

**MERCED COUNTY BEHAVIORAL HEALTH & RECOVERY SERVICES  
MENTAL HEALTH SERVICES ACT  
REVENUE AND EXPENDITURE REPORT REVIEW  
FISCAL YEAR ENDED JUNE 30, 2015**

**FINDING NO. 1: REPORTING FEDERAL FINANCIAL PARTICIPATION**

The County is required to report Medi-Cal Federal Financial Participation (FFP) attributed to expenditures for which Mental Health Services Act (MHSA) funds were the local match on the MHSA Annual Revenue and Expenditure Report (RER). The County is also required to maintain records in accordance with Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) standards and the State Controller's Manual of Accounting Standards and Procedures for Counties. A County shall maintain records of all MHSA expenditures. (CCR, Title 9, Sections 3400 and 3420.45)

The County's methods for calculating and reporting FFP funded MHSA expenditures were based on estimates, did not agree with the County's records, and did not report FFP on the RER line that discloses and accounts for FFP when calculating how MHSA expenditures were funded by MHSA and other funds.

The County reported \$2,606,791 in Table B - Estimated FFP at the bottom of the RER Summary and nothing in Table A Section 3B Other Funds.

Review of County records disclosed that the reported \$2,606,791 includes FFP from FY's 10-11 through 14-15. This practice is not in accordance with GAAP's matching principle that requires expenses to be reported in the same period as the corresponding revenue. The audited FFP for FY 14-15 is \$1,323,152.

FFP funding was not reported on the RER line that is part of calculating net MHSA funds used. All MHSA expenditures and funding sources, including FFP, should be recorded in RER Summary Schedule, Table A Section 3 Expenditures and Funding Sources for FY 2014-15. MHSA funding should be listed in RER Summary Schedule Table A Section 3A MHSA Funds. FFP funds should be listed in RER Summary Schedule Table A Section 3B Other Funds and in Table B at the bottom of the RER Summary Schedule. FFP was not reported in Table A Section 3B Other Funds.

As a result of the above, the County reported all expenditures as having been funded only by MHSA funds on the FY's 10-11 through 14-15 RERs, leading to incorrect MHSA fund balances.

**CONCLUSION**

FFP was not correctly reported and reflected in the MHSA fund balances. Audit Adjustment No. 6 is proposed to include \$1,323,152 FFP in the RER's calculation of MHSA expenditures and funding sources to properly reflect net MHSA funds expended in FY 14-15.

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**AUDIT AUTHORITY**

- W&I Code Section 5891
- CCR, Title 9, Sections 1810.216.8, 3400, 3420.45, and 3510
- 42 CFR, Sections 413.20 and 413.24
- CMS Pub. 15-1, Sections 2300 and 2304

**RECOMMENDATIONS**

1. The County should develop and implement procedures to track and record FFP funded MHSA expenditures and the corresponding accounting period accurately.
2. The above findings were discussed during the audit and the County submitted documentation to DHCS Community Services Division (CSD) to address unreported FFP funding. To ensure accuracy, the County should collaborate with the CSD to adjust the FY's 2010-11 through 2014-15 RERs, and review and correct any other fiscal years that may have this same issue. These adjustments must accurately reflect the actual FFP funding and ensure the correct adjustment of MHSA fund balances.

**FINDING NO. 2: ADMINISTRATION COST**

The County is required to maintain records in accordance with Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) standards and the State Controller's Manual of Accounting Standards and Procedures for Counties. A County shall maintain records of all MHSA expenditures and report them accurately on the RER. (CCR, Title 9, Sections 3400, 3420.45, and 3510)

The County reported an estimated \$851,025 in administrative costs based 10% of the total MHSA services provided. However, the County's records support \$541,253 in actual administrative cost.

**CONCLUSION**

Based on the above findings, Audit Adjustment Nos. 1-5 totaling \$309,772 are proposed to adjust the reported administrative cost estimate to agree with actual cost.

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**AUDIT AUTHORITY**

- 42 CFR, Sections 413.20 and 413.24
- CMS Pub. 15-1, Sections 2300 and 2304
- CCR, Title 9, Sections 3400, 3420.45, and 3510

**RECOMMENDATIONS**

1. County should develop a clear understanding of the reporting mechanisms for the MHSA administrative costs to properly report expenditures and funding.
2. County should ensure that RER agrees with supporting records, includes only costs incurred within the reporting period, and is in accordance with the MHSA, applicable regulations, directives, policies, the approved MHSA expenditure plan, and agreement.

**FINDING NO. 3: NON-SUPLANT POLICY COMPLIANCE**

According to W&I Code Section 5891(a) and CCR, Title 9, Section 3410 MHSA funds may only be used to expand mental health services; these funds shall not be used to supplant existing state or county funds utilized to provide mental health services.

According to CCR, Title 9, Section 3410(a), funds distributed under this chapter cannot be used for mental health programs or services that were already in place as of November 2, 2004.

The County did not have a formal written policy to document compliance with the MHSA non-supplant requirement until after the audit period. The County's non-supplant policy, POL I.I.009, is dated April 6, 2022. While the policy references MHSA regulations, it does not explain how the County plans to comply with the specific policies mentioned.

**CONCLUSION**

Merced County did not document compliance with the non-supplant requirements.

**AUDIT AUTHORITY**

- W&I Code Section 5891(a)
- CCR, Title 9, Section 3410

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**RECOMMENDATIONS**

1. The County should revise and implement its written non-supplant policy to include procedures describing how the County will ensure, and document MHSAs funds are only used to expand mental health services.
2. The County should develop schedules documenting how each fiscal year's MHSAs expenditures expanded mental health services or program capacity.