

SANTA CLARA COUNTY

Revised 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



BETTY T. YEE
California State Controller

July 2015



BETTY T. YEE
California State Controller

July 7, 2015

The Honorable Dave Cortese, Chairman
Santa Clara County Board of Supervisors
70 West Hedding Street
San Jose, CA 95110-1768

Dear Mr. Cortese:

The State Controller's Office audited the costs claimed by the Santa Clara 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.

This revised final report supersedes our previous report dated June 30, 2009. Subsequent to the issuance of our final report, the county filed an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission), disagreeing with the audit findings concerning rehabilitation services. On May 26, 2011, the Commission remanded the county's claims to our office to determine the eligible portion of rehabilitation services. We reviewed information the county provided to us concerning rehabilitation costs and revised Findings 1 through 3 to reflect the eligible portion of rehabilitation service costs. These revisions increased net allowable costs by \$8,442,738, from \$2,596,081 to \$11,038,819.

The county claimed \$22,285,470 for the mandated program. Our audit found that \$11,038,819 is allowable (\$11,039,819 less a \$1,000 penalty for filing a late claim) and \$11,246,651 is unallowable. The costs are unallowable because the county overstated assessment, treatment, and administrative costs, and overstated offsetting revenues. The State paid the county \$15,543,249. The amount paid exceeds allowable costs claimed by \$4,504,430.

If you disagree with the audit findings, you may file an IRC with the Commission. The IRC must be filed within three years following the date of this report. You may obtain IRC information at the Commission's website link at www.csm.ca.gov/docs/IRCForm.pdf.

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/as

cc: Emily Harrison, Director of Finance

Santa Clara County

Greta S. Hansen

Lead Deputy County Counsel

Santa Clara County

Kim Anh-Le, Division Manager

Finance Agency

Santa Clara County

Evelyn Suess, Principal Program Budget Analyst

Mandates Unit

Department of Finance

Any Tang-Paterno, Education Fiscal Services Consultant

Government Affairs Division

California Department of Education

Erika Cristo

Special Education Program

California Department of Health Care Services

Chris Essman, Manager

Special Education Division

California Department of Education

Jay Lal, Manager

Division of Accounting and Reporting

State Controller's Office

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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Santa Clara 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 \$22,285,470 for the mandated program. Our audit found that \$11,038,819 is allowable (\$11,039,819 less a \$1,000 penalty for filing a late claim) and \$11,246,651 is unallowable. The costs are unallowable because the county overstated assessment, treatment, and administrative costs, and overstated offsetting revenues. The State paid the county \$15,543,249. The amount paid exceeds allowable costs claimed by \$4,504,430.

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 (Commission) 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 Commission adopted the parameters and guidelines for the Handicapped and Disabled Students Program for the above activities 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 fiscal year (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 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 Commission 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 Commission 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 SCO in prior years are now reimbursable beginning July 1, 2001 (e.g., medication monitoring). Rather than claimants re-filing claims for these costs incurred, beginning July 1, 2001, the SCO will reissue the audit reports.” Consequently, we are allowing medication support costs commencing July 1, 2001.

On January 26, 2006, Commission 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, and subsequently on October 26, 2006, to end the reimbursement period.

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.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the county’s financial statements. We conducted this performance 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. Our scope did not assess the efficiency or effectiveness of program operations.

To achieve our audit objectives, we preformed the following audit procedures:

- Interviewed employees, completed the internal control questionnaire, and performed a walk-through of the cost components of each claim.
- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities.

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, Santa Clara County claimed \$22,285,470 for costs of the Handicapped and Disabled Students Program. Our audit found that \$11,038,819 is allowable (\$11,039,819 less a \$1,000 penalty for filing a late claim) and \$11,246,651 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our audit found that \$2,956,805 is allowable. The State will pay allowable costs claimed totaling \$2,956,805, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$7,987,359. Our audit found that \$3,894,672 is allowable. The State will offset \$4,092,687 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2005-06 claim, the State paid the county \$7,555,890. Our audit found that \$4,187,342 is allowable. The State will offset \$3,368,548 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

Views of Responsible Official

On June 30, 2009, we issued a final audit report for the Handicapped and Disabled Students Program for the period July 1, 2003, through June 30, 2006.

