

# CITY AND COUNTY OF SAN FRANCISCO

Second Revised Audit Report

## **CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS), HDS II, AND SERIOUSLY EMOTIONALLY DISTURBED PUPILS (SEDP) PROGRAM**

Chapter 1747, Statutes of 1984; Chapter 1274,  
Statutes of 1985; Chapter 1128, Statutes of 1994;  
and Chapter 654, Statutes of 1996

*July 1, 2006, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

June 2014



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

June 23, 2014

The Honorable Edwin M. Lee  
Mayor of the City of San Francisco  
City Hall, Room 200  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4689

David Chiu, President  
San Francisco County  
Board of Supervisors  
City Hall, Room 244  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102-4689

Dear Mayor Lee and Mr. Chiu:

The State Controller's Office audited the costs claimed by the City and County of San Francisco for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Program (Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996) for the period of July 1, 2006, through June 30, 2010.

This second revised final report supersedes our initial final report dated March 4, 2014, and first revised final report dated June 9, 2014. This report corrects typographical errors in Schedule 1 and in the Finding 4 table. The audit adjustments remain unchanged from the first revised final report.

Subsequent to the issuance of our initial final report, the California Department of Mental Health finalized its Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) reimbursements for fiscal year (FY) 2009-10. We recalculated EPSDT revenues for FY 2009-10 and revised Finding 4 to reflect the actual funding percentages based on the final settlement. The revision increased allowable program costs by \$119,473, from \$7,449,363 to \$7,568,836.

The city and county claimed \$13,005,157 for the mandated program. Our audit found that \$7,568,836 is allowable and \$5,436,321 is unallowable. The costs are unallowable primarily because the city and county claimed services provided to ineligible clients. The State paid the city and county \$3,001,967. Allowable costs claimed exceed the amount paid by \$4,566,869.

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 website at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

The Honorable Edwin M. Lee  
David Chiu

-2-

June 23, 2014

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by phone at (916) 323-5849.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/kw

cc: Ben Rosenfield, Controller  
City and County of San Francisco  
Drew Murrell, Citywide Revenue Manager  
City and County of San Francisco  
Anne Okubo, Deputy Financial Officer  
Department of Public Health  
City and County of San Francisco  
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# Contents

## **Second Revised Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>3</b>
<b>Conclusion .....</b>	<b>4</b>
<b>Views of Responsible Official .....</b>	<b>4</b>
<b>Restricted Use .....</b>	<b>5</b>
<b>Second Revised Schedule 1—Summary of Program Costs .....</b>	<b>6</b>
<b>Second Revised Findings and Recommendations .....</b>	<b>8</b>
<b>Attachment—City and County’s Response to Draft Audit Report</b>	

# Second Revised Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by City and County of San Francisco for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Program (Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 954, Statutes of 1996) for the period of July 1, 2006, through June 30, 2010.

The city and county claimed \$13,005,157 for the mandated program. Our audit found that \$7,568,836 is allowable and \$5,436,321 is unallowable. The costs are unallowable primarily because the city and county claimed services provided to ineligible clients. The State paid the city and county \$3,001,967. Allowable costs claimed exceed the amount paid by \$4,566,869.

## Background

### Handicapped and Disabled Students (HDS) Program

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) adopted the statement of decision for the HDS Program and determined that this legislation imposed a state mandate reimbursable under Government Code section 17561. The CSM adopted the parameters and guidelines for the HDS Program on August 22, 1991, and last amended them on January 25, 2007.

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 HDS Program “are eligible for reimbursement from the state *for all allowable costs* to fund assessments, psychotherapy, and other mental health services . . .” and that the finding by the Legislature is “declaratory of existing law” (emphasis added).

The CSM amended the parameters and guidelines for the HDS Program on January 26, 2006, and corrected them on July 21, 2006, allowing reimbursement for out-of-home residential placements beginning July 1, 2004.

#### Handicapped and Disabled Students (HDS II) Program

On May 26, 2005, the CSM adopted a statement of decision for the HDS 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 last amended them on October 26, 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.

