

# **SONOMA COUNTY**

Audit Report

## **HANDICAPPED AND DISABLED STUDENTS PROGRAM**

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

*July 1, 2001, through June 30, 2003*



**JOHN CHIANG**  
California State Controller

March 2007



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California State Controller

March 21, 2007

The Honorable Rodney A. Dole  
Auditor-Controller  
Sonoma County  
585 Fiscal Drive, Suite 101F  
Santa Rosa, CA 95403

Dear Mr. Dole:

The State Controller's Office audited the costs claimed by Sonoma 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, 2001, through June 30, 2003.

The county claimed \$2,840,542 (\$2,841,542 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$2,612,783 is allowable and \$227,759 is unallowable. The unallowable costs occurred because the county overstated assessment and treatment costs, administrative costs, and offsetting revenues. The State paid the county \$642,016. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,970,767, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). 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 COSM's Web site, at [www.csm.ca.gov](http://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](mailto:csminfo@csm.ca.gov).

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/vb

cc: Diana Stornetta, Accountant II  
Department of Mental Health Services  
Sonoma County  
Todd Jerue, Program Budget Manager  
Corrections and General Government  
Department of Finance  
Robin Ulesich-Foemmel  
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 Sonoma 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, 2001, through June 30, 2003. The last day of fieldwork was September 27, 2005.

The county claimed \$2,840,542 (\$2,841,542 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$2,612,783 is allowable and \$227,759 is unallowable. The unallowable costs occurred because the county overstated assessment and treatment costs, administrative costs, and offsetting revenues. The State paid the county \$642,016. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,970,767, contingent upon available appropriations.

## 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 (COSM) determined that this legislation imposed a state mandate reimbursable under *Government Code* Section 17561.

*Parameters and Guidelines* establishes the state mandate and defines reimbursement criteria. The COSM adopted the *Parameters and Guidelines* on August 22, 1991, and last amended it on August 29, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school district in claiming reimbursable costs.

*Parameters and Guidelines* 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 sec (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, COSM 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 costs effective July 1, 2001. COSM adopted the *Parameters and Guidelines* for this new program on December 9, 2005, and made technical corrections to it on July 21, 2006. *Parameters and Guidelines* for the Handicapped and Disabled Students II Program states 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.

## **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, 2001, through June 30, 2003.

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, Sonoma County claimed \$2,840,542 (\$2,841,542 less a \$1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$2,612,783 is allowable and \$227,759 is unallowable.

For the FY 2001-02 claim, the State paid the county \$641,999. Our audit disclosed that \$1,297,949 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$655,950, contingent upon available appropriations.

For the FY 2002-03 claim, the State paid the county \$17. Our audit disclosed that \$1,314,834 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,314,817, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft report on November 15, 2006. Eric Roeser, Accountant, Auditor-Controller's Office, responded by telephone on February 1, 2007. He stated that the Sonoma County Department of Mental Health agrees with the audit findings. The department did not respond in writing to the draft report.

**Restricted Use**

This report is solely for the information and use of Sonoma County 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

