

**DEPARTMENT
OF
DEVELOPMENTAL SERVICES
AUDIT
OF
DesertArc**

(Formerly Known as the Foundation for the Retarded of the Desert)

Day Programs:

**Adult Development Center – H12716
Social Recreation – P96527**

Miscellaneous Programs:

Community Activity Support Services – PJ2524

Habilitation Programs:

**Work Activity Programs – HJ0577 and HJ0532
Supported Employment Program – HJ0562 and HJ0563**

Transportation Program:

Additional Component – V62424

(Audit Period: July 1, 2005 through June 30, 2006)

Audit Branch

**Michael Masui, Chief of Vendor Audits
Armando Parra, Supervisor
Auditors: Alimou Diallo and
Joyce Li**

Assignment # 07-VN-2-005

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DESERT ARC

AUDIT REPORT

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EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) has audited DesertArc, formerly known as the Foundation for the Retarded of the Desert. The audit was performed upon the Day, Miscellaneous, Habilitation, and Transportation programs for the time period of July 1, 2005 through June 30, 2006.

The last day of fieldwork was April 19, 2007.

During the course of the DDS audit fieldwork, DesertArc contracted with an independent accounting firm to perform a special investigative audit. The final audit report and results of the special investigative audit were not provided to us, and accordingly, we are not able to determine the impact upon our audit. Except for the possible effects of the special investigative audit, DesertArc complied with the requirements of Title 17, with the exception of the following findings:

Day Programs

1. DesertArc could not provide source documentation to support \$1,401.40 in Adult Development Center services billed to the regional center. This resulted in \$1,401.40 overbilled to the regional center.
2. DesertArc could not provide source documentation to support \$440.56 in services billed and failed to bill \$937.70 in services for the Social Recreation program. The net effect is a vendor credit of \$497.14.

Habilitation

3. DesertArc could not provide source documentation to support \$8,165.97 in services billed and failed to bill \$979.49 in services for the Habilitation Work Activity Program (WAP). The net effect is \$7,186.48 overbilled to the regional center.
4. DesertArc incorrectly billed \$5,534.78 for full days of service when a consumer's attendance in the WAP was less than a full day. This resulted in \$5,534.78 which was incorrectly billed to the regional center.

Transportation

5. DesertArc could not provide source documentation to support its \$651.75 in transportation services. This resulted in \$651.75 overbilled to the regional center.

The net total of the findings identified by this audit is \$14,277.27 overpaid to DesertArc.

BACKGROUND

The Department of Developmental Services (DDS) is responsible under the Lanterman Developmental Disabilities Services Act, for ensuring that persons with developmental disabilities receive the services and supports they need to lead more independent, productive, normal lives. DDS contracts with 21 private, nonprofit regional centers that provide fixed points of contact in the community for serving eligible individuals with developmental disabilities and their families in California. In order for regional centers to fulfill their objectives, they secure services and supports from qualified service vendors and/or contractors. Per the Welfare and Institutions Code, Section 4648.1, DDS has the authority to audit those service providers and/or contractors that provide services and supports to the developmentally disabled.

OBJECTIVE, SCOPE, AND METHODOLOGY

This audit was conducted to determine whether DesertArc's Day, Miscellaneous, Habilitation, and Transportation programs were compliant with the Welfare and Institutions Code (W&I), California Code of Regulations Title 17 (Title 17), California Code of Regulations Title 22 (Title 22), and the regional center's contract(s) with DesertArc for the period of July 1, 2005 through June 30, 2006.

DesertArc contracted the services of an independent accounting firm for a special investigative audit during the DDS audit fieldwork. The final audit report and results from the special investigative audit were not provided to us, and accordingly, we are not able to determine the impact upon our audit.

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. The auditors did not review the financial statements of DesertArc, nor was this audit intended to express an opinion on the financial statements. The auditors limited the review of DesertArc's internal controls to gaining an understanding of the transaction flow and billing/invoice preparation process as necessary to develop appropriate auditing procedures.