Subsequent to the issuance of our final report, the county filed an Incorrect Reduction Claim with the Commission, disagreeing with the audit findings concerning rehabilitation services.

On May 26, 2011, the Commission remanded the county's claims to our office to determine the eligible portion of rehabilitation services. We reviewed information the county provided to us concerning rehabilitation costs and revised Findings 1 through 3 to reflect the eligible portion of rehabilitation service costs. These revisions increased net allowable costs by \$8,442,738, from \$2,596,081 to \$11,038,819.

On May 28, 2015, we advised Emily Harrison, Director of Finance, Santa Clara County, of the report revisions by email. The county responded by letter dated June 17, 2015 (Attachment), agreeing with the revised audit results. This revised final report includes the county's response.

Restricted Use

This report is solely for the information and use of Santa Clara 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, CPA
Chief, Division of Audits

July 7, 2015

**Revised Schedule 1—
Summary of Program Costs
July 1, 2013, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
July 1, 2003 through June 30, 2004				
Assessment/case management costs	\$ 2,916,448	\$ 2,448,139	\$ (468,309)	Finding 1
Administrative costs	327,705	217,084	(110,621)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(660,446)	(530,750)	129,696	Finding 3
State categorical funds (EPSDT and IDEA ²)	(1,234,699)	(1,361,396)	(126,697)	Finding 3
Net assessment/case management costs	<u>1,349,008</u>	<u>773,077</u>	<u>(575,931)</u>	
Treatment costs	13,505,487	10,282,243	(3,223,244)	Finding 1
Administrative costs	1,517,536	1,045,704	(471,832)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(3,643,031)	(2,702,685)	940,346	Finding 3
State categorical funds (EPSDT and IDEA ²)	(5,986,779)	(6,440,534)	(453,755)	Finding 3
Net treatment costs	<u>5,393,213</u>	<u>2,184,728</u>	<u>(3,208,485)</u>	
Subtotal	6,742,221	2,957,805	(3,784,416)	
Less late claim penalty	-	(1,000)	(1,000)	
Total program costs	<u>\$ 6,742,221</u>	<u>2,956,805</u>	<u>\$ (3,785,416)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 2,956,805</u>		
July 1, 2004 through June 30, 2005				
Assessment/case management costs	\$ 3,632,443	\$ 3,013,464	\$ (618,979)	Finding 1
Administrative costs	585,060	181,632	(403,428)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(701,686)	(497,450)	204,236	Finding 3
State categorical funds (EPSDT and IDEA ²)	(1,550,169)	(1,602,088)	(51,919)	Finding 3
Net assessment/case management costs	<u>1,965,648</u>	<u>1,095,558</u>	<u>(870,090)</u>	
Treatment costs	12,987,816	10,501,251	(2,486,565)	Finding 1
Administrative costs	2,091,885	707,784	(1,384,101)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(3,503,392)	(2,335,913)	1,167,479	Finding 3
State categorical funds (EPSDT and IDEA ²)	(5,554,598)	(6,074,008)	(519,410)	Finding 3
Net treatment costs	<u>6,021,711</u>	<u>2,799,114</u>	<u>(3,222,597)</u>	
Total program costs	<u>\$ 7,987,359</u>	<u>3,894,672</u>	<u>\$ (4,092,687)</u>	
Less amount paid by the State		(7,987,359)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (4,092,687)</u>		

Revised Schedule 1 (continued)

