

# LOS ANGELES COUNTY

Audit Report

## **SERIOUSLY EMOTIONALLY DISTURBED PUPILS: OUT-OF-STATE MENTAL HEALTH SERVICES PROGRAM**

Chapter 654, Statutes of 1996

*July 1, 2003, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

May 2010



**JOHN CHIANG**  
**California State Controller**

May 7, 2010

Gloria Molina, Chair  
Los Angeles County Board of Supervisors  
856 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Ms. Molina:

The State Controller's Office audited the costs claimed by Los Angeles County for the legislatively mandated Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services Program (Chapter 654, Statutes of 1996) for the period of July 1, 2003, through June 30, 2006.

The county claimed \$54,952,597 for the mandated program. Our audit disclosed that \$42,530,422 is allowable and \$12,422,175 is unallowable. The costs are unallowable because the county claimed ineligible vendor payments for out-of-state residential placements of seriously emotionally disturbed pupils in facilities that are owned and operated for profit and unsupported residential placement and program management costs; applied indirect cost rates to ineligible and unsupported costs; applied offsetting revenues toward ineligible direct costs; and did not provide support for portions of program management costs reimbursed by federal, state, and local funds. The State paid the county \$39,561,465. Allowable costs claimed exceed the amount paid by \$2,968,957.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at [www.csm.ca.gov/docs/IRCForm.pdf](http://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/vb

cc: Wendy L. Watanabe  
Auditor-Controller  
Los Angeles County  
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# Contents

## **Audit Report**

<b>Summary</b> .....	1
<b>Background</b> .....	1
<b>Objective, Scope, and Methodology</b> .....	2
<b>Conclusion</b> .....	2
<b>Views of Responsible Officials</b> .....	3
<b>Restricted Use</b> .....	3
<b>Schedule 1—Summary of Program Costs</b> .....	4
<b>Findings and Recommendations</b> .....	6
<b>Attachment—County’s Response to Draft Audit Report</b>	

# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Los Angeles County for the legislatively mandated Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services Program (Chapter 654, Statutes of 1996) for the period of July 1, 2003, through June 30, 2006.

The county claimed \$54,952,597 for the mandated program. Our audit disclosed that \$42,530,422 is allowable and \$12,422,175 is unallowable. The costs are unallowable because the county claimed ineligible vendor payments for out-of-state residential placements of seriously emotionally disturbed pupils in facilities that are owned and operated for profit and unsupported residential placement and program management costs; applied indirect cost rates to ineligible and unsupported costs; applied offsetting revenues toward ineligible direct costs; and did not provide support for portions of program management costs reimbursed by federal, state, and local funds. The State paid the county \$39,561,465. Allowable costs claimed exceed the amount paid by \$2,968,957.

## Background

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

On May 25, 2000, the Commission on State Mandates (CSM) determined that Chapter 654, Statutes of 1996, imposed a state mandate reimbursable under Government Code section 17561 for the following:

- Payment of out-of-state residential placements for SED pupils;
- Case management of out-of-state residential placements for SED pupils. 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 Individualized Education Plan;
- Program management, which includes parent notifications, as required, payment facilitation, and all other activities necessary to ensure a county's out-of-state residential placement program meets the requirements of Government Code section 7576.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted the parameters and guidelines on October 26, 2000. In compliance with Government Code section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming mandated program reimbursable costs.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services 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, Los Angeles County claimed \$54,952,597 for costs of the Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services Program. Our audit disclosed that \$42,530,422 is allowable and \$12,422,175 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our audit disclosed that \$11,028,561 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$11,028,561, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the county \$19,580,271. Our audit disclosed that \$15,379,320 is allowable. The State will offset \$4,200,951 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 \$19,981,194. Our audit disclosed that \$16,122,541 is allowable. The State will offset \$3,858,653 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 December 23, 2009. Wendy L. Watanabe, Auditor-Controller, responded by letter dated January 13, 2010 (Attachment), agreeing with the audit results. This final audit report includes the county's response.

