates that were supported by the cost report and any contractual agreements between the county and the service providers. Furthermore, the county claimed \$54,925 in ineligible crisis intervention costs for the audit period. We also found that the county omitted \$763,025 of costs incurred by the contract providers. We reclassified \$79,478 of contract services claimed in FY 2004-05 under the HDS II Program from assessment to treatment, and moved the costs to the HDS Program.

The program’s parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities and supported by source documents that show the validity of such costs.

Additionally, the parameters and guidelines state that the claimant is allowed to claim and be reimbursed only for eligible activities.

The following table summarizes the understated assessment and treatment costs:

	Fiscal Year		Total
	2003-04	2004-05	
Assessment:			
Incorrect units/rates	\$ (22,929)	\$ 24,726	\$ 1,797
Omitted contract services	945	—	945
Total assessment	(21,984)	24,726	2,742
Treatment:			
Incorrect units/rates	383,532	460,137	843,669
Ineligible services	(26,590)	(28,335)	(54,925)
Omitted contract services	589,015	174,010	763,025
HDS Program costs reclassified	—	79,478	79,478
Total treatment	945,957	685,290	1,631,247
Audit adjustment	\$ 923,973	\$ 710,016	\$ 1,633,989

Recommendation

We recommend that the county use appropriate rates to compute claimed assessment and treatment costs. Additionally, we recommend that the county claim only eligible services.

County’s Response

The county agreed with the audit finding.

**FINDING 2—  
Overstated  
administrative costs**

The county understated administrative costs by \$273,041 for the audit period.

The county applied administrative costs to incorrect units of service and the cost per unit and applied an indirect cost rate that is inconsistent with the program’s parameters and guidelines. We recalculated indirect costs using correct units and costs, and applied an allocation methodology that is consistent with the cost report.

The parameters and guidelines specify that costs are eligible for reimbursement if the claimant uses the procedure provided in the Office of Management and Budget Circular A-87. Claimants have the option of using 10% of direct labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal if the indirect cost rate claimed exceeds 10%.

The following table summarizes the understated administrative costs:

	Fiscal Year		Total
	2003-04	2004-05	
Administrative costs:			
Assessment costs	\$ 1,242	\$ (10,846)	\$ (9,604)
Treatment costs	164,333	118,312	282,645
Audit adjustment	<u>\$ 165,575</u>	<u>\$ 107,466</u>	<u>\$ 273,041</u>

Recommendation

We recommend that the county apply indirect cost rates that are consistent with the program’s parameters and guidelines.

County’s Response

The county agreed with the audit finding.

**FINDING 3—  
Understated revenue  
offsets**

The county understated revenue offsets by \$1,926,497 for the audit period.

The county applied revenue offsets based on incorrect units of service and the cost per unit. Further, the county used an incorrect rate to calculate Early Periodic Screening, Diagnosis, and Treatment (EPSDT) reimbursement, and omitted \$1,321,689 of Individuals with Disabilities and Education Act funding for fiscal year 2003-04. We excluded revenue offsets that relate to the unallowable crisis intervention costs discussed in audit Finding 1.

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 understated offsetting revenues:

	Fiscal Year		Total
	2003-04	2004-05	
Assessment revenues:			
State categorical funds	\$ (11,470)	\$ (21,134)	\$ (32,604)
Short-Doyle/Medi-Cal funds	22,984	(1,586)	21,398
Total assessment revenues	11,514	(22,720)	(11,206)
Treatment revenues:			
State categorical funds	(46,455)	(84,621)	(131,076)
Short-Doyle/Medi-Cal funds	(279,700)	(182,826)	(462,526)
Other: IDEA fund	(1,321,689)	—	(1,321,689)
Total treatment revenues	(1,647,844)	(267,447)	(1,915,291)
Audit adjustment	\$ (1,636,330)	\$ (290,167)	\$ (1,926,497)

Recommendation

We recommend that the county ensure that it offsets all applicable reimbursements against reimbursable costs incurred for this program.

County's Response

The county agreed with the audit finding.

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

---

# MONTEREY COUNTY

---



## AUDITOR - CONTROLLER

(831) 755-5040 • FAX (831) 755-5088 • P.O. BOX 390 • SALINAS, CALIFORNIA 93902

**MICHAEL J. MILLER, CPA, CISA**

AUDITOR-CONTROLLER

**ALFRED R. FRIEDRICH, CGFM**

ASSISTANT AUDITOR-CONTROLLER

August 14, 2008

Mr. Jim Spano  
Chief, Mandated Cost Audit Bureau  
State Controller's Office  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250-5874

RE: Audit Findings for the Handicapped and Disabled Students Program.

Dear Mr. Spano:

We concur with your audit findings of June 12, 2008 regarding unallowable costs for the Handicapped and Disabled Students Program (Chapter 12747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2003, through June 30, 2006.

We have implemented and updated our internal controls procedures to prevent the recurrence of these incidents. Any questions please feel free to contact Nerahoo Hemraj, Chief Deputy Auditor-Controller at 831-755-5088.

Sincerely,

Michael J. Miller  
Auditor-Controller

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

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