Costs Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005 through June 30, 2006</u>				
Assessment/case management costs	\$ 3,723,702	\$ 3,060,385	\$ (663,317)	Finding 1
Administrative costs	434,297	160,885	(273,412)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(636,167)	(483,811)	152,356	Finding 3
State categorical funds (EPSDT and IDEA ²)	(1,126,462)	(1,654,661)	(528,199)	Finding 3
Net assessment/case management costs	<u>2,395,370</u>	<u>1,082,798</u>	<u>(1,312,572)</u>	
Treatment costs	12,878,460	10,873,989	(2,004,471)	Finding 1
Administrative costs	1,502,020	606,769	(895,251)	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(3,313,672)	(2,258,022)	1,055,650	Finding 3
State categorical funds (EPSDT and IDEA ²)	(5,906,288)	(6,118,192)	(211,904)	Finding 3
Net treatment costs	<u>5,160,520</u>	<u>3,104,544</u>	<u>(2,055,976)</u>	
Total program costs	<u>\$ 7,555,890</u>	<u>4,187,342</u>	<u>\$ (3,368,548)</u>	
Less amount paid by the State		(7,555,890)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (3,368,548)</u>		
<u>Summary: July 1, 2003 through June 30, 2006</u>				
Assessment/case management costs	\$ 10,272,593	\$ 8,521,988	\$ (1,750,605)	
Administrative costs	1,347,062	559,601	(787,461)	
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(1,998,299)	(1,512,011)	486,288	
State categorical funds (EPSDT and IDEA ²)	(3,911,330)	(4,618,145)	(706,815)	
Net assessment/case management costs	<u>5,710,026</u>	<u>2,951,433</u>	<u>(2,758,593)</u>	
Treatment costs	39,371,763	31,657,483	(7,714,280)	
Administrative costs	5,111,441	2,360,257	(2,751,184)	
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(10,460,095)	(7,296,620)	3,163,475	
State categorical funds (EPSDT and IDEA ²)	(17,447,665)	(18,632,734)	(1,185,069)	
Net treatment costs	<u>16,575,444</u>	<u>8,088,386</u>	<u>(8,487,058)</u>	
Subtotal	<u>22,285,470</u>	<u>11,039,819</u>	<u>(11,245,651)</u>	
Less late claim penalty	-	(1,000)	(1,000)	
Total program costs	<u>\$ 22,285,470</u>	<u>11,038,819</u>	<u>\$ (11,246,651)</u>	
Less amount paid by the State		(15,543,249)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (4,504,430)</u>		

¹ See the Findings and Recommendations section.

² The county received \$6,003,824, \$5,918,277, and 5,918,277 in Individuals with Disabilities Education Act (IDEA) funds for FY 2003-04, FY 2004-05, and FY 2005-06, respectively. This amount is included in the Allowable per Audit column.

Revised Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated costs by \$9,464,885 for the audit period. The county did not prepare its claims based on its actual costs to implement the mandated program.

In the prior SCO audit of this program for fiscal year (FY) 2000-01 and FY 2001-02, dated October 31, 2006, we reported that the county's claimed costs were not based on actual program costs because its automated system did not have unique procedure codes to identify mandate-related services. The county used an extraction program to accumulate all mandate-related units of service for its clients assessed at four main sites. At these sites, the extraction program erroneously picked up clients who were denied services and for whom cases were closed.

In the current audit, the county's extraction program again picked up clients for whom cases were closed. The county implemented a new system beginning October 1, 2003; the new system became fully functional in the middle of FY 2003-04. This mid-year implementation caused additional errors and irregularities for FY 2003-04. When the client data from the two systems were merged, other problems became apparent, such as data loss, overstated units, and ineligible clients.

When preparing its claims, the county:

- Claimed unsupported costs;
- Claimed ineligible crisis-intervention services and board and care costs for FY 2003-04 and ineligible therapeutic behavioral services for the entire audit period;
- Commingled in-state and out-of-state residential placement; we moved eligible out-of-state costs to the Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services Program;
- Duplicated costs by claiming out-of-county residential placement and related services that were included in the pool of costs used to determine unit rates; and
- Omitted reimbursable costs; we considered these costs in determining our adjustments.

We adjusted costs based on actual units of service provided to eligible clients using the appropriate unit cost that represented the actual cost to the county.

The program's parameters and guidelines specify that only the following services are reimbursable: case management, assessment, individual therapy, collateral therapy and contacts, 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 treatment and room-and-board costs; previously, only mental health treatment costs were reimbursable.