Subsequent to the issuance of the draft report and the county's response to the SED Pupils: Out-of-State Mental Health Services Program audit, we finalized the Handicapped and Disabled Students Program audit. Our Handicapped and Disabled Students Program audit disclosed that the county over-applied Individuals with Disabilities Education Act (IDEA) funds by \$954,297 for FY 2003-04. We applied the excess of IDEA revenues to the SED Pupils: Out-of-State Mental Health Services Program. Hasmik Yaghobyan, SB 90 Coordinator, responded by e-mail on April 13, 2010, agreeing with the revised audit results.

### **Restricted Use**

This report is solely for the information and use of Los Angeles 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 7, 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 <sup>1</sup>
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Mental health services:				
Vendor reimbursements	\$ 20,599,592	\$ 16,421,363	\$ (4,178,229)	Finding 1
Case management	400,621	400,621	—	
Travel	30,260	30,260	—	
Program management	147,287	147,287	—	Finding 2
Total direct costs	21,177,760	16,999,531	(4,178,229)	
Indirect costs	620,849	330,779	(290,070)	Finding 3
Total direct and indirect costs	21,798,609	17,330,310	(4,468,299)	
Less reimbursements	(6,407,477)	(6,301,749)	105,728	Finding 4
Subtotal	15,391,132	11,028,561	(4,362,571)	
Late claim penalty	—	—	—	
Total program costs	<u>\$ 15,391,132</u>	11,028,561	<u>\$ (4,362,571)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 11,028,561</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Mental health services:				
Vendor reimbursements	\$ 24,628,906	\$ 19,449,176	\$ (5,179,730)	Finding 1
Case management	523,883	523,883	—	
Travel	32,689	32,689	—	
Program management	189,852	182,466	(7,386)	Finding 2
Total direct costs	25,375,330	20,188,214	(5,187,116)	
Indirect costs	688,251	421,632	(266,619)	Finding 3
Total direct and indirect costs	26,063,581	20,609,846	(5,453,735)	
Less reimbursements	(6,483,310)	(5,230,526)	1,252,784	Finding 4
Subtotal	19,580,271	15,379,320	(4,200,951)	
Late claim penalty	—	—	—	
Total program costs	<u>\$ 19,580,271</u>	15,379,320	<u>\$ (4,200,951)</u>	
Less amount paid by the State		(19,580,271)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (4,200,951)</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<b><u>July 1, 2005, through June 30, 2006</u></b>				
Direct costs:				
Mental health services:				
Vendor reimbursements	\$ 30,710,315	\$ 25,046,394	\$ (5,663,921)	Finding 1
Case management	568,041	568,041	—	
Travel	22,902	22,902	—	
Program management	<u>171,725</u>	<u>162,807</u>	<u>(8,918)</u>	Finding 2
Total direct costs	31,472,983	25,800,144	(5,672,839)	
Indirect costs	<u>83,754</u>	<u>459,348</u>	<u>375,594</u>	Finding 3
Total direct and indirect costs	31,556,737	26,259,492	(5,297,245)	
Less reimbursements	<u>(11,575,543)</u>	<u>(10,136,951)</u>	<u>1,438,592</u>	Finding 4
Subtotal	19,981,194	16,122,541	(3,858,653)	
Late claim penalty	<u>—</u>	<u>—</u>	<u>—</u>	
Total program costs	<u>\$ 19,981,194</u>	16,122,541	<u>\$ (3,858,653)</u>	
Less amount paid by the State		<u>(19,981,194)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ (3,858,653)</u>	
<b><u>Summary: July 1, 2003, through June 30, 2006</u></b>				
Direct costs:				
Mental health services:				
Vendor reimbursements	\$ 75,938,813	\$ 60,916,933	\$(15,021,880)	
Case management	1,492,545	1,492,545	—	
Travel	85,851	85,851	—	
Program management	<u>508,864</u>	<u>492,560</u>	<u>(16,304)</u>	
Total direct costs	78,026,073	62,987,889	(15,038,184)	
Indirect costs	<u>1,392,854</u>	<u>1,211,759</u>	<u>(181,095)</u>	
Total direct and indirect costs	79,418,927	64,199,648	(15,219,279)	
Less reimbursements	<u>(24,466,330)</u>	<u>(21,669,226)</u>	<u>2,797,104</u>	
Subtotal	54,952,597	42,530,422	(12,422,175)	
Late claim penalty	<u>—</u>	<u>—</u>	<u>—</u>	
Total program costs	<u>\$ 54,952,597</u>	42,530,422	<u>\$(12,422,175)</u>	
Less amount paid by the State		<u>(39,561,465)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ 2,968,957</u>	

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## FINDING 1— Ineligible vendor costs

The county overstated vendor costs by \$15,021,880 for the audit period.

