

BOARD OF SUPERVISORS

2009 JUL -6 P 3: 59

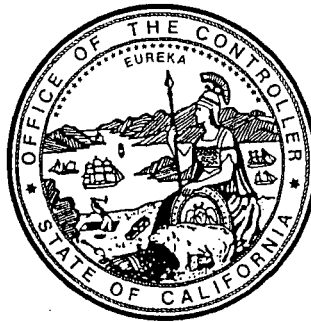
STANISLAUS COUNTY

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 2009



JOHN CHIANG
California State Controller

June 30, 2009

The Honorable Jim DeMartini
Chairman of the Stanislaus
County Board of Supervisors
1010 10th Street, Suite 6500
Modesto, CA 95354

Dear Mr. DeMartini:

The State Controller's Office audited the costs claimed by Stanislaus 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 \$3,370,890 (\$3,371,890 less a \$1,000 penalty for filing a late claim) for the mandated program. The costs are unallowable because the county claimed unsupported and ineligible costs, excluded allowable costs, overstated administrative costs and understated offsetting revenues. The State paid the county \$2,262,746, which the State will offset from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

The county indicated that there may be significant Medi-Cal audit adjustments subsequent to the issuances of this report. If the county provides evidence to support changes in revenue allocations, we will evaluate the evidence and revise the final report as appropriate.

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 CSM's Web site link 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,

A handwritten signature in black ink, appearing to read "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

The Honorable Jim DeMartini

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cc: Denise Hunt, RN, MFT
Behavioral Health and Recovery Services
Stanislaus County
The Honorable Larry Haugh, Auditor-Controller
Stanislaus County
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance
Carol Bingham, Director
Fiscal Policy Division
California Department of Education
Stacey Wofford
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Department of Mental Health
Cynthia Wong, Manager
Special Education Division
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Stanislaus 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 \$3,370,890 (\$3,371,890 less a \$1,000 penalty for filing a late claim) for the mandated program. The costs are unallowable because the county claimed unsupported and ineligible costs, excluded allowable costs, overstated administrative costs and understated offsetting revenues. The State paid the county \$2,262,746, which the State will offset 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* [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 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, 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, Stanislaus County claimed \$3,370,890 (\$3,371,890 less a \$1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that the entire amount is unallowable.

The State paid the county \$2,262,746, which it will offset from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

**Views of
Responsible
Official**

We issued a draft audit report on May 22, 2009. Larry Haugh, Auditor-Controller, responded by letter dated June 24, 2009 (Attachment), agreeing with Findings 1 and 2, and disagreeing with Finding 3. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Stanislaus 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.



