



JOHN CHIANG
California State Controller

December 21, 2012

Ann K. Barnett, Auditor-Controller
Kern County
1115 Truxtun Avenue
Bakersfield, CA 93301-4639

Dear Ms. Barnett:

The State Controller's Office reviewed the costs claimed by Kern County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils Program (Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996) for the period of July 1, 2006, through June 30, 2007. Our review was limited to validating vendor payments for out-of-state residential placement of seriously emotionally disturbed pupils in facilities owned and operated on a for-profit basis, reviewing mental health services, and verifying offsetting reimbursements allocated by the California Department of Mental Health (DMH) and the California Department of Education (CDE).

The county claimed \$974,492 (\$984,492 less a \$10,000 penalty for filing a late claim) for the mandated program. Our review disclosed that \$268,873 is allowable and \$705,619 is unallowable. The costs are unallowable because the county claimed ineligible vendor costs for residential placement of seriously emotionally disturbed pupils in for-profit facilities, claimed ineligible therapeutic behavioral services, and understated offsetting reimbursements allocated by the DMH and the CDE, as described in the attached Summary of Program Costs and Finding and Recommendation. The State paid the county \$263,523. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,350, contingent upon available appropriations.

We discussed the review results with Debbie Stevenson, Staff Analyst, on November 27, 2012.

If you disagree with the review 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 website at www.csm.ca.gov/docs/IRCForm.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

Attachments

RE: S11-MCC-906

cc: Martha Garcia, Accountant III
Kern County Department of Human Services
Lynette Gamez, Finance Division Manager
Kern County Mental Health
Shanta Lennon, Accountant/Auditor
Kern County Auditor-Controller
Erika Cristo, Manager
Department of Mental Health
Chris Essman, Manager
California Department of Education
Carol Bingham, Director
California Department of Education
Randall Ward, Principal Program Budget Analyst
Mandates Unit, Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

**Attachment 1—
Summary of Program Costs
July 1, 2006, through June 30, 2007**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Authorize/issue payments to providers	\$ 3,351,883	\$ 3,264,115	\$ (87,768)	Findings 1, 2
Indirect costs	—	—	—	
Total direct and indirect costs	3,351,883	3,264,115	(87,768)	
Offsetting reimbursements	(2,367,391)	(2,985,242)	(617,851)	Finding 3
Subtotal	984,492	278,873	(705,619)	
Less late claim penalty	(10,000)	(10,000)	—	
Total program costs	<u>\$ 974,492</u>	268,873	<u>\$ (705,619)</u>	
Less amount paid by the State		(263,523)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,350</u>		

¹ See Attachment 2, Findings and Recommendations.

Attachment 2— Finding and Recommendation July 1, 2006, through June 30, 2007

**FINDING 1—
Ineligible vendor costs**

The county overstated vendor costs by \$54,791 for fiscal year (FY) 2006-07 because it claimed ineligible vendor payments for the board and care of seriously emotionally disturbed pupils placed in out-of-state residential facilities that are owned and operated for profit.

The Commission on State Mandates (CSM) consolidated the parameters and guidelines for the Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Programs for costs incurred commencing with FY 2006-07 on October 26, 2006, and last amended them on September 28, 2012, stating that the consolidated program is no longer mandated for counties beginning July 1, 2011. The consolidated program replaced the prior HDS, HDS II, and SEDP mandated programs. The parameters and guidelines establish the state mandate and define reimbursable criteria. In compliance with Government Code section 17558, the SCO issued claiming instructions to assist local agencies in claiming mandated program reimbursable costs.

The program's parameters and guidelines specifies that the mandate is to reimburse counties for payments to service vendors providing placement of seriously emotionally disturbed pupils in out-of-state residential facilities as specified in Government Code section 7572.5 and Title 2, *California Code of Regulations* (CCR), section 60100.

Title 2, CCR, 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, subdivision (c)(2) through (3). Welfare and Institutions Code section 11460, subdivision (c)(3), states that reimbursement shall be paid only to a group home organized and operated on a nonprofit basis.

Recommendation

No recommendation is applicable for this review, as the consolidated program no longer is mandated.

**FINDING 2—
Ineligible mental health services**

The county overstated mental health services by \$32,977 for FY 2006-07 because it claimed ineligible therapeutic behavioral services (TBS). The TBS costs are not identified as an eligible service in the program’s parameters and guidelines.

Recommendation

No recommendation is applicable for this review, as the consolidated program no longer is mandated.

**FINDING 3—
Understated offsetting reimbursements**

The county understated offsetting reimbursements by \$617,851 for FY 2006-07. The county understated Individuals with Disabilities Education Act (IDEA) funds received from the California Department of Education by \$604,445 and AB 3632 funds received from the California Department of Mental Health (DMH) by \$13,406. The error occurred because the county reported the amount on the cash basis rather than the fiscal year funding provided.

The following table summarizes the understated offsetting reimbursements:

	Fiscal Year 2006-07		
	Amount Claimed	Amount Allowable	Review Adjustment
Offsetting reimbursements:			
IDEA	\$ (937,451)	\$ (1,541,896)	\$ (604,445)
DMH categorical	(90,374)	(103,780)	(13,406)
Other	<u>(1,339,566)</u>	<u>(1,339,566)</u>	<u>—</u>
Review adjustment	<u>\$ (2,367,391)</u>	<u>\$ (2,985,242)</u>	<u>\$ (617,851)</u>

The parameters and guidelines specify that any direct payments or categorical funding received from the State that is specifically allocated to any service provided under this program shall be identified and deducted from the claim.

Recommendation

No recommendation is applicable for this review, as the consolidated program no longer is mandated.