

# **SACRAMENTO COUNTY**

Audit Report

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

Chapter 654, Statutes of 1996

*July 1, 2005, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

November 2009



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

November 25, 2009

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

Dear Ms. Peters:

The State Controller's Office audited the costs claimed by Sacramento 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, 2005, through June 30, 2006.

The county claimed and was paid \$523,618 for the mandated program. Our audit disclosed that \$31,691 is allowable and \$491,927 is unallowable. The costs are unallowable because the county claimed ineligible vendor payments for out-of-state residential placement of seriously emotionally disturbed (SED) pupils in facilities that are owned and operated for profit, claimed unsupported residential placement costs, and did not offset reimbursement for its 60% share of total residential costs of SED pupils placed in out-of-home residential facilities with local revenue funds. The State will offset \$491,927 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](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/sk

cc: Dave Irish, CPA, Director of Finance  
Sacramento County  
Julie Valverde, Assistant Auditor-Controller  
Sacramento County  
George W. McElroy, Accounting Manager  
Department of Health & Human Services  
Sacramento County  
Nikki Sowunmi, Accounting Manager  
Department of Human Assistance  
Sacramento County  
Carla Casteñeda, Principal Program Analyst  
Department of Finance, Administration  
Paula Higashi, Executive Director  
Commission on State Mandates  
Carol Bingham, Director  
Fiscal Policy Division  
California Department of Education  
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 Sacramento 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, 2005, through June 30, 2006.

The county claimed and was paid \$523,618 for the mandated program. Our audit disclosed that \$31,691 is allowable and \$491,927 is unallowable. The costs are unallowable because the county claimed ineligible vendor payments for out-of-state residential placement of seriously emotionally disturbed (SED) pupils in facilities that are owned and operated for profit, claimed unsupported residential placement costs, and did not offset reimbursement for its 60% share of total residential costs of SED pupils placed in out-of-home residential facilities with local revenue funds. The State will offset \$491,927 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

## Background

Chapter 654, Statutes of 1996, added and amended Government Code section 7576 by allowing 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. County fiscal and programmatic responsibilities including those set forth in California Code of Regulations section 60100 provide that residential placements for a 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 state mandate reimbursable under Government Code section 17561 for the following:

- Payment of out-of-state residential placements for SED pupils;
- Case management of out-of-state residential placements for SED pupils. Case management includes supervision of mental health treatment and monitoring of psychotropic medications;
- Travel to conduct quarterly face-to-face contacts at the residential facility to monitor level of care, supervision, and the provision of mental health services as required in the pupil's Individualized Education Plan; and
- 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 for mandated programs, 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 Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services Program for the period of July 1, 2005, 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, Sacramento County claimed and was paid \$523,618 for costs of the Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services Program. Our audit disclosed that \$31,691 is allowable and \$491,927 is unallowable. The State will offset \$491,927 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 September 25, 2009. Ann Edwards-Buckley, Director, Sacramento County Behavioral Health Services, and Bruce Wagstaff, Director, Sacramento County Department of Human Assistance, responded by letter dated October 8, 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

November 25, 2009

**Schedule 1—  
Summary of Program Costs  
July 1, 2005, through June 30, 2006**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference<sup>1</sup></u>
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Mental health service:				
Vendor reimbursements	\$ 523,618	\$ 144,052	\$ (379,566)	Finding 1
Less reimbursements	—	<u>(112,361)</u>	<u>(112,361)</u>	Finding 2
Total program costs	<u>\$ 523,618</u>	31,691	<u>\$ (491,927)</u>	
Less amount paid by the State		<u>(523,618)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ (491,927)</u>	

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



# Findings and Recommendations

**FINDING 1—  
Overstated vendor  
costs**

The county overstated vendor costs by \$379,566 for the audit period.

The county claimed ineligible vendor payments of \$376,332 (board-and-care costs) for out-of-state residential placement of seriously emotionally disturbed (SED) pupils in facilities that are owned and operated for profit. Further, the county claimed unsupported treatment (board-and-care) costs of \$ 3,234.

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

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

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

The following table summarizes the unallowable vendor costs claimed:

	Fiscal Year 2005-06
Ineligible placements	\$ (376,332)
Unsupported costs	<u>(3,234)</u>
Total	<u>\$ (379,566)</u>

Recommendation

We recommend that the county implement policies and procedures to ensure that out-of-state residential placements are made in accordance with laws and regulations. Further, we recommend that the county claim only eligible board-and-care costs corresponding to the authorized placement period and correct rate per month of each eligible client.