The county claimed ineligible vendor payments of \$15,001,966 (mental health treatment, and board and care costs) for out-of-state residential placement of seriously emotionally disturbed (SED) pupils in facilities that are owned and operated for profit. Further, the county claimed unsupported residential placement costs of \$19,914.

The program's parameters and guidelines (section IV.C.1) specify that the mandate is to reimburse counties for payments to service vendors providing mental health services to SED pupils in out-of-state residential placements as specified in Government Code section 7576 and Title 2, California Code of Regulations, sections 60100 and 60110.

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

The parameters and guidelines also state that all costs claimed must be traceable to source documents that show evidence of the validity of such costs and their relationship to the state mandated program.

The following table summarizes the unallowable vendor costs claimed:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Ineligible placements	\$ (4,158,315)	\$ (5,179,730)	\$ (5,663,921)	\$ (15,001,966)
Unsupported costs	(19,914)	—	—	(19,914)
Total	<u>\$ (4,178,229)</u>	<u>\$ (5,179,730)</u>	<u>\$ (5,663,921)</u>	<u>\$ (15,021,880)</u>

### Recommendation

We recommend that the county implement policies and procedures to ensure that out-of-state residential placements are made in accordance with laws and regulations. Further, we recommend that the county claim only eligible and supportable residential placement costs.

### County's Response

The county agreed with the finding.

**FINDING 2—  
Unsupported program  
management costs**

The county claimed unsupported program management costs of \$16,304 for the audit period.

The county claimed unsupported program management costs (shipping charges) of \$16,304 due to clerical errors. For FY 2004-05, the county erroneously claimed \$7,386 for one day's shipping costs when the total unallocated shipping charges for the day was only \$78, none of which was related to the mandated program. Furthermore, for FY 2005-06, the county inadvertently charged total shipping charges of \$14,452 while the program-related portion was only \$5,534. We adjusted program management costs to reflect actual program related shipping charges incurred by the county.

The parameters and guidelines (section IV.C.4) specify that the mandate is to reimburse counties for program management costs, which include the costs of parent notifications as required, payment facilitation, and all other activities necessary to ensure a county's out-of-state residential placements as specified in Government Code section 7576 and Title 2, *California Code of Regulations*, sections 60100 and 60110.

The parameters and guidelines also state that all costs claimed must be traceable to source documents that show evidence of the validity of such costs and their relationship to the state mandated program.

The following table summarizes the unsupported program management costs claimed:

	Fiscal Year		Total
	2004-05	2005-06	
Program management costs	\$ 7,386	\$ 8,918	\$ 16,304

Recommendation

We recommend that the county implement policies and procedures to ensure that claimed program management costs are fully supported by source documentation and steps are taken to minimize the opportunity for clerical errors in the manual process.

County's Response

The county agreed with the finding.

**FINDING 3—  
Overstated indirect costs**

The county overstated indirect costs by \$181,095 for the audit period.

The county applied indirect cost rates to ineligible and unsupported direct costs. Furthermore, the county used an indirect cost rate methodology that is inconsistent with other related mandated cost programs, (i.e., Handicapped and Disabled Students, Handicapped and Disabled Students II, and SED Pupils: Out-of-State Mental Health Services). In some instances the county applied a rate based on costs two years prior, while in other instances, the county applied a rate based on actual claim year costs. The disparate rates were applied to expenses in the same pool of cost, resulting in significant fluctuations in rates from year to year.

We recalculated indirect costs using actual rates applicable to the appropriate fiscal year and applied the rate to eligible costs.

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

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

The following table summarizes the overstated indirect costs claimed:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Indirect costs	\$ (290,070)	\$ (266,619)	\$ 375,594	\$ (181,095)

Recommendation

We recommend that the county use a consistent methodology to determine rates that are applied to the same pools of cost, and take steps to ensure that indirect cost rates are applied to eligible costs.