#### Seriously Emotionally Disturbed Pupils (SEDP) Program

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 pupils placed in out of state residential programs. Counties’ fiscal and programmatic responsibilities include those set forth in Title 2, *California Code of Regulations*, section 60100, which provide that residential placements may be made out of state only when no in-state facility can meet the pupil’s needs.

On May 25, 2000, the CSM adopted the statement of decision for the Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services (SEDP) Program and determined that Chapter 654, Statutes of 1996, imposed a state mandate reimbursable under Government Code section 17561. The CSM adopted the parameters and guidelines for the SEDP Program on October 26, 2000. The CSM determined that the following activities are reimbursable:

- Payment for out-of-state residential placements;
- Case management of out-of-state residential placements. 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 IEP; and
- Program management, which includes parent notifications as required; payment facilitation; and all other activities necessary to ensure that a county's out-of-state residential placement program meets the requirements of Government Code section 7576.

The CSM consolidated the parameters and guidelines for the HDS, HDS II, and SEDP Programs for costs incurred commencing with FY 2006-07 on October 26, 2006, and last amended them on September 28, 2012. On September 28, 2012, the CSM stated that Statutes of 2011, Chapter 43, "eliminated the mandated programs for counties and transferred responsibility to school districts, effective July 1, 2011. Thus, beginning July 1, 2011, these programs no longer constitute reimbursable state-mandated programs for counties." The consolidated program replaced the prior HDS, HDS II, and SEDP mandated programs. The parameters and guidelines establish the state mandate and define reimbursable criteria. 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 Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Program for the period of July 1, 2006, through June 30, 2010.

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 city and 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 city and 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 found 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, the City and County of San Francisco claimed \$13,005,157 for costs of the Consolidated Handicapped and Disabled Students (HDS), HDS II, and SEDP Program. Our audit found that \$7,568,836 is allowable and \$5,436,321 is unallowable.

For the FY 2006-07 claim, the State paid the city and county \$709,262. Our audit found that \$6,863 is allowable. The State will offset \$702,399 from other mandated program payments due the city and county. Alternatively, the city and county may remit this amount to the State.

For the FY 2007-08 claim, the State paid the city and county \$2,292,705. Our audit found that \$2,263,631 is allowable. The State will offset \$29,074 from other mandated program payments due the city and county. Alternatively, the city and county may remit this amount to the State.

For the FY 2008-09 claim, the State did not pay the city and county. Our audit found that \$905,489 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$905,489, contingent upon available appropriations.

For the FY 2009-10 claim, the State did not pay the city and county. Our audit found that \$4,392,853 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,392,853, contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft audit report on January 24, 2014. Ben Rosenfield, Controller, responded by letter dated February 5, 2014 (Attachment), agreeing with the audit results except for Finding 2. We issued the initial final report on March 4, 2014, and first revised final report on June 9, 2014.

Subsequent to the issuance of our initial final report, we revised our audit report based on finalized Early and Periodic, Screening, Diagnosis, and Treatment revenues by the California Department of Mental Health for FY 2009-10. We recalculated offsetting reimbursements and revised Finding 4. As a result, allowable program costs increased by \$119,473, from \$7,449,363 to \$7,568,836 for the audit period. On May 20, 2014, we advised Drew Murrell, Citywide Revenue Manager, City and County of San Francisco, of the revisions. This second revised final report corrects typographical errors; the dollar adjustment did not change. This report includes the city and county's response to our January 24, 2014, draft report. The city and county did not respond to the revisions.

