

SAN MATEO COUNTY

Reissued 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, 2006, through June 30, 2010



BETTY T. YEE
California State Controller

December 2016



BETTY T. YEE
California State Controller

December 29, 2016

The Honorable Warren Slocum, President
San Mateo County Board of Supervisors
Hall of Justice
400 County Center
Redwood City, CA 94063

Dear Mr. Slocum:

The State Controller's Office (SCO) audited the costs claimed by San Mateo 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, 2006, through June 30, 2010.

This reissued report updates our previous report dated October 20, 2014. Subsequent to the issuance of the final report, the Commission on State Mandates (Commission) responded to an incorrect reduction claim filed by the county for a previous audit related to the SCO reduction of Early and Periodic Screening, Diagnosis, and Testing (EPSDT) program funds. The Commission found that the SCO reduction was inaccurate. Based on the Commission's decision, the SCO worked with the county and developed a reasonable methodology that determined the amount of EPSDT funds attributable to the program for the current audit. As a result, we revised the EPSDT adjustment in Finding 4. This revision increased net allowable costs by \$1,050,467, from \$6,846,047 to \$7,896,514.

The county claimed \$12,517,348 for the mandated program. Our audit found that \$7,896,514 is allowable and \$4,620,834 is unallowable. The costs are unallowable primarily because the county used preliminary unit rates, claimed ineligible and duplicative treatment services, miscalculated its indirect cost rates, and understated offsetting reimbursements. The State paid the county \$1,060,994. The State will pay allowable costs claimed that exceed the amount paid, totaling \$6,835,520, contingent upon available appropriations.

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/rg

cc: The Honorable Juan Raigoza, Controller
San Mateo County
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Reissued Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Mateo 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, 2006, through June 30, 2010.

The county claimed \$12,517,348 for the mandated program. Our audit found that \$7,896,514 is allowable and \$4,620,834 is unallowable. The costs are unallowable primarily because the county used preliminary unit rates, claimed ineligible and duplicative treatment services, miscalculated its indirect cost rates, and understated offsetting reimbursements. The State paid the county \$1,060,994. Allowable costs claimed exceed the amount paid by \$6,835,520.

Background

Handicapped and Disabled Students Program

Chapter 26 of the Government Code, commencing with section 7570, and Welfare and Institutions Code section 5651 (added and amended by Chapter 1747, Statutes of 1984; and Chapter 1274, Statutes of 1985) require counties to participate in the mental health assessment for "individuals with exceptional needs," participate in the expanded "Individualized Education Program" (IEP) team, and provide case management services for "individuals with exceptional needs" who are designated as "seriously emotionally disturbed." These requirements impose a new program or higher level of service on counties.

On April 26, 1990, the Commission on State Mandates (Commission) adopted the statement of decision for the HDS Program and determined that this legislation imposed a state mandate reimbursable under Government Code section 17561. The 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 Welfare and Institutions Code section 17600 et seq. (realignment funds).

Furthermore, Senate Bill 1895 (Chapter 493, Statutes of 2004) states that realignment funds used by counties for the HDS Program “are eligible for reimbursement from the state *for all allowable costs* to fund assessments, psychotherapy, and other mental health services . . .” and that the finding by the Legislature is “declaratory of existing law” (emphasis added).

The 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 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 last amended them on October 26, 2006.

The parameters and guidelines for the HDS II Program state that “Some costs disallowed by the State Controller’s Office in prior years are now reimbursable beginning July 1, 2001 (e.g., medication monitoring). Rather than claimants re-filing claims for those costs incurred beginning July 1, 2001, the State Controller’s Office will reissue the audit reports.” Consequently, we are allowing medication support costs commencing on July 1, 2001.

Seriously Emotionally Disturbed Pupils Program

Government Code section 7576 (added and amended by Chapter 654, Statutes of 1996) allows new fiscal and programmatic responsibilities for counties to provide mental health services to seriously emotionally disturbed pupils placed in out-of-state residential programs. Counties’ fiscal and programmatic responsibilities include those set forth in Title 2, California Code of Regulations, section 60100, which provide that residential placements may be made out-of-state only when no in-state facility can meet the pupil’s needs.

On May 25, 2000, the Commission adopted the statement of decision for the SEDP Program and determined that Chapter 654, Statutes of 1996, imposed a state mandate reimbursable under Government Code 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 Government Code 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 Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objectives, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Consolidated HDS, HDS II, and SEDP Program for the period of July 1, 2006, through June 30, 2010.

