

FRESNO COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

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

July 1, 2003, through June 30, 2006



JOHN CHIANG
California State Controller

March 2010



JOHN CHIANG
California State Controller

March 24, 2010

The Honorable Judy Case
Chairman, Fresno County Board of Supervisors
2281 Tulare Street, #301
Fresno, CA 93721-2198

Dear Ms. Case:

The State Controller's Office audited the costs claimed by Fresno County for the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2003, through June 30, 2006.

The county claimed \$4,178,632 for the mandated program. Our audit disclosed that \$2,395,538 is allowable and \$1,783,094 is unallowable. The costs are unallowable because the county claimed unsupported and ineligible assessment and treatment costs, overstated administrative costs, and understated offsetting revenues. The State paid the county \$2,857,668. The State will offset \$462,130 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

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 CSM's Web site link 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:vb

cc: Michael Beaton, Business Manager
Business Office, Department of Behavioral Health
Fresno County
Shari Shintaku, Accounting and Financial Division Chief
Business Office, Department of Behavioral Health
Fresno County
The Honorable Vicki Crow, CPA
Auditor-Controller/Treasurer-Tax Collector
Fresno County
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Fresno County for the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2003, through June 30, 2006.

The county claimed \$4,178,632 for the mandated program. Our audit disclosed that \$2,395,538 is allowable and \$1,783,094 is unallowable. The costs are unallowable because the county claimed unsupported and ineligible assessment and treatment costs, overstated administrative costs, and understated offsetting revenues. The State paid the county \$2,857,668. The State will offset \$462,130 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

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* to fund assessments, psychotherapy, and other mental health services . . .” and that the finding by the Legislature is “declaratory of existing law.” [Emphasis added.]

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, 2003, 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, Fresno County claimed \$4,178,632 for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$2,395,538 is allowable and \$1,783,094 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$1,046,598 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,046,548, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$1,697,800. Our audit disclosed that \$815,780 is allowable. The State will offset \$882,520 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 \$1,159,868. Our audit disclosed that \$533,710 is allowable. The State will offset \$626,158 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 May 22, 2009. Linda Collins, CMA, Deputy Director of Human Services–Finance, contacted us on June 26, 2009, regarding the submission of additional documentation. Over the course of the ensuing months, the county submitted documentation for our review. Based on review of the information provided, we concluded that the draft report findings remain unchanged. Michael Beaton, Business Manager, responded by letter dated January 22, 2010 (Attachment), agreeing with the errors identified in the findings. This final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Fresno 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