**Restricted Use**

This report is solely for the information and use of the City and County of San Francisco, 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, CPA  
Chief, Division of Audits

June 23, 2014

**Second Revised Schedule 1—  
Summary of Program Costs  
July 1, 2006, through June 30, 2010**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Referral and mental health assessments	\$ 988,942	\$ 935,645	\$ (53,297)	Finding 1
Transfers and interim placements	538,829	510,479	(28,350)	Finding 1
Designation of lead case manager	25,374	25,374	—	
Authorize/issue payments to providers	66,759	4,376	(62,383)	Finding 2
Psychotherapy/other mental health services	6,452,613	5,375,117	(1,077,496)	Finding 1
Total direct costs	8,072,517	6,850,991	(1,221,526)	
Indirect costs	805,848	616,544	(189,304)	Finding 3
Total direct and indirect costs	8,878,365	7,467,535	(1,410,830)	
Less other reimbursements	(8,169,103)	(7,460,672)	708,431	Finding 4
Total program costs	<u>\$ 709,262</u>	6,863	<u>\$ (702,399)</u>	
Less amount paid by State <sup>2</sup>		(709,262)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (702,399)</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Referral and mental health assessments	\$ 1,500,962	\$ 1,354,104	\$ (146,858)	Finding 1
Authorize/issue payments to providers	108,393	26,220	(82,173)	Finding 2
Psychotherapy/other mental health services	10,994,405	8,424,055	(2,570,350)	Finding 1
Total direct costs	12,603,760	9,804,379	(2,799,381)	
Indirect costs	1,528,515	1,455,712	(72,803)	Finding 3
Total direct and indirect costs	14,132,275	11,260,091	(2,872,184)	
Less other reimbursements	(9,911,304)	(8,996,460)	914,844	Finding 4
Total program costs	<u>\$ 4,220,971</u>	2,263,631	<u>\$ (1,957,340)</u>	
Less amount paid by State <sup>2</sup>		(2,292,705)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (29,074)</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Referral and mental health assessments	\$ 1,735,955	\$ 1,400,373	\$ (335,582)	Finding 1
Transfers and interim placements	1,070,252	783,741	(286,511)	Finding 1
Authorize/issue payments to providers	32,654	18,998	(13,656)	Finding 2
Psychotherapy/other mental health services	12,663,516	8,669,918	(3,993,598)	Finding 1
Total direct costs	15,502,377	10,873,030	(4,629,347)	
Indirect costs	1,322,809	1,313,291	(9,518)	Finding 3

**Second Revised Schedule 1 (Continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2008, through June 30, 2009 (continued)</u>				
Total direct and indirect costs	16,825,186	12,186,321	(4,638,865)	
Less other reimbursements	<u>(14,723,074)</u>	<u>(11,280,832)</u>	<u>3,442,242</u>	Finding 4
Total program costs	<u>\$ 2,102,112</u>	905,489	<u>\$ (1,196,623)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 905,489</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 1,661,383	\$ 1,417,136	\$ (244,247)	Finding 1
Transfers and interim placements	957,494	680,966	(276,528)	Finding 1
Designation of lead case manager	44,615	44,615	—	
Psychotherapy/other mental health services	<u>11,423,654</u>	<u>6,235,815</u>	<u>(5,187,839)</u>	Finding 1
Total direct costs	14,087,146	8,378,532	(5,708,614)	
Indirect costs	<u>1,198,770</u>	<u>1,201,472</u>	<u>2,702</u>	Finding 3
Total direct and indirect costs	15,285,916	9,580,004	(5,705,912)	
Less other reimbursements	<u>(9,313,104)</u>	<u>(5,187,151)</u>	<u>4,125,953</u>	Finding 4
Total program costs	<u>\$ 5,972,812</u>	4,392,853	<u>\$ (1,579,959)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,392,853</u>		
<u>Summary: July 1, 2006, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 5,887,242	\$ 5,107,258	\$ (779,984)	
Transfers and interim placements	2,566,575	1,975,186	(591,389)	
Designation of lead case manager	69,989	69,989	—	
Authorize/issue payments to providers	207,806	49,594	(158,212)	
Psychotherapy/other mental health services	<u>41,534,188</u>	<u>28,704,905</u>	<u>(12,829,283)</u>	
Total direct costs	50,265,800	35,906,932	(14,358,868)	
Indirect costs	<u>4,855,942</u>	<u>4,587,019</u>	<u>(268,923)</u>	
Total direct and indirect costs	55,121,742	40,493,951	(14,627,791)	
Less other reimbursements	<u>(42,116,585)</u>	<u>(32,925,115)</u>	<u>9,191,470</u>	
Total program costs	<u>\$ 13,005,157</u>	7,568,836	<u>\$ (5,436,321)</u>	
Less amount paid by State <sup>2</sup>		<u>(3,001,967)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,566,869</u>		