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 audit scope did not assess the efficiency or effectiveness of program operations.

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.

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

- Reviewed claims to identify the material cost components of each claim, any errors, and any unusual or unexpected variances from year-to-year;
- Completed an internal control questionnaire and performed a walk-through of the claim preparation process to determine what information was used, who obtained it, and how it was obtained;

- Reviewed the county's contracts with providers who perform eligible mental health and residential placement services to verify contract rates claimed;
- Reviewed county documents to verify the county claimed costs from eligible non-profit residential placement providers;
- Validated unit of service reports by tracing a sample of transactions from the report to client files;
- Validated unit rates claimed by reconciling the claimed rates to rates within the county's cost reports;
- Determined whether indirect costs claimed were properly computed and applied;
- Determined if all relevant offsetting revenues were properly applied; and
- Recalculated allowable costs claimed using audited data.

Conclusion

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

For the audit period, San Mateo County claimed \$12,517,348 for costs of the Consolidated HDS, HDS II, and SEDP Program. Our audit found that \$7,896,514 is allowable and \$4,620,834 is unallowable.

For the FY 2006-07 claim, the State paid the county \$1,060,994. Our audit found that \$1,458,103 is allowable. The State will offset \$397,109 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2007-08 claim, the State made no payment to the county. Our audit found that \$1,851,625 is allowable. The State will pay allowable costs claimed totaling \$1,851,625, contingent upon available appropriations.

For the FY 2008-09 claim, the State made no payment to the county. Our audit found that no costs are allowable.

For the FY 2009-10 claim, the State made no payment to the county. Our audit found that \$4,586,786 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,586,786, contingent upon available appropriations.

Views of Responsible Officials

We issued the initial final audit report on October 20, 2014. In a letter dated September 19, 2014, Juan Raigoza, Assistant Controller, responded by letter dated September 19, 2014, disagreeing with the audit results for Finding 4, the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) adjustment. The county did not respond to Findings 1 through 3.

This reissued report revises Finding 4 based on a decision made by the Commission in response to an incorrect reduction claim (IRC) filed by the county. On September 22, 2016, we advised Harshil Kanakia, Administrative Services Manager, San Mateo County Controller's Office, of the report revisions. Shirley Tourel, Assistant Controller, responded by letter dated November 16, 2016 (Attachment), agreeing with the revised audit results for Finding 4. This reissued final report includes the county's response.

Reason for Reissuance

The county filed an IRC on April 27, 2006, challenging the SCO's EPSDT adjustment in a previous audit of the HDS Program for FY 1996-97 through FY 1998-99. In response to the IRC, the Commission issued a decision on September 25, 2015, finding that the SCO reduction of EPSDT was incorrect. The Commission remanded the county's claim back to the SCO to work with the county determine the portion of State EPSDT funds attributable to the mandated program clients. The SCO worked with the county and developed a reasonable methodology that determined the amount of EPSDT funds attributable to the program for the current audit. We reissued the final audit report on June 22, 2016.

We applied the prior audit's EPSDT methodology to the current audit. As a result, we revised the EPSDT revenues in Finding 4. This revised final audit report increased net allowable costs by \$1,050,467, from \$6,846,047 to \$7,896,514. In addition, we updated the Methodology section to clarify procedures performed.

Restricted Use

This report is solely for the information and use of the San Mateo 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