JEFFREY V. BROWNFIELD
Chief, Division of Audits

June 30, 2009

**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>				
Assessment/case management costs	\$ 799,032	\$ 791,232	\$ (7,800)	Finding 1
Administrative costs	131,123	82,040	(49,083)	Finding 2
Offsetting revenues:				
State categorical funds	—	(201,533)	(201,533)	Finding 3
Short-Doyle/Medi-Cal funds	(340,678)	(291,024)	49,654	Finding 3
Other ²	(191,065)	(340,685)	(149,620)	Finding 3
Net assessment/case management costs	<u>398,412</u>	<u>40,030</u>	<u>(358,382)</u>	
Treatment costs	2,624,975	2,214,287	(410,688)	Finding 1
Administrative costs	382,912	104,083	(278,829)	Finding 2
Offsetting revenues:				
State categorical funds	—	(620,295)	(620,295)	Finding 3
Short-Doyle/Medi-Cal funds	(1,190,883)	(895,739)	295,144	Finding 3
Other ²	(1,106,272)	(1,122,585)	(16,313)	Finding 3
Net treatment costs	<u>710,732</u>	<u>(320,249)</u>	<u>(1,030,981)</u>	
Total direct and indirect costs	1,109,144	(280,219)	(1,389,363)	
Adjustment to eliminate negative balance	—	281,219	281,219	
Less late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 1,108,144</u>	—	<u>\$(1,108,144)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Assessment/case management costs	\$ 834,721	\$ 1,054,260	\$ 219,539	Finding 1
Administrative costs	67,371	68,471	1,100	Finding 2
Offsetting revenues:				
State categorical funds	—	(202,770)	(202,770)	Finding 3
Short-Doyle/Medi-Cal funds	(259,319)	(257,257)	2,062	Finding 3
Other ²	(352,411)	(410,546)	(58,135)	Finding 3
Net assessment/case management costs	<u>290,362</u>	<u>252,158</u>	<u>(38,204)</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005 (continued)</u>				
Treatment costs	2,253,329	1,961,145	(292,184)	Finding 1
Administrative costs	166,415	76,293	(90,122)	Finding 2
Offsetting revenues:				
State categorical funds	—	(568,543)	(568,543)	Finding 3
Short-Doyle/Medi-Cal funds	(827,453)	(721,318)	106,135	Finding 3
Other ²	(697,924)	(1,116,057)	(418,133)	Finding 3
Net treatment costs	894,367	(368,480)	(1,262,847)	
Total direct and indirect costs	1,184,729	(116,322)	(1,301,051)	
Adjustment to eliminate negative balance	—	116,322	116,322	
Total program costs	<u>\$ 1,184,729</u>	—	<u>\$(1,184,729)</u>	
Less amount paid by the State		(1,184,729)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(1,184,729)</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Assessment/case management costs	\$ 636,292	\$ 757,227	\$ 120,935	Finding 1
Administrative costs	79,661	58,708	(20,953)	Finding 2
Offsetting revenues:				
State categorical funds	—	(205,613)	(205,613)	Finding 3
Short-Doyle/Medi-Cal funds	(260,191)	(261,860)	(1,669)	Finding 3
Other ²	(200,176)	(318,346)	(118,170)	Finding 3
Net assessment/case management costs	255,586	30,116	(225,470)	
Treatment costs	2,591,658	2,213,873	(377,785)	Finding 1
Administrative costs	278,552	74,079	(204,473)	Finding 2
Offsetting revenues:				
State categorical funds	—	(572,638)	(572,638)	Finding 3
Short-Doyle/Medi-Cal funds	(845,309)	(729,289)	116,020	Finding 3
Other ²	(1,186,413)	(1,123,986)	62,427	Finding 3
Net treatment costs	838,488	(137,961)	(976,449)	
Total direct and indirect costs	1,094,074	(107,845)	(1,201,919)	
Less costs not claimed ³	(16,057)	—	16,057	
Adjustment to eliminate negative balance	—	107,845	107,845	
Total program costs	<u>\$ 1,078,017</u>	—	<u>\$(1,078,017)</u>	
Less amount paid by the State		(1,078,017)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(1,078,017)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2003, through June 30, 2006</u>				
Assessment/case management costs	\$ 2,270,045	\$ 2,602,719	\$ 332,674	
Administrative costs	278,155	209,219	(68,936)	
Offsetting revenues:				
State categorical funds	—	(609,916)	(609,916)	
Short-Doyle/Medi-Cal funds	(860,188)	(810,141)	50,047	
Other ²	(743,652)	(1,069,577)	(325,925)	
Net assessment/case management costs	944,360	322,304	(622,056)	
Treatment costs	7,469,962	6,389,305	(1,080,657)	
Administrative costs	827,879	254,455	(573,424)	
Offsetting revenues:				
State categorical funds	—	(1,761,476)	(1,761,476)	
Short-Doyle/Medi-Cal funds	(2,863,645)	(2,346,346)	517,299	
Other ²	(2,990,609)	(3,362,628)	(372,019)	
Net treatment costs	2,443,587	(826,690)	(3,270,277)	
Total direct and indirect costs	3,387,947	(504,386)	(3,892,333)	
Less costs not claimed ³	(16,057)	—	16,057	
Adjustment to eliminate negative balance	—	505,386	505,386	
Late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 3,370,890</u>	—	<u>\$(3,370,890)</u>	
Less amount paid by the State		(2,262,746)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (2,262,746)</u>		

¹ See the Findings and Recommendations section.

² The county received \$1,463,270, \$1,526,603, and \$1,442,332 in Individuals with Disabilities Education Act (IDEA) funds for FY 2003-04, FY 2004-05, and FY 2005-06, respectively, as reported in the Allowable per Audit column.