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

<sup>2</sup> The city and county received a categorical payment from the California Department of Mental Health from FY 2009-10 budget.

## Second Revised Findings and Recommendations

### FINDING 1— Overstated assessment and treatment costs

The city and county overstated mental health services costs by \$14,200,656 for the audit period.

The city and county claimed services provided to ineligible clients. These clients are associated with the Wraparound program and did not maintain eligibility in the mandated program. The Wraparound program provides a variety of services to clients at risk of being placed in an out-of-home residential facility, and provides services and support for children and their families. The ineligible clients are not special education pupils with a valid individualized education plan (IEP) requiring mental health services. Based on discussions with city and county representatives, the ineligible clients had either transitioned out of the mandate program or were never eligible to receive related services. Other less significant adjustments included ineligible services related to inpatient hospitalization and crisis services.

We recalculated mental health services costs based on actual, supportable units of service provided to eligible clients using the appropriate unit rates that represented the actual cost to the city and county. We excluded services provided to ineligible clients and unallowable services.

The following table summarizes the overstated assessment and treatment costs claimed:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
Referral and mental health assessments	\$ 988,942	\$ 935,645	\$ (53,297)
Transfers and interim placements	538,829	510,479	(28,350)
Psychotherapy/other mental health services	6,452,613	5,375,117	(1,077,496)
Subtotal	<u>\$ 7,980,384</u>	<u>\$ 6,821,241</u>	<u>\$ (1,159,143)</u>
<u>FY 2007-08</u>			
Referral and mental health assessments	\$ 1,500,962	\$ 1,354,104	\$ (146,858)
Psychotherapy/other mental health services	10,994,405	8,424,055	(2,570,350)
Subtotal	<u>\$ 12,495,367</u>	<u>\$ 9,778,159</u>	<u>\$ (2,717,208)</u>
<u>FY 2008-09</u>			
Referral and mental health assessments	\$ 1,735,955	\$ 1,400,373	\$ (335,582)
Transfers and interim placements	1,070,252	783,741	(286,511)
Psychotherapy/other mental health services	12,663,516	8,669,918	(3,993,598)
Subtotal	<u>\$ 15,469,723</u>	<u>\$ 10,854,032</u>	<u>\$ (4,615,691)</u>
<u>FY 2009-10</u>			
Referral and mental health assessments	\$ 1,661,383	\$ 1,417,136	\$ (244,247)
Transfers and interim placements	957,494	680,966	(276,528)
Psychotherapy/other mental health services	11,423,654	6,235,815	(5,187,839)
Subtotal	<u>\$ 14,042,531</u>	<u>\$ 8,333,917</u>	<u>\$ (5,708,614)</u>
<u>Summary</u>			
Referral and mental health assessments	\$ 5,887,242	\$ 5,107,258	\$ (779,984)
Transfers and interim placements	2,566,575	1,975,186	(591,389)
Psychotherapy/other mental health services	41,534,188	28,704,905	(12,829,283)
Total	<u>\$ 49,988,005</u>	<u>\$ 35,787,349</u>	<u>\$ (14,200,656)</u>

The program’s parameters and guidelines provide reimbursement for mental health services when required by the pupil’s IEP. These services include assessments; collateral, case management, individual and group psychological therapy; medication monitoring; intensive day treatment; and day rehabilitation services. The parameters and guidelines further specify that when providing mental health treatment services, the activities of crisis intervention, socialization services, and vocational services are not reimbursable.

