

YOLO COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

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

July 1, 2002, through June 30, 2006



JOHN CHIANG
California State Controller

September 2010



JOHN CHIANG
California State Controller

September 22, 2010

The Honorable Helen Thomson, Chair
Yolo County Board of Supervisors
625 Court Street, Room 204
Woodland, CA 95695

Dear Ms. Thomson:

The State Controller's Office audited the costs claimed by Yolo 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, 2002, through June 30, 2006.

The county claimed \$3,175,634 (\$3,175,638 less a \$3,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$1,066,479 is allowable and \$2,109,155 is unallowable. The costs are unallowable because the county claimed ineligible and unsupported costs, overstated administrative costs by applying incorrect rates, and understated offsetting revenues by omitting relevant sources. The State paid the county \$1,894,010. The amount paid exceeds allowable costs claimed by \$827,531.

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.

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

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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Restricted Use	3
Schedule 1—Summary of Program Costs	4
Findings and Recommendations	7
Attachment—County’s Response to Draft Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Yolo 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, 2002, through June 30, 2006.

The county claimed \$3,175,634 (\$3,178,634 less a \$3,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$1,066,479 is allowable and \$2,109,155 is unallowable. The costs are unallowable because the county claimed ineligible and unsupported costs, overstated administrative costs by applying incorrect rates, and understated offsetting revenues by omitting relevant sources. The State paid the county \$1,894,010. The amount paid exceeds allowable costs claimed by \$827,531.

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, 2002, 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, Yolo County claimed \$3,175,634 (\$3,178,634 less a \$3,000 penalty for filing late claims) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$1,066,479 is allowable and \$2,109,155 is unallowable.

For the FY 2002-03 claim, the State made no payment to the county. Our audit disclosed that \$725,934 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$725,934, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the county. Our audit disclosed that the claimed costs are unallowable.

For the FY 2004-05 claim, the State paid the county \$598,784. Our audit disclosed that \$122,381 is allowable. The State will offset \$447,403 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 \$1,295,226. Our audit disclosed that \$218,164 is allowable. The State will offset \$1,077,062 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 August 20, 2010. Howard Newens, Auditor-Controller, and Kim Suderman, Director, Alcohol, Drug and Mental Health responded by letter dated September 14, 2010 (Attachment), agreeing with the audit results with the exception of Finding 2. The county also believes that potentially allowable expenditures were inadvertently excluded from its claims. The county is working to identify the additional expenditures and anticipates providing the supporting documentation to us by December 2010. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Yolo 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

