

NEVADA COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

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

July 1, 2002, through June 30, 2005



JOHN CHIANG
California State Controller

May 2008



JOHN CHIANG
California State Controller

May 16, 2008

Ted S. Owens, Board Chairman
Nevada County Board of Supervisors
Eric W. Rood Administrative Center
950 Maidu Avenue
Nevada City, CA 95959

Dear Mr. Owens:

The State Controller's Office audited the costs claimed by Nevada County for the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2002, through June 30, 2005.

The county claimed \$1,069,794 (\$1,070,794 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$863,524 is allowable and \$206,270 is unallowable. The unallowable costs occurred because the county claimed unsupported and ineligible costs, excluded allowable costs, and understated offsetting revenues. The State paid the county \$426,561. Allowable costs claimed exceed the amount paid by \$436,963.

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 the claim reduction. You may obtain IRC information at CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone at (916) 323-3562, or by e-mail at csminfo@csm.ca.gov.

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

cc: The Honorable Marcia Salter
Auditor-Controller
County of Nevada
Martin Polt
Administrative Services Officer
Health & Human Services Agency
Behavioral Health Services
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance
Stacey Wofford
Special Education Program
Department of Mental Health
Cynthia Wong, Manager
Special Education Division
California Department of Education

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Nevada County for the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2002, through June 30, 2005.

The county claimed \$1,069,794 (\$1,070,794 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$863,524 is allowable and \$206,270 is unallowable. The unallowable costs occurred because the county claimed unsupported and ineligible costs, excluded allowable costs, and understated offsetting revenues. The State paid the county \$426,561. Allowable costs claimed exceed the amount paid by \$436,963.

Background

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

On April 26, 1990, the Commission on State Mandates (CSM) determined that this legislation imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines for the Handicapped and Disabled Students Program on August 22, 1991, and last amended it on August 29, 1996. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

The parameters and guidelines for the Handicapped and Disabled Students Program state that only 10% of mental health treatment costs are reimbursable. However, on September 30, 2002, Assembly Bill 2781 (Chapter 1167, Statutes of 2002) changed the regulatory criteria by stating that the percentage of treatment costs claimed by counties for fiscal year (FY) 2000-01 and prior fiscal years is not subject to dispute by the SCO. Furthermore, this legislation states that, for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of these costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by Welfare and Institutions Code section 17600 et seq. (realignment funds).

Furthermore, Senate Bill 1895 (Chapter 493, Statutes of 2004) states that realignment funds used by counties for the Handicapped and Disabled Students Program "are eligible for reimbursement from the state *for all*

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

On May 26, 2005, the CSM adopted a statement of decision for the Handicapped and Disabled Students II Program that incorporates the above legislation and further identified medication support as a reimbursable cost effective July 1, 2001. The CSM adopted the parameters and guidelines for this new program on December 9, 2005, and made technical corrections to it on July 21, 2006. The parameters and guidelines for the Handicapped and Disabled Students II Program state, “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, we will reissue the audit reports.” Consequently, we are allowing medication support costs commencing on July 1, 2001.

On May 26, 2005, the CSM also adopted a statement of decision on reconsideration of the Handicapped and Disabled Students Program. The CSM found that the 1990 statement of decision for the Handicapped and Disabled Students Program correctly concluded that the test claim legislation imposes a reimbursable state-mandated program on counties pursuant to Article XIII B, section 6, of the California Constitution. The CSM determined, however, that the 1990 statement of decision does not fully identify all of the activities mandated by the statutes and regulations pled in the test claim or the offsetting revenue applicable to the claim. In addition, the existing parameters and guidelines reflect prior law enacted by the Short-Doyle Act, whereby counties were entitled to 10% reimbursement for mental health treatment services. This prior finding is not consistent with current law or the CSM’s decision. Thus, the CSM, on reconsideration, identified the activities expressly required by the test claim legislation and the offsetting revenue that must be identified and deducted from the cost claimed. The CSM adopted the parameters and guidelines on reconsideration of the Handicapped and Disabled Students Program on January 26, 2006, with the reimbursement period beginning July 1, 2004.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Handicapped and Disabled Students Program for the period of July 1, 2002, through June 30, 2005.