County's Response

The county agreed with the finding.

**FINDING 4—  
Overstated offsetting  
reimbursements**

The county overstated offsetting reimbursements by \$2,797,104 for the audit period.

The county applied offsetting revenues toward ineligible vendor payments (mental health treatment, and board and care costs) for out-of-state residential placement of SED pupils in facilities that are owned and operated for profit. In addition, the county applied the offsetting revenues towards unsupported costs. Lastly, the county did not provide support for portions of program management salary and benefit costs reimbursed by federal, state, and local funds.

We recalculated total revenues by excluding revenues related to ineligible and unsupported costs. In addition, due to lack of support, we fully offset the remaining net program management salary and benefit costs claimed. For FY 2003-04, the county over applied Individuals with Disabilities Education Act (IDEA) funds to its Handicapped and Disabled Students claim. We applied the excess of IDEA revenues to the SED Pupils: Out-of-State Mental Health Services Program.

The parameters and guidelines provide that reimbursement for this mandate received from any source, including but not limited to federal funds and other state funds, shall be identified and deducted from the claim.

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

Welfare and Institutions Code section 15200, subdivision (c)(1), provides the cost sharing mechanism whereby the California Department of Social Services reimburses counties for 40% of the 24-hour out-of-home residential board-and-care costs.

Welfare and Institutions Code section 18355, states, in part, notwithstanding any other provision of the law, 24-hour out-of-home care for seriously emotionally disturbed children who are placed in accordance with Government code, section 7572.5, shall be funded from a separate appropriation in the budget of the California Department of Social Services in order to fund both 24-hour out-of-home care payment and local administrative costs.

The following table summarizes the overstated offsetting revenues:

	Fiscal Year			Total
	2003-04	2004-05	2005-06	
Ineligible vendor costs	\$ 1,096,274	\$ 1,289,337	\$ 1,476,355	\$ 3,861,966
Unsupported program management	(36,249)	(36,553)	(37,763)	(110,565)
Under applied IDEA funds	(954,297)	—	—	(954,297)
<b>Total</b>	<b>\$ 105,728</b>	<b>\$ 1,252,784</b>	<b>\$ 1,438,592</b>	<b>\$ 2,797,104</b>

Recommendation

We recommend that the county implement policies and procedures to ensure that revenues are applied to eligible costs. Further, we recommend that the county identify and apply all applicable offsetting revenues including federal, state, and local reimbursements for program activities, and maintain source documentation to support its claim.

County's Response

The county agreed with the finding.

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

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**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-3873  
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WENDY L. WATANABE  
AUDITOR-CONTROLLER

MARIA M. OMS  
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ROBERT A. DAVIS  
JOHN NAIMO  
JUDI E. THOMAS

January 13, 2010

Mr. Jeffrey V. Brownfield, Chief  
Division of Audits  
State Controller's Office  
300 Capitol Mall, Suite 518  
Sacramento, California 95814

Dear Mr. Brownfield:

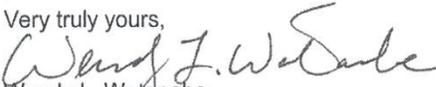
**LOS ANGELES COUNTY'S RESPONSE  
TO STATE CONTROLLER'S DRAFT AUDIT REPORT  
SERIOUSLY EMOTIONALLY DISTURBED PUPILS: OUT-OF-STATE MENTAL  
HEALTH SERVICES PROGRAM (SED), CHAPTER 654, STATUTES OF 1996**

The County of Los Angeles has reviewed the State's draft audit report dated December 23, 2009 for SED's program, for the period July 1, 2003 through June 30, 2006. The draft audit report concluded that, of the \$54,952,597 claimed under SED, \$43,484,719 is allowable. The remaining \$11,467,878 is not allowable pursuant to the Parameters and Guidelines adopted by the Commission on State Mandates on May 25, 2000.

The County's response, which is attached hereto, indicates agreement with the audit findings and the actions that the County will take to implement policies and procedures to ensure that the costs claimed under SED are eligible, mandate related, and supported. We also recognize that if the County subsequently provides additional information to support its \$11,467,878 of unallowable costs, or if there are any changes in the laws and regulations, the State will revise the final audit report to include such additional allowable costs.