September 22, 2010

**Schedule 1—
Summary of Program Costs
July 1, 2002, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Assessment/case management costs	\$ 468,156	\$ 250,910	\$ (217,246)	Finding 1
Administrative costs	46,816	18,516	(28,300)	Finding 2
Offsetting revenues:				
State categorical funds	—	(45,315)	(45,315)	Finding 3
Short-Doyle/Medi-Cal funds	(69,130)	(53,761)	15,369	Finding 3
Net assessment/case management costs	<u>445,842</u>	<u>170,350</u>	<u>(275,492)</u>	
Treatment costs	738,550	800,205	61,655	Finding 1
Administrative costs	73,855	59,768	(14,087)	Finding 2
Offsetting revenues:				
State categorical funds	—	(138,763)	(138,763)	Finding 3
Short-Doyle/Medi-Cal funds	(263,764)	(164,626)	99,138	Finding 3
Net treatment costs	<u>548,641</u>	<u>556,584</u>	<u>7,943</u>	
Total direct and indirect costs	994,483	726,934	(267,549)	
Less late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 993,483</u>	<u>725,934</u>	<u>\$ (267,549)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 725,934</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Assessment/case management costs	\$ 230,781	\$ 154,944	\$ (75,837)	Finding 1
Administrative costs	23,078	14,033	(9,045)	Finding 2
Offsetting revenues:				
State categorical funds	—	(33,962)	(33,962)	Finding 3
Short-Doyle/Medi-Cal funds	(60,858)	(44,951)	15,907	Finding 3
Other (IDEA ²)	—	(103,521)	(103,521)	Finding 3
Net assessment/case management costs	<u>193,001</u>	<u>(13,457)</u>	<u>(206,458)</u>	
Treatment costs	799,330	678,693	(120,637)	Finding 1
Administrative costs	77,395	52,846	(24,549)	Finding 2
Offsetting revenues:				
State categorical funds	(476,838)	(154,929)	321,909	Finding 3
Short-Doyle/Medi-Cal funds	(303,747)	(205,059)	98,688	Finding 3
Other (IDEA ²)	—	(453,450)	(453,450)	Finding 3
Net treatment costs	<u>96,140</u>	<u>(81,899)</u>	<u>(178,039)</u>	
Total direct and indirect costs	289,141	(95,356)	(384,497)	
Adjustment to eliminate negative balance	—	96,356	96,356	
Less late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 288,141</u>	<u>—</u>	<u>\$ (288,141)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
July 1, 2004, through June 30, 2005				
Assessment/case management costs	\$ 319,672	\$ 185,022	\$ (134,650)	Finding 1
Administrative costs	31,967	21,432	(10,535)	Finding 2
Offsetting revenues:				
State categorical funds	—	(37,426)	(37,426)	Finding 3
Short-Doyle/Medi-Cal funds	(159,836)	(44,994)	114,842	Finding 3
Other (IDEA ²)	—	(85,592)	(85,592)	Finding 3
Net assessment/case management costs	<u>191,803</u>	<u>38,442</u>	<u>(153,361)</u>	
Treatment costs	4,251,022	963,519	(3,287,503)	Finding 1
Administrative costs	129,063	85,791	(43,272)	Finding 2
Offsetting revenues:				
State general/realignment funds	(1,637,642)	—	1,637,642	
State categorical funds	—	(235,509)	(235,509)	Finding 3
Short-Doyle/Medi-Cal funds	(1,895,624)	(283,132)	1,612,492	Finding 3
Other (IDEA ²)	(438,838)	(445,730)	(6,892)	Finding 3
Net treatment costs	<u>407,981</u>	<u>84,939</u>	<u>(323,042)</u>	
Total direct and indirect costs	599,784	123,381	(476,403)	
Less late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 598,784</u>	122,381	<u>\$ (476,403)</u>	
Less amount paid by the State		(598,784)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (476,403)</u>		
July 1, 2005, through June 30, 2006				
Assessment/case management costs	\$ 204,778	\$ 207,129	\$ 2,351	Finding 1
Administrative costs	20,478	11,670	(8,808)	Finding 2
Offsetting revenues:				
State categorical funds	—	(40,879)	(40,879)	Finding 3
Short-Doyle/Medi-Cal funds	(42,932)	(47,578)	(4,646)	Finding 3
Other (IDEA ²)	(100,000)	(89,904)	10,096	Finding 3
Net assessment/case management costs	<u>82,324</u>	<u>40,438</u>	<u>(41,886)</u>	
Treatment costs	1,740,236	1,029,884	(710,352)	Finding 1
Administrative costs	174,024	55,641	(118,383)	Finding 2
Offsetting revenues:				
State categorical funds	—	(212,941)	(212,941)	Finding 3
Short-Doyle/Medi-Cal funds	(254,032)	(247,837)	6,195	Finding 3
Other (IDEA ²)	(447,326)	(447,021)	305	Finding 3
Net treatment costs	<u>1,212,902</u>	<u>177,726</u>	<u>(1,035,176)</u>	
Total program costs	<u>\$ 1,295,226</u>	218,164	<u>\$ (1,077,062)</u>	
Less amount paid by the State		(1,295,226)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (1,077,062)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2002, through June 30, 2006</u>				
Assessment/case management costs	\$ 1,223,387	\$ 798,005	\$ (425,382)	
Administrative costs	122,339	65,651	(56,688)	
Offsetting revenues:				
State categorical funds	—	(157,582)	(157,582)	
Short-Doyle/Medi-Cal funds	(332,756)	(191,284)	141,472	
Other (IDEA ²)	(100,000)	(279,017)	(179,017)	
Net assessment/case management costs	<u>912,970</u>	<u>235,773</u>	<u>(677,197)</u>	
Treatment costs	7,529,138	3,472,301	(4,056,837)	
Administrative costs	454,337	254,046	(200,291)	
Offsetting revenues:				
State general/realignment funds	(1,637,642)	—	1,637,642	
State categorical funds	(476,838)	(742,142)	(265,304)	
Short-Doyle/Medi-Cal funds	(2,717,167)	(900,654)	1,816,513	
Other (IDEA ²)	(886,164)	(1,346,201)	(460,037)	
Net treatment costs	<u>2,265,664</u>	<u>737,350</u>	<u>(1,528,314)</u>	
Total direct and indirect costs	3,178,634	973,123	(2,205,511)	
Adjustment to eliminate negative balance		96,356	96,356	
Less late claim penalty	(3,000)	(3,000)	—	
Total program costs	<u>\$ 3,175,634</u>	<u>\$ 1,066,479</u>	<u>\$ (2,109,155)</u>	
Less amount paid by the State		(1,894,010)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (827,531)</u>		

¹ See the Findings and Recommendations section.

² The county received \$556,971, \$531,322, and \$536,925 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.

Findings and Recommendations

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

The county overstated assessment and treatment costs by \$4,482,219 for the audit period.

