

CONTRA COSTA COUNTY

Audit Report

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

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

July 1, 2009, through June 30, 2010



BETTY T. YEE
California State Controller

October 2017



BETTY T. YEE
California State Controller

October 23, 2017

The Honorable Federal D. Glover, Chair
Contra Costa County Board of Supervisors
315 East Leland Road
Pittsburg, CA 94565

Dear Mr. Glover:

The State Controller's Office (SCO) audited the costs claimed by Contra Costa County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils 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, 2009, through June 30, 2010.

The county claimed \$8,634,419 for the mandated program. Our audit found that \$6,375,713 is allowable and \$2,258,706 is unallowable. The costs are unallowable primarily because the county overstated assessment and treatment costs, claimed ineligible vendor costs, and miscalculated indirect costs and offsetting revenues. The State made no payments to the county. The SCO's Local Government Programs and Services Division will send the county a separate notification letter to resolve unpaid allowable costs. The letter will be sent within 30 days from the issuance date of this report.

This final audit report contains an adjustment to costs claimed by the county. If you disagree with the audit finding(s), you may file an Incorrect Reduction Claim (IRC) with the Commission on the State Mandates (Commission). Pursuant to Section 1185, subdivision (c), of the Commission's regulations (*California Code of Regulations*, Title 3), an IRC challenging this adjustment must be filed with the Commission no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain IRC information on the Commission's website at www.csm.ca.gov/forms/IRCFORM.pdf.

If you have any questions, please contact Jim L. Spano, CPA, Assistant Division Chief by telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: The Honorable Robert R. Campbell, Auditor-Controller
Contra Costa County
Kathy Gallagher, Director
Employment and Human Services Department
Contra Costa County
Emilia Gabriele, Chief Financial Officer
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Contra Costa County 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, 2009, through June 30, 2010.

The county claimed \$8,634,419 for the mandated program. Our audit found that \$6,375,713 is allowable and \$2,258,706 is unallowable. The costs are unallowable primarily because the county overstated assessment and treatment costs, claimed ineligible vendor costs, and miscalculated indirect costs and offsetting revenues. The State made no payments to the county. The SCO's Local Government Programs and Services Division will send the county a separate notification letter to resolve unpaid allowable costs. The letter will be sent within 30 days from the issuance date of this report.

Background

Handicapped and Disabled Students Program

Chapter 26 of the Government Code (GC), commencing with section 7570, and Welfare and Institutions Code (WIC) 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) adopted the statement of decision for the HDS Program and determined that this legislation imposes a state mandate reimbursable under GC section 17561. The Commission 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 WIC 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 Commission 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 II Program

On May 26, 2005, the Commission adopted a statement of decision for the HDS II Program that incorporates amendments to the HDS Program 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 last amended them on October 26, 2006.

The parameters and guidelines for the HDS II Program state:

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 Program

GC 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 (2 CCR 60100), which provides 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 Commission adopted the statement of decision for the SEDP Program and determined that Chapter 654, Statutes of 1996, impose a state mandate reimbursable under GC section 17561. The Commission adopted the parameters and guidelines for the SEDP Program on October 26, 2000. The Commission 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 GC section 7576.

The Commission 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 Commission stated that Chapter 43, Statutes of 2011, "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 GC section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

The objective of our audit was to determine whether costs claimed represent increased costs resulting from the Consolidated HDS, HDS II and SEDP Program. Specifically, we conducted this audit 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 audit period was from July 1, 2009, through June 30, 2010.

To achieve our audit objective, we:

- Reviewed annual mandated cost claims filed by the county for the audit period to identify the material cost components of each claim, and determine whether there were any errors or unusual or unexpected variances from year to year. We also reviewed activities claimed to determine whether they adhered to SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing key county staff and performed a walk-through of the claim preparation process to determine what information was obtained, who obtained it, and how it was used;
- Reviewed source documents to verify that all out-of-state residential placement providers claimed were organized and operated on a non-profit basis;
- Verified board-and-care payments claimed by tracing a non-statistical sample of \$1,006,792 out of \$3,166,787 in board-and-care costs to payment reports and warrants. We did not project sample errors to the intended population;