**Schedule 1—  
Summary of Program Costs  
July 1, 2001, through June 30, 2003**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Assessment and case management costs	\$ 173,684	\$ 537,364	\$ 363,680	Finding 1
Administrative costs	14,109	24,250	10,141	Finding 2
Less offsetting revenues:				
State categorical funds	—	(85,865)	(85,865)	Finding 3
Short-Doyle/Medi-Cal funds	(56,119)	(66,694)	(10,575)	Finding 3
Other	(71,168)	(322,866)	(251,698)	Finding 3
Net assessment and case management costs	<u>60,506</u>	<u>86,189</u>	<u>25,683</u>	
Treatment costs	3,734,527	2,634,239	(1,100,288)	Finding 1
Administrative costs	170,483	129,402	(41,081)	Finding 2
Less offsetting revenues:				
State general/realignment funds	—	—	—	
State categorical funds	(212,920)	(580,079)	(367,159)	Finding 3
Short-Doyle/Medi-Cal funds	(895,589)	(549,658)	345,931	Finding 3
Other	(1,331,299)	(422,144)	909,155	Finding 3
Net treatment costs	<u>1,465,202</u>	<u>1,211,760</u>	<u>(253,442)</u>	
Total program costs	<u>\$ 1,525,708</u>	1,297,949	<u>\$ (227,759)</u>	
Less amount paid by the State		(641,999)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 655,950</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Assessment and case management costs	\$ 637,768	\$ 719,829	\$ 82,061	Finding 1
Administrative costs	93,962	98,916	4,954	Finding 2
Less offsetting revenues:				
State categorical funds	—	(101,397)	(101,397)	Finding 3
Short-Doyle/Medi-Cal funds	(221,316)	(152,081)	69,235	Finding 3
Other	(161,834)	(124,960)	36,874	Finding 3
Net assessment and case management costs	<u>348,580</u>	<u>440,307</u>	<u>91,727</u>	
Treatment costs	2,268,881	1,887,238	(381,643)	Finding 1
Administrative costs	130,848	83,532	(47,316)	Finding 2
Less offsetting revenues:				
State general/realignment funds	—	—	—	
State categorical funds	—	(327,666)	(327,666)	Finding 3
Short-Doyle/Medi-Cal funds	(540,874)	(491,450)	49,424	Finding 3
Other	(891,601)	(139,014)	752,587	Finding 3

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003 (continued)</u>				
Net treatment costs	967,254	1,012,640	45,386	
Subtotal	1,315,834	1,452,947	137,113	
Less late claim penalty	(1,000)	(1,000)	—	
Less allowable costs that exceed claimed costs <sup>2</sup>	—	(137,113)	(137,113)	
Total program costs	<u>\$ 1,314,834</u>	1,314,834	<u>\$ —</u>	
Less amount paid by the State		(17)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,314,817</u>		
<u>Summary: July 1, 2001, through June 30, 2003</u>				
Assessment and case management costs	\$ 811,452	\$ 1,257,193	\$ 445,741	Finding 1
Administrative costs	108,071	123,166	15,095	Finding 2
Less offsetting revenues:				
State categorical funds	—	(187,262)	(187,262)	Finding 3
Short-Doyle/Medi-Cal funds	(277,435)	(218,775)	58,660	Finding 3
Other	(233,002)	(447,826)	(214,824)	Finding 3
Net assessment and case management costs	<u>409,086</u>	<u>526,496</u>	<u>117,410</u>	
Treatment costs	6,003,408	4,521,477	(1,481,931)	Finding 1
Administrative costs	301,331	212,934	(88,397)	Finding 2
Less offsetting revenues:				
State general/realignment funds	—	—	—	
State categorical funds	(212,920)	(907,745)	(694,825)	Finding 3
Short-Doyle/Medi-Cal funds	(1,436,463)	(1,041,108)	395,355	Finding 3
Other	(2,222,900)	(561,158)	1,661,742	Finding 3
Net treatment costs	<u>2,432,456</u>	<u>2,224,400</u>	<u>(208,056)</u>	
Subtotal	2,841,542	2,750,896	(90,646)	
Less late claim penalty	(1,000)	(1,000)	—	
Less allowable costs that exceed claimed costs <sup>2</sup>	—	(137,113)	(137,113)	
Total program costs	<u>\$ 2,840,542</u>	2,612,783	<u>\$ (227,759)</u>	
Less amount paid by the State		(642,016)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,970,767</u>		

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

<sup>2</sup> *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—  
Overstated assessment  
and treatment costs**

The county overstated assessment and treatment costs by \$1,036,190 for the audit period.

Claimed costs were not based on actual costs to implement the mandated program. The county included the ineligible services of crisis intervention when calculating the claims. Furthermore, the county prepared the claims using unit costs that were not based on actual costs paid to providers and reported to the Department of Mental Health. For fiscal year (FY) 2001-02, the county included units related to a personnel action and duplicated assessment units in both assessment and treatment sections of the claim.

We determined the allowable costs based on actual units of eligible services and the appropriate unit costs. The adjustments include ineligible crisis intervention costs of \$9,838 for FY 2001-02 (Mode and SFC 15-70).

By claiming ineligible costs and using incorrect costs per unit, the county overstated its claims as follows.