March 24, 2010

**Schedule 1—
Summary of Program Costs
July 1, 2003, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
July 1, 2003, through June 30, 2004				
Assessment/case management costs	\$ 89,405	\$ 96,051	\$ 6,646	Finding 1
Administrative costs	—	16,284	16,284	Finding 2
Offsetting revenues:				
State categorical funds	—	(15,553)	(15,553)	Finding 3
Short-Doyle/Medi-Cal funds	(19,897)	(21,476)	(1,579)	Finding 3
Individuals with Disabilities Education Act (IDEA) funds	—	(18,323)	(18,323)	Finding 3
Net assessment/case management costs	<u>69,508</u>	<u>56,983</u>	<u>(12,525)</u>	
Treatment costs	2,038,312	1,983,233	(55,079)	Finding 1
Administrative costs	—	325,970	325,970	Finding 2
Offsetting revenues:				
State categorical funds	—	(395,368)	(395,368)	Finding 3
Short-Doyle/Medi-Cal funds	(588,527)	(545,935)	42,592	Finding 3
IDEA funds	(198,329)	(378,335)	(180,006)	Finding 3
Net treatment costs	<u>1,251,456</u>	<u>989,565</u>	<u>(261,891)</u>	
Total program costs	<u>\$ 1,320,964</u>	1,046,548	<u>\$ (274,416)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,046,548</u>		
July 1, 2004, through June 30, 2005				
Assessment/case management costs	\$ 146,282	\$ 134,413	\$ (11,869)	Finding 1
Administrative costs	27,794	21,791	(6,003)	Finding 2
Offsetting revenues:				
State categorical funds	—	(24,965)	(24,965)	Finding 3
Short-Doyle/Medi-Cal funds	(51,294)	(30,601)	20,693	Finding 3
IDEA funds	—	(29,315)	(29,315)	Finding 3
Net assessment/case management costs	<u>122,782</u>	<u>71,323</u>	<u>(51,459)</u>	
Treatment costs	2,123,224	1,657,077	(466,147)	Finding 1
Administrative costs	403,413	251,821	(151,592)	Finding 2
Offsetting revenues:				
State categorical funds	—	(361,014)	(361,014)	Finding 3
Short-Doyle/Medi-Cal funds	(951,619)	(442,528)	509,091	Finding 3
IDEA funds	—	(361,399)	(361,399)	Finding 3
Net treatment costs	<u>1,575,018</u>	<u>743,957</u>	<u>(831,061)</u>	
Total program costs	<u>\$ 1,697,800</u>	815,280	<u>\$ (882,520)</u>	
Less amount paid by the State		<u>(1,697,800)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (882,520)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Assessment/case management costs	\$ 163,355	\$ 137,093	\$ (26,262)	Finding 1
Administrative costs	59,489	31,823	(27,666)	Finding 2
Offsetting revenues:				
State categorical funds	—	(40,409)	(40,409)	Finding 3
Short-Doyle/Medi-Cal funds	(125,756)	(49,605)	76,151	Finding 3
IDEA funds	—	(34,057)	(34,057)	Finding 3
Net assessment/case management costs	<u>97,088</u>	<u>44,845</u>	<u>(52,243)</u>	
Treatment costs	1,717,063	1,435,674	(281,389)	Finding 1
Administrative costs	625,302	303,471	(321,831)	Finding 2
Offsetting revenues:				
State categorical funds	—	(401,160)	(401,160)	Finding 3
Short-Doyle/Medi-Cal funds	(1,279,585)	(492,463)	787,122	Finding 3
IDEA funds	—	(356,657)	(356,657)	Finding 3
Net treatment costs	<u>1,062,780</u>	<u>488,865</u>	<u>(573,915)</u>	
Total program costs	<u>\$ 1,159,868</u>	533,710	<u>\$ (626,158)</u>	
Less amount paid by the State		<u>(1,159,868)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (626,158)</u>		
<u>Summary: July 1, 2003, through June 30, 2006</u>				
Assessment/case management costs	\$ 399,042	\$ 367,557	\$ (31,485)	
Administrative costs	87,283	69,898	(17,385)	
Offsetting revenues:				
State categorical funds	—	(80,927)	(80,927)	
Short-Doyle/Medi-Cal funds	(196,947)	(101,682)	95,265	
IDEA funds	—	(81,695)	(81,695)	
Net assessment/case management costs	<u>289,378</u>	<u>173,151</u>	<u>(116,227)</u>	
Treatment costs	5,878,599	5,075,984	(802,615)	
Administrative costs	1,028,715	881,262	(147,453)	
Offsetting revenues:				
State categorical funds	—	(1,157,542)	(1,157,542)	
Short-Doyle/Medi-Cal funds	(2,819,731)	(1,480,926)	1,338,805	
IDEA funds	(198,329)	(1,096,391)	(898,062)	
Net treatment costs	<u>3,889,254</u>	<u>2,222,387</u>	<u>(1,666,867)</u>	
Total program costs	<u>\$ 4,178,632</u>	2,395,538	<u>\$(1,783,094)</u>	
Less amount paid by the State		<u>(2,857,668)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (462,130)</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 \$834,100 for the audit period.