- Verified out-of-state mental health treatment payments by tracing a non-statistical sample of \$170,038 out of \$441,093 in treatment costs to vendor invoices and payment authorizations. We did not project sample errors to the intended population;
- Validated unit of service reports by tracing a non-statistical sample of 100 out of 61,358 client visits from unit-of-service reports to client files. We did not project sample errors to the intended population;
- Validated all unit rates claimed by reconciling the claimed rates to rates reported in the county's cost reports submitted to the California Department of Mental Health (CDMH) and verifying that contractor rates used are consistent with the county's contract settlement policy;
- Reviewed indirect costs to determine whether they were properly computed and applied;
- Reviewed offsetting revenues to determine if all relevant sources were identified and properly computed and applied; and
- Recalculated allowable costs using our audited data, including unit of service reports and the appropriate unit rates.

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

Conclusion

Our audit found instances of noncompliance with the requirements outlined in the Objective section. These instances are described in the accompanying Schedule (Summary of Program Costs) and in the Findings and Recommendations section of this report.

For the audit period, Contra Costa County claimed \$8,634,419 for costs of the Consolidated HDS, HDS II, and SEDP Program. Our audit found that \$6,375,713 is allowable and \$2,258,706 is unallowable.

The State made no payments to the county. Our audit found that \$6,375,713 is allowable. The SCO's Local Government Programs and Services Division will send the county a separate notification letter to resolve unpaid allowable costs. The letter will be sent within 30 days from the issuance date of this report.

**Views of
Responsible
Officials**

We issued the draft audit report on August 22, 2017. Harjit Nahal, Assistant Auditor-Controller, responded by letter dated September 8, 2017 (Attachment), agreeing with Findings 2 through 5, and disagreeing with Finding 1. The final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Contra Costa 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

October 23, 2017

Schedule— Summary of Program Costs July 1, 2009, through June 30, 2010

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 1,507,637	\$ 1,458,380	\$ (49,257)	Finding 1
Transfers and interim placements	1,145,253	1,146,686	1,433	Finding 1
Designation of lead case manager	32,581	-	(32,581)	Finding 2
Authorize/issue payments to providers	3,023,160	2,776,221	(246,939)	Finding 3
Psychotherapy/other mental health services	9,857,652	8,166,331	(1,691,321)	Findings 1, 3
Participation in due process hearing costs	110,480	-	(110,480)	Finding 2
Total direct costs	15,676,763	13,547,618	(2,129,145)	
Indirect costs	1,327,639	661,372	(666,267)	Finding 4
Total direct and indirect costs	17,004,402	14,208,990	(2,795,412)	
Less other reimbursements	(8,369,983)	(7,833,277)	536,706	Finding 5
Total program cost	<u>\$ 8,634,419</u>	6,375,713	<u>\$ (2,258,706)</u>	
Less amount paid by State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 6,375,713</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated assessment and treatment costs by \$1,589,137 for the audit period. The county claimed assessment and treatment costs in three cost components: Referral and Mental Health Assessments, Transfers and Interim Placements, and Psychotherapy/Other Mental Health Services. Costs were overstated because the county claimed unsupported units-of-service and used incorrect unit rates to compute claimed costs.

The county claimed assessment and treatment costs that were not fully based on actual costs to implement the mandated program. For the audit period, the county provided unit-of-service reports that represented finalized units-of-service rendered to eligible clients. We reviewed the reports and noted that reported units did not reconcile to claimed units. Units did not reconcile because the county used preliminary unit-of-service reports to determine claimed costs.

We verified, on a sample basis, support for reporting services. In our analytical review, we found that the county claimed group therapy services with high unit-of-service amounts. During our testing, we selected a haphazard sample and found that all group therapy services tested were incorrectly recorded in the county's system. The county recorded the full amount of time for the group service for each client. For group therapy services, the amount of time of the group service should be divided by the number of clients in the group.

We discussed this issue with the county and proposed an allocation method for the group therapy services claimed. Upon the county's acceptance of the proposal, we divided each group therapy service with over 60 units recorded by the average number of clients in a group to determine the allowable number of units for each service.

We verified the unit rates used to compute costs of county-operated facilities and contract providers. In our review, we found that the county claimed the costs based on rates from the annual cost reports. However, the county did not compute costs based on its settlement practice, using the lesser of the cost per unit rate or the State Maximum Allowance (SMA). The county's use of incorrect unit costs resulted in an overstatement of assessment and treatment costs for the audit period.

