

**DEPARTMENT**  
**OF**  
**DEVELOPMENTAL SERVICES**  
**AUDIT**  
**OF**  
**HOME OWNERSHIP MADE EASY (HOME)**

**Miscellaneous Programs:**

Housing Services Program – P66263

Start-Up Funding for Community Placement Program  
P66263, PE1311, PW0025, and PW5088

(Audit Period: Fiscal Years 2006-07 through 2008-09)

**Audit Branch**

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**Assignment # 10-VN-2-003**

# HOME OWNERSHIP MADE EASY

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## EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) has audited Home Ownership Made Easy (HOME). The audit was performed upon the following programs: Housing Services Program and Start-Up Funding for Community Placement Program (CPP) for the period of July 1, 2006 through June 30, 2009.

The last day of fieldwork was January 4, 2010.

The results of the audit disclosed the following issues of non-compliance:

### **Finding 1: Housing Services – Unsupported Billing**

The review of HOME's Housing Services program revealed a lack of supporting documentation for services billed for Vendor Number P66263. The lack of documentation resulted in unsupported billings to Westside Regional Center (WRC) in the amount of \$928,343.41.

### **Finding 2: Start-Up Funding for CPP – Unsupported Billing**

The initial review of HOME's Start-Up Funding for CPP, Vendor Numbers PE1311 and PW0025, revealed a lack of supporting documentation for services billed to East Los Angeles Regional Center (ELARC) and San Gabriel Pomona Regional Center (SGPRC). The lack of documentation resulted in unsupported billings to ELARC and SGPRC in the amount of \$193,857.00. However, DDS obtained additional information from SGPRC and ELARC that has assisted in resolving the amount identified in Finding 2. The audit team considers Finding 2 resolved.

### **Finding 3: Non-Compliance with Memorandum of Understanding (MOU)**

HOME is not in compliance with its MOU with WRC. Per the MOU, HOME was required to hold the titles of properties that were purchased using CPP Start-Up Funds. However, it was found that HOME does not hold titles to the CPP properties as required.

### **Finding 4: Lack of Controls and Supporting Documentation**

The audit identified HOME's accounting system lacks proper oversight, and significant weaknesses were found in account control and monitoring. The review of HOME's general ledgers identified significant deficiencies in internal controls and lack of documentation to support journal entries to the general ledgers.

The total of the unsupported billing discrepancies identified in this audit amounts to \$928,343.41 due back to DDS. A detailed discussion of these findings is contained in the Findings and Recommendations section of this report.

## **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, and 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 providers and/or contractors. Per 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**

The audit was conducted to determine whether HOME's Housing Services and Start-Up Funding for CPP programs were compliant with the applicable Welfare and Institutions Code (W&I), California Code of Regulations Title 17 (Title 17), and the regional centers' contracts with HOME for the period of July 1, 2006 through June 30, 2009.

As a result of the discrepancies identified in the preliminary investigation of HOME's Housing Services, it was determined that DDS would audit the period of July 2006 through June 2009 for the Housing Services Program and Start-Up Funding for CPP vendored by ELARC, SG/PRC, and WRC.

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The auditors' review of the general ledgers and financial statements of HOME was not intended to express an opinion on the financial statements. The auditors limited the review of HOME's general ledgers and internal controls to gaining an understanding of the transaction flow and invoice preparation process as necessary to develop appropriate auditing procedures. The audit scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that HOME complied with Title 17, CPP contracts, Service Contracts and DDS Housing Guidelines.

### **Miscellaneous Program - Housing Services**

During the audit period, July 1, 2006 through June 30, 2009, HOME operated one Housing Services Program, Vendor Number P66263, Service Code 101, which was audited:

The procedures performed at WRC, the vendoring regional center, and HOME included, but were not limited to, the following:

- Reviewed the contracts and service agreements between WRC and HOME.
- Reviewed the POS expenditures paid to HOME during the fiscal years under review that tied to Housing Services.

- Interviewed WRC’s Executive Director and staff to gain an understanding of the relationship between HOME and WRC.
- Interviewed HOME’s Executive Management and staff to gain an understanding of its accounting procedures and processes for billing WRC.
- Reviewed HOME’s electronic data to determine if HOME had sufficient and appropriate evidence to support the Housing Services expenditures billed to WRC.
- Obtained the completed internal control questionnaire and reviewed HOME’s responses.
- Reviewed HOME’s accounting records (General Ledger and Trial Balance) for the fiscal years audited.

