

MONTEREY COUNTY

Audit Report

SERIOUSLY EMOTIONALLY DISTURBED PUPILS: OUT-OF-STATE MENTAL HEALTH SERVICES PROGRAM

Chapter 654, Statutes of 1996

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, 2nd Floor
Salinas, CA 93901

Dear Supervisor Armenta:

The State Controller's Office audited the costs claimed by Monterey County for the legislatively mandated Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services Program (Chapter 654, Statutes of 1996) for the period of July 1, 2003, through June 30, 2006.

The county claimed \$139,837 for the mandated program. Our audit disclosed that \$135,135 is allowable and \$4,702 is unallowable. The county claimed the unallowable costs primarily because it claimed travel costs that have been claimed under the Handicapped and Disabled Students Program, omitted out-of-state treatment costs, and claimed unallowable in-state costs. The State paid the county \$47,295. The State will pay allowable costs claimed that exceed the amount paid, totaling \$87,840, 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

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Monterey County 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, 2003, through June 30, 2006.

The county claimed \$139,837 for the mandated program. Our audit disclosed that \$135,135 is allowable and \$4,702 is unallowable. The county claimed the unallowable costs primarily because it claimed travel costs that have been claimed under the Handicapped and Disabled Students (HDS) Program, omitted out-of-state treatment costs, and claimed unallowable in-state costs. The State paid the county \$47,295. The State will pay allowable costs claimed that exceed the amount paid, totaling \$87,840, contingent upon available appropriations.

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 Seriously Emotionally Disturbed (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 SED pupils 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 reimbursable state mandate under Government Code section 17561 for the following costs:

- 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, 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 \$139,837 for costs of the SED Pupils: Out-of-State Mental Health Services Program. Our audit disclosed that \$135,135 is allowable and \$4,702 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$87,840 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$87,840, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$47,295. Our audit disclosed that \$47,295 is allowable.

**Views of
Responsible
Official**

We issued a draft audit report on June 13, 2008. The Honorable Michael J. Miller, Auditor-Controller, responded by letter dated July 17, 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 ¹
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs – vendor reimbursements:				
Out-of-state costs (SED pupils)	\$ —	\$ 87,840	\$ 87,840	Finding 1
In-state costs	78,834	—	(78,834)	Finding 1
Travel costs	13,708	—	(13,708)	Finding 2
Total program costs	<u>\$ 92,542</u>	87,840	<u>\$ (4,702)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 87,840</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs – vendor reimbursements:				
Out-of-state costs (SED pupils)	\$ —	\$ 60,000	\$ 60,000	Finding 1
In-state costs	36,310	—	(36,310)	Finding 1
Travel costs	10,985	—	(10,985)	Finding 2
Subtotal	47,295	60,000	12,705	
Less allowable costs that exceeds claimed costs ²	—	(12,705)	(12,705)	
Total program costs	<u>\$ 47,295</u>	47,295	<u>\$ —</u>	
Less amount paid by the State		(47,295)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>Summary: July 1, 2003, through June 30, 2005</u>				
Direct costs – vendor reimbursements:				
Out-of-state costs (SED pupils)	\$ —	\$ 147,840	\$ 147,840	
In-state costs	115,144	—	(115,144)	
Travel costs	24,693	—	(24,693)	
Subtotal	139,837	147,840	8,003	
Less allowable costs that exceeds claimed costs ²	—	(12,705)	(12,705)	
Total program costs	<u>\$ 139,837</u>	135,135	<u>\$ (4,702)</u>	
Less amount paid by the State		(47,295)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 87,840</u>		

¹ See the Findings and Recommendations section.

² Government Code section 17561 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2004-05.

Findings and Recommendations

**FINDING 1—
Understated payments
to service vendors**

The county understated payments to service vendors by \$32,696 for the audit period.

The county omitted \$147,840 for treatment costs incurred by eligible out-of-state service vendors. Of that amount, \$60,000 was claimed in error under the Handicapped and Disabled Students (HDS) II Program. The county also claimed \$115,144 for treatment costs incurred by in-state service vendors, which already was correctly claimed under the HDS Program.

The program’s parameters and guidelines (section IV, Reimbursable Activities) specify that the direct and indirect costs of eligible services for SED pupils in out-of-state residential placements are reimbursed as specified in Government Code section 7576; California Code of Regulations, Title 2, subdivisions 60100 and 60110; and California Welfare and Institutions Code section 11460, subdivision (c), (2) and (3).

The following table summarizes the understated vendor payments:

	Fiscal Year		Total
	2003-04	2004-05	
Vendor reimbursements:			
Out-of-state treatment costs	\$ 87,840	\$ 60,000	\$ 147,840
In-state treatment costs	<u>(78,834)</u>	<u>(36,310)</u>	<u>(115,144)</u>
Audit adjustment	<u>\$ 9,006</u>	<u>\$ 23,690</u>	<u>\$ 32,696</u>

Recommendation

We recommend that the county ensure that the claimed costs are for eligible services in accordance with the program’s parameters and guidelines.

County’s Response

The county agreed with the audit finding.

**FINDING 2—
Overstated travel costs**

The county overstated travel costs by \$24,693 for the audit period.

The county claimed travel costs that were included in the cost report formula and reimbursed under the mandated HDS Program.

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

The following table summarizes the overstated travel costs:

	Fiscal Year		Total
	2003-04	2004-05	
Travel costs	\$ (13,708)	\$ (10,985)	\$ (24,693)
Audit adjustment	\$ (13,708)	\$ (10,985)	\$ (24,693)

Recommendation

We recommend that the county ensure that it claims only eligible costs incurred as a result of the mandate.

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) 755-5098 • P.O. BOX 390 • SALINAS, CALIFORNIA 93902

MICHAEL J. MILLER, CPA, CISA
AUDITOR-CONTROLLER

ALFRED R. FRIEDRICH, CGFM
ASSISTANT AUDITOR-CONTROLLER

July 17, 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 II and Seriously Emotionally Disturbed Pupils Out-Of-State Mental Health Services Programs.

Dear Mr. Spano:

We concur with your audit findings of June 12, 2008 regarding unallowable costs for the Handicapped and Disabled Students II Program (Chapter 12747, Statutes of 1984, and Chapter 1274, Statutes of 1985) and the Seriously Emotionally Disturbed Pupils Out-of-State Mental Health Program (Chapter 654, Statutes of 1996) 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
County of Monterey

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

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