December 29, 2016

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Referral and mental health assessments	\$ 460,821	\$ 460,334	\$ (487)	Finding 1
Authorize/Issue payments to providers	73,392	305,546	232,154	Finding 2
Psychotherapy/Other mental health services	<u>6,961,767</u>	<u>6,039,654</u>	<u>(922,113)</u>	Finding 1
Total direct costs	7,495,980	6,805,534	(690,446)	
Indirect costs	<u>965,544</u>	<u>939,520</u>	<u>(26,024)</u>	Finding 3
Total direct and indirect costs	8,461,524	7,745,054	(716,470)	
Less other reimbursements	<u>(6,089,208)</u>	<u>(6,286,951)</u>	<u>(197,743)</u>	Finding 4
Total program cost	<u>\$ 2,372,316</u>	1,458,103	<u>\$ (914,213)</u>	
Less amount paid by State		<u>(1,060,994)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 397,109</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Referral and mental health assessments	\$ 664,534	\$ 629,131	\$ (35,403)	Finding 1
Authorize/Issue payments to providers	155,103	13,110	(141,993)	Finding 2
Psychotherapy/Other mental health services	<u>7,581,697</u>	<u>6,673,991</u>	<u>(907,706)</u>	Finding 1
Total direct costs	8,401,334	7,316,232	(1,085,102)	
Indirect costs	<u>811,969</u>	<u>760,596</u>	<u>(51,373)</u>	Finding 3
Total direct and indirect costs	9,213,303	8,076,828	(1,136,475)	
Less other reimbursements	<u>(5,755,680)</u>	<u>(6,225,203)</u>	<u>(469,523)</u>	Finding 4
Total program cost	<u>\$ 3,457,623</u>	1,851,625	<u>\$ (1,605,998)</u>	
Less amount paid by State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,851,625</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Referral and mental health assessments	\$ 728,743	\$ 713,465	\$ (15,278)	Finding 1
Authorize/Issue payments to providers	105,862	462,491	356,629	Finding 2
Psychotherapy/Other mental health services	<u>7,797,924</u>	<u>7,438,735</u>	<u>(359,189)</u>	Finding 1
Total direct costs	8,632,529	8,614,691	(17,838)	
Indirect costs	<u>1,159,620</u>	<u>894,051</u>	<u>(265,569)</u>	Finding 3
Total direct and indirect costs	9,792,149	9,508,742	(283,407)	
Less other reimbursements	<u>(9,348,025)</u>	<u>(9,674,107)</u>	<u>(326,082)</u>	Finding 4
Total claimed amount	444,124	(165,365)	(609,489)	
Adjustment to eliminate negative balance	-	<u>165,365</u>	<u>165,365</u>	
Total program cost	<u>\$ 444,124</u>	-	<u>\$ (444,124)</u>	
Less amount paid by State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 661,331	\$ 641,193	\$ (20,138)	Finding 1
Authorize/Issue payments to providers	698,147	531,828	(166,319)	Finding 2
Psychotherapy/Other mental health services	<u>7,556,995</u>	<u>6,433,952</u>	<u>(1,123,043)</u>	Finding 1
Total direct costs	8,916,473	7,606,973	(1,309,500)	
Indirect costs	<u>1,263,369</u>	<u>925,862</u>	<u>(337,507)</u>	Finding 3
Total direct and indirect costs	10,179,842	8,532,835	(1,647,007)	
Less other reimbursements	<u>(3,936,557)</u>	<u>(3,946,049)</u>	<u>(9,492)</u>	Finding 4
Total program cost	<u>\$ 6,243,285</u>	4,586,786	<u>\$ (1,656,499)</u>	
Less amount paid by State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,586,786</u>		
<u>Summary: July 1, 2006, through June 30, 2010</u>				
Direct costs:				
Referral and mental health assessments	\$ 2,515,429	\$ 2,444,123	\$ (71,306)	Finding 1
Authorize/Issue payments to providers	1,032,504	1,312,975	280,471	Finding 2
Psychotherapy/Other mental health services	<u>29,898,383</u>	<u>26,586,332</u>	<u>(3,312,051)</u>	Finding 1
Total direct costs	33,446,316	30,343,430	(3,102,886)	
Indirect costs	<u>4,200,502</u>	<u>3,520,029</u>	<u>(680,473)</u>	Finding 3
Total direct and indirect costs	37,646,818	33,863,459	(3,783,359)	
Less other reimbursements	<u>(25,129,470)</u>	<u>(26,132,310)</u>	<u>(1,002,840)</u>	Finding 4
Total claimed amount	12,517,348	7,731,149	(4,786,199)	
Adjustment to eliminate negative balance	-	165,365	165,365	
Total program cost	<u>\$ 12,517,348</u>	7,896,514	<u>\$ (4,620,834)</u>	
Less amount paid by State		<u>(1,060,994)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 6,835,520</u>		

¹ See the Findings and Recommendations section.

Revised Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated assessment and treatment costs by \$3,383,357 for the audit period. The county claimed assessment costs in the Referral and Mental Health Assessments cost component, and mental health treatment costs in the Psychotherapy/Other Mental Health Services cost component.

