

CITY AND COUNTY OF SAN FRANCISCO

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

December 2008



JOHN CHIANG
California State Controller

December 31, 2008

The Honorable Aaron Peskin, President
Board of Supervisors
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102

Dear Mr. Peskin:

The State Controller's Office audited the costs claimed by the City and County of San Francisco 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 city and county claimed \$18,169,439 (\$18,180,439 less an \$11,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$17,204,327 is allowable and \$965,112 is unallowable. The costs are unallowable primarily because the city and county applied inaccurate contractual rates for contract providers and claimed ineligible costs and unsupported in-state and out-of-state room-and-board costs. The State paid the city and county \$5,565,692. The State will pay allowable costs claimed that exceed the amount paid, totaling \$11,638,635, contingent upon available appropriations.

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: Benjamin Rosenfield, Controller
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City and County of San Francisco 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 city and county claimed \$18,169,439 (\$18,180,439 less an \$11,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$17,204,327 is allowable and \$965,112 is unallowable. The costs are unallowable primarily because the city and county applied inaccurate contractual rates for contract providers and claimed ineligible costs and unsupported in-state and out-of-state room-and-board costs. The State paid the city and county \$5,565,692. The State will pay allowable costs claimed that exceed the amount paid, totaling \$11,638,635, 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 (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 them on August 29, 1996. In compliance with Government Code section 17558, the SCO issues claiming instructions, to assist local agencies and school district 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 costs of any part of these services with money received from 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 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 identifies 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 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 these costs incurred, beginning July 1, 2001, the State Controller’s Office will reissue the audit reports.” Consequently, we are allowing medication support costs commencing 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, 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 this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the city and 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 city and 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, the City and County of San Francisco claimed \$18,169,439 (\$18,180,439 less an \$11,000 penalty for filing late claims) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$17,204,327 is allowable and \$965,112 is unallowable. The State paid the city and county \$5,565,692. The State will pay allowable costs claimed that exceed the amount paid, totaling \$11,638,635, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on October 17, 2008. Ben Rosenfield, Controller, responded by letter dated November 25, 2008 (Attachment), agreeing with the audit results. This final audit report includes the city and county's response.

Restricted Use

This report is solely for the information and use of the City and County of San Francisco, 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