The county claimed mental health service costs that are not fully based on actual costs to implement mandate program. The county ran unit of service reports to support its claims. These reports did not fully support the units of service claimed and contained ineligible services of rehabilitation, crisis intervention and therapeutic behavioral services. In some cases, the county applied an incorrect unit rate. For FY 2004-05, the county erroneously claimed all treatment units including other programs unrelated to the mandate program.

We recalculated costs based on actual, supportable units of service provided to eligible clients using the appropriate unit cost, representing the actual cost to the county. In doing so, we excluded ineligible services of rehabilitation, crisis intervention and therapeutic behavioral services.

The following table summarizes the overstated costs claimed:

	Fiscal Year				Total
	2002-03	2003-04	2004-05	2005-06	
Assessment	\$ (217,246)	\$ (75,837)	\$ (134,650)	\$ 2,351	\$ (425,382)
Treatment	61,655	(120,637)	(3,287,503)	(710,352)	(4,056,837)
Total adjustment	<u>\$ (155,591)</u>	<u>\$ (196,474)</u>	<u>\$ (3,422,153)</u>	<u>\$ (708,001)</u>	<u>\$ (4,482,219)</u>

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

The parameters and guidelines also provide that costs must be traceable to source documentation to show evidence of the validity of such costs.

Recommendation

We recommend that the county implement policies and procedures to ensure that only actual and supported costs for program eligible clients are claimed in accordance with the mandate program.

County’s Response

In general, we concur with these findings and submit the following explanations for these HDS claim inaccuracies:

During the four fiscal years audited, Yolo County contracted with firm Maximus to help prepare SB 90 claims. Yolo County Alcohol, Drug, and Mental Health (ADMH) staff were responsible for providing mandate program cost/units of service data and other supporting documentation to file the HDS I and HDS II claims to the SCO.

1. Because of the complexity of CSM published Parameters and Guidelines (P's & G's) and, the SCO claiming instructions, the claims submitted by Yolo County, "*contained ineligible services of rehabilitation, crisis intervention and therapeutic behavioral services*". More importantly, as evidenced by this same audit report, an inadvertent oversight by the claims preparation team "erroneously claimed" the total treatment costs and units of service reported by Yolo County in Schedule MH-1912 of the California Department of Mental Health (DMH) Annual Cost-Report for Children's Services in FY2004-05.
2. For the record, we are currently reviewing the Maximus Contract for these said fiscal years to determine whether the Contractor can assist Yolo County with potential appeals of the audit findings and conclusions.

We agreed with the said SCO recommendations and will implement policies and procedures to ensure that only actual and supported costs for program eligible clients are claimed in accordance with the current parameters and guidelines and SCO claiming instructions. We have implemented and updated our internal controls and cost-accounting procedures to prevent the reoccurrence of these inadvertent events and incidents.

SCO's Comment

The finding and recommendation remain unchanged. The county has indicated that it will provide documentation, by December 2010, concerning omitted residential placement costs. Also, as discussed in the county's response to Finding 2, the county proposes changes based on the California Department of Mental Health (CDMH) reviews of the county cost reports; these reviews may also have an impact on direct service costs. We will consider the additional information when it becomes available and revise the final report as appropriate.

FINDING 2— Overstated administrative costs

The county overstated administrative costs by \$256,979 for the audit period.

The county miscalculated its administrative costs by applying a flat 10% rate to total direct costs. For the direct cost method, the program's parameters and guidelines allow 10% of direct salaries only, not 10% of all direct costs. The county prepared its direct costs using the cost report method, utilizing units of service and unit rates to determine direct costs. Further, the county did not reduce administrative costs by offsetting revenues. The county then applied the rate to both county facilities and contract providers, even though the county does not oversee contract providers.

We recalculated administrative cost rates using a method that is consistent with the cost reports submitted to the California Department of Mental Health. We applied the rates to eligible direct costs. Lastly, we reduced administrative costs by relevant revenues including Short-Doyle/Medi-Cal (SD/MC) administration funds.

The following table summarizes the overstated administrative costs claimed:

	Fiscal Year				Total
	2002-03	2003-04	2004-05	2005-06	
Assessment	\$ (28,300)	\$ (9,045)	\$ (10,535)	\$ (8,808)	\$ (56,688)
Treatment	(14,087)	(24,549)	(43,272)	(118,383)	(200,291)
Total adjustment	<u>\$ (42,387)</u>	<u>\$ (33,594)</u>	<u>\$ (53,807)</u>	<u>\$ (127,191)</u>	<u>\$ (256,979)</u>

The program’s 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 California Department of Mental Health has not already compensated reimbursable administrative costs from categorical funding sources, they may be claimed.

Recommendation

We recommend that the county compute administrative cost rates using a method that is consistent with the cost allocations in the cost report submitted to the California Department of Mental Health and apply administrative cost rates to eligible and supported direct costs. Further, we recommend that the county implements policies and procedures to ensure that all relevant administrative revenues are applied to valid administrative costs.