The eight programs reviewed are listed below:

Day Program

1. Adult Developmental Center
2. Social Recreation

Miscellaneous Programs

3. Community Activity Support Services

Habilitation Programs

4. Work Activity Program – Small
5. Work Activity Program – Large
6. Supported Employment Program – Group
7. Supported Employment Program – Individual

Transportation Program

8. Additional Component

For the programs listed above, the procedures performed included, but were not limited to, the following:

Day and Miscellaneous Programs

- Reviewing the regional center’s vendor files for contracts, rate letters, program designs, purchase of service authorizations, and correspondence pertinent to the review.
- Interviewing regional center staff for vendor background information and to obtain prior vendor audit reports.
- Interviewing DesertArc staff and management to gain an understanding of its accounting procedures and processes for regional center billings.
- Reviewing DesertArc’s service/attendance records to determine whether DesertArc had sufficient, competent, and relevant evidence to support the direct care services billed to the regional center(s).
- Performing an analysis of DesertArc’s payroll and attendance/service records to determine if DesertArc provided the level of staffing required.

Habilitation Programs – Work Activity Program (WAP)

- Reviewing the regional center’s vendor files for contracts, rate letters, program designs, purchase of service authorizations, and correspondence pertinent to the review.
- Interviewing regional center staff for vendor background information and to obtain prior vendor audit reports.
- Interviewing DesertArc staff and management to gain an understanding of its accounting procedures and processes for regional center billings.
- Reviewing DesertArc’s service/attendance records to determine whether DesertArc had sufficient, competent, and relevant evidence to support the services billed to the regional center(s).

Habilitation Programs – Supported Employment Program (SEP)

- Reviewing the regional center’s vendor files for contracts, rate letters, program designs, purchase of service authorizations, and correspondence pertinent to the review.
- Interviewing regional center staff for vendor background information and to obtain prior vendor audit reports.
- Interviewing DesertArc staff and management to gain an understanding of its accounting procedures and processes for regional center billings.
- Reviewing DesertArc’s consumer and staff service/attendance records to determine if DesertArc had sufficient, competent, and relevant evidence to support the services billed to the regional center(s).
- Confirming that job coach hours used for calculating monthly billing were accurate and that the allocation for services was in accordance with regulations.

Transportation Programs

- Reviewing the regional center’s vendor files for contracts, rate letters, program designs, purchase of service authorizations, and correspondence pertinent to the review.
- Interviewing regional center staff for vendor background information and to obtain prior vendor audit reports.
- Interviewing DesertArc staff and management to gain an understanding of its accounting procedures and processes for regional center billings.
- Reviewing DesertArc’s service/attendance records and mileage logs to determine whether DesertArc had sufficient, competent, and relevant evidence to support the services billed to the regional center(s).

CONCLUSION

Based upon the procedures performed, except for the possible effects of the special investigative audit that was contracted by DesertArc, DesertArc has complied with the requirements of Title 17, with the exception of the following findings:

- **Day Programs**

DesertArc could not provide source documentation to support \$1,401.40 in Adult Development Center services billed to the regional center. This resulted in \$1,401.40 overbilled to the regional center.

DesertArc could not provide source documentation to support \$440.56 in services billed and failed to bill \$937.70 in services for the Social Recreation program. The net effect is a vendor credit of \$497.14.

- **Habilitation**

DesertArc could not provide source documentation to support \$8,165.97 in services billed and failed to bill \$979.49 in services for the WAP. The net effect is \$7,186.48 overbilled to the regional center.

DesertArc incorrectly billed \$5,534.78 for full days of service when the consumer's attendance was less than a full day. This resulted in \$5,534.78 incorrectly billed to the regional center.

- **Transportation**

DesertArc could not provide source documentation to support \$651.75 in transportation services billed to the regional center. This resulted in \$651.75 overbilled to the regional center.

The net total of the findings identified by this audit is \$14,277.27 overpaid to DesertArc. A detailed description of the findings is contained in the Findings and Recommendations section of this report.