December 31, 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
<u>July 1, 2002, through June 30, 2003</u>				
Assessment and case management costs	\$ 1,079,086	\$ 1,735,162	\$ 656,076	Finding 1
Administrative costs	212,607	343,433	130,826	Finding 2
Offsetting revenues:				
State categorical funds ²	—	(256,424)	(256,424)	Finding 3
Short-Doyle/Medi-Cal funds ²	—	(415,026)	(415,026)	Finding 3
Other ²	—	(6,004)	(6,004)	Finding 3
Net assessment and case management costs	<u>1,291,693</u>	<u>1,401,141</u>	<u>109,448</u>	
Treatment costs	5,112,032	7,736,363	2,624,331	Finding 1
Administrative costs	593,247	931,802	338,555	Finding 2
Offsetting revenues:				
State categorical funds ²	—	(1,244,978)	(1,244,978)	Finding 3
Short-Doyle/Medi-Cal funds ²	—	(2,012,542)	(2,012,542)	Finding 3
Other ²	—	(92,449)	(92,449)	Finding 3
Net treatment costs	<u>5,705,279</u>	<u>5,318,196</u>	<u>(387,083)</u>	
Subtotal	6,996,972	6,719,337	(277,635)	
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 6,995,972</u>	6,718,337	<u>\$ (277,635)</u>	
Less amount paid by the State		(28)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 6,718,309</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Assessment and case management costs	\$ 1,460,936	\$ 1,480,428	\$ 19,492	Finding 1
Administrative costs	184,338	306,000	121,662	Finding 2
Offsetting revenues:				
State categorical funds ²	(427,799)	(453,263)	(25,464)	Finding 3
Short-Doyle/Medi-Cal funds ²	(397,811)	(372,728)	25,083	Finding 3
Other ²	—	(26,720)	(26,720)	Finding 3
Net assessment and case management costs	<u>819,664</u>	<u>933,717</u>	<u>114,053</u>	
Treatment costs	8,163,303	7,008,232	(1,155,071)	Finding 1
Administrative costs	537,507	862,472	324,965	Finding 2
Offsetting revenues:				
State general/realignment funds	(1,009,991)	—	1,009,991	Finding 3
State categorical funds	—	(2,375,815)	(2,375,815)	Finding 3
Short-Doyle/Medi-Cal funds	(2,236,642)	(1,943,900)	292,742	Finding 3
Other	(1,350,466)	(192,080)	1,158,386	Finding 3
Net treatment costs	<u>4,103,711</u>	<u>3,358,909</u>	<u>(744,802)</u>	
Total program costs	<u>\$ 4,923,375</u>	4,292,626	<u>\$ (630,749)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,292,626</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 and case management costs	\$ 2,764,666	\$ 2,707,938	\$ (56,728)	Finding 1
Administrative costs	413,691	413,691	—	
Offsetting revenues:				
State categorical funds	(637,685)	(635,791)	1,894	Finding 3
Short-Doyle/Medi-Cal funds	(494,807)	(447,408)	47,399	Finding 3
Other	—	(49,293)	(49,293)	Finding 3
Net assessment and case management costs	<u>2,045,865</u>	<u>1,989,137</u>	<u>(56,728)</u>	
Treatment costs	8,135,561	8,135,561	—	
Administrative costs	792,808	792,808	—	
Offsetting revenues:				
State categorical funds	(2,489,184)	(2,476,929)	12,255	Finding 3
Short-Doyle/Medi-Cal funds	(2,224,958)	(2,029,783)	195,175	Finding 3
Other	—	(207,430)	(207,430)	Finding 3
Net treatment costs	<u>4,214,227</u>	<u>4,214,227</u>	<u>—</u>	
Subtotal	6,260,092	6,203,364	(56,728)	
Less late filing penalty	(10,000)	(10,000)	—	
Total program costs	<u>\$ 6,250,092</u>	6,193,364	<u>\$ (56,728)</u>	
Less amount paid by the State		(5,565,664)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 627,700</u>		
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Assessment and case management costs	\$ 5,304,688	\$ 5,923,528	\$ 618,840	
Administrative costs	810,636	1,063,124	252,488	
Offsetting revenues:				
State categorical funds	(1,065,484)	(1,345,478)	(279,994)	
Short-Doyle/Medi-Cal funds	(892,618)	(1,235,162)	(342,544)	
Other	—	(82,017)	(82,017)	
Net assessment and case management costs	<u>4,157,222</u>	<u>4,323,995</u>	<u>166,773</u>	
Treatment costs	21,410,896	22,880,156	1,469,260	
Administrative costs	1,923,562	2,587,082	663,520	
Offsetting revenues:				
State general/realignment funds	(1,009,991)	—	1,009,991	
State categorical funds	(2,489,184)	(6,097,722)	(3,608,538)	
Short-Doyle/Medi-Cal funds	(4,461,600)	(5,986,225)	(1,524,625)	
Other	(1,350,466)	(491,959)	858,507	
Net treatment costs	<u>14,023,217</u>	<u>12,891,332</u>	<u>(1,131,885)</u>	
Subtotal	18,180,439	17,215,327	(965,112)	
Less late filing penalty	(11,000)	(11,000)	—	
Total program costs	<u>\$ 18,169,439</u>	17,204,327	<u>\$ (965,112)</u>	
Less amount paid by the State		(5,565,692)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 11,638,635</u>		

¹ See the Findings and Recommendations section.

² The claim for FY 2002-03 does not show offsetting revenues. Claimed costs are shown as net costs with revenues subtracted.

Findings and Recommendations

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

The City and County of San Francisco understated assessment and treatment costs by \$2,088,100 for the audit period. The understatement was primarily attributable to two factors: the city and county reported costs net of revenue for fiscal year (FY) 2002-03, and the city and county applied inaccurate contractual rates for contract providers for all three years in the audit period.

Based on our recalculations, the city and county amended the FY 2004-05 claim, using the correct contractual rate and adding room-and-board costs that had erroneously been claimed for the Handicapped and Disabled Students II Program. The transferred board-and-care costs included unsupported (missing authorizations for payment) in-state board-and-care costs of \$38,230, and \$18,498 in out-of-state board-and-care costs that were moved to the Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services Program.

The program’s parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities and supported by source documents that show the validity of such costs. Additionally, the parameters and guidelines state that the claimant is allowed to claim and be reimbursed for eligible activities.

The following table summarizes the understated/(overstated) assessment and treatment costs:

Component	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment costs	\$ 656,076	\$ 19,492	\$ (56,728)	\$ 618,840
Treatment costs	2,624,331	(1,155,071)	—	1,469,260
Total	<u>\$ 3,280,407</u>	<u>\$ (1,135,579)</u>	<u>\$ (56,728)</u>	<u>\$ 2,088,100</u>

Recommendation

We recommend that the city and county use the appropriate unit rates to compute claimed assessment and treatment costs. Additionally, we recommend that the city and county claim only eligible room and board costs.