County’s Response

In general we concur with these findings and submit the following explanations for the overstatement of administrative costs:

1. The overstatement of the administrative costs was the result of a misunderstanding of the SCO approved methodology for calculating administrative costs. It appears from the claims submitted that the total administrative costs were determined by simply multiplying the total direct costs by ten percent (10%) (e.g. using the maximum allowable amount). This calculation was incorrect and contributed to the overstatement of the county’s administrative costs.
2. During the field audit, SCO auditors provided Yolo County with an acceptable method for calculating the county’s administrative costs using the DMH Desk Settled Cost-Report (i.e. gross cost method). Attachment-1: Administrative Cost Rate, Yolo County describes the calculation of these costs using the total administrative costs derived from Schedule MH-1960 of the DMH Cost-Reports for each the specified fiscal years. As evidenced in Attachment-1, Table-1, the SCO methodology does generate lower administrative cost rates than the flat rate of 10% for fiscal years 2002-03, 2003-04, and 2005-06 respectively.
3. We accept the SCO Methodology for calculating total administrative costs. However, we disagree with their use of the unaudited DMH Cost-Report total program/administrative costs as the source document for determining the total administrative costs.

4. We propose that using the DMH desk settled cost-report as the source document for calculating administrative costs overstated the offsetting Medi-Cal Federal Financial Participation (FFP) and Early and Periodic Screening Diagnosis and Treatment/State General Fund (EPSDT/SGF) revenues. That is, during the SCO audit of HDS mandate program at Yolo County, DMH has concurrently completed the audits of the Yolo County FY2002-03, FY2003-04, FY2004-05, and FY2005-06 Short-Doyle/Medi-Cal (SD/MC) Cost-Reports. DMH audit disallowances have significantly reduced the direct and indirect program costs reimbursements from Medi-Cal FFP and EPSDT/SGF. As such, the offsetting revenues available for the HDS mandate program has also been reduced incrementally.
5. Additionally, the said DMH Audit Results reallocate direct program costs to administrative costs. This reallocation has substantially increased administrative costs for the specified fiscal years (SEE: Attachment-1, Table-2). Table-3: Comparison of Administrative Cost Rates below is a summary of the differences between the DMH Desk Settled and Audit Settled administrative cost rates using the SCO Methodology:

	FY2002/03	FY2003/04	FY2004/05	FY2005/06
SCO Total Administrative Costs (Desk Settled)	\$609,535	\$683,671	\$815,216	\$660,088
SCO Admin Rate (Desk Settled)	9.26%	9.78%	12.17%	6.34%
ADMH Total Administrative Costs (Audit Settled)	\$1,374,990	\$1,197,360	\$1,229,586	\$1,027,607
ADMH Admin Rate (Audit Settled)	31.36%	18.52%	20.38%	12.64%

6. Therefore, as Table-3 exhibits, Yolo County is requesting the SCO to utilize the DMH post-audited administrative cost rates established by the DMH Audit reports dated May 16, 2008 through June 16, 2010 respectively to calculate Yolo County administrative costs.
7. More important, the DMH audit has significantly reduced the total net amount of Medi-Cal FFP and EPSDT/SGF revenues to Yolo County. For the specified audit periods, DMH has offset a total of \$4.7 million in Medi-Cal FFP and EPSDT/SGF revenues. Specifically, for the mandate program, we estimate that the SCO audit reports' calculation of offsetting Medi-Cal FFP and EPSDT/SGF revenues may have been overstated by \$550,000 to \$600,000 for the fiscal years audited.

We agreed with the SCO recommendations and will implement policies and procedures to ensure that only actual and supported costs for administration less relevant administration revenues are claimed. These administrative costs will be claimed in accordance with the current parameters and guidelines and SCO claiming instructions. We have implemented and updated our internal controls and cost-accounting procedures to prevent the reoccurrence of these inadvertent events and incidents.

SCO’s Comment

The finding and recommendation remain unchanged. In its response, the county agrees with the methodology of the calculation, but proposes an alternative source of information by which to compute administrative costs. The county states that the information provided is based on audit adjustments proposed by the California Department of Mental Health (CDMH) in its review of the county’s cost reports. The county has not provided any supporting documentation for its proposal. Therefore, the county has not provided the CDMH reports and revised cost reports. Further, the CDMH reports are still subject to an appeals process and are not final for the entire audit period. In the course of our audit, the county indicated that it may appeal the results of the CDMH reviews. Lastly, even though the county uses the CDMH revisions to re-compute only administrative costs, the revisions to the cost report may also impact direct service costs. Nevertheless, we will consider the additional information when it becomes available and revise the final report as appropriate.