VIEWS OF RESPONSIBLE OFFICIALS

The DDS issued a draft audit report on August 12, 2008. In the response dated December 12, 2008 from DesertArc's Chief Financial Officer, Robin Keegan, the following was indicated: "DesertArc accepts the audit draft results."

RESTRICTED USE

This report is solely for the information and use of the Department of Developmental Services, Department of Health Care Services (DHCS), Inland Regional Center, and DesertArc. Additionally, four user regional centers, which referred consumers to DesertArc and were affected by the audit results, will be sent a copy of the report. This audit report is not intended and should not be used by anyone other than those specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

ARTHUR J. LEE, CPA
Manager
Audit Branch

FINDINGS AND RECOMMENDATIONS

FINDING 1: Unsupported Billing - Adult Development Center

The review of DesertArc's Adult Development Center found that DesertArc could not provide source documentation to support \$1,401.40 in consumer services billed to the regional center(s). (See Attachment A.)

The unsupported billings consisted of the following items:

- From the testing of consumer attendance documentation that supports the services billed by DesertArc for the Adult Development Center, vendor number H12716, it was found that DesertArc had no documentation to support 22 days of services billed. In December 2005, one day was billed, and in January 2006, 21 days were billed with no supporting documentation. At an hourly rate of \$63.70, this resulted in \$1,401.40 overbilled to the regional center.

Title 17, Section 50604(d) states:

“All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program. Service records used to support service providers' billing/invoicing shall include....”

Title 17, Section 50604(e) states:

“All service providers' records shall be supported by source documentation.”

Title 17, Section 54326(a) states:

“All vendors shall:

- (3) Maintain records of services provided to consumers in sufficient detail to verify delivery of the units of service billed.”

RECOMMENDATION:

DesertArc should reimburse DDS \$1,401.40, the total overbilled for the Adult Development Center. In addition, DesertArc should develop policies and procedures to ensure that supporting documentation is maintained for all billing invoices and only include actual services provided in all billing invoices.

AUDITEE'S RESPONSE:

In response to this finding, DesertArc states, “DesertArc accepts the audit draft results”.

See Attachment B for the full text of the DesertArc's response and Attachment C for DDS's Evaluation of DesertArc's response.

FINDING 2: Unsupported and Failure to Bill - Social Recreation Program

The review of DesertArc’s Social Recreation program found that DesertArc could not provide source documentation to support \$440.56 in consumer services billed and failed to bill for \$937.70 in services provided. (See Attachment A.)

The billing discrepancies consisted of the following items:

- The Social Recreation program, vendor number P96527, had no consumer attendance documentation to support 30 service hours billed. In December 2005, 19 hours were billed at the 1:3 hourly rate of \$12.50, and in January 2006, 11 hours were billed at the 1:1 hourly rate of \$18.46. This resulted in an overbilling of \$440.56 to the regional center.
- Source documentation revealed that DesertArc failed to bill the regional center for 61.5 service hours. In December 2005, 27 hours at the 1:1 hourly rate of \$18.46 and 20 hours at the 1:3 hourly rate of \$12.50 were provided but not billed. In January 2006, 2.5 hours at the 1:2 hourly rate of \$15.71 and 12 hours at the 1:3 hourly rate of \$12.50 were provided but not billed. This resulted in an underbilling of \$937.70.

The net effect of the billing discrepancies is a vendor credit of \$497.14.

Title 17, Section 50604(d) states:

“All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program. Service records used to support service providers’ billing/invoicing shall include....”

Title 17, Section 50604(e) states:

“All service providers’ records shall be supported by source documentation.”

Title 17, Section 54326(a) states:

“All vendors shall:

- (3) Maintain records of services provided to consumers in sufficient detail to verify delivery of the units of service billed.
- (10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center...

RECOMMENDATION:

DesertArc should develop policies and procedures to ensure that supporting documentation is maintained for all billing invoices and only include actual services provided in all billing invoices. The net total underbilled amount of \$497.14 will be offset against any overpayments identified in this audit.