**Miscellaneous Programs – Start-Up Funding for CPP**

During the audit period, HOME received funding for four CPP Start-Up Programs from three regional centers. The audit included the review of all four of HOME’s CPP Start-Up programs. The programs audited are listed below:

- HOME – (WRC), Vendor Numbers P66263 and PW5088, Service Code 999
- HOME – (ELARC), Vendor Number PE1311, Service Code 999
- HOME – (SGPRC), Vendor Number PW0025, Service Code 999

The procedures performed at WRC, the vendoring regional center, and HOME included, but were not limited to, the following:

- Reviewed contracts, the CPP Housing Proposal, DDS’ Housing Guidelines, and service agreements between WRC, ELARC, SGPRC, and HOME.
- Reviewed the POS expenditures paid to HOME during the fiscal years under review that tied to CPP Start-Up.
- Reviewed the grant deeds and Memorandum of Understanding (MOU) between HOME and WRC.
- Reviewed the purchase contract and the settlement statement to determine appropriate usage of CPP funds.
- Interviewed WRC, ELARC, and SGPRC staff for information on how they tracked CPP funds.
- Interviewed HOME’s management and staff to gain an understanding of the relationship between HOME and its affiliates and what entity owns the properties.

- Reviewed HOME's accounting records (General Ledger and Trial Balance) for the fiscal years audited.

## **CONCLUSION**

Based upon items identified in the Findings and Recommendation section, HOME did not comply with the requirements of CCR, Title 17.

## **VIEWS OF RESPONSIBLE OFFICIALS**

The DDS issued a draft audit report on July 14, 2010. The findings in the report were discussed at an exit conference with Olivia Patterson, HOME's Executive Director, Michael Danneker, WRC's Executive Director, and Kate Callaghan, WRC's Director of Administration on January 4, 2010 and a subsequent meeting on July 21, 2010. The law office of Knox, Lemon, Anapolsky and Schrimp LLP, responded to the draft audit report on behalf of HOME. Mr. Anapolsky indicated disagreement with Finding 1, Housing Services–unsupported Billing and Finding 2, Start-Up Funding for CPP – Unsupported Billing. Mr. Anapolsky conceded that the HOME office was in a state of disarray.

## **RESTRICTED USE**

This report is solely for the information and use of the Department of Developmental Services, Department of Health Care Services, Eastern Los Angeles Regional Center, San Gabriel Pomona Regional Center, Westside Regional Center, and HOME. This restriction is not intended to limit distribution of this report, which is a matter of public record.

## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1: Housing Services Program – Unsupported Billing**

The review of HOME’s Housing Services Program revealed a lack of supporting documentation for services billed for Vendor Number P66263. The lack of documentation resulted in unsupported billings to Westside Regional Center (WRC) in the amount of \$928,343.41. As a result, \$928,343.41 is due back to DDS for the unsupported billings. (See Attachment A.)

CCR, title 17, section 50604 states in pertinent part that:

“(d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program...

(e) All service providers’ records shall be supported by source documentation.”

Further, CCR, title 17, section 54326 provides in relevant part:

“(a) All vendors shall:

(3) Maintain records of service 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:**

HOME must reimburse to DDS the \$928,343.41 for the unsupported housing related costs. In addition, HOME should develop and implement policies and procedures to ensure that proper documentation is maintained and on file to support amounts billed.

### **HOME’s Response:**

HOME disagrees with this finding and has expressed several exceptions to include the following:

1. HOME was unfamiliar with the audit process and did not understand the specific type of source documentation that was needed as part of the audit performed by DDS.
2. DDS made no written request to review HOME’s source documentation. DDS provided a list of documents it needed from HOME, but the list of documents did not specify any source documents.
3. DDS’ audit team reviewed HOME’s Excel spreadsheets and other internal working documents, but did not request or review source documentation.



4. DDS' audit team relied upon insufficient and incomplete documentation and information to reach its Findings and Recommendations.
5. HOME also disputes the contention that the "Audit was conducted in accordance with the Generally Accepted Government Standards (GAGAS) issued by the Comptroller General of the United States."

See Attachment B for full text of HOME's response to the draft audit report and Attachment C for DDS's evaluation of HOME's response.

**Finding 2: Start-Up Funding for CPP – Unsupported Billing**

The initial review of HOME's Start-Up Funding for CPP, Vendor Numbers PE1311 and PW0025, for the fiscal years of 2006-07 through 2008-09, revealed a lack of supporting documentation for services billed to ELARC and SGPRC. HOME billed ELARC \$142,857.00 and SGPRC \$51,000.00 for a total of \$193,857.00 for CPP Start-Up Funds. As a result, \$193,857.00 is due back to DDS for the unsupported billings.