**FINDING 3—
Overstated offsetting
revenues**

The county overstated offsetting revenues by \$2,533,687 for the audit period.

The county is unable to provide support for all of the revenues applied and the basis for the application. As such, it is not clear if all relevant revenue sources were applied including Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) revenues. As noted in Finding 1, for FY 2004-05, the county erroneously included revenues unrelated to the mandated program.

We recalculated revenues related to eligible assessment and treatment costs by applying the appropriate cost per unit to actual, supported Medi-Cal units, using the correct funding percentages for SD/MC and EPSDT. Further, we applied IDEA funds to the full extent of the grant.

The following table summarizes the overstated offsetting revenues claimed:

	Fiscal Year				Total
	2002-03	2003-04	2004-05	2005-06	
Assessment revenues:					
State categorical funds (EPSDT)	\$ (45,315)	\$ (33,962)	\$ (37,426)	\$ (40,879)	\$ (157,582)
Short-Doyle/Medi-Cal funds	15,369	15,907	114,842	(4,646)	141,472
Other (IDEA)	—	(103,521)	(85,592)	10,096	(179,017)
Total assessment	(29,946)	(121,576)	(8,176)	(35,429)	(195,127)
Treatment revenues:					
State general/realignment funds	—	—	1,637,642	—	1,637,642
State categorical funds (EPSDT)	(138,763)	321,909	(235,509)	(212,941)	(265,304)
Short-Doyle/Medi-Cal funds	99,138	98,688	1,612,492	6,195	1,816,513
Other (IDEA)	—	(453,450)	(6,892)	305	(460,037)
Total treatment	(39,625)	(32,853)	3,007,733	(206,441)	2,728,814
Total offsetting revenues	\$ (69,571)	\$ (154,429)	\$ 2,999,557	\$ (241,870)	\$ 2,533,687

The program's parameters and guidelines specify that any direct payments (categorical funds, SD/MC Federal Financing Participation funds, 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.

Recommendation

We recommend that the county implement policies and procedures to ensure that appropriate revenues are identified and applied to valid costs.

County's Response

In general we concur with these findings and submit the following explanations:

1. The overstated offsetting revenues were the result of an inadvertent oversight and, the inclusion of the total FY2004-05 EPSDT/SGF and Medi-Cal FFP revenues for the Children's Programs in the county's SB 90 claim. Again, this overstatement was the direct result of a misunderstanding of the parameters and guidelines and SCO claiming instructions.
2. On balance, we do want to state for the record that the P's & G's were revised and amended by the CSM/SCO three of the four fiscal years audited. With each fiscal year having somewhat differing standards and requirements. Obviously, this year-to-year revision in the P's & G's may have also contributed to the misunderstanding by ADMH staff on what costs/units of service to include into the SB 90 claim.

We agreed with the SCO recommendations and will implement policies and procedures to ensure that only actual offsetting revenues, actual eligible program costs, and supported costs for administration less relevant direct service and administrative revenues are claimed. These program costs and offsetting revenues will be claimed in accordance with the current parameters and guidelines and SCO claiming instructions for each specific fiscal year-end period. We have implemented and updated our internal controls and cost-accounting procedure to prevent the reoccurrence of these inadvertent events and incidents. More importantly, we will provide training to county staff on the proper and correct billing methodology to file SB90 claims.

SCO's Comment

The finding and recommendation remain unchanged. We will consider the additional information, as noted in Findings 1 and 2, once it becomes available, assess the impact on offsetting revenues, and revise the final report as appropriate.

In reference to Item 2 of the county's response, claimants (counties) proposed changes to the program's parameters and guidelines, the CSM adopts and revises parameters and guidelines. The SCO issues related claiming instructions.

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



County of Yolo

www.yolocounty.org

HOWARD H. NEWENS, CIA, CPA

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TREASURER-TAX COLLECTOR

AUDITOR-CONTROLLER

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September 14, 2010

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

RE: Yolo County Response to State Controller's Office (SCO) Draft Audit Report Handicapped and Disabled Students Program (HDS) dated August 2010 for the period July 1, 2002 through June 30, 2006

Dear Mr. Spano:

This letter represents Yolo County's response to our preliminary review of the specified Draft SCO Audit Report dated August 2010 pursuant to the HDS (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985). We appreciate the opportunity to respond to the report and to include our county's responses to the final public document. The following paragraphs describe our responses to the SCO Draft Audit Report:

AUDIT METHODOLOGY

We assert and reserve the right to challenge the audit methodology utilized by the SCO should an incorrect reduction claim hearing to the Commission on State Mandates (CSM) commence on behalf of Yolo County pursuant to California Code of Regulations (CCR), Title 2, Section 1185, sub-sections (b) and (c). Local agencies have the right to file an 'incorrect reduction claim' appeal no later than three years after receiving the State Controller's remittance advice of the said reduction.