AUDITEE’S RESPONSE:

In response to this finding, DesertArc states, “DesertArc accepts the audit draft results”. See Attachment B for the full text of the DesertArc’s response and Attachment C for DDS’s Evaluation of DesertArc’s response.

FINDING 3: Unsupported and Failure to Bill - Habilitation (WAP)

The review of DesertArc’s two WAPs found that DesertArc both over and underbilled for services provided. The WAP billing discrepancies consisted of the following items:

- For vendor number HJ0557 and HJ0532 DesertArc billed for 191 days of service but could not provide source documentation to support the billings. This resulted in \$8,165.97 for which DesertArc overbilled.
- Source documentation for vendor number HJ0557 and HJ0532 showed that DesertArc provided 21.5 days of service but failed to bill the regional center. This resulted in \$979.49 for which DesertArc underbilled.

The net effect of billing discrepancies for WAP services amounts to \$7,186.48 overbilled to the regional center. (See Attachment A.)

Title 17, Section 50604(d) states:

“All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program. Service records used to support service providers’ billing/invoicing shall include...”

Title 17, Section 50604(e) states:

“All service providers’ records shall be supported by source documentation.”

Title 17, Section 54326(a) states:

“All vendors shall:

- (3) Maintain records of services provided to consumers in sufficient detail to verify delivery of the units of service billed.
- (10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center...”

RECOMMENDATION:

DesertArc should reimburse DDS \$7,186.48, the net amount of overbilled WAP services. In addition, DesertArc should develop policies and procedures to ensure that supporting documentation is maintained for all billing invoices and only include actual services provided in all billing invoices.

AUDITEE’S RESPONSE:

In response to this finding, DesertArc states, “DesertArc accepts the audit draft results”.

See Attachment B for the full text of the DesertArc’s response and Attachment C for DDS’s Evaluation of DesertArc’s response.

FINDING 4: Incorrect Billing - Habilitation (WAP)

Title 17 requires half day billing for less than full day attendance and does not allow for billing when the consumer’s attendance is less than 2 hours per day. The review of DesertArc’s WAP services found that DesertArc billed for full days of service when the consumer’s attendance was half day or less than 2 hours in one day. The total incorrectly billed for WAP services is \$5,534.78. (See Attachment A.)

The WAP billing discrepancies consisted of the following items:

- For vendor number HJ0557, DesertArc billed for 225 full days of service when half-day billing was required. This resulted in 112.5 days at \$41.07 per day or \$4,620.38 that was incorrectly billed to the regional center.
- For vendor number HJ0532, DesertArc billed for 26 full days of service when half-day billing was required. This resulted in 13 days at \$57.15 per day or \$742.95 that was incorrectly billed to the regional center. In addition, DesertArc billed for 3 full days of service when supporting documentation showed that the consumers’ attendance was less than 2 hours per day. This resulted in \$171.45 that was incorrectly billed to the regional center. The combined total for 16 days of incorrect billings is \$914.40.

The total for WAP services incorrectly billed is \$5,534.78.

Title 17, Section 58880(b) states:

“The regional center shall make payment for services using a daily rate as follows:

- (1) A Work Activity Program may bill for a full day of service when the Work Activity Program has written documentation that the consumer has received allowable Work Activity Program services as specified in Section 4851(h) of the Welfare and Institutions Code;
- (2) A Work Activity Program may bill for a half-day of service when the Work Activity Program has written documentation that the consumer has received services as specified in Section 4851(i) of the Welfare and Institutions Code;
- (3) A Work Activity Program may not bill for a consumer who is absent or who receives services for less than two hours, excluding the lunch period ...in which billing was made to the regional center.”

W&I Code, Section 4851 states:

- (h) “ ‘Full day of service’ means, for purposes of billing, a day in which the consumer attends a minimum of the declared and approved work activity program day, less 30 minutes, excluding the lunch period.”

- (i) “ ‘Half day of service’ means, for purposes of billing, any day in which the consumer’s attendance does not meet the criteria for billing for a full day of service as defined in subdivision (g), and the consumer attends the work activity program not less than two hours, excluding the lunch period.”