The county computed its claim using preliminary unit-of-service reports. For FY 2006-07, the unit-of-service report detail contained more units than what was claimed. In the three remaining fiscal years, the unit-of-service reports contained fewer units than what was claimed. In discussions with county staff, we found that the understatement for FY 2006-07 was due to the county's omission of one county-operated facility from the claim. Upon request from the county, we considered the omitted facility in our audit adjustments.

We verified, on a sample basis, support for reported services. In our testing, we found that the county claimed duplicative services, ineligible therapeutic behavioral services (TBS), and ineligible socialization services. The duplicated services consist of residential treatment costs and day treatment services. The duplicative residential treatment costs consisted of vendor payments to out-of-state residential placement providers that were claimed in two cost components: (1) Psychotherapy/Other Mental Health Services and (2) Authorize/Issue Payments to Providers. The duplicative day treatment costs consisted of identical services.

During our case file testing, we found three types of services claimed by the county that included ineligible socialization services—day treatment intensive, group therapy, and rehabilitation services. We discussed this issue with the county and proposed to perform a statistical sample of the three groups of services. Upon county acceptance of our proposal, we selected a statistical sample for each service type for FY 2006-07, FY 2007-08, and FY 2009-10. We did not include FY 2008-09 in our testing because revenues exceeded eligible costs.

We identified nine separate populations based on service type and fiscal year. In each population we included only the units of service that were not directly offset by reimbursements, including Short-Doyle/Medi-Cal (SD/MC), EPSDT, Healthy Families (HF), Wraparound, and private insurance payments. To select the sample size for each of the nine populations, we adhered to a 95% confidence interval, +/- 8% precision rate, and a 50% expected error rate. We tested the sample transactions to determine which services included ineligible activities. We then projected the results to each of the respective populations in order to determine the audit adjustments.

We verified the unit rates used to compute costs of county-operated facilities and contract providers. In our review, we found that the county used preliminary or incorrect unit rates to compute its costs.

We recalculated costs based on actual, supportable units of service provided to eligible clients using the appropriate unit rates that represented the actual cost to the county. We excluded costs related to the aforementioned duplicative costs, ineligible services, and unallowable costs based on the results of the statistical sample. We also considered unclaimed costs for our adjustments.

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

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
Referral and mental health assessments	\$ 460,821	\$ 460,334	\$ (487)
Psychotherapy/other mental health services	6,961,767	6,039,654	(922,113)
Subtotal	<u>\$ 7,422,588</u>	<u>\$ 6,499,988</u>	<u>\$ (922,600)</u>
<u>FY 2007-08</u>			
Referral and mental health assessments	\$ 664,534	\$ 629,131	\$ (35,403)
Psychotherapy/other mental health services	7,581,697	6,673,991	(907,706)
Subtotal	<u>\$ 8,246,231</u>	<u>\$ 7,303,122</u>	<u>\$ (943,109)</u>
<u>FY 2008-09</u>			
Referral and mental health assessments	\$ 728,743	\$ 713,465	\$ (15,278)
Psychotherapy/other mental health services	7,797,924	7,438,735	(359,189)
Subtotal	<u>\$ 8,526,667</u>	<u>\$ 8,152,200</u>	<u>\$ (374,467)</u>
<u>FY 2009-10</u>			
Referral and mental health assessments	\$ 661,331	\$ 641,193	\$ (20,138)
Psychotherapy/other mental health services	7,556,995	6,433,952	(1,123,043)
Subtotal	<u>\$ 8,218,326</u>	<u>\$ 7,075,145</u>	<u>\$ (1,143,181)</u>
<u>Summary</u>			
Referral and mental health assessments	\$ 2,515,429	\$ 2,444,123	\$ (71,306)
Psychotherapy/other mental health services	29,898,383	26,586,332	(3,312,051)
Total	<u>\$ 32,413,812</u>	<u>\$ 29,030,455</u>	<u>\$ (3,383,357)</u>

The following table summarizes the calculation of allowable costs:

	Fiscal Year				Total
	2006-07	2007-08	2008-09	2009-10	
Total supported costs	\$ 7,526,151	\$ 8,241,610	\$ 8,492,164	\$ 8,143,519	\$ 32,403,444
Incorrect unit rates	(769,346)	(555,993)	(306,185)	(446,836)	(2,078,360)
Ineligible socialization services	(257,863)	(363,146)	-	(599,859)	(1,220,868)
Duplicate residential treatment costs	(42,204)	(9,633)	(28,491)	(21,183)	(101,511)
Ineligible TBS	(4,103)	(9,222)	(994)	(496)	(14,815)
Duplicate day treatment services	(605)	(494)	(4,294)	-	(5,393)
Unclaimed costs	47,958	-	-	-	47,958
Allowable costs	<u>\$ 6,499,988</u>	<u>\$ 7,303,122</u>	<u>\$ 8,152,200</u>	<u>\$ 7,075,145</u>	<u>\$ 29,030,455</u>

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

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

Recommendation

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

County's Response

The county did not respond to the finding.