AUDIT FINDINGS & CONCLUSIONS

SCO Audit Findings and Conclusions: Based upon our preliminary review of the draft audit report, we concur generally with the following summary statement: *"The county claimed \$3,175,634 for the mandate program. Our audit disclosed that \$1,066,479 is allowable and \$2,109,155 is unallowable. The costs are unallowable because the county claimed ineligible and unsupported*

ASSURANCE OF ACCOUNTABILITY

costs; overstated administrative costs by applying incorrect rates; and understated offsetting revenues by omitting relevant sources. The state paid the county \$1,894,010. The amount paid exceeds allowable costs claimed by \$827,531." Yolo County's detailed response to each specific finding and recommendation follows:

Finding 1 - Overstated assessment and treatment costs

"The county claimed mental health service costs that are not fully based on actual costs to implement mandate program. The county ran unit of cost service reports to support its claims. These reports did not fully support the units of service claimed and contained ineligible services of rehabilitation, crisis intervention and therapeutic behavioral services. In some cases, they applied an incorrect unit rate. For FY 2004-05, the county erroneously claimed all treatment units including other programs unrelated to the mandate program" (page-7, SCO Audit Report).

Yolo County Response: In general, we concur with these findings and submit the following explanations for these HDS claim inaccuracies:

During the four fiscal years audited, Yolo County contracted with firm Maximus to help prepare SB 90 claims. Yolo County Alcohol, Drug, and Mental Health (ADMH) staff was responsible for providing mandate program cost/units of service data and other supporting documentation to file the HDS I and HDS II claims to the SCO.

1. Because of the complexity of CSM published Parameters and Guidelines (P's & G's) and, the SCO claiming instructions, the claims submitted by Yolo County, "*contained ineligible services of rehabilitation, crisis intervention and therapeutic behavioral services*". More importantly, as evidenced by this same audit report, an inadvertent oversight by the claims preparation team "erroneously claimed" the total treatment costs and units of service reported by Yolo County in Schedule MH-1912 of the California Department of Mental Health (DMH) Annual Cost-Report for Children's Services in FY2004-05.
2. For the record, we are currently reviewing the Maximus Contract for these said fiscal years to determine whether the Contractor can assist Yolo County with potential appeals of the audit findings and conclusions.

Implementation of Recommendations: We agree with the said SCO recommendations and will implement policies and procedures to ensure that only actual and supported costs for program eligible clients are claimed in accordance with the current parameters and guidelines and SCO claiming instructions. We have implemented and updated our internal controls and cost-accounting procedures to prevent the reoccurrence of these inadvertent events and incidents.

Finding 2 –Overstated administrative costs

“The county miscalculated its administrative costs by applying a flat 10% rate to total direct costs. For the direct cost method, the program’s parameters and guidelines allow 10% of direct salaries only, not 10% of all direct costs. The county prepared its direct costs using the cost-report method, utilizing units of service and unit rates to determine direct costs. Further, the county did not reduce administrative costs by offsetting revenues. The county then applied the rate to both county facilities and contract providers, even though the county does not oversee contract providers.” (page-8, SCO Audit Report)

Yolo County Response: In general we concur with these findings and submit the following explanations for the overstatement of administrative costs:

1. The overstatement of the administrative costs was the result of a misunderstanding of the SCO approved methodology for calculating administrative costs. It appears from the claims submitted that the total administrative costs were determined by simply multiplying the total direct costs by ten percent (10%) (e.g. using the maximum allowable amount). This calculation was incorrect and contributed to the overstatement of the county’s administrative costs.
2. During the field audit, SCO auditors provided Yolo County with an acceptable method for calculating the county’s administrative costs using the DMH Desk Settled Cost-Report (i.e. gross cost method). Attachment-1: Administrative Cost Rate, Yolo County describes the calculation of these costs using the total administrative costs derived from Schedule MH-1960 of the DMH Cost-Reports for each the specified fiscal years. As evidenced in Attachment-1, Table-1, the SCO methodology does generate lower administrative cost rates than the flat rate of 10% for fiscal years 2002-03, 2003-04, and 2005-06 respectively.
3. We accept the SCO Methodology for calculating total administrative costs. However, we disagree with their use of the unaudited DMH Cost-Report total program/administrative costs as the source document for determining the total administrative costs.
4. We propose that using the DMH desk settled cost-report as the source document for calculating administrative costs overstates the offsetting Medi-Cal Federal Financial Participation (FFP) and Early and Periodic Screening Diagnosis and Treatment/State General Fund (EPSDT/SGF) revenues. That is, during the SCO audit of HDS mandate program at Yolo County, DMH has concurrently completed the audits of the Yolo County FY2002-03, FY2003-04, FY2004-05, and FY2005-06 Short-Doyle/Medi-Cal (SD/MC) Cost-Reports. DMH audit disallowances have significantly reduced the direct and indirect program costs reimbursements from Medi-Cal FFP and EPSDT/SGF. As such, the offsetting revenues available for the HDS mandate program have also been reduced incrementally.