We recalculated allowable costs based on actual, supported units of service provided to eligible clients using the appropriate unit rates that represented the actual cost to the county. We excluded costs of unsupported services and unallowable costs as determined by our sample testing.

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

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2009-10</u>			
Referral and mental health assessments	\$ 1,507,637	\$ 1,458,380	\$ (49,257)
Transfers and interim placements	1,145,253	1,146,686	1,433
Psychotherapy/other mental health services	<u>9,416,559</u>	<u>7,875,246</u>	<u>(1,541,313)</u>
Total	<u>\$12,069,449</u>	<u>\$10,480,312</u>	<u>\$(1,589,137)</u>

The following table summarizes the calculation of allowable costs:

	<u>FY 2009-10</u>
Total claimed costs	\$ 12,069,449
Use of preliminary units/rates	(1,478,192)
Misstated group therapy	<u>(110,945)</u>
Allowable costs	<u>\$ 10,480,312</u>

Criteria

Section IV (H) of the program’s parameters and guidelines provides that reimbursement is allowable for mental health services when required by the pupil’s IEP. These services include assessment, 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 socialization and vocation services are not reimbursable.

Section (IV) of the parameters and guidelines specifies that the State will reimburse only actual increased costs incurred to implement mandated activities that are supported by source documents showing the validity of such costs.

Recommendation

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

County’s Response

The County does not agree with the Draft Audit Report’s use of lower of costs or State Maximum Allowable (SMA) rates in calculating costs of the allowable assessment and treatment costs per audit finding 1. By doing so, the State Controller’s Office incorrectly reduced the proper and legal reimbursement to Contra Costa County.

The SB 90 Mandated Programs provide reimbursement to Counties based on their actual costs. Clearly, they are not limited by the SMA limits. The FY 2009/2010 contracts between Contra Costa and the Mental Health CBO’s stipulate that payments to the Contractors shall be for actual incurred costs. The contracts do not have any provisions on SMA limits.

The SB 90 AUDIT therefore should use the data from the audited Short-Doyle (Medi-Cal) Cost Report FY 2009/2010, which show that the CBO's in question have unit costs higher than the SMA rates in audit finding 1. The county reserves the right to file an "Incorrect Reduction Claim" with the Commission on State Mandates to appeal the audit finding.

SCO's Comment

The finding remains unchanged. Section IV of the parameters and guidelines specifies that the State will reimburse the county only for actual increased costs incurred to implement mandated activities that are supported by source documents showing the validity of such costs. In the course of the audit, we inquired about the county's contract settlement practices with vendors providing outpatient mental health services. The county's Mental Health Program Chief confirmed that the county settles with contract providers using unit rates that represent the lower of cost per unit or the SMA from annual cost reports submitted to the CDMH. Furthermore, the county did not provide any documentation to support its contention that it pays vendors in excess of its stated contract settlement policy.

FINDING 2— Duplicate costs claimed

The county claimed \$143,061 in duplicate travel expenses and due process hearing costs for the audit period. All travel expenses were claimed within the Designation of Lead Case Manager cost component, and due process hearing costs were claimed within the Participation of Due Process Hearing Costs component.

The county claimed allowable travel expenses of employees who conduct quarterly face-to-face visits with pupils at residential facilities. The purpose of these visits is to monitor the level of care, the implementation of treatment services, and to perform case manager services. The county also claimed allowable costs of settlement agreements resulting from due process hearings of AB 3632-eligible clients. Specified within each settlement agreement, the county agreed to pay for services provided to the clients, including mental health treatment and board-and-care services.

However, the county also claimed these costs in the total mode costs on the annual cost report submitted to the CDMH. The mode costs in the annual cost report are used to determine the unit rates for direct assessment and treatment services.

Travel expenses and due process hearing costs were used to compute unit rates of assessment and treatment services claimed in various cost components. To avoid any duplication, we disallowed all direct travel expenses and due process hearing costs.

The following table summarizes the duplicate travel expenses and due process hearing costs claimed:

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2009-10</u>			
Designation of lead case manager	\$ 32,581	\$ -	\$ (32,581)
Participation in due process hearings	110,480	-	(110,480)
Total	<u>\$ 143,061</u>	<u>\$ -</u>	<u>\$ (143,061)</u>

Criteria

Section IV (F) of the parameters and guidelines specifies that the state mandate is to reimburse counties for conducting quarterly face-to-face contacts with the pupils at residential facilities to monitor the level of care and supervision and the implementation of the treatment services and the IEP.