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 the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county’s financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis,

to determine whether the costs claimed were supported. 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, Nevada County claimed \$1,069,794 (\$1,070,794 less a \$1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$863,524 is allowable and \$206,270 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State made no payment to the county. Our audit disclosed that \$165,872 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$165,872, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$294,109 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$294,109, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$426,561. Our audit disclosed that \$403,543 is allowable. The State will offset \$23,018 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 March 12, 2008. Michael Heggarty, Director, Nevada County Department of Mental Health, responded by letter (Attachment) agreeing with the audit results for Findings 1 and 2. The response letter did not include comments for Finding 3. The final report includes the county's response.

Restricted Use

This report is solely for the information and use of Nevada 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

May 16, 2008

**Schedule 1—
Summary of Program Costs
July 1, 2002, through June 30, 2005**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
July 1, 2002, through June 30, 2003				
Assessment/case management costs	\$ 140,455	\$ 174,809	\$ 34,354	Finding 1
Administrative costs	—	18,670	18,670	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	—	(33,877)	(33,877)	Finding 3
State categorical funds (EPSDT and IDEA)	—	(25,918)	(25,918)	Finding 3
Other (Healthy Families)	—	(8,629)	(8,629)	Finding 3
Net assessment/case management costs	<u>140,455</u>	<u>125,055</u>	<u>(15,400)</u>	
Treatment costs	3,079	302,619	299,540	Finding 1
Administrative costs	—	32,320	32,320	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	—	(72,841)	(72,841)	Finding 3
State categorical funds (EPSDT and IDEA)	—	(55,726)	(55,726)	Finding 3
Other (Healthy Families)	—	(15,734)	(15,734)	Finding 3
Net treatment costs	<u>3,079</u>	<u>190,638</u>	<u>187,559</u>	
Total direct and indirect costs	143,534	315,693	172,159	
Adjustment for costs claimed under HDS II ²	22,338	—	(22,338)	
Less allowable costs that exceed claimed ³	—	(149,821)	(149,821)	
Total program costs	<u>\$ 165,872</u>	165,872	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 165,872</u>		
July 1, 2003, through June 30, 2004				
Assessment/case management costs	\$ 434,763	\$ 283,937	\$ (150,826)	Finding 1
Administrative costs	—	28,477	28,477	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	—	(71,274)	(71,274)	Finding 3
State categorical funds (EPSDT and IDEA)	—	(91,070)	(91,070)	Finding 3
Other (Healthy Families)	—	(7,910)	(7,910)	Finding 3
Net assessment/case management costs	<u>434,763</u>	<u>142,160</u>	<u>(292,603)</u>	
Treatment costs	43,598	322,277	278,679	Finding 1
Administrative costs	—	33,936	33,936	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	—	(87,464)	(87,464)	Finding 3
State categorical funds (EPSDT and IDEA)	—	(110,543)	(110,543)	Finding 3
Other (Healthy Families)	—	(5,257)	(5,257)	Finding 3
Net treatment costs	<u>43,598</u>	<u>152,949</u>	<u>109,351</u>	
Total direct and indirect costs	478,361	295,109	(183,252)	
Less late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 477,361</u>	294,109	<u>\$ (183,252)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 294,109</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Assessment/case management costs	\$ 181,159	\$ 325,544	\$ 144,385	Finding 1
Administrative costs	3,921	29,113	25,192	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(28,535)	(56,061)	(27,526)	Finding 3
State categorical funds (EPSDT and IDEA)	2,206	(48,711)	(50,917)	Finding 3
Other (Healthy Families)	—	(12,586)	(12,586)	Finding 3
Net assessment/case management costs	<u>158,751</u>	<u>237,299</u>	<u>78,548</u>	
Treatment costs	507,625	400,872	(106,753)	Finding 1
Administrative costs	—	38,043	38,043	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(89,151)	(13,329)	75,822	Finding 3
State categorical funds (EPSDT and IDEA)	(150,664)	(75,476)	75,188	Finding 3
Other (Healthy Families)	—	(183,866)	(183,866)	Finding 3
Net treatment costs	<u>267,810</u>	<u>166,244</u>	<u>(101,566)</u>	
Total direct and indirect costs	<u>426,561</u>	<u>403,543</u>	<u>(23,018)</u>	
Total program costs	<u>\$ 426,561</u>	<u>403,543</u>	<u>\$ (23,018)</u>	
Less amount paid by the State		<u>(426,561)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (23,018)</u>		
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Assessment/case management costs	\$ 756,377	\$ 784,290	\$ 27,913	
Administrative costs	3,921	76,260	72,339	
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(28,535)	(161,212)	(132,677)	
State categorical funds (EPSDT and IDEA)	2,206	(165,699)	(167,905)	
Other (Healthy Families)	—	(29,125)	(29,125)	
Net assessment/case management costs	<u>733,969</u>	<u>504,514</u>	<u>(229,455)</u>	
Treatment costs	554,302	1,025,768	471,466	
Administrative costs	—	104,299	104,299	
Offsetting revenues:				
Short-Doyle/Medi-Cal funds	(89,151)	(173,634)	(84,483)	
State categorical funds (EPSDT & IDEA)	(150,664)	(241,745)	(91,081)	
Other (Healthy Families)	—	(204,857)	(204,857)	
Net treatment costs	<u>314,487</u>	<u>509,831</u>	<u>195,344</u>	
Total direct and indirect costs	1,048,456	1,014,345	(34,111)	
Adjustment for costs claimed under HDS II ²	22,338	—	(22,338)	
Less allowable costs that exceed claimed ³	—	(149,821)	(149,821)	
Less late claim penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 1,069,794</u>	<u>863,524</u>	<u>\$ (206,270)</u>	
Less amount paid by the State		<u>(426,561)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 436,963</u>		