5. Additionally, the said DMH Audit Results reallocate direct program costs to administrative costs. This reallocation has substantially increased administrative costs for the specified fiscal years (SEE: Attachment-1, Table-2). Table-3: Comparison of Administrative Cost Rates below is a summary of the differences between the DMH Desk Settled and Audit Settled administrative cost rates using the SCO Methodology:

Table-3: Comparison of Administrative Cost Rates:

	FY2002/03	FY2003/04	FY2004/05	FY2005/06
SCO Total Administrative Costs (Desk Settled)	\$609,535	\$683,671	\$815,216	\$660,088
SCO Admin Rate (Desk Settled)	9.26%	9.78%	12.17%	6.34%
ADMH Total Administrative Costs (Audit Settled)	\$1,374,990	\$1,197,360	\$1,229,586	\$1,027,607
ADMH Admin Rate (Audit Settled)	31.36%	18.52%	20.38%	12.64%

6. Therefore, as Table-3 exhibits, Yolo County is requesting the SCO to utilize the DMH post-audited administrative cost rates established by the DMH Audit reports dated May 16, 2008 through June 16, 2010 respectively to calculate Yolo County administrative costs.
7. More important, the DMH audit has significantly reduced the total net amount of Medi-Cal FFP and EPSDT/SGF revenues to Yolo County. For the specified audit periods, DMH has offset a total of \$4.7 million in Medi-Cal FFP and EPSDT/SGF revenues. Specifically, for the mandate program, we estimate that the SCO audit reports' calculation of offsetting Medi-Cal FFP and EPSDT/SGF revenue may have been overstated by \$550,000 to \$600,000 for the fiscal years audited.

Implementation of Recommendations: We agree with the SCO recommendations and will implement policies and procedures to ensure that only actual and supported costs for administration less relevant administrative revenues are claimed. These administrative costs will be claimed in accordance with the current parameters and guidelines and SCO claiming instructions. We have implemented and updated our internal controls and cost-accounting procedures to prevent the reoccurrence of these inadvertent events and incidents.

Finding 3 – Overstated offsetting revenues

“The county overstated offsetting revenues by \$2,533,687 for the audit period. The county is unable to provide support for all of the revenue applied and the basis of the application. As such, it is not clear if all relevant revenue sources were applied including Early and Periodic Screening and

Treatment (EPSDT) revenues. As noted in Finding 1, for the FY 2004-05, the county erroneously included revenue unrelated to the mandated program." (page-9, SCO Audit Report)

Yolo County Response: In general we concur with these findings and submit the following explanations:

1. The overstated offsetting revenues were the result of an inadvertent oversight and, the inclusion of the total FY2004-05 EPSDT/SGF and Medi-Cal FFP revenues for the Children's Programs in the county's SB 90 claim. Again, this overstatement was the direct result of a misunderstanding of the parameters and guidelines and SCO claiming instructions.
2. On balance, we do want to state for the record that the P's & G's were revised and amended by the CSM/SCO three of the four fiscal years audited. With each fiscal year having somewhat differing standards and requirements. Obviously, this year-to-year revision in the P's & G's may have also contributed to the misunderstanding by ADMH staff on what costs/units of service to include into the SB 90 claim.

Implementation of Recommendations: We agree with the SCO recommendations and will implement policies and procedures to ensure that only actual offsetting revenues, actual eligible program costs, and supported costs for administration less relevant direct service and administrative revenues are claimed. These program costs and offsetting revenues will be claimed in accordance with the current parameters and guidelines and SCO claiming instructions for each specific fiscal year-end period. We have implemented and updated our internal controls and cost-accounting procedures to prevent the reoccurrence of these inadvertent events and incidents. More importantly, we will provide training to county staff on the proper and correct billing methodology to file SB90 claims.

Additional Comments from Yolo County

To conclude, during the next few months, but not later than December 2010, we shall be submitting additional eligible costs to the SCO that has been incurred and unreimbursed for in-state out-of-home Residential Care Level (RCL-14) placements. Yolo County Departments of Employment and Social Services, ADMH, and Probation shall provide evidence of the total unreimbursed costs incurred pursuant to this mandate. Given this timeline, we hope that the SCO will be open to a review of these documents and the supporting evidence. Furthermore, as advised by the SCO, we shall request from Ms. Gwen Carlos, SCO Division of Accounting to hold all collection actions to collect the \$827,531 overpayment until Yolo County has submitted evidence to support the said additional placement costs and, finalize the DMH SD/MC Audit disallowance amounts.

