

# **SACRAMENTO COUNTY**

Audit Report

## **HANDICAPPED AND DISABLED STUDENTS PROGRAM**

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

*July 1, 2004, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

December 2009



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

December 11, 2009

The Honorable Susan Peters, Chair  
Sacramento County Board of Supervisors  
700 H Street, Suite 2450  
Sacramento, CA 95814

Dear Mr. Peters:

The State Controller's Office audited costs claimed by Sacramento 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, 2004, through June 30, 2006.

The county claimed and was paid \$5,723,112 (\$5,725,112 less a \$2,000 penalty for filing late claims); the entire amount is allowable.

Our audit disclosed costs that are unallowable because the county claimed ineligible services, miscalculated administrative costs, and understated revenues. However, the unallowable costs are more than fully offset by eligible services that the county did not claim. The statutory period for the county to amend the claims pursuant to Government Code section 17561 has expired. Therefore, we limited allowable costs to the amounts claimed.

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](http://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

cc: Dave Irish, CPA  
Director of Finance  
Sacramento County  
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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Sacramento 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, 2004, through June 30, 2006.

The county claimed and was paid \$5,723,112 (\$5,725,112 less a \$2,000 penalty for filing late claims); the entire amount is allowable.

Our audit disclosed costs that are unallowable because the county claimed ineligible services, miscalculated administrative costs, and understated revenues. However, the unallowable costs are more than fully offset by eligible services that the county did not claim. The statutory period for the county to amend the claims pursuant to Government Code section 17561 has expired. Therefore, we limited allowable costs to the amounts claimed.

## 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 them on August 29, 1996. In compliance with Government Code section 17558, the SCO issues claiming instructions, to assist local agencies and school district 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 FY 2000-01 and prior fiscal years is not subject to dispute by the SCO. Further, 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 costs of any part of these services with money received from a Local Revenue Fund as 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 assessment, psychotherapy, and other mental health services . . .” and that the finding by the Legislature is “declaratory of existing law.”

On May 26, 2005, the CSM adopted a statement of decision for the Handicapped and Disabled Students II Program that incorporated 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 states that “Some costs disallowed by the State Controller’s Office (SCO) in prior years are now reimbursable beginning July 1, 2001 (e.g., medication monitoring). Rather than requiring claimants to refile claims for these costs incurred, beginning July 1, 2001, the State Controller’s Office will reissue the audit reports.” Consequently, we are allowing medication support costs commencing 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, 2004, 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.

The county claimed and was paid \$5,723,112 (\$5,725,112 less a \$2,000 penalty for filing late claims); the entire amount is allowable.

**Views of  
Responsible  
Official**

We issued a draft audit report on October 14, 2009. Ann Edwards-Buckley, Director, Sacramento County Department of Health and Human Services, responded by letter dated November 3, 2009 (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 Sacramento 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