If you have any questions, please contact Hasmik Yaghobyan at (213) 893-0792 or via e-mail at [hyaghobyan@auditor.lacounty.gov](mailto:hyaghobyan@auditor.lacounty.gov).

Very truly yours,

  
Wendy L. Watanabe  
Auditor-Controller

WLW:MMO:JN:CY:hy  
H:\SB90\QSTClaim Submission\Ch654\Audit Response Cover 1-14-10.doc

Attachment

c: Dr. Marvin Southard, Director, Department of Mental Health  
Sheila Shima, Deputy Chief Executive Officer, Chief Executive Office

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**LOS ANGELES COUNTY'S RESPONSE TO  
STATE CONTROLLER'S DRAFT AUDIT REPORT  
SERIOUSLY EMOTIONALLY DISTURBED PUPILS: OUT-OF-STATE MENTAL  
HEALTH SERVICES PROGRAM (SED), CHAPTER 654, STATUTES OF 1996  
JULY 1, 2003 THROUGH JUNE 30, 2006**

**Finding # 1- Ineligible Vendor Costs**

The County claimed ineligible vendor payments of \$15,001,966 (mental health treatment, and board and care costs) for out-of-state residential placement of seriously emotionally disturbed (SED) pupils in facilities that are owned and operated for profit. Further, the County claimed unsupported residential placement costs of \$19,914.

*Recommendation*

We recommend that the County implement policies and procedures to ensure that out-of-state residential placements are made in accordance with laws and regulations. Further, we recommend that the County claim only eligible and supportable residential placement costs.

*County's Response*

We agree with the recommendation. The County will review and establish policies and procedures to ensure that out-of-state residential placements are made in accordance with laws and regulations. The County will also review its claim procedures to ensure that residential placement costs are eligible and supportable.

**Finding # 2- Unsupported Program Management Costs**

The County claimed unsupported program management costs of \$16,304 for the audit period due to clerical errors.

*Recommendation*

We recommend that the County implement policies and procedures to ensure that claimed program management costs are fully supported by source documentation and steps are taken to minimize the opportunity for clerical errors in the manual process.

*County's Response*

We agree with the recommendation. The County will review and establish policies and procedures to ensure that program management costs are supported and contain no clerical errors.

**LOS ANGELES COUNTY'S RESPONSE TO  
STATE CONTROLLER'S DRAFT AUDIT REPORT  
SERIOUSLY EMOTIONALLY DISTURBED PUPILS: OUT-OF-STATE MENTAL  
HEALTH SERVICES PROGRAM (SED), CHAPTER 654, STATUTES OF 1996  
JULY 1, 2003 THROUGH JUNE 30, 2006**

**Finding # 3- Overstated Indirect Costs**

The County overstated indirect costs by \$181,095. The County applied indirect cost rates to ineligible and unsupported direct costs. Furthermore, the County used an indirect cost rate methodology that is inconsistent with other related mandated cost programs.

*Recommendation*

We recommend that the County use a consistent methodology to determine rates that are applied to the same pools of cost, and takes steps to ensure that indirect cost rates are applied to eligible costs.

*County's Response*

We agree with the recommendation. The County will review and establish policies and procedures to ensure that a consistent methodology for determining indirect cost rates applicable to the same pools of eligible costs is used.

**Finding # 4- Overstated Offsetting Reimbursements**

The County overstated offsetting reimbursements by \$3,751,401 for the audit period. The County applied offsetting revenues toward ineligible vendor payments (mental health treatment, and board and care costs) for out-of-state residential placement of SED pupils in facilities that are owned and operated for profit.

*Recommendation*

We recommend that the County implement policies and procedures to ensure that revenues are applied to eligible costs. Further, we recommend that the County identifies and applies all applicable offsetting revenues including federal, state, and local reimbursements for program activities, and maintain source documentation to support its claim.

*County's Response*

We agree with the recommendation. The County will review and establish policies and procedures to ensure that all applicable offsetting revenues (including federal, state, and local reimbursements) are identified, applied to eligible costs, and are supported by source documentation.

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

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