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

Recommendation

No recommendation is applicable for this audit, as the consolidated program no longer is mandated.

City and County’s Response

The city and county agreed with the audit finding.

**FINDING 2—  
Ineligible vendor costs**

The city and county claimed unallowable residential placement costs totaling \$158,212 for the first three fiscal years of the audit period.

The city and county claimed ineligible vendor payments totaling \$158,212, which included board-and-care costs of \$81,027 and mental health treatment costs of \$77,185 paid to one vendor for the out-of-state residential placement of seriously emotionally disturbed pupils in a facility that is owned and operated for profit. Only placements in facilities that are owned and operated on a nonprofit basis are eligible for reimbursement.

For the ineligible vendor payments, the city and county claimed board-and-care costs net of the 40% share reimbursable by the California Department of Social Services. The city and county did not provide documentation supporting whether any of the costs claimed for this vendor were funded by Local Revenue Funds (realignment funds). Board-and-care costs funded with realignment funds are not eligible for reimbursement.

The following table summarizes the ineligible vendor costs:

	Fiscal Year			Total
	2006-07	2007-08	2008-09	
Ineligible placements:				
Treatment costs	\$ (26,749)	\$ (43,249)	\$ (7,187)	\$ (77,185)
Board-and-care costs	(35,634)	(38,924)	(6,469)	(81,027)
Audit adjustments	<u>\$ (62,383)</u>	<u>\$ (82,173)</u>	<u>\$ (13,656)</u>	<u>\$ (158,212)</u>

The program's parameters and guidelines specify that the mandate is to reimburse counties for payments to service vendors providing placement of seriously emotionally disturbed pupils in out-of-home residential facilities as specified in Government Code section 7581 and Title 2, *California Code of Regulations* (CCR), section 60200.

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

The parameters and guidelines also provide that Welfare and Institutions Code section 18355.5 applies to this program and prohibits a county from claiming reimbursement for its 60% share of the total residential and non-educational costs of a seriously emotionally disturbed child placed in an out-of-home residential facility, if the county claims reimbursement for these costs from the Local Revenue Fund identified in Welfare and Institutions Code section 17600, and receives these funds.

#### Recommendation

No recommendation is applicable for this audit, as the consolidated program no longer is mandated.

#### City and County's Response

The city and county agreed with the portion of the audit finding concerning the ineligible vendor payments of \$158,212 made to a for-profit facility. However, the city and county disagreed with the portion of the finding concerning the Local Revenue Funds, stating that it did not use realignment funds for the 60% share. The city and county also indicated that "it would be difficult to show the sources of the funding given the significant time elapsed between when the claim was filed and this audit."

#### SCO's Comment

The finding and recommendation remain unchanged.

As noted in the finding, the city and county did not provide support regarding the portion of Local Revenue Funds used for its 60% share of board-and-care costs. The portion funded by Local Revenue Funds is not subject to reimbursement.

### **FINDING 3— Overstated indirect costs**

The city and county overstated indirect costs by \$268,923 for the audit period.

The city and county miscalculated the indirect cost rates for fiscal year (FY) 2006-07 through 2008-09 because it used preliminary cost reports to compute the rates. For FY 2009-10 the city and county calculated its indirect cost rate correctly, but misapplied the rate to costs claimed.

We applied the rates to eligible direct costs of services provided at county-run facilities for the following cost components: (1) Referral and Mental Health Assessments, (2) Transfers and Interim Placements and (3) Psychotherapy/Other Mental Health Services.

The following table summarizes the understated indirect costs:

	Fiscal Year				Total
	2006-07	2007-08	2008-09	2009-10	
Direct costs of county run facilities	\$ 3,419,547	\$ 5,052,802	\$ 5,267,914	\$ 3,775,839	
Indirect cost rates <sup>1</sup>	18.03%	28.81%	24.93%	31.82%	
Allowable indirect costs	616,544	1,455,712	1,313,291	1,201,472	
Claimed indirect costs	805,848	1,528,515	1,322,809	1,198,770	
Audit adjustments	\$ (189,304)	\$ (72,803)	\$ (9,518)	\$ 2,702	\$ (268,923)

<sup>1</sup> The city and county claimed indirect cost rates of 23% for FY 2006-07, 30.2% for FY 2007-08, and 25% for FY 2008-09.