December 11, 2009

**Schedule 1—  
Summary of Program Costs  
July 1, 2004, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<b><u>July 1, 2004, through June 30, 2005</u></b>				
Assessment/case management costs	\$ 2,583,125	\$ 3,278,689	\$ 695,564	Finding 1
Administrative costs	—	141,044	141,044	Finding 2
Net assessment/case management costs	<u>2,583,125</u>	<u>3,419,733</u>	<u>836,608</u>	
Treatment costs	1,813,194	2,050,631	237,437	Finding 1
Administrative costs	—	251,173	251,173	Finding 2
Offsetting revenues:				
State categorical funds (IDEA) <sup>2</sup>	<u>(1,812,658)</u>	<u>(1,918,567)</u>	<u>(105,909)</u>	Finding 3
Net treatment costs	<u>536</u>	<u>383,237</u>	<u>382,701</u>	
Subtotal	2,583,661	3,802,970	1,219,309	
Adjustment to reduce allowable costs to claimed costs <sup>3</sup>	—	(1,219,309)	(1,219,309)	
Less late claim penalty	<u>(1,000)</u>	<u>(1,000)</u>	—	
Total program costs	<u>\$ 2,582,661</u>	2,582,661	<u>\$ —</u>	
Less amount paid by the State		<u>(2,582,661)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<b><u>July 1, 2005, through June 30, 2006</u></b>				
Assessment/case management costs	\$ 3,220,979	\$ 1,776,834	\$ (1,444,145)	Finding 1
Administrative costs	—	170,660	170,660	Finding 2
Net assessment/case management costs	<u>3,220,979</u>	<u>1,947,494</u>	<u>(1,273,485)</u>	
Treatment costs	1,733,130	3,010,801	1,277,671	Finding 1
Administrative costs	—	206,599	206,599	Finding 2
Offsetting revenues:				
State categorical funds (IDEA) <sup>2</sup>	<u>(1,812,658)</u>	<u>(1,938,801)</u>	<u>(126,143)</u>	Finding 3
Net treatment costs	<u>(79,528)</u>	<u>1,278,599</u>	<u>1,358,127</u>	
Subtotal	3,141,451	3,226,093	84,642	
Adjustment to reduce allowable costs to claimed costs <sup>3</sup>	—	(84,642)	(84,642)	
Less late claim penalty	<u>(1,000)</u>	<u>(1,000)</u>	—	
Total program costs	<u>\$ 3,140,451</u>	3,140,451	<u>\$ —</u>	
Less amount paid by the State		<u>(3,140,451)</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, 2004, through June 30, 2006</u>				
Assessment/case management costs	\$ 5,804,104	\$ 5,055,523	\$ (748,581)	
Administrative costs	—	311,704	311,704	
Net assessment/case management costs	<u>5,804,104</u>	<u>5,367,227</u>	<u>(436,877)</u>	
Treatment costs	3,546,324	5,061,432	1,515,108	
Administrative costs	—	457,772	457,772	
Offsetting revenues:				
State categorical funds (IDEA) <sup>2</sup>	<u>(3,625,316)</u>	<u>(3,857,368)</u>	<u>(232,052)</u>	
Net treatment costs	<u>(78,992)</u>	<u>1,661,836</u>	<u>1,740,828</u>	
Subtotal	5,725,112	7,029,063	1,303,951	
Adjustment to reduce allowable costs to claimed costs <sup>3</sup>	—	(1,303,951)	(1,303,951)	
Less late claim penalty	<u>(2,000)</u>	<u>(2,000)</u>	<u>—</u>	
Total program costs	<u>\$ 5,723,112</u>	5,723,112	<u>\$ —</u>	
Less amount paid by the State		<u>(5,723,112)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

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

<sup>2</sup> The county received \$1,918,567 and \$1,938,801 in Individual with Disabilities Education Act (IDEA) funds for FY 2004-05 and FY 2005-06, respectively.

<sup>3</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 and FY 2005-06.

# Findings and Recommendations

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

The county understated costs by \$766,527 for the audit period. The county did not prepare its claims based on its actual costs to implement the mandated program.

When preparing its claims, the county:

- Commingled assessment and treatment services on the claim form;
- Used preliminary unit-of-service reports and, in some cases, used an incorrect rate per unit to compute costs;
- Included ineligible services of crisis intervention (fiscal year [FY] 2004-05), crisis stabilization, and rehabilitation (both individual and group);
- Included its total administrative costs under treatment costs;
- Overstated its treatment costs for residential placements (FY 2004-05);
- Omitted its treatment costs for residential placements from FY 2005-06 claim; and
- Omitted reimbursable board-and-care costs from claims.

We adjusted costs based on actual units of service provided to eligible clients, using the appropriate unit cost that represents the actual cost to the county. We also considered the eligible costs that the county omitted from its claims in determining audit adjustments.