City and County’s Response

The city and county agreed with the finding.

**FINDING 2—
Understated
administrative costs**

The city and county understated administrative costs by \$916,008 for FY 2002-03 and FY 2003-04. The city and county used a 15% indirect rate to calculate administrative costs for all three fiscal years. The city and county derived that indirect cost rate from the approved Short-Doyle/Medi-Cal cap rate.

We recalculated the administrative costs using a methodology that is consistent with the Department of Mental Health (DMH) cost report for FY 2002-03 and FY 2003-04. The city and county amended the FY 2004-05 claim using our methodology. The indirect rates increased from 15% to 24.23% for FY 2002-03, and from 15% to 24.90% for FY 2003-04.

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

The following table summarizes the understated administrative costs:

	Fiscal Year		Total
	2002-03	2003-04	
Administrative costs:			
Assessment	\$ 130,826	\$ 121,662	\$ 252,488
Treatment	338,555	324,965	663,520
Total audit adjustments	<u>\$ 469,381</u>	<u>\$ 446,627</u>	<u>\$ 916,008</u>

Recommendation

We recommend that the city and county include all relevant costs and related offsetting revenue in calculation of administrative cost rates consistent with the allocation of administrative costs in the DMH cost reports.

City and County’s Response

The city and county agreed with the finding.

**FINDING 3—
Understated offsetting
revenue**

The city and county understated offsetting revenues by \$3,969,220 for the audit period. The overstatement was attributable to several factors. For FY 2002-03, the city and county showed no offsetting revenues on its claim because the costs were inappropriately reported net of the revenues. For the subsequent two fiscal years, the city and county reported the offsetting revenues, but incorrectly identified revenue sources. Finally, the city and county applied an Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) rate from prior years.

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

We re-calculated total revenues and applied correct funding percentages for EPSDT. The city and county amended its claim based on our recalculations for FY 2004-05, correcting the errors in offsetting revenues.

The following table summarizes the understated offsetting revenues:

Component	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Assessment revenues:				
State categorical funds	\$ (256,424)	\$ (25,464)	\$ 1,894	\$ (279,994)
Short-Doyle/Medi-Cal funds	(415,026)	25,083	47,399	(342,544)
Other	(6,004)	(26,720)	(49,293)	(82,017)
Total assessment revenues	(677,454)	(27,101)	—	(704,555)
Treatment revenues:				
State general/realignment funds	—	1,009,991	—	1,009,991
State categorical funds	(1,244,978)	(2,375,815)	12,255	(3,608,538)
Short-Doyle/Medi-Cal funds	(2,012,542)	292,742	195,175	(1,524,625)
Other	(92,449)	1,158,386	(207,430)	858,507
Total treatment revenues	(3,349,969)	85,304	—	(3,264,665)
Audit adjustment	<u>\$ (4,027,423)</u>	<u>\$ 58,203</u>	<u>\$ —</u>	<u>\$ (3,969,220)</u>

Recommendation

We recommend that the city and county ensure that it offsets all applicable reimbursement costs incurred for the program.

City and County’s Response

The city and county agreed with the finding.

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



Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

November 25, 2008

Jim Spano
Chief, Mandated Cost Audits Bureau
State Controller's Office
Division of Audits
P. O. Box 942850
Sacramento, CA 94520-5874

Re: *Response to draft audit of the Handicapped and Disabled Students (HDS) Program Audit*

Dear Mr. Spano:

The City and County of San Francisco has received the State Controller's Office draft audit findings for the HDS state mandated cost program for the period of July 1, 2002 through June 30, 2005. The City appreciates the opportunity to respond to the draft audit.

Finding 1: Understated assessment and treatment costs

Recommendation: We recommend that the city and county use the appropriate unit rates to compute claimed assessment and treatment costs. Additionally, we recommend that the county claim only eligible room and board costs.

Response: The City concurs with this finding.

Finding 2: Understated administrative costs

Recommendation: We recommend that the city and county include all relevant costs and related offsetting revenue in calculation of administrative cost rates consistent with the allocation of administrative costs in the DMH cost reports.

Response: The City concurs with this finding.

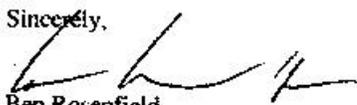
Finding 3: Understated offsetting revenue

Recommendation: We recommend that the city and county ensure that it offsets all applicable reimbursement costs incurred for the program.

Response: The City concurs with this finding.

Please contact me or Leo Levenson of my staff at (415) 554-4809 if you have any questions.

Sincerely,


Ben Rosenfield
Controller

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

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