County’s Response

The county agreed with the finding.

**FINDING 2—  
Understated offsetting  
revenues**

The county understated offsetting revenues by \$112,361 for the audit period.

The county did not offset its 60% share of total residential costs of SED pupils placed in out-of-home residential facilities with local revenue funds. We allocated realignment funds across various programs by cost and applied the appropriate portion of realignment funds to offset board and care costs of SED pupils placed in out-of-state residential facilities.

The parameters and guidelines (section VII.) specify that any reimbursement for this mandate received from any source, including but not limited to federal funds and other state funds, shall be identified and deducted from this claim.

Beginning with FY 2005-06, Welfare and Institutions Code section 18355.5 specifies counties shall not claim reimbursement for costs of 24-hour out-of-home care for seriously emotionally disturbed children who are placed in accordance with section 7572.5 of the Government Code, if those costs are claimed by the county under this chapter and the county receives reimbursement for those costs through the local revenue fund established pursuant to section 17600.

The following table summarizes the understated offsetting revenues claimed:

	Fiscal Year <u>2005-06</u>
Local revenue funds	<u>\$ (112,361)</u>
Total	<u>\$ (112,361)</u>

Recommendation

We recommend that the county identify and apply all relevant revenue sources to eligible program costs.

County’s Response

The county agreed with the finding.

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

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County Executive  
Terry Schutten



## County of Sacramento

Board of Supervisors  
Roger Dickinson, District 1  
Jimmie Yee, District 2  
Susan Peters, District 3  
Roberta MacGlashan, District 4  
Don Nottoli, District 5

October 8, 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:** Seriously Emotionally Disturbed Pupils: Out of State Mental Health Services Program (Chapter 654, Statutes of 1996); July 1, 2005 through June 30, 2006

Dear Mr. Spano:

The following are our comments regarding the draft audit report forwarded to Dave Irish (Director of Finance) dated September 25<sup>th</sup>, 2009:

FINDING 1 – Overstated Vendor Costs

We concur with the finding of the State Controller's Office.

During the period it was standard practice to use the facilities reviewed in this audit for the placement of AB3632 eligible students. Sacramento County and many other counties throughout California were under the belief that these facilities met the criteria for non-profit status. The Department of Human Assistance issued payments for these facilities based on the Department of Health & Human Services authorization that the facility met the appropriate criteria for eligible placement. It was also common practice across the state during this period that the for-profit requirement could be waived if there were exceptional needs related to individual clients placed in a for-profit that was deemed as the only placement that could meet the minor's needs. In addition there has been a practice and belief throughout the state that if the placement was a result of a unilateral placement or one which involved mediation or legal dispute brought about from parents who insisted on a particular program that the for-profit status would be waived. Since that time we have learned that these facilities do not meet the non-profit standards put forth for placement of AB 3632 eligible students and we have refrained from authorizing further placements to these facilities. We now require that all facilities used for placement of AB3632 eligible students provide us with the IRS 501c(3) documentation prior to placement to ensure proper criteria is met. At present there is pending legislation to change or amend the for-profit requirement.



Mr. Spano  
October 8, 2009  
Page 2

There were some unsupported placement costs due to the Division of Mental Health's failure to produce supporting documents prior to the close of the review by the auditor controller. Due to the age of some of the records we were unable to locate some supporting documents; however since the close of the review we have identified most of them. It is not standard practice to place AB 3632 eligible students without the appropriate supporting documents. This procedure has been reviewed with staff to ensure the proper documentation is completed and accessible prior to placing a child residentially.

FINDING 2 – Understated Offsetting Revenues

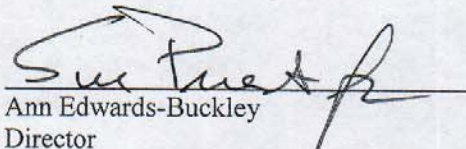
We concur with the finding of the State Controller's Office.


Prior to this audit, the County assumed that the local revenue offset requirement relates only to In-State placements and not Out-of-State placements. The County did not and has not been claiming reimbursements for eligible In-State placement costs on the assumption that the revenue from re-alignment funds offsets our In-State cost.

The recommendation is noted and our subsequent claims will be revised to include In-State placement costs and adjusted for local revenue offset.

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

Sincerely,

  
Ann Edwards-Buckley  
Director  
Department of Behavioral Health Services

  
Bruce Wagstaff  
Director  
Department of Human Assistance

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

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