FINDING 2— Understated residential placement costs

The county understated residential placement costs by \$280,471 for the audit period.

The county claimed costs for clients placed in out-of-home residential facilities. These costs consist of mental health treatment and board-and-care; however, the county omitted the board-and-care portion from its claims for FY 2006-07, FY 2007-08, and FY 2008-09. We considered the omitted costs in determining our audit adjustments. In addition to the omitted costs, we found that the county claimed duplicative and ineligible costs. In determining allowable costs, we made the following adjustments:

- For FY 2006-07 and FY 2008-09, we included unclaimed board-and-care costs totaling \$736,098.
- For FY 2006-07, we excluded ineligible vendor payments to for-profit facilities totaling \$38,727. These costs included only the mental health treatment costs, as the corresponding board-and-care costs were not claimed.
- We excluded duplicate case management and mental health treatment costs totaling \$284,840 because these costs are already claimed in other cost components: (1) Referral and Mental Health Assessments and (2) Psychotherapy/Other Mental Health Services.
- For FY 2009-10, we excluded mental health treatment costs incurred outside of the fiscal year totaling \$33,460.
- We excluded board-and-care costs incurred outside of the audit period, totaling \$98,600. The county claimed board-and-care costs for the month in which the payments were made rather than the month in which costs were incurred.

Based on the aforementioned adjustments, we placed eligible and supported costs in the appropriate fiscal year in which the costs were incurred. We did not consider unclaimed board-and-care costs for FY 2007-08 because the county utilized Local Revenue Funds (realignment) to fund its 60% share of the costs.

The following table summarizes the understated residential placement treatment costs claimed:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
Mental health treatment	\$ 73,392	\$ 3,477	\$ (69,915)
Board-and-care	-	302,069	302,069
Subtotal	<u>\$ 73,392</u>	<u>\$ 305,546</u>	<u>\$ 232,154</u>
<u>FY 2007-08</u>			
Mental health treatment	\$ 155,103	\$ 13,110	\$ (141,993)
Board-and-care	-	-	-
Subtotal	<u>\$ 155,103</u>	<u>\$ 13,110</u>	<u>\$ (141,993)</u>
<u>FY 2008-09</u>			
Mental health treatment	\$ 105,862	\$ 39,037	\$ (66,825)
Board-and-care	-	423,454	423,454
Subtotal	<u>\$ 105,862</u>	<u>\$ 462,491</u>	<u>\$ 356,629</u>
<u>FY 2009-10</u>			
Mental health treatment	\$ 101,186	\$ 22,892	\$ (78,294)
Board-and-care	596,961	508,936	(88,025)
Subtotal	<u>\$ 698,147</u>	<u>\$ 531,828</u>	<u>\$ (166,319)</u>
<u>Summary</u>			
Mental health treatment	\$ 435,543	\$ 78,516	\$ (357,027)
Board-and-care	596,961	1,234,459	637,498
Total	<u>\$ 1,032,504</u>	<u>\$ 1,312,975</u>	<u>\$ 280,471</u>

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

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

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

Recommendation

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

County’s Response

The county did not respond to the finding.

**FINDING 3—
Overstated indirect costs**

The county overstated indirect costs by \$680,473 for the audit period.

The county overstated indirect costs for the audit period because it used preliminary figures to compute its indirect cost rates and applied the rates to unsupported, ineligible, and duplicative direct costs.

The county used a method that is consistent with the allocations in the county’s cost reports submitted to the California Department of Mental Health (CDMH). However, preliminary cost report figures were used to compute the rates. As a result, the county understated its indirect cost rate in FY 2006-07, and overstated its rates for FY 2007-08, FY 2008-09 and FY 2009-10. Additionally, the county applied its indirect cost rates to ineligible and duplicative direct costs as described in Finding 1.