¹ See the Findings and Recommendations section.

² The county claimed costs related to the Handicapped and Disabled Students (HDS) Program under the HDS II Program. The adjustment moves the claimed costs to the correct mandated program.

³ Government Code section 17561 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2002-03.

Findings and Recommendations

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

The county understated assessment and treatment costs by \$499,379. For fiscal year (FY) 2002-03 and FY 2003-04, the county excluded eligible mental health treatment costs from total claimed costs. In addition, the county claimed ineligible crisis intervention costs and fee-for-service costs, and included ineligible clients. In some cases, the county used an incorrect cost per unit to compute costs. For FY 2004-05, the county duplicated due process hearing costs, claiming the costs as direct costs and as part of the cost report.

We re-calculated costs based on actual units of eligible services and eligible clients and applied the appropriate cost per unit. In addition, we adjusted for the duplicated due process hearing costs for FY 2004-05 and included eligible mental health treatment costs for FY 2003-04 and FY 2004-05. We also increased allowable costs for FY 2002-03 by the \$14,899 that the county claimed in error under the Handicapped and Disabled Students II Program.

The program’s parameters and guidelines specify that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable. The program’s parameters and guidelines specify that only the following services are reimbursable: case management; assessment; individual therapy; collateral therapy and contacts; group therapy; and day treatment. The parameters and guidelines of the Handicapped and Disabled Students II Program add medication support costs. Therefore, beginning in FY 2001-02, medication monitoring is reimbursable as well. Beginning in FY 2004-05, out-of-home residential placement room-and-board costs are reimbursable.

The following table summarizes the understated assessment and treatment costs:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment	\$ 34,354	\$ (150,826)	\$ 144,385	\$ 27,913
Treatment	299,540	278,679	(106,753)	471,466
Audit adjustment	\$ 333,894	\$ 127,853	\$ 37,632	\$ 499,379

Recommendation

We recommend that the county use the actual units of service, and costs per unit, claim only eligible services and clients, and include all the allowable costs in accordance with the mandated program.

County’s Response

The county agreed with the finding.

**FINDING 2—
Understated
administrative costs**

The county understated its administrative costs by \$176,638. The county did not compute the indirect cost rate and, therefore, did not claim indirect (administrative) costs for the Handicapped and Disabled Students Program in FY 2002-03 and FY 2003-04. For FY 2004-05, the county computed an indirect cost rate and indirect (administrative) costs; however, the indirect cost rate was only applied to ineligible costs.