³ Costs not claimed represent the amount reported that was not certified by the claimant in the FAM-27 Certification of Claim form. The claimant did not file an amended claim for the increased amount within the statutory period claim pursuant to Government Code section 17561, subdivision (d)(3).

Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated assessment and treatment costs by \$747,983 for the audit period.

The county overstated costs by claiming ineligible services of rehabilitation, therapeutic behavioral services, and crisis intervention. The county also used preliminary units of service and incorrect costs per unit to compute the claim costs. Lastly, the county miscategorized some costs between assessment and treatment.

During the course of the audit, the county identified residential placement costs that it omitted from its claims. We allowed eligible residential placement costs of the latter two fiscal years because the costs are eligible beginning fiscal year (FY) 2004-05 according to program guidelines. Of the remaining costs, we did not allow out-of-state residential placement costs because these costs are eligible under another mandated cost program (Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services Program). The residential placement costs are included in the assessment adjustment below.

We allowed residential placement costs incurred for FY 2004-05 and FY 2005-06, less any ineligible out-of-state costs and net of any offsetting revenues. For the remaining assessment and treatment costs, we recalculated costs based on the actual units of eligible services and applied the appropriate cost per unit.

The program's parameters and guidelines specify that only actual increased costs incurred in the performance of mandated activities which are adequately documented are reimbursable. Further, the parameters and guidelines do not identify rehabilitation, therapeutic behavioral services, and crisis intervention as allowable activities.

The program's parameters and guidelines provide that 60% of in-state residential and non-educational costs (board-and-care costs) of a seriously emotionally disturbed pupil placed in an out-of-home residential facility are eligible for reimbursement beginning FY 2004-05.

The following table summarizes the overstated assessment and treatment costs:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ (7,800)	\$ 219,539	\$ 120,935	\$ 332,674
Treatment	(410,688)	(292,184)	(377,785)	(1,080,657)
Total adjustment	\$ (418,488)	\$ (72,645)	\$ (256,850)	\$ (747,983)

Recommendation

We recommend that the county use actual units of eligible services and apply the appropriate cost-per-unit to compute program costs, and include only eligible and supportable in-state residential placement costs.

County's Response

The county agreed with the finding and recommendation.

Correspondence No. 3 Page 12 of 17**FINDING 2—
Overstated
administrative costs**

The county overstated administrative costs by \$642,360 for the audit period.

The county miscalculated its rate using a method that is not consistent with the cost report submitted to the State Department of Mental Health (DMH). The county commingled direct and indirect costs in the base used to calculate their administrative rate, thereby allocating indirect costs across a base that includes same indirect costs. Further, the county did not reduce administrative costs by offsetting revenues. The county applied the rate to both county facilities and contract providers, even though the county does not oversee contract providers.

We recalculated the administrative rates by applying a method that is consistent with the allocations in the DMH cost report, and reducing administrative costs by corresponding revenues. We then applied the rates to eligible direct costs.

The program's parameters and guidelines specify that compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in Office of Management and Budget (OMB) Circular A-87.

Additionally, the parameters and guidelines state that any direct payments received from the State that are specifically allocated to the program, and/or any other reimbursement received as a result of the mandate (categorical funds, Short Doyle/Medi-Cal FFP, and other offsets such as private insurance), must be deducted from the claim.

The following table summarizes the overstated administrative costs:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ (49,083)	\$ 1,100	\$ (20,953)	\$ (68,936)
Treatment	(278,829)	(90,122)	(204,473)	(573,424)
Total adjustment	<u>\$ (327,912)</u>	<u>\$ (89,022)</u>	<u>\$ (225,426)</u>	<u>\$ (642,360)</u>

Recommendation

We recommend that the county apply a methodology that is consistent with the cost report submitted to the DMH and reduce administrative costs by offsetting revenues.

County's Response

The county agreed with the finding and recommendation.

Correspondence No. 3 Page 13 of 17**FINDING 3—
Understated offsetting
revenues**

The county understated offsetting revenues by \$2,501,990 for the audit period.