The program’s parameters and guidelines specify that the only the following services are reimbursable: case management, assessment, individual therapy, group therapy, day treatment, and day rehabilitation. Beginning with FY 2001-02, medication monitoring is reimbursable as well. Beginning with FY 2004-05, reimbursable out-of-home residential placement costs include mental health and room-and-board costs. Previously, only mental health treatment costs were reimbursable.

The following table summarizes the understated costs claimed:

	Fiscal Year		Total
	2004-05	2005-06	
Assessment costs	\$ 695,564	\$(1,444,145)	\$ (748,581)
Treatment costs	237,437	1,277,671	1,515,108
Total	<u>\$ 933,001</u>	<u>\$ (166,474)</u>	<u>\$ 766,527</u>

Recommendation

We recommend that the county use the actual units of service and cost per unit, claim only eligible services in accordance with the mandated program, and consider all reimbursable activities performed when preparing its claim.

County’s Response

The county agreed with the finding.

**FINDING 2—  
Understated the  
administrative costs**

The county understated its administrative costs by \$769,476 for the audit period.

We found no discrepancy with the methodology used by the county to compute its administrative rates. However, the county applied its administrative cost rates to ineligible services costs (i.e., crisis intervention, crisis stabilization, and rehabilitation, including both individual and group).

In addition, the county commingled assessment and treatment costs, and therefore commingled the associated administrative costs. The county then reported the entire amount of administrative costs as part of the direct treatment costs on its claim.

We first separated the services, placing each in the correct category of cost (assessment or treatment). We then applied the administrative rate to eligible services of each category.

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 indirect costs from categorical funding sources, the costs may be claimed.

The following table summarizes the understated administrative costs claimed:

	Fiscal Year		Total
	2004-05	2005-06	
Assessment costs	\$ 141,044	\$ 170,660	\$ 311,704
Treatment costs	251,173	206,599	457,772
Total	<u>\$ 392,217</u>	<u>\$ 377,259</u>	<u>\$ 769,476</u>

Recommendation

We recommend that the county apply its administrative rates to eligible direct costs only, and report such costs in the correct category on the claim.

County's Response

The county agreed with the finding.

**FINDING 3—  
Understated offsetting  
revenue**

The county understated offsetting revenues by \$232,052 for the audit period.

The county omitted a portion of Individuals with Disabilities Education Act (IDEA) funds from offsetting revenues. This omission relates to additional IDEA funds received through a reallocation that is in excess of its original allocation for the program.

We adjusted revenues by the additional amount of IDEA funds received by the county.

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 claimed:

	Fiscal Year		Total
	2004-05	2005-06	
Treatment			
State categorical funds (IDEA)	\$ (105,909)	\$ (126,143)	\$ (232,052)
Total	\$ (105,909)	\$ (126,143)	\$ (232,052)

Recommendation

We recommend that the county apply the entire amount of each applicable revenue source when computing its offsetting revenues.

County's Response

The county agreed with the finding.

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

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Countywide Services Agency

**Department of Health and Human  
Services**

Ann Edwards-Buckley, Director



**County of Sacramento**

Terry Schutten, County Executive  
James W. Hunt, Acting Administrator

November 3, 2009

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

**SUBJECT:** Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2004 through June 30, 2006

Dear Mr. Spano:

We recently received the draft audit report forwarded to Dave Irish (Director of Finance) dated October 14<sup>th</sup>, 2009. The County of Sacramento concurs with the conclusions reached by the State Controller's Office. We will take appropriate measures to properly identify & classify ineligible as well as eligible services in subsequent periods.

If you have any concerns, please contact George McElroy, Accounting Manager at (916) 875-1726.

Sincerely,

A handwritten signature in black ink, appearing to read "Ann Edwards-Buckley".

Ann Edwards-Buckley  
Director  
Department of Behavioral Health Services

C: Dave Irish, CPA, Director of Finance, Sacramento County  
Julie Valverde, Assistant Auditor-Controller, Sacramento County  
Nikki Sowunmi, Accounting Manager, Sacramento County

**State Controller's Office  
Division of Audits  
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