We computed indirect cost rates based on information from the Department of Mental Health cost reports, Forms MH 1960 and MH 1992. We applied appropriate indirect rates to eligible direct costs, but excluded crisis intervention, fee-for-service, and units-of-service costs for ineligible clients. We also computed indirect costs on the \$14,899 moved from the Handicapped and Disabled Students II Program to this mandated program for FY 2002-03.

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

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

The following table summarizes the understated administration costs:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment	\$ 18,670	\$ 28,477	\$ 25,192	\$ 72,339
Treatment	32,320	33,936	38,043	104,299
Audit adjustment	\$ 50,990	\$ 62,413	\$ 63,235	\$ 176,638

Recommendation

We recommend that the county prepare its claims consistent with the cost report submitted to the Department of Mental Health and ensure that the indirect (administrative) rate is applied to only eligible direct costs.

County’s Response

The county agreed with the finding.

**FINDING 3—
Understated offsetting
revenues**

The county understated offsetting revenues by \$710,128. The county used preliminary Medi-Cal units, applied an inappropriate cost per unit; applied incorrect funding percentages for Short Doyle/Medi-Cal, Healthy Families, and Early Periodic Screening Diagnosis and Treatment (EPSDT); and misapplied Individuals with Disabilities Education Act (IDEA) funding.

We re-calculated total revenues and applied the appropriate cost per unit to eligible units of service; used the correct funding percentages for Short-Doyle/Medi-Cal, Healthy Families, and EPSDT; accurately allocated IDEA funding; and adjusted revenues for unallowable costs.

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

The following table summarizes the understated offsetting revenues:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment	\$ (68,424)	\$ (170,254)	\$ (91,029)	\$ (329,707)
Treatment	(144,301)	(203,264)	(32,856)	(380,421)
Audit adjustment	<u>\$ (212,725)</u>	<u>\$ (373,518)</u>	<u>\$ (123,885)</u>	<u>\$ (710,128)</u>

Recommendation

We recommend that the county ensure that all applicable reimbursements are offset against reimbursable costs incurred for this program.

County’s Response

The county did not respond to the finding.

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



**NEVADA COUNTY
HEALTH & HUMAN SERVICES
AGENCY**

BEHAVIORAL HEALTH DEPARTMENT
(Mental Health, Drug and Alcohol Program)

Health & Human Services
Agency Director
Jeffrey S. Brown, MPH, MSW

Behavioral Health Director:
Michael Haggarty, MFT

Behavioral Health Medical
Director: Douglas Crisp MD

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Jim L. Spano
Chief, Mandated Costs Audits Bureau
State Controllers Office
Division of Audits
P.O. Box 942850
Sacramento, California 94250-5874

Dear Mr. Spano,

Please accept this response to the draft audit report letter for Handicapped and Disabled Students, dated March 12, 2008, received by our offices on March 24, 2008.

Nevada County Department of Behavioral Health - Response to Audit Findings

Handicapped and Disabled Students

Finding 1 – Understated assessment and treatment costs

The county (Behavioral Health Department) agrees with the audit finding. There were inconsistencies in the claim related to which costs were eligible, which ineligible, and the appropriate cost per unit. The county has revised the claiming process to ensure that accurate reports are available from the billing system, that the AB3632 units and services are defined and accurately reflected, and that all allowable costs are included in the claim.

Finding 2 – Understated administrative costs

The county agrees with the finding that administrative costs were not claimed for 2002-03 and 2003-04, and that indirect costs were not applied consistently with the DMH Cost report for FY 2004-05.

The county is addressing the issues related to the finding, including implementation of methods consistent with those used in the DMH Cost Report and 2 CFR Part 225 (OMB Circular A-87), with consistent allocations of administrative costs, based on relative salaries and/or units of service provided to a given program.

Printed on recycled paper

If you have any questions, please call me at 530-470-2784, or our Administrative Services Officer, Martin Polt, at 530-470-2418.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Heggarty". The signature is fluid and cursive, with a prominent loop at the end.

Michael Heggarty
Director, Nevada County Department of Mental Health
500 Crown Point Circle, Suite 120
Grass Valley, CA 95945

CC: Marcia Salter, Nevada County Auditor-Controller

**State Controller's Office
Division of Audits
Post Office Box 942850
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<http://www.sco.ca.gov>