RECOMMENDATION:

DesertArc should reimburse DDS \$5,534.78, the total incorrectly billed to the regional center for WAP services. In addition, DesertArc should develop policies and procedures to ensure compliance with Title 17 regulations and the Welfare and Institutions Code.

AUDITEE’S RESPONSE:

In response to this finding, DesertArc states, “DesertArc accepts the audit draft results”.

See Attachment B for the full text of the DesertArc’s response and Attachment C for DDS’s Evaluation of DesertArc’s response.

FINDING 5: Unsupported Billing - Transportation

The review of DesertArc’s transportation program found that DesertArc could not provide source documentation to support \$651.75 in transportation services billed to the regional center(s). (See Attachment A.)

The unsupported transportation billings consisted of the following items:

- For DesertArc’s Transportation - Additional Component, vendor number V62424, the test revealed that DesertArc billed for 4 units of service but could not provide supporting documentation for the billings. In December 2005, 1 unit was billed at the flat monthly rate of \$210.10 and 2 units were billed at the flat monthly rate of \$168.30. In January 2006, 1 unit was billed at the flat monthly rate of \$105.05. This resulted in \$651.75 which was overbilled to the regional center.

Title 17, Section 50604(d) states:

“All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program. Service records used to support service providers’ billing/invoicing shall include....”

Title 17, Section 50604(e) states:

“All service providers’ records shall be supported by source documentation.”

Title 17, Section 54326(a) states:

“All vendors shall:

- (3) Maintain records of services provided to consumers in sufficient detail to verify delivery of the units of service billed.”

RECOMMENDATION:

DesertArc should reimburse DDS \$651.75, the amount overbilled for transportation services. In addition, DesertArc should develop policies and procedures to ensure that supporting documentation is maintained for all billing invoices and only include actual services provided in all billing invoices.

AUDITEE'S RESPONSE:

In response to this finding, DesertArc states, "DesertArc accepts the audit draft results".

See Attachment B for the full text of the DesertArc's response and Attachment C for DDS's Evaluation of DesertArc's response.

**DesertArc
Summary of Findings
FY 2005-06**

Vendor Number	Program Description	December 2005			January 2006			Total			
		Rate	Units	Amount	Rate	Units	Amount	Units	Amount		
Finding 1											
Day Programs:											
H12716	Adult Development Center	\$ 63.70	per day	1.00	\$63.70	\$ 63.70	per day	21.00	\$1,337.70	22.00	\$1,401.40
Total Adult Development Center Programs				1.00	\$63.70			21.00	\$1,337.70	22.00	\$1,401.40
Finding 2											
P96527	Social Recreation, 1:3 staffing ratio	\$ 12.50	per hour	19.00	\$237.50	\$ 18.46	per hour	11.00	\$203.06	30.00	\$440.56
	Social Recreation, 1:1 staffing ratio	\$ 18.46	per hour	(27.00)	(\$498.42)	-	-	-	-	(27.00)	(\$498.42)
	Social Recreation, 1:2 staffing ratio	-	-	-	-	\$ 15.71	per hour	(2.50)	(\$39.28)	(2.50)	(\$39.28)
	Social Recreation, 1:3 staffing ratio	\$ 12.50	per hour	(20.00)	(\$250.00)	\$ 12.50	per hour	(12.00)	(\$150.00)	(32.00)	(\$400.00)
Total Social Recreation Programs				(28.00)	(\$510.92)			(3.50)	\$13.78	(31.50)	(\$497.14)
Finding 3											
Habilitation Programs:											
HJ0557	Work Activity Program	\$ 41.07	per day	90.00	\$3,696.30	\$ 41.07	per day	81.00	\$3,326.67	171.00	\$7,022.97
HJ0557	Work Activity Program	\$ 41.07	per day	(1.00)	(\$41.07)	\$ 41.07	per day	(14.50)	(\$595.52)	(15.50)	(\$636.59)
HJ0532	Work Activity Program	\$ 57.15	per day	20.00	\$1,143.00	-	-	-	-	20.00	\$1,143.00
HJ0532	Work Activity Program	\$ 57.15	per day	(5.00)	(\$285.75)	\$ 57.15	per day	(1.00)	(\$57.15)	(6.00)	(\$342.90)
Total Habilitation Programs				104.00	\$4,512.48			65.50	\$2,674.00	169.50	\$7,186.48
Finding 4											
Habilitation Programs:											
HJ0557	Work Activity Program	\$ 41.07	per day	73.00	\$2,998.11	\$ 41.07	per day	39.50	\$1,622.27	112.50	\$4,620.38
HJ0532	Work Activity Program	\$ 57.15	per day	13.00	\$742.95	\$ 57.15	per day	3.00	\$171.45	16.00	\$914.40
Total Habilitation Programs				86.00	\$3,741.06			42.50	\$1,793.72	128.50	\$5,534.78
Finding 5											
Transportation Programs:											
V62424	Additional Component	\$ 210.10	per month	1.00	\$210.10	-	-	-	-	1.00	\$210.10
	Additional Component	\$ 168.30	per month	2.00	\$336.60	-	-	-	-	2.00	\$336.60
Total Transportation Programs				3.00	\$546.70			1.00	\$105.05	4.00	\$651.75
Total For All Findings										\$14,277.27	