However, DDS obtained additional information from SGPRC and ELARC that has assisted in resolving the amount identified in Finding 2. DDS considers Finding 2 resolved. (See Attachment D for adjustment made to the final report.)

CCR, title 17, section 50604 states in pertinent part that:

"(d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program...

(e) All service providers' records shall be supported by source documentation."

Further, CCR, title 17, section 54326 provides in relevant part:

"(a) All vendors shall:

(3) Maintain records of service 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:**

HOME must maintain its service and financial records in a consistent accounting manner in which the financial and service records, including source documentation, are retained for a minimum of five years from the date of final payment for the State fiscal year in which services were rendered.

**HOME's Response:**

Again, HOME disagrees with this finding and has expressed the same exceptions to this finding as stated in Finding 1. However, DDS considers Finding 2 resolved.

See Attachment B for full text of HOME's response to the draft audit report and Attachment C for DDS's evaluation of HOME's response.

**Finding 3: Non-Compliance with MOU**

HOME has breached its MOU with WRC, dated November 15, 2007. Per the MOU, HOME was required to hold the title of properties that were purchased using CPP Start-Up Funds. However, based on our review of the grant deeds to the CPP properties, HOME does not hold title to any of the properties and has transferred title to a number of its affiliates:

1. The MOU between HOME and WRC, executed on November 15, 2007, states in part:

“H.O.M.E. will hold the Title to all housing purchased through CPP Start-Up Funds.” (MOU, Section B2 (a)(i).)

2. The contract between HOME and WRC, dated June 12, 2008, states in relevant part:

“HOME will hold the Title to all housing purchased through CPP Start-Up Funds.” (Contract, Section A4.)

**Recommendation:**

HOME and/or its affiliates, must submit to DDS, a signed Regulatory Agreements and Deed of Trust that re-establish the DDS' security interests in all the CPP properties.

**HOME's Response:**

HOME states that, “Pursuant to the DDS recommendation, please be advised that the MOU has been amended by WRC and HOME to provide that HOME Housing Corporation will be the holder of title of the real properties purchased, in part, with CPP Start-up Funds.” HOME submitted an agreement to DDS and considered this finding resolved.

See Attachment B for full text of HOME's response to the draft audit report and Attachment C for DDS's evaluation of HOME's response.

#### **Finding 4: Lack of Controls and Supporting Documentation**

The audit of HOME identified significant deficiency and poor internal controls over the recordkeeping and documentation of the services provided by HOME in its Housing Services Program and in its use of the Start-Up Funding for CPP. The audit identified a number of issues that could not be explained by HOME's Executive Management. HOME does not have proper accounting controls to ensure that the services provided to consumers are properly recorded and billed. Its accounting system lacks proper oversight, and there are significant weaknesses in account control and monitoring. In addition, HOME's internal controls are ineffective in preventing or detecting fraud, detecting and correcting billing errors, and ensuring compliance with program requirements.

Below are some of the significant areas of control weakness and lack of source documentation identified during the audit:

##### **Lack of Controls**

- HOME's independent Certified Public Accountant (CPA) report ended June 30, 2009, and it identified a number of control failures. Examples include cash disbursements, bank reconciliations, and general ledger functions are performed by the same individual, which results in a lack of segregation of duties.
- For the fiscal years audited, HOME lacked proper written accounting policies for the write-off of the balance in the Allowance for Doubtful Account.
- HOME allocates its expenses in the form of loans to its affiliates without proper documentation supporting the expenses allocated.
- For the fiscal year ending June 30, 2008, HOME withheld employee contributions for a 401(k) defined contribution plan, but it did not remit the funds to the trust, in accordance with IRS regulations.
- WRC provided HOME with funds from its Inheritance Fund. However, HOME could not properly account for the funds in its general ledger nor could it explain which consumer(s) were helped.
- For the period audited, HOME and its affiliates had the same Board of Directors, which increases the risk of poor oversight.

### **Lack of Supporting Documentation**

- The transactions between HOME and its affiliates could not be supported. There were numerous journal entries for which HOME could not provide the journal entry details.
- No documentation was provided to support adjusting journal entries made by HOME's CPA for fiscal year 2008-09. In particular, adjustments were made to the Management Fees, Frontline Cost Receivables, Allowance for Doubtful Account, and Advances to HOME from WRC for the Orchard property.
- HOME could not provide supporting documentation for \$285,195 obtained from a "Cash-Out" refinancing of a property located on 16230 S. Orchard Ave., Gardena, CA.
- HOME was unable to provide supporting documentation for \$242,625 that was held in a trust account for ELARC. The \$242,625 was written-off by HOME's CPA as of June 30, 2009.
- HOME does not have documents to support the use of \$50,000 it received from a 2005 credit card cash advance.
- There was insufficient documentation to support \$8,000 of consulting services provided by EKG, a consulting firm. The former Executive Director paid the firm from his personal account and was reimbursement from HOME operating accounts.
- No documentation was provided to support the receipt and use of a \$500,000 grant from the Weingart Foundation.