Section IV (I) of the parameters and guidelines specifies that activities associated with participating in due process hearings related to mental health services are eligible for reimbursement through this program.

Recommendation

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

County’s Response

The county concurs with the audit finding.

**FINDING 3—
Overstated residential
placement costs**

The county overstated residential placement costs by \$396,947 for the audit period. The county claimed board-and-care costs within the Authorize/Issue Payments to Provider cost component and out-of-state mental health treatment costs in the Psychotherapy/Other Mental Health Services cost component. The county overstated costs by claiming ineligible for-profit vendor costs and omitting eligible vendor costs.

The county claimed residential placement costs for board-and-care and mental health treatment services provided by residential placement facilities. Board-and-care costs were supported by reports from the county’s CalWIN system, and out-of-state treatment costs were supported in a separate tracking spreadsheet maintained by the county.

We verified, on a sample basis, support for residential placement services. In our review, we found that the county had claimed costs based on the month in which services were paid rather than incurred, resulting in the county claiming costs from outside the audit period and leaving potential eligible costs unclaimed. We requested updated CalWIN reports prepared based on the effective month of residential placements. Upon review of the updated reports, we found that the county had understated board-and-care costs by \$143,627 for the audit period. Furthermore, in our review of out-of-state treatment costs, we found that the county omitted \$6,338 in eligible costs from the claim.

We verified the eligibility of each vendor claimed, using supporting documents provided by the county. After completing our review, we found that the county claimed ineligible out-of-state residential placement costs totaling \$546,912 from facilities owned and operated as for-profit entities. Of that total, \$390,566 was for board-and-care payments and \$156,346 for mental health treatment. Only placements in facilities that are owned and operated on a non-profit basis are eligible for reimbursement.

Based on our adjustments, we recalculated supported costs based on the month in which costs were incurred. We excluded costs from vendors that are owned and operated on a for-profit basis.

The following table summarizes the overstated residential placement costs claimed:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2009-10</u>			
Authorize/Issue payments to providers	\$ 3,023,160	\$ 2,776,221	\$ (246,939)
Psychotherapy/Other mental health services	441,093	291,085	(150,008)
Total	<u>\$ 3,464,253</u>	<u>\$ 3,067,306</u>	<u>\$ (396,947)</u>

The following table summarizes the calculation of allowable costs:

	Board and Care	Treatment	Total
Total claimed costs	\$ 3,023,160	\$ 441,093	\$ 3,464,253
Understated costs	143,627	6,338	149,965
Ineligible vendor costs	(390,566)	(156,346)	(546,912)
Allowable costs	<u>\$ 2,776,221</u>	<u>\$ 291,085</u>	<u>\$ 3,067,306</u>

Criteria

The parameters and guidelines (section IV) provide that counties can claim eligible costs incurred by fiscal year to implement mandated activities.

Section IV (C) of the parameters and guidelines specifies that the state 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 GC section 7581 and 2 CCR 60200.

2 CCR 60100, subdivision (h), specifies that out-of-state residential placement shall be made in residential programs that meet the requirement of WIC 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 non-profit basis.

Section IV (G) the parameters and guidelines also provides that WIC 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 for 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 WIC section 17600

and receives these funds.

Recommendation

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

County’s Response

The county concurs with the audit finding.

**FINDING 4—
Overstated indirect costs**

The county overstated indirect costs by \$666,267 for the audit period.

The county miscalculated its indirect cost rate and applied the rate to ineligible direct costs. The county used a method that was inconsistent with the allocations in cost reports that it submitted to the CDMH. For its indirect cost rate calculation, the county did not reduce administrative costs by any relevant revenues including Short Doyle/Medi-Cal (SD/MC) administrative offsets. The county then applied its indirect cost rate to direct costs of county-operated facilities and contract providers that are not under the oversight of the county.

