An act to amend Section 4639 of, and to add Section 4652.5 to, the Welfare and Institutions Code, relating to developmental services, and declaring the urgency thereof, to take effect immediately.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 4639 of the Welfare and Institutions Code is amended to read:

4639. (a) The governing board of a regional center shall annually contract with an independent accounting firm for an audited financial statement. The audit report and accompanying management letter shall be reviewed and approved by the regional center board and submitted to the department within 60 days of completion and before April 1 of each year. Upon submission to the department, the audit report and accompanying management letter shall be made available to the public by the regional center. It is the intent of the Legislature that no additional funds be appropriated for this purpose.

(b) The audit specified in subdivision (a) shall not be completed by the same accounting firm more than five times in every 10 years.

SEC. 2. Section 4652.5 is added to the Welfare and Institutions Code, to read:

4652.5. (a) (1) An entity receiving payments from one or more regional centers shall contract with an independent accounting firm for an audit or review of its financial statements subject to all of the following:

(A) When the amount received from the regional center or regional centers during the entity's fiscal year is more than or equal to two hundred and fifty thousand dollars ($250,000) but less than five hundred thousand dollars ($500,000), the entity shall obtain an independent audit or independent review of its financial statements for the period. Consistent with Subchapter 21 (commencing with Section 58800) of Title 17

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of the California Code of Regulations, this subdivision shall also apply to work activity program providers receiving less than two hundred fifty thousand dollars ($250,000).

(B) When the amount received from the regional center or regional centers during the entity's fiscal year is equal to or more than five hundred thousand dollars ($500,000), the entity shall obtain an independent audit of its financial statements for the period.

(2) This requirement does not apply to payments made using usual and customary rates, as defined by Title 17 of the California Code of Regulations, for services provided by regional centers.

(3) This requirement does not apply to state and local governmental agencies, the University of California, or the California State University.

(b) An entity subject to subdivision (a) shall provide copies of the independent audit or independent review report required by subdivision (a), and accompanying management letters, to the vendoring regional center within 30 days after completion of the audit or review.

(c) Regional centers receiving the audit or review reports required by subdivision (b) shall review and require resolution by the entity for issues identified in the report that have a direct or indirect impact on regional center services. Regional centers shall take appropriate action, up to termination of vendorization, for lack of adequate resolution of issues.

(d) Regional centers shall notify the department of all qualified opinion reports or reports noting significant issues that directly or indirectly impact regional center services within 30 days after receipt. Notification shall include a plan for resolution of issues.

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(e) For purposes of this section, an independent review of financial statements must be performed by an independent accounting firm and shall cover, at a minimum, all of the following:

(1) An inquiry as to the entity's accounting principles and practices and methods used in applying them.

(2) An inquiry as to the entity's procedures for recording, classifying, and summarizing transactions and accumulating information.

(3) Analytical procedures designed to identify relationships or items that appear to be unusual.

(4) An inquiry about budgetary actions taken at meetings of the board of directors or other comparable meetings.

(5) An inquiry about whether the financial statements have been properly prepared in conformity with Generally Accepted Accounting Principles and whether any events subsequent to the date of the financial statements would have a material effect on the statements under review.

(6) Working papers prepared in connection with a review of financial statements describing the items covered as well as any unusual items, including their disposition.

(f) For purposes of this section, an independent review report shall cover, at a minimum, all of the following:

(1) Certification that the review was performed in accordance with standards established by the American Institute of Certified Public Accountants.

(2) Certification that the statements are the representations of management.

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(3) Certification that the review consisted of inquiries and analytical procedures that are lesser in scope than those of an audit.

(4) Certification that the accountant is not aware of any material modifications that need to be made to the statements for them to be in conformity with Generally Accepted Accounting Principles.

(g) The department shall not consider a request for adjustments to rates submitted in accordance with Title 17 of the California Code of Regulations by an entity receiving payments from one or more regional centers solely to fund either anticipated or unanticipated changes required to comply with this section.

SEC. 3. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to make necessary changes for the implementation of the Budget Act of 2011, it is necessary that this act take effect immediately.

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LEGISLATIVE COUNSEL'S DIGEST

Bill No.

as introduced, _____.

General Subject: Developmental services: audits.

Under existing law, the Lanterman Developmental Disabilities Services Act, the State Department of Developmental Services is authorized to contract with regional centers to provide support and services to individuals with developmental disabilities. Existing law requires the governing board of a regional center to annually contract with an independent accounting firm for an audited financial statement.

This bill would prohibit the audit of a regional center from being completed by the same accounting firm more than 5 times in every 10 years.

Under existing law, regional centers purchase needed services for individuals with developmental disabilities through approved service providers or arrange for their provision through other publicly funded agencies.

This bill would require an entity receiving payments from one or more regional centers, except for state and local governmental agencies, the University of California,

or the California State University, to contract with an independent accounting firm for an audit or review of its financial statements, as specified. The bill would require regional centers to review and require resolution by the entity for issues identified in the report that have a direct or indirect impact on regional center services and to take appropriate action, up to termination of vendorization, for lack of adequate resolution of issues. The bill would require a regional center to notify the department of all qualified opinion reports or reports noting significant issues that directly or indirectly impact regional center services within 30 days after receipt. The bill would make related changes.

This bill would declare that it is to take effect immediately as an urgency statute.

Vote: 2/3. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.