CCR, title 17, section 50604(a) states:

"Service providers shall maintain financial records which consistently use a single method of accounting. These financial records shall clearly reflect the nature and amounts of all costs and all income. All transactions for each month shall be entered into the financial records within 30 days after the end of the month."

CCR, title 17, section 50604 states in pertinent part:

"(d) All service providers shall maintain complete service records to support all billing/invoicing for each regional center consumer in the program...

(e) All service providers' records shall be supported by source documentation."

Further, CCR, title 17, section 54326 provides in relevant part

“(a) All vendors shall:

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

**Recommendation:**

HOME must maintain its financial records in a consistent accounting manner in which the financial records clearly reflect the nature and amounts of all costs and income. HOME must develop policies and procedures to prevent and address issues identified in the audit.

**HOME’s Response:**

HOME conceded that their office was in a state of disarray. “Offices and hallways were stacked with boxes of files...” HOME is now maintaining its financial records in a consistent accounting manner such that the financial records reflect the nature and amount of all income and expenses.

See Attachment B for the full text of HOME’s response to the draft audit report and Attachment C for DDS’s evaluation of HOME’s response.

**Home Ownership Made Easy  
Summary of Unsupported Billing  
Fiscal Years 2006-07, 2007-08, and 2008-09**

<i>Finding Number</i>	<i>Vendor</i>	<i>Svc Code</i>	<i>Description</i>	<i>Fiscal Year</i>	<i>Unsupported Billings<sup>1</sup></i>	<i>Amount Due to DDS</i>	
<b>1</b>	<b><u>Miscellaneous Program</u></b>						
	P66263	101	Housing Services	2006-07	\$ 95,965.00		
				2007-08	289,178.96		
				2008-09	543,199.45		
			<i>Total Housing Services</i>				<u>\$ 928,343.41</u> a
<b>2</b>	<b><u>Miscellaneous Programs<sup>2</sup></u></b>						
	PE1311	999	Start-Up Funding for CPP		0.00		
	PW0025	999	Start-Up Funding for CPP		0.00		
			<i>Total Start-Up Funding for CPP</i>				<u>\$ 0.00</u> b
<b>TOTAL UNSUPPORTED BILLINGS:</b>						<u>\$ 928,343.41</u> Σab	

<sup>1</sup>These payments were authorized by the RC(s), were paid to the vendor but were not provided by the vendor.

<sup>2</sup>The audit team considers Finding 2 resolved. See Attached C for detail

**Home Ownership Made Easy (HOME)  
Response to Draft Report**

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This section contains a copy of HOME's response to the draft report. However, certain documents provided by HOME as "Exhibits" to their response are not included in this report due to the detailed and confidential nature of the information.

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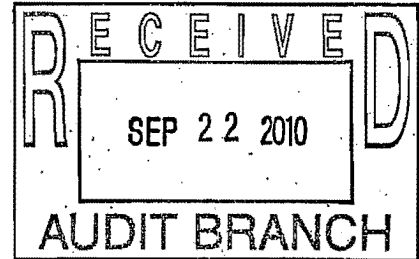
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September 21, 2010

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**Re: Audit of Home Ownership Made Easy, Inc.  
Assignment #10-VN-2-003**

Dear Mr. Yan:

Please be advised that this office represents Home Ownership Made Easy, Inc. ("HOME") in reference to the audit conducted by the California Department of Developmental Services ("DDS") Audit Branch and the resulting Draft Audit Report. In correspondence dated July 14, 2010, to Olivia Patterson, Executive Director of HOME, you requested comments to the Draft Audit Report. It is our understanding that the 30-day period to respond with comments to the Draft Audit Report was extended by DDS to September 23, 2010. HOME's preliminary comments and observations in reference to the Draft Audit Report are set forth herein. However, as additional information becomes known and is available, HOME reserves the right to provide supplemental comments to the Draft Audit Report.

#### BACKGROUND

HOME is a non-profit corporation dedicated to providing permanent, affordable, accessible and safe housing for individuals with developmental disabilities. HOME is a "service provider" to different Regional Centers within the meaning of California Code of Regulations, Title 17, section 50602(m).<sup>1</sup> HOME acts as a service provider or vendor to the Westside Regional Center ("WRC"). In the past, HOME has also acted as a vendor to East Los Angeles Regional Center ("ELARC") and San Gabriel/Pomona Regional Center ("SGPRC"); HOME no longer acts as a vendor to ELARC and SGPRC.