	Fiscal Year		Total
	2001-02	2002-03	
Assessment	\$ 363,680	\$ 82,061	\$ 445,741
Treatment	(1,100,288)	(381,643)	(1,481,931)
Audit adjustments	\$ (736,608)	\$ (299,582)	\$ (1,036,190)

*Parameters and Guidelines* for the program specifies that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

Additionally, *Parameters and Guidelines* for the Handicapped and Disabled Students Program specifies that only the following treatment services are reimbursable: individual therapy, collateral therapy and contacts, group therapy, day treatment, and the mental health portion of residential treatment in excess of California Department of Social Services payments for residential placement. *Parameters and Guidelines* for the Handicapped and Disabled Students II Program allows medication support costs commencing on July 1, 2001.

Recommendation

We recommend that the county ensure that it utilizes proper costs per unit to compute assessment and treatment costs. Additionally, we recommend that the county claim only eligible services in accordance with the mandated program.

**FINDING 2—  
Overstated  
administrative costs**

The county overstated administrative costs by \$73,302 for the audit period.

The county miscalculated its administrative costs because it used ineligible units to allocate administrative costs to the mandated program. The county also did not apply any administrative revenues to the costs, even though it received Short Doyle/Medi-Cal Federal Financing Participation (FFP) and Healthy Families funds.

We recalculated the administrative costs allocation using the correct units of service and applied all relevant administrative revenues.

By excluding related offsetting revenues from the administrative cost calculations, the county overstated administrative costs as follows.

	Fiscal Year		Total
	2001-02	2002-03	
Assessment	\$ 10,141	\$ 4,954	\$ 15,095
Treatment	(41,081)	(47,316)	(88,397)
Audit adjustments	<u>\$ (30,940)</u>	<u>\$ (42,362)</u>	<u>\$ (73,302)</u>

*Parameters and Guidelines* for the program states that administrative cost incurred in the performance of the mandated activities and adequately documented are reimbursable.

*Parameters and Guidelines* further states that any direct payments (categorical funds, Short Doyle/Medi-Cal FFP, and other offsets) received from the State that are specifically allocated to the program, and any other reimbursements received as a result of the mandate, must be deducted from the claim.

Recommendation

We recommend that the county ensure that it uses all relevant costs and offsetting revenues to compute administrative costs.

**FINDING 3—  
Overstated offsetting  
revenues**

The county overstated offsetting revenues by \$1,018,846 for the audit period.

The county allocated a portion of revenues received to the mandated program. However, the county did not calculate offsetting revenues based on actual units of service relative to a particular program. These amounts are subsequently adjusted based on approved units, and costs are settled at a later date. In this instance, the county applied incorrect percentages for Early Periodic Screening Diagnosis and Treatment (EPSDT) revenues to claimed costs.

We recalculated the offsetting revenues by using the correct units and costs per unit, including all relevant revenues, and applying the appropriate funding percentages. The calculations exclude revenues related to the unallowable medication monitoring and crisis intervention costs discussed in Finding 1.

By using incorrect units of service and percentages for the revenue sources, the county overstated its claims as follows.

	Fiscal Year		Total
	2001-02	2002-03	
Assessment:			
State categorical funds	\$ (10,575)	\$ 69,235	\$ 58,660
Short Doyle/Medi-Cal funds	(85,865)	(101,397)	(187,262)
Other	(251,698)	36,874	(214,824)
Total assessment offsetting revenues	(348,138)	4,712	(343,426)
Treatment:			
State general/realignment funds	—	—	—
State categorical funds	(367,159)	(327,666)	(694,825)
Short Doyle/Medi-Cal funds	345,931	49,424	395,355
Other	909,155	752,587	1,661,742
Total treatment offsetting revenues	887,927	474,345	1,362,272
Audit adjustments	\$ 539,789	\$ 479,057	\$ 1,018,846

*Parameters and Guidelines* specifies that any direct payments (categorical funds, Short Doyle/Medi-Cal 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.

#### Recommendation

We recommend that the county ensure that all applicable reimbursements are offset against reimbursable costs incurred for this program. Furthermore, the county should calculate applicable reimbursements based on actual units of service provided for a particular program.

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

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