We recalculated indirect rates consistent with the allocations in the county’s cost reports and applied them to allowable direct costs. The rates are calculated net of associated revenues and are applied to eligible direct costs of services provided at county-run facilities in the following cost components: (1) Referral and Mental Health Assessments and (2) Psychotherapy/Other Mental Health Services.

The following table summarizes the overstated indirect costs:

	Fiscal Year				Total
	2006-07	2007-08	2008-09	2009-10	
Direct Costs	\$ 5,239,935	\$ 5,984,231	\$ 6,814,411	\$ 5,757,850	
Indirect Cost Rate	17.93%	12.71%	13.12%	16.08%	
Allowable Indirect Costs	939,520	760,596	894,051	925,862	
Claimed Indirect Costs	965,544	811,969	1,159,620	1,263,369	
Audit Adjustment	\$ (26,024)	\$ (51,373)	\$ (265,569)	\$ (337,507)	\$ (680,473)

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

The parameters and guidelines further specify that indirect costs may be claimed to the extent that they have not already been reimbursed by the CDMH from categorical funding sources.

Recommendation

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

County's Response

The county did not respond to the finding.

FINDING 4— Understated offsetting reimbursements

The county understated offsetting reimbursements by \$1,002,840 for the audit period.

The understatement resulted primarily from the county applying SD/MC and EPSDT funding percentages to inaccurate direct costs, and using unsupported funding percentages to calculate EPSDT reimbursements. Furthermore, the county did not apply Wraparound funds even though a portion of the claimed mental health services were funded by these revenues. The county also misapplied Individuals with Disabilities Education Act (IDEA) funds in FY 2007-08 and used preliminary figures to compute the "Other IEP revenue" offset.

The county overstated funding percentages for SD/MC and HF by adding an additional percentage representing administrative (indirect) reimbursements. Since indirect costs were computed net of offsetting reimbursements, this led to an excess allocation of revenue to SD/MC-and HF-related services costs.

We recalculated allowable offsetting reimbursements for all relevant funding sources and applied the appropriate rates for SD/MC, EPSDT, and HF to eligible direct costs. We excluded offsetting reimbursements related to ineligible and unsupported direct costs, and administrative (indirect) allocations. Concerning the latter, indirect costs are computed net of offsetting reimbursements.

The following table summarizes the understated offsetting reimbursements:

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
IDEA	\$ (1,979,620)	\$ (1,979,619)	\$ 1
CDMH categorical	(1,748,786)	(1,748,786)	-
SD/MC	(1,656,166)	(1,457,313)	198,853
EPSDT	(206,756)	(534,114)	(327,358)
HF	(360,930)	(261,674)	99,256
Wraparound	-	(165,592)	(165,592)
Other IEP revenue	(136,950)	(139,853)	(2,903)
Subtotal	<u>\$ (6,089,208)</u>	<u>\$ (6,286,951)</u>	<u>\$ (197,743)</u>
<u>FY 2007-08</u>			
IDEA	\$ (1,979,619)	\$ (2,024,238)	\$ (44,619)
CDMH categorical	(1,579,018)	(1,579,018)	-
SD/MC	(1,554,226)	(1,390,622)	163,604
EPSDT	(190,895)	(566,780)	(375,885)
HF	(349,054)	(247,551)	101,503
Wraparound	-	(309,275)	(309,275)
Other IEP revenue	(102,868)	(107,719)	(4,851)
Subtotal	<u>\$ (5,755,680)</u>	<u>\$ (6,225,203)</u>	<u>\$ (469,523)</u>
<u>FY 2008-09</u>			
IDEA	\$ (1,979,619)	\$ (1,979,619)	\$ -
CDMH categorical	(4,760,833)	(4,760,833)	-
SD/MC	(1,824,188)	(1,630,564)	193,624
EPSDT	(218,800)	(782,146)	(563,346)
HF	(292,637)	(248,735)	43,902
Other IEP revenue	(269,290)	(269,552)	(262)
Miscellaneous	(2,658)	(2,658)	-
Subtotal	<u>\$ (9,348,025)</u>	<u>\$ (9,674,107)</u>	<u>\$ (326,082)</u>
<u>FY 2009-10</u>			
IDEA	\$ (1,979,619)	\$ (1,979,619)	\$ -
SD/MC	(1,361,816)	(1,144,977)	216,839
EPSDT	(70,350)	(125,873)	(55,523)
HF	(274,850)	(198,540)	76,310
Wraparound	-	(238,773)	(238,773)
Other IEP revenue	(249,922)	(258,267)	(8,345)
Subtotal	<u>\$ (3,936,557)</u>	<u>\$ (3,946,049)</u>	<u>\$ (9,492)</u>
<u>Summary</u>			
IDEA	\$ (7,918,477)	\$ (7,963,095)	\$ (44,618)
CDMH categorical	(8,088,637)	(8,088,637)	-
SD/MC	(6,396,396)	(5,623,476)	772,920
EPSDT	(686,801)	(2,008,913)	(1,322,112)
HF	(1,277,471)	(956,500)	320,971
Wraparound	-	(713,640)	(713,640)
Other IEP revenue	(759,030)	(775,391)	(16,361)
Miscellaneous	(2,658)	(2,658)	-
Total	<u>\$ (25,129,470)</u>	<u>\$ (26,132,310)</u>	<u>\$ (1,002,840)</u>