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

The parameters and guidelines further specify that indirect costs may be claimed to the extent that they have not already been reimbursed by the State Department of Mental Health (DMH) from categorical funding sources.

Recommendation

No recommendation is applicable for this audit, as the consolidated program is no longer is mandated.

City and County’s Response

The city and county agreed with the audit finding.

**FINDING 4—  
Overstated offsetting  
reimbursements**

The city and county overstated offsetting reimbursements by \$9,191,470 for the audit period.

The overstatement results from applying Short Doyle/Medi-Cal (SD/MC) and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) funding percentages to ineligible direct costs, and using preliminary funding percentages to calculate EPSDT reimbursements. The county correctly applied offsetting reimbursements related to Individuals with Disabilities Education Act (IDEA), DMH categorical funds, and other funds. Other funds relate primarily to insurance reimbursements.

We recalculated allowable offsetting reimbursements for all relevant funding sources and applied the appropriate rates for SD/MC and EPSDT. We did not allow offsetting reimbursements for ineligible costs.

The following table summarizes the overstated offsetting reimbursements:

	Amount Claimed	Amount Audited	Audit Adjustment
<u>FY 2006-07</u>			
IDEA	\$ (1,539,360)	\$ (1,539,360)	\$ -
DMH categorical	(3,378,598)	(3,378,598)	-
SD/MC	(2,049,841)	(1,583,417)	466,424
EPSDT	(1,192,194)	(950,187)	242,007
Other	(9,110)	(9,110)	-
Subtotal	<u>\$ (8,169,103)</u>	<u>\$ (7,460,672)</u>	<u>\$ 708,431</u>
<u>FY 2007-08</u>			
IDEA	\$ (1,539,360)	\$ (1,539,360)	\$ -
DMH categorical	(3,421,322)	(3,421,322)	-
SD/MC	(3,095,571)	(2,462,582)	632,989
EPSDT	(1,851,092)	(1,569,237)	281,855
Other	(3,959)	(3,959)	-
Subtotal	<u>\$ (9,911,304)</u>	<u>\$ (8,996,460)</u>	<u>\$ 914,844</u>
<u>FY 2008-09</u>			
IDEA	\$ (1,539,360)	\$ (1,539,360)	\$ -
DMH categorical	(4,975,965)	(4,975,965)	-
SD/MC	(5,226,251)	(3,114,438)	2,111,813
EPSDT	(2,970,838)	(1,640,409)	1,330,429
Other	(10,660)	(10,660)	-
Subtotal	<u>\$ (14,723,074)</u>	<u>\$ (11,280,832)</u>	<u>\$ 3,442,242</u>
<u>FY 2009-10</u>			
IDEA	\$ (1,539,360)	\$ (1,539,360)	\$ -
SD/MC	(4,906,182)	(2,488,073)	2,418,109
EPSDT	(2,857,162)	(1,149,318)	1,330,429
Other	(10,400)	(10,400)	-
Subtotal	<u>\$ (9,313,104)</u>	<u>\$ (5,187,151)</u>	<u>\$ 4,125,953</u>
<u>Summary</u>			
IDEA	\$ (6,157,440)	\$ (6,157,440)	\$ -
DMH categorical	(11,775,885)	(11,775,885)	-
SD/MC	(15,277,845)	(9,648,510)	5,629,335
EPSDT	(8,871,286)	(5,309,151)	3,562,135
Other	(34,129)	(34,129)	-
Total	<u>\$ (42,116,585)</u>	<u>\$ (32,925,115)</u>	<u>\$ 9,191,470</u>

The parameters and guidelines specify that any direct payments (categorical funds, SD/MC, EPSDT, IDEA, and other reimbursements) received from the State that are specifically allocated to the program, and/or any other reimbursements received as a result of the mandate, must be deducted from the claim.