The county claimed costs that are not fully based on actual costs to implement the mandated program. The county included ineligible services of crisis intervention and therapeutic behavioral services. In some cases, the county used an incorrect cost per unit to compute costs. We recalculated costs based on the actual units of eligible services and appropriate cost per unit.

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

The parameters and guidelines do not identify crisis intervention and therapeutic behavioral services as allowable activities. The following table summarizes the overstated assessment and treatment costs:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ 6,646	\$ (11,869)	\$ (26,262)	\$ (31,485)
Treatment	(55,079)	(466,147)	(281,389)	(802,615)
Total adjustment	<u>\$ (48,433)</u>	<u>\$ (478,016)</u>	<u>\$ (307,651)</u>	<u>\$ (834,100)</u>

Recommendation

We recommend that the county use the actual units of service, claim only eligible services in accordance with the mandate program, and apply the appropriate cost per unit.

County’s Response

Fresno County concurs that preparers submitted units of service for crisis intervention and therapeutic behavioral health services in error. County staff have been trained on Handicapped and Disabled Students services eligible through Chapter 1747, Statutes of 1984, and chapter 1274, Statutes of 1985 and any subsequent changes as identified in the issuance of State Department of Mental Health Notices and Letters.

SCO’s Comment

The finding and recommendation remain unchanged.

**FINDING 2—
Overstated
administrative costs**

The county overstated administrative costs by \$164,838 for the audit period.

The county miscalculated administrative cost rates because it did not reduce administrative costs by related revenues. The county applied the rates to direct costs of both county facilities and contract providers, even though the county does not oversee the operations of contract providers. The county also omitted administrative costs from its fiscal year (FY) 2003-04 claim.

We recalculated the administrative costs for the audit period using a method that is consistent with allocations in the cost report that the county submitted to the State Department of Mental Health. In computing the administrative rates, we reduced administrative costs by relevant offsetting revenues and then applied the rates to eligible direct costs.

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

The parameters and guidelines further specify that to the extent the State Department of Mental Health has not already compensated reimbursable indirect costs from categorical sources, the indirect costs may be claimed.

The following table summarizes the overstated costs:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment	\$ 16,284	\$ (6,003)	\$ (27,666)	\$ (17,385)
Treatment	325,970	(151,592)	(321,831)	(147,453)
Total adjustment	\$ 342,254	\$(157,595)	\$(349,497)	\$(164,838)

Recommendation

We recommend that the county apply a methodology that is consistent with the cost report submitted to the State Department of Mental Health. The county should include all relevant costs and related offsetting revenue in its calculation of administrative cost rates and apply the rates to eligible direct costs.

County’s Response

While the County used the administrative cost rate as approved on their Indirect Cost Rate Proposal for each of the fiscal years reported, County concurs that the rates did not include offsetting revenues as reported on the Cost Report submitted to the Department of Mental Health. County has revised ICRP process to include offsetting revenues as reported on the cost report. County staff have been trained on the service costs that are appropriate to calculate administrative cost and exclude provider costs from this calculation.

SCO’s Comment

The finding and recommendation remain unchanged.

**FINDING 3—
Understated offsetting
revenues**

The county understated its offsetting revenues by \$784,156 for the audit period.

The county miscalculated revenues by using inaccurate unit rates, applying incorrect funding percentages for Short-Doyle/Medi-Cal FFP (SD/MC), and including revenues related to ineligible costs. The county omitted Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) funds and did not apply all Individuals with Disabilities Education Act (IDEA) funds received.

We recalculated total revenues by applying the appropriate cost per unit to eligible units of service, using the correct funding percentages for SD/MC, and including EPSDT revenues for all fiscal years. We also excluded revenues related to ineligible costs. We applied IDEA funds for the full grant amount, proportioned between assessment and treatment costs audited.

The parameters and guidelines specify that any direct payments received from the State that are specifically allocated to the program, and/or any other reimbursement received as a result of the mandate (categorical funds, Short Doyle/Medi-Cal FFP, and other offsets such as private insurance), must be deducted from the claim.