The following table summarizes the overstated costs claimed:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment costs	\$ (468,309)	\$ (618,979)	\$ (663,317)	\$ (1,750,605)
Treatment costs	(3,223,244)	(2,486,565)	(2,004,471)	(7,714,280)
Total	<u>\$ (3,691,553)</u>	<u>\$ (3,105,544)</u>	<u>\$ (2,667,788)</u>	<u>\$ (9,464,885)</u>

Recommendation

No recommendation is applicable for this report, as the Handicapped and Disabled Students Program no longer is mandated.

County’s Response

The County agrees with this finding.

**FINDING 2—
Overstated
administrative costs**

The county overstated its administrative costs by \$3,538,645 for the audit period.

The county miscalculated its administrative cost rates because it did not include all offsetting revenues. In the prior audit noted in Finding 1, the county did not offset its administrative costs by revenues received. We adjusted administrative rates calculations by offsetting administrative costs by all relevant revenues. The adjustments resulted in a reduction to administrative rates applied for the audit period. The overstatement is also due to the county’s application of the administrative rates to ineligible costs, duplicated costs, and overstated direct costs that are not based on actual program costs.

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 overstated administrative costs claimed:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ (110,621)	\$ (403,428)	\$ (273,412)	\$ (787,461)
Treatment	(471,832)	(1,384,101)	(895,251)	(2,751,184)
Total	<u>\$ (582,453)</u>	<u>\$ (1,787,529)</u>	<u>\$ (1,168,663)</u>	<u>\$ (3,538,645)</u>

Recommendation

No recommendation is applicable for this report, as Handicapped and Disabled Students Program no longer is mandated.

County’s Response

The County agrees with this finding.

**FINDING 3—
Overstated offsetting
revenues**

The county overstated offsetting revenues by \$1,757,879 for the audit period.

The county miscalculated revenues by using inaccurate Medi-Cal units; applying incorrect funding percentages for Short-Doyle/Medi-Cal FFP (SD/MC) and Early and Periodic, Screening, Diagnosis and Treatment (EPSDT); and including revenues related to unallowable costs.

We recalculated total revenues by applying the appropriate cost per unit to eligible units of service, using the correct funding percentages for SD/MC and EPSDT, and excluding revenues related to unallowable costs.

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 overstated offsetting revenues claimed:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment:				
Short-Doyle/Medi-Cal funds	\$ 129,696	\$ 204,236	\$ 152,356	\$ 486,288
State categorical funds (EPSDT and IDEA)	(126,697)	(51,919)	(528,199)	(706,815)
Total assessment	2,999	152,317	(375,843)	(220,527)
Treatment:				
Short-Doyle/Medi-Cal funds	940,346	1,167,479	1,055,650	3,163,475
State categorical funds (EPSDT and IDEA)	(453,755)	(519,410)	(211,904)	(1,185,069)
Total treatment	486,591	648,069	843,746	1,978,406
Total	\$ 489,590	\$ 800,386	\$ 467,903	\$ 1,757,879

Recommendation

No recommendation is applicable for this report, as the Handicapped and Disabled Student Program no longer is mandated.

County’s Response

The County agrees with this finding.

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

County of Santa Clara
Finance Agency



County Government Center
70 West Hedding Street, East Wing 2nd floor
San Jose, California 95110-1705
(408) 299-5205 FAX 287-7629

June 17, 2015

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

RE: SB90 Mandate-Handicapped and Disabled Students Program- Revised Draft Audit Report

We have reviewed the revised audit report on the SB90 State Mandated Costs claim of the Handicapped and Disabled Students Program for the period of July 1, 2003 through June 30, 2006. The County's responses to each of the revised audit findings are as follows:

FINDING 1— Overstated assessment and treatment costs

The County agrees with this finding.

FINDING 2— Overstated administrative costs

The County agrees with this finding.

FINDING 3— Overstated offsetting revenues

The County agrees with this finding.

The County concurs with the State that the overpayments of FY2004-05 claim and FY2005-06 claim are to be offset from other mandated program payments due the County.

If you have any questions, please contact Kim Le at 408-299-5251 or kim-anh.le@fin.sccgov.org.

Sincerely,

Emily Harrison
Director of Finance

Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Ken Yeager, S. Joseph Simitian
County Executive: Jeffrey V. Smith

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

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