Finally, we recommend that the SCO Final Audit Report utilize the DMH Net-Audited Medi-Cal FFP and EPSDT/SGF revenues to offset against HDS mandate program costs. We strongly believe that this adjustment to the audit report will produce a fair and objective representation of the Yolo County mandate program costs and offsetting revenues. It is our hope that the SCO will consider our responses and recommendations as they finalize this said audit report.

Should you have any questions regarding this response, require additional information or clarifications, please contact Rudy C. Arrieta at (530) 666-8278 or by email @ rudy.arrieta@yolocounty.org.

Again, thank you for this opportunity to respond to the SCO draft audit findings and conclusions.

Sincerely,



Howard Newens
Auditor-Controller
Yolo County
P.O. Box 1268
Woodland, CA 95776



Kim Suderman
Director, Yolo County
Alcohol, Drug, Mental Health
137 N. Cottonwood St Suite 2500
Woodland, CA 95776

Attachment

Cc: Honorable Helen Thomson, Chairwoman, Yolo County Board of Supervisors
Patrick Blacklock, County Administrator, Yolo County
Chris Ryan, Audit Manager, State Controller's Office
Mark Krummenacker, Manager of General Accounting, Yolo County
Daniel Cederborg, Assistant County Counsel, Yolo County
Mark Bryan, Deputy Director, Yolo County ADMH

YOLO COUNTY ADMINISTRATIVE COST RATES

Administrative Cost Rate
 Yolo County
 Handicapped and Disabled Students
 July 1, 2002, through June 30, 2006
 S09-MCC-024

TABLE-1: Per SCO Audit

	FY 2002-03	FY 2003-04	FY2004-05	FY2005-06
Admin./Research and Evaluation	\$ 708,133	\$ 931,948	\$ 1,020,048	\$ 1,041,268
Utilization Review	\$ 314,833	\$ 253,325	\$ 320,183	\$ 256,119
Subtotals	\$ 1,022,966	\$ 1,187,273	\$ 1,340,231	\$ 1,297,387
Less Grants (SAMHSA, PATH, etc.)	\$ (25,572)	\$ (33,899)	\$ (11,063)	\$ (8,148)
Less Medi-Cal (FFP) under Admin./Res. & Eval.	\$ (235,196)	\$ (335,590)	\$ (337,943)	\$ (467,045)
Less Medi-Cal (FFP) under Utilization Review	\$ (152,663)	\$ (134,113)	\$ (176,009)	\$ (162,106)
Less Healthy Family under Admin./Res. & Eval	\$ -	\$ -	\$ -	\$ -
Subtotals	\$ (413,431)	\$ (503,602)	\$ (525,015)	\$ (637,299)
Total Administrative Cost	\$ 609,535	\$ 683,671	\$ 815,216	\$ 660,088
Total Mode Cost (Direct Service)	\$ 6,581,551	\$ 6,988,849	\$ 6,698,810	\$ 10,408,428
Administrative Rates	9.26%	9.78%	12.17%	6.34%

TABLE-2: Using DMH Audited Cost Reports

	Adj #	FY 2002-03	Adj #	FY 2003-04	Adj #	FY2004-05	Adj #	FY2005-06
Admin./Research and Evaluation	10	\$ 1,336,430	16	\$ 1,362,822	12	\$ 1,346,781	12	\$ 1,241,263
Utilization Review	17	\$ 563,460	24	\$ 275,010	17	\$ 288,498	17	\$ 325,995
Subtotals		\$ 1,899,890		\$ 1,637,832		\$ 1,635,279		\$ 1,567,258
Less Grants (SAMHSA, PATH, etc.)		\$ (25,572)		\$ (33,899)		\$ (11,063)		\$ (8,148)
Less Medi-Cal (FFP) under Admin./Res. & Eval.	11	\$ (296,464)	17	\$ (308,902)	13	\$ (310,227)	13	\$ (370,516)
Less Medi-Cal (FFP) under Utilization Review	18/19	\$ (202,865)	25/26	\$ (97,400)	18/19	\$ (84,403)	18/19	\$ (143,103)
Less Healthy Family under Admin./Res. & Eval		\$ -		\$ -		\$ -		\$ -
Subtotals		\$ (524,901)		\$ (440,201)		\$ (405,692)		\$ (521,767)
Total Administrative Cost		\$ 1,374,990		\$ 1,197,632		\$ 1,229,587		\$ 1,045,491
Total Mode Cost (Direct Service)	23	\$ 4,384,496	29	\$ 6,463,649	21	\$ 6,033,872	21	\$ 8,117,784
Administrative Rates		31.36%		18.53%		20.38%		12.88%
Per DMH letter dated:		5/16/2008		11/24/2009		12/29/2009		6/16/2010

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