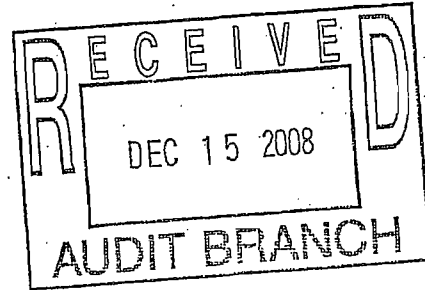
DesertArc's Response to Draft Report

Included in this attachment is the full response provided by DesertArc.
Where necessary confidential information was redacted.

Attachment B

December 12, 2008

Michael Masui, Chief
Vendor Audits
Department of Developmental Services
1600 Ninth Street, Room 230, MS 2-10
Sacramento, CA 95814



Dear Mr. Masui:

I have reviewed the audit draft results and the additional documentation sent to me in response to my request in the letter dated November 14, 2008. DesertArc accepts the audit draft results.

However, my Executive Director has asked that I propose to you a reduction in the amount owed as a result of the audit. This reduction would be in the amount of reimbursements owed to us by the Department for three clients in our Behavior Modification Program. We were paid incorrectly by the Inland Regional Center for a service provided to these clients. The IRC prolonged their research and repayments for so long that they informed us that they could no longer reimburse us due to the dates involved. They told us that we needed to seek payment from your Department.

The three subject clients are:

Service Code 515	[REDACTED]	Amount Due: \$5,098.50
Service Code 515	[REDACTED]	Amount Due: \$2,673.00
Service Code 515	[REDACTED]	Amount Due: \$2,863.00

I don't know you are able to offset this amount owed against what we will owe the Department as a result of the audit. I have more detailed information on this claim, but will not send it until I know that you can take care of it.

Sincerely,

Robin Keegan
Chief Financial Officer

**THE DEPARTMENT OF DEVELOPMENTAL SERVICES' (DDS)
EVALUATION
OF DESERTARC'S RESPONSE**

As part of the vendor audit report process, DesertArc was given the opportunity to respond to the draft audit report and provide a written response to each finding. Upon receipt of DesertArc's written response to the draft audit report, the DDS determined DesertArc agreed with all audit findings. As a result, the \$14,277.27 overpaid to DesertArc is due to the DDS.

In addition to the audit findings, DesertArc has identified three incorrect payments made by Inland Regional Center (IRC) unrelated to this audit. The response from DesertArc proposes that DDS reduce the amount due as a result of this audit for these incorrect payments. Since this is a payment issue between DesertArc and IRC, DesertArc should seek resolution of these payments with IRC.