The county miscalculated revenues by applying incorrect funding percentages for Short Doyle/Medi-Cal (SD/MC), and Early and Periodic Screening, Diagnosis and Treatment (EPSDT) for FY 2003-04. The county did not apply EPSDT revenues for FY 2004-05 and FY 2005-06. For Individuals with Disabilities Education Act (IDEA) funds, the county did not apply these funds to the full extent of the grant.

We recalculated total revenues by applying the appropriate cost-per-unit to eligible units of service, using the correct funding percentages for all relevant revenues. Furthermore, we applied the IDEA funds to the full extent of the grant.

The program's 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	2005-06	
Assessment:				
State categorical funds	\$ (201,533)	\$ (202,770)	\$ (205,613)	\$ (609,916)
Short-Doyle/ Medi-Cal funds	49,654	2,062	(1,669)	50,047
Other	(149,620)	(58,135)	(118,170)	(325,925)
Total assessment	(301,499)	(258,843)	(325,452)	(885,794)
Treatment:				
State categorical funds	(620,295)	(568,543)	(572,638)	(1,761,476)
Short-Doyle/ Medi-Cal funds	295,144	106,135	116,020	517,299
Other	(16,313)	(418,133)	62,427	(372,019)
Total treatment	(341,464)	(880,541)	(394,191)	(1,616,196)
Total	\$ (642,963)	\$ (1,139,384)	\$ (719,643)	\$ (2,501,990)

Recommendation

We recommend that the county implement policies and procedures to ensure that all applicable reimbursements are offset against eligible direct costs incurred for the program, taking care to apply the appropriate reimbursement percentages.

County's Response

We are disputing Finding 3, Understated Offsetting Revenues, related to the EPSDT discrepancy because of the method used for calculating the units pertaining to FFP and EPSDT (on the 356 detail report) for FY 05-06 include all units, not just the paid units. Therefore, we recalculated the spreadsheet that the auditor provided, using only paid units and the difference is \$115,194 less in FFP and \$90,451 in EPSDT. . . .

SCO's Comment

We agreed that the denied Medi-Cal units should not be included in the calculation of offsetting revenues. Consequently, we recalculated reimbursable cost and updated the finding. Understated offsetting revenues decreased by \$102,001, from \$2,603,991 to \$2,501,999.

However, we disagree regarding open units as these units are pending resolution and may be reimbursed at a later time. Consequently, our calculation of offsetting revenues includes Medi-Cal units identified as paid and open, excluding denied. As noted in the transmittal letter, if there are significant Medi-Cal audit adjustments subsequent to the issuance of this report, the county can provide evidence to support changes in revenue allocations. If the county provides the evidence, we will issue a revised final report as appropriate.

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



AUDITOR-CONTROLLER

Larry D. Haugh
Auditor - Controller

1010 10th Street, Suite 5100, Modesto, CA 95354
P O Box 770, Modesto, CA 95353-0770
Phone: 209.525.6398 Fax: 209.525.6487

June 24, 2009

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

SUBJECT: HANDICAPPED AND DISABLED STUDENTS STATE MANDATED
COST PROGRAM

Dear Mr. Spano:

The County of Stanislaus has received the State Controller's draft audit findings for the Handicapped and Disabled Students state mandated cost program. The County appreciates the opportunity to respond to the audit. While we agree with many of the findings, we do differ with one particular aspect of the draft report.

We are disputing Finding 3, Understated Offsetting Revenues, related to the EPSDT discrepancy because the method used for calculating the units pertaining to FFP and EPSDT (on the 356 Detail Report) for FY 05-06 included all units, not just the paid units. Therefore, we recalculated the spreadsheet that the auditor provided, using only the paid units, and the difference is \$115,194 less in FFP and \$90,451 less in EPSDT. Laurie Lusk of our staff has been in conversation with the auditor concerning this discrepancy and he recommended that we include this discovery in our response.

We would be happy to provide you with any backup that you may need. Please contact me or a member of my staff if you have any questions.

A handwritten signature in cursive script that reads "Larry Haugh".

Larry Haugh
Stanislaus County Auditor-Controller

C: Denise Hunt
Linda Downs
Lillie Farriester

**State Controller's Office
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