#### Recommendation

No recommendation is applicable for this audit, as the consolidated program no longer is mandated.

#### City and County's Response

The city and county agreed with the audit finding.

#### SCO's Comment

Subsequent to the issuance of our final report on March 4, 2014, the DMH issued its EPSDT settlement for FY 2009-10. We recalculated offsetting reimbursements and revised Finding 4 to reflect the actual funding percentage. As a result, offsetting reimbursements decreased by \$119,473, from \$33,044,588 to \$32,925,115.

The recommendation and remaining adjustment remain unchanged.

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

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Ben Rosenfield  
Controller

Monique Zmuda  
Deputy Controller

February 5, 2014

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

Dear Mr. Spano:

The City and County of San Francisco (City) has received the State Controller's Office (SCO) audit findings for the Consolidated Handicapped and Disabled Students (HDS) State-mandated cost program for the period July 1, 2006 through June 30, 2010. We appreciate the opportunity to comment on the findings.

**Finding 1 – Overstated assessment and treatment costs.**

The audit finding states that the city and county overstated mental health services costs by \$14,200,656 due to including claimed services provided to ineligible clients. The audit recalculated mental health services costs based on actual, supportable units of service provided to eligible clients using the appropriate unit rates that represented the actual cost to the city and county.

*The City concurs with the audit finding and will continue its efforts to improve the accuracy of costs claimed for the HDS program.*

**Finding 2 – Ineligible vendor costs.**

The audit finding states that the city and county claimed ineligible vendor payments totaling \$158,212 due to claiming ineligible vendor payments that included board-and-care costs of \$81,027 and mental health treatment costs of \$77,185 for the out-of-state residential placement of seriously emotionally disturbed pupils in facilities that are owned and operated for profit.

*The City concurs with the audit finding and will continue its efforts to improve the accuracy of costs claimed for the HDS program.*

The audit finding also states that the city and county did not identify the portion of board-and-care costs funded by Local Revenue Funds (realignment), and to the extent that the city and county used realignment funds for its share of board-and-care costs (60-percent share), they are ineligible for reimbursement.

*The City did not use realignment funds for the 60% share. The City appreciates the opportunity to provide documentation of the funding source; however, it would be difficult to show the source of the funding given the significant time elapsed between when the claim was filed and this audit.*

**Finding 3 – Overstated indirect costs.**

The finding states that the city and county overstated indirect costs by \$268,923 due to miscalculating the indirect cost rates in three of the four fiscal years (FY) because it used preliminary cost reports to compute its rates. In FY 2009-10 the city and county miscalculated its indirect costs despite using the correct rate. In all fiscal years the city and county applied its rates to ineligible direct costs, as discussed in Finding 1. The auditors recalculated indirect cost rates consistent with the methodology in the city and county's cost reports.

*The City concurs with the audit finding and will continue its efforts to improve the accuracy of costs claimed for the HDS program.*

**Finding 4 – Overstated offsetting reimbursements.**

The finding states that the city and county overstated offsetting reimbursements by \$9,071,997 as a result of applying Short Doyle/Medi-Cal (SD/MC) and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) funding percentages to ineligible direct costs, and using preliminary funding percentages to calculate EPSDT reimbursements. The auditors recalculated allowable offsetting reimbursements for all relevant funding sources and applied the appropriate rates for SD/MC and EPSDT.

*The City concurs with the audit finding and will continue its efforts to improve the accuracy of costs claimed for the HDS program.*

Thank you for the opportunity to respond to the audit. Please contact me or Michelle Allersma of my staff at (415) 554-4792 if you have any questions.

Sincerely,

  
Ben Rosenfeld  
Controller

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
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**<http://www.sco.ca.gov>**