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

Recommendation

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

County's Response

The County and SCO agreed to use the methodology prescribed by the California Department of Mental Health (DMH).

The original SCO audit report stated that the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) revenue offset was \$2,954,638. Based on the revised calculation provided in Attachment A, the EPSDT revenue offset reduced to \$2,008,913. Hence, the County should receive \$945,725 (\$2,954,638 less \$2,008,913).

**Attachment—
County’s Response to
Revised Finding**



COUNTY OF SAN MATEO
OFFICE OF THE CONTROLLER

Juan Raigoza
Controller

Shirley Tourel
Assistant Controller

555 County Center, 4th Floor
Redwood City, CA 94063
650-363-4777
<http://controller.smcgov.org>

November 16, 2016

Christopher B. Ryan, CIA
Division of Audits/Mandated Cost Audit Bureau
California State Controller's Office

Subject: Response to Consolidated HDS, HDS II, and SEDP Program Audit Revisions

Dear Mr. Ryan,

The County of San Mateo (County) is in receipt of the State Controller's (SCO) revised finding amounts and narrative regarding the Consolidated HDS, HDS II, and SEDP Program Audit Report issued on October 20, 2014.

The SCO's revised finding and the County's response is provided below.

SCO FINDING #4 – Understated offsetting reimbursements

The county understated offsetting reimbursements by \$1,002,840 for the audit period.

The understatement resulted primarily from the county applying SD/MC and EPSDT funding percentages to inaccurate direct costs, and using unsupported funding percentages to calculate EPSDT reimbursements. Furthermore, the county did not apply Wraparound funds even though a portion of the claimed mental health services were funded by these revenues. The county also misapplied Individuals with Disabilities Education Act (IDEA) funds in FY 2007-08 and used preliminary figures to compute the "Other IEP revenue" offset.

The county overstated funding percentages for SD/MC and HF by adding an additional percentage representing administrative (indirect) reimbursements. Since indirect costs were computed net of offsetting reimbursements, this led to an excess allocation of revenue to SD/MC and HF related services costs.

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

San Mateo County
Consolidated HDS, HDS II, and SEDP Program
July 1, 2006 through June 30, 2010
Finding Narrative

	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
IDEA	\$ (1,979,620)	\$ (1,979,619)	\$ 1
CDMH categorical	(1,748,786)	(1,748,786)	-
SD/MC	(1,656,166)	(1,457,313)	198,853
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Miscellaneous	(2,658)	(2,658)	-
Subtotal	<u>\$ (9,348,025)</u>	<u>\$ (9,674,107)</u>	<u>\$ (326,082)</u>
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Wraparound	-	(713,640)	(713,640)
Other IEP revenue	(759,030)	(775,391)	(16,361)
Miscellaneous	(2,658)	(2,658)	-
Total	<u>\$ (25,129,470)</u>	<u>\$ (26,132,310)</u>	<u>\$ (1,002,840)</u>

Christopher B. Ryan, CIA
Page 3 of 3
November 16, 2016

County Response – The County and SCO agreed to use the methodology prescribed by the California Department of Mental Health (DMH).

The original SCO audit report stated that the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) revenue offset was \$2,954,638. Based on the revised calculation provided in Attachment A, the EPSDT revenue offset reduced to \$2,008,913. Hence, the County should receive \$945,725 (\$2,954,638 less \$2,008,913).