The following table summarizes the understated offsetting revenues:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Assessment:				
State categorical funds	\$ (15,553)	\$ (24,965)	\$ (40,409)	\$ (80,927)
Short-Doyle/Medi-Cal funds	(1,579)	20,693	76,151	95,265
Other	(18,323)	(29,315)	(34,057)	(81,695)
Total assessment	(35,455)	(33,587)	1,685	(67,357)
Treatment:				
State categorical funds	(395,368)	(361,014)	(401,160)	(1,157,542)
Short-Doyle/Medi-Cal funds	42,592	509,091	787,122	1,338,805
Other	(180,006)	(361,399)	(356,657)	(898,062)
Total treatment	(532,782)	(213,322)	29,305	(716,799)
Total	<u>\$(568,237)</u>	<u>\$(246,909)</u>	<u>\$ 30,990</u>	<u>\$ (784,156)</u>

Recommendation

We recommend that the county offset all applicable revenues against eligible costs incurred for the mandate program and apply the appropriate reimbursement percentages.

County's Response

County reported Individuals with Disabilities Education Act (IDEA) revenue on a cash basis for the fiscal years audited. Subsequent submissions have reported IDEA funds on the accrual basis and also have included the EPSDT contribution which were omitted on fiscal years audited, thus overstating mandated expenditures. County staff have been trained on the revenue funding sources for the SB90 program and their appropriate reporting on the mandated claim. Costs per unit are obtained from the Cost Report submitted to the State Department of Mental Health for Short/Doyle Medi-Cal.

SCO's Comment

The finding and recommendation remain unchanged.

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



Department of Behavioral Health
Donna Taylor, RN, Interim Mental Health Director

Providing Quality Mental Health and Substance Abuse Services for the People of Fresno County

January 22, 2010

Jim Spano
State Controller's Office
Division of Audits - Mandated Costs Bureau
P.O. BOX 942850
Sacramento Ca 94250-5874

RE: SB 90 Claim Audit FY 2003-04 through FY 2005-06

Dear Mr. Spano:

Attached please find the Fresno County responses to the management comments as represented in the draft audit report dated May 22, 2009.

Finding 1 – Overstated Assessment and Treatment Costs

Fresno County concurs that preparers submitted units of service for crisis intervention and therapeutic behavioral health services in error. County staff have been trained on Handicapped and Disabled Students services eligible through Chapter 1747, Statutes of 1984, and chapter 1274, Statutes of 1985 and any subsequent changes as identified in the issuance of State Department of Mental Health Notices and Letters.

Finding 2 – Overstated Administrative Costs

While the County used the administrative cost rate as approved on their Indirect Cost Rate Proposal for each of the fiscal years reported, County concurs that the rates did not include offsetting revenues as reported on the Cost Report submitted to the Department of Mental Health. County has revised ICRP process to include offsetting revenues as reported on the cost report. County staff have been trained on the service costs that are appropriate to calculate administrative cost and exclude provider costs from this calculation.

Finding 3 – Understating Offsetting Revenues

County reported Individuals with Disabilities Education Act (IDEA) revenue on a cash basis for the fiscal years audited. Subsequent submissions have reported IDEA funds on the accrual basis and also have included the EPSDT contribution which were omitted on fiscal years audited, thus overstating mandated expenditures. County staff have

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www.co.fresno.ca.us ♦ www.fresno.networkofcare.org

been trained on the revenue funding sources for the SB90 program and their appropriate reporting on the mandated claim. Costs per unit are obtained from the Cost Report submitted to the State Department of Mental Health for Short/Doyle Medi-Cal.

If we may be of further assistance please contact Shari Shintaku at 559-253-9180

Sincerely,

A handwritten signature in black ink, appearing to be 'M. Beaton', written over a horizontal line.

Michael Beaton, CIA
Business Manager

Cc: Donna Taylor, Interim Mental Health Director

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

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