We recalculated the indirect cost rate using a method that is consistent with the cost reports submitted to the CDMH. The rate was calculated net of associated revenues and applied to direct costs of services provided at county-operated facilities in 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 overstated indirect costs:

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2009-10</u>			
Direct costs	\$ 12,069,449	\$ 3,866,345	\$ (8,203,104)
Indirect cost rate	11.00%	17.10587%	6.10587%
Indirect costs	<u>\$ 1,327,639</u>	<u>\$ 661,372</u>	<u>\$ (666,267)</u>

Criteria

Section (V) of the parameters and guidelines states that indirect costs that are incurred in the performance of the mandated activities and adequately documented are reimbursable. The parameters and guidelines further state that to the extent the CDMH has not already compensated reimbursable administration costs from categorical funding sources, the costs may be claimed.

Recommendation

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

County’s Response

The county concurs with the audit finding.

**FINDING 5—
Overstated offsetting
reimbursements**

The county overstated offsetting reimbursements by \$536,706 for the audit period. The overstatement results primarily from the county’s use of preliminary unit-of-service reports to calculate SD/MC and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) reimbursements, and the use of a preliminary EPSDT funding percentage. Furthermore, the county overstated the California Department of Social Services (CDSS) 40% share of board-and-care costs because it claimed costs from ineligible for-profit vendors. The county also overstated revenue from other sources, including private insurance and patient fees.

We recalculated allowable offsetting reimbursements for all relevant funding sources and applied the appropriate rates for SD/MC and EPSDT to eligible direct costs. For EPSDT, we recomputed the funding percentage using final cost settlement information from CDMH. We excluded offsetting reimbursements related to ineligible and unsupported direct costs including board-and-care costs from for-profit providers. We applied all relevant revenues to the full extent of funding provided, including Individuals with Disabilities Education Act (IDEA) funds.

The following table summarizes the adjustment to offsetting reimbursements:

	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2009-10</u>			
SD/MC	\$(3,477,612)	\$(3,458,796)	\$ 18,816
EPSDT	(2,168,779)	(1,799,315)	369,464
CDSS 40%	(1,209,264)	(1,110,488)	98,776
IDEA	(1,150,730)	(1,150,730)	-
Other revenues	<u>(363,598)</u>	<u>(313,948)</u>	<u>49,650</u>
Total	<u><u>\$(8,369,983)</u></u>	<u><u>\$(7,833,277)</u></u>	<u><u>\$ 536,706</u></u>

Criteria

Section (VII) of the parameters and guidelines specifies 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, as the consolidated program is no longer mandated.

County's Response

The county concurs with the audit finding.

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

Office of the Auditor-Controller
Contra Costa County

Robert R. Campbell
Auditor-Controller

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September 8, 2017

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Division of Audits
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Subject: Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils Program; Contra Costa County Draft Audit Report for the period of July 1, 2009 through June 30, 2010

Dear Mr. Spano:

The County of Contra Costa has reviewed the State's draft audit report dated August 22, 2017 for HDS, HDSII, and SEDP programs, for the period July 1, 2009 through June 30, 2010. The County received an extension to submit its response to the August 2017 DRAFT Audit report on or before September 8, 2017 and is submitting this response in compliance with that extension.

The County concurs with audit findings 2, 3, 4 and 5. However, the County does not agree with the Draft Audit Report's use of lower of costs or State Maximum Allowance (SMA) rates in calculating costs of the allowable assessment and treatment costs per audit finding 1. By doing so, the State Controller's Office incorrectly reduced the proper & legal reimbursement to Contra Costa County.

The SB 90 Mandated Programs provide reimbursement to Counties based on their actual costs. Clearly, they are not limited by the SMA limits. The FY 2009/2010 contracts between Contra Costa and the Mental Health CBO's stipulate that payments to the Contractors shall be for actually incurred costs. The Contracts do not have any provisions on SMA limits.

The SB 90 AUDIT therefore should use the data from the audited Short-Doyle (Medi-Cal) Cost Report FY 2009/2010, which show that the CBO's in question have unit costs higher than the SMA rates in audit finding 1. The County reserves the right to file an "Incorrect Reduction Claim" with the Commission of State Mandates to appeal the audit finding.

If you have any questions, please contact Analiza Pinlac, Acting Chief Accountant, at (925)335-8632.

Sincerely,

A handwritten signature in blue ink, appearing to read "Harjit Nahal".

Harjit Nahal
Assistant Auditor-Controller

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