Sincerely,



Shirley Tourel
Assistant Controller
County of San Mateo

Attachment A
SAN MATEO COUNTY
CONSOLIDATED HDS, HDS II, AND SEDP
AUDIT ID#: S13-MCC-020(R)
JULY 1, 2006 THROUGH JUNE 30, 2010
Revised EPSDT Calculation

	FY 1994-95 (Base Year)	FY 2006-07	SEP & EPSDT Growth
SEP Costs (Excludes Non Medi-Cal SEP)	\$ 1,249,760	\$ 2,914,625	\$ 1,664,866
EPSDT Actual Cost	2,525,528	8,559,471	6,033,943
TBS Program Cost (If applicable)			311,476
Net EPSDT Total Growth			5,722,467
Ratio SEP Growth to Net EPSDT Growth			28.09%
EPSDT Revenue (MH 1992, Line 19) Received			2,007,245
TBS portion of EPSDT Revenue (If applicable) est. of EPSDT received (prorated)			150,692
Net EPSDT SD/MC Revenue (Estimate)			1,856,553
SEP State Share of EPSDT SD/MC Estimate			540,136
Est. County Match of SEP State EPSDT Growth			6,022
SEP State Share of EPSDT Net of County Match			\$ 534,214

	FY 1994-95 (Base Year)	FY 2007-08	SEP & EPSDT Growth
SEP Costs (Excludes Non Medi-Cal SEP)	\$ 1,249,760	\$ 2,781,243	\$ 1,531,483
EPSDT Actual Cost	2,525,528	8,907,208	6,381,680
TBS Program Cost (If applicable)			325,876
Net EPSDT Total Growth			6,055,804
Ratio SEP Growth to Net EPSDT Growth			25.29%
EPSDT Revenue (MH 1992, Line 19) Received			2,398,828
TBS portion of EPSDT Revenue (If applicable) est. of EPSDT received (prorated)			157,659
Net EPSDT SD/MC Revenue (Estimate)			2,241,169
SEP State Share of EPSDT SD/MC Estimate			566,781
Est. County Match of SEP State EPSDT Growth			1
SEP State Share of EPSDT Net of County Match			\$ 566,780

	FY 1994-95 (Base Year)	FY 2008-09	SEP & EPSDT Growth
SEP Costs (Excludes Non Medi-Cal SEP)	\$ 1,249,760	\$ 2,763,786	\$ 1,514,026
EPSDT Actual Cost	2,525,528	7,529,402	5,003,674
TBS Program Cost (If applicable)			301,188
Net EPSDT Total Growth			4,702,686
Ratio SEP Growth to Net EPSDT Growth			32.13%
EPSDT Revenue (MH 1992, Line 19) Received			2,620,058
TBS portion of EPSDT Revenue (If applicable) est. of EPSDT received (prorated)			157,929
Net EPSDT SD/MC Revenue (Estimate)			2,462,129
SEP State Share of EPSDT SD/MC Estimate			789,461
Est. County Match of SEP State EPSDT Growth			7,315
SEP State Share of EPSDT Net of County Match			\$ 782,146

	FY 1994-95 (Base Year)	FY 2009-10	SEP & EPSDT Growth
SEP Costs (Excludes Non Medi-Cal SEP)	\$ 1,249,760	\$ 1,859,031	\$ 609,271
EPSDT Actual Cost	2,525,528	8,281,793	5,756,205
TBS Program Cost (If applicable)			327,821
Net EPSDT Total Growth			5,428,384
Ratio SEP Growth to Net EPSDT Growth			11.22%
EPSDT Revenue (MH 1992, Line 19) Received			1,328,908
TBS portion of EPSDT Revenue (If applicable) est. of EPSDT received (prorated)			191,810
Net EPSDT SD/MC Revenue (Estimate)			1,137,098
SEP State Share of EPSDT SD/MC Estimate			127,626
Est. County Match of SEP State EPSDT Growth			1,753
SEP State Share of EPSDT Net of County Match			\$ 125,873

Summary

Fiscal Year	Allowable EPSDT Revenue Offset		
	Original Audit	Revised Audit	Adjustment
FY 2006-07	\$ (931,223)	\$ (534,114)	\$ 397,109
FY 2007-08	(892,779)	(566,780)	325,999
FY 2008-09	(677,404)	(782,146)	(104,742)
FY 2009-10	(453,232)	(125,873)	327,359
Total	\$ (2,954,638)	\$ (2,008,913)	\$ 945,725

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