<sup>1</sup> Unless otherwise noted, all references to a section or sections shall be to the regulations set forth in California Code of Regulations, Title 17.



HOME is a non-profit housing corporation which owns residential properties and provides property management services. In California, HOME was one of the first non-profit corporations to offer developmentally disabled individuals the opportunity to live independently within the community, in non-licensed apartments or condominiums, with supported services provided from a Regional Center. Working with HOME, the Regional Center provides an array of services to support the disabled consumer who resides within the residence owned and managed by HOME. In appropriate cases, the Regional Center will contract with independent service providers to provide around the clock, in-home supportive services to the consumer.

### **THE DDS AUDIT**

In correspondence dated August 10, 2009, HOME was informed by DDS of its intent to conduct an audit. Pursuant to said correspondence, the focus of the review was to be "on the operational and purchase of services received by HOME." A copy of said correspondence is attached hereto, marked Exhibit 1 and fully incorporated by referenced herein. DDS enclosed a list of documents needed by its audit team. The source documentation needed to provide the back-up for the items contained in the general ledger entries and the other records in the list of documents was not requested. HOME was unfamiliar with the audit process and did not understand the specific type of source documentation DDS needed to review as part of its audit.

Ms. Patterson became the Executive Director of HOME in March of 2009. When she received notification from DDS of the audit, she was in the process of re-organizing the HOME office and restructuring its business operations. In addition, when Ms. Patterson received notification by DDS of the audit, HOME was also involved in the annual audit performed by the United States Department of Housing and Urban Development (HUD).

The DDS audit commenced on or about August 10, 2009 and continued until approximately January 2010. The audit time period was for the HOME fiscal years 2006-2007, 2007-2008 and 2008-2009.

In correspondence dated October 27, 2009, DDS informed HOME that the "entrance conference for the vendor audit" would be held on November 2, 2009. A copy of said correspondence is attached hereto, marked Exhibit 2 and fully incorporated by reference herein. In reference to the Housing Services Contract, DDS requested that HOME provide "source documentation for the services billed to the regional center" under the Housing Services Contract. Because she was unfamiliar with the specific type of documents being requested by DDS, Ms. Patterson asked DDS questions as to the type of documents it needed in reference to the Housing Services Contract with WRC. HOME is not a typical service provider or vendor for WRC. For example, HOME provides property management and property maintenance services, assists consumers to retain HUD certification, provides on-going training to the consumers in terms of home safety and basic cleanliness, helps locate

apartments for consumers that are not owned by HOME, assists consumers to get on the waiting list for vouchers for subsidized living and acts as a liaison between the consumer and WRC. At that time, Ms. Patterson did not understand the type of the source documentation requested by the DDS audit team.

In correspondence dated November 10, 2009 to Ms. Patterson, DDS notified HOME of its intent to conduct a physical inspection of several of the HOME properties. A copy of said correspondence is attached hereto, marked Exhibit 3 and fully incorporated by reference herein. In said correspondence, DDS provided a list of documents it needed from HOME. The list of documents did not specify any source documents.

DDS performed and completed its audit of HOME for fiscal years 2006-2007, 2007-2008, and 2008-2009 pursuant to Assignment #10-VN-2-003 (the "Audit"). The Audit focused upon HOME's Housing Services Program and the Start-Up Funding for the Community Placement Program. As a result of the Audit, DDS prepared a Draft Audit Report dated July 15, 2010 ("Draft Audit Report").

During the exit conference that occurred on July 21, 2010, HOME was asked by DDS if it had any source documentation such as invoices, receipts and cancelled checks. Ms. Patterson retrieved one of 16 boxes from an adjacent office containing HOME's source documentation for the fiscal years subject to audit. DDS did not review the box of documents provided by Ms. Patterson or any of the other 15 boxes of source documentation contained in the adjacent office. Rather, it was agreed that these documents would be copied and provided to the DDS audit team for review. In fact, these voluminous documents have been copied and will be provided to the DDS audit team on or before September 23, 2010, together with a DVD containing the electronic images of the documents in PDF format.

### Draft Audit Report Findings and Recommendations

The Draft Audit Report contains specific Findings and Recommendations as follows:

Finding 1: House Services Program - Unsupported Billing. In reference to the Housing Services Program, the Draft Audit Report found that the lack of documentation resulted in unsupported billings to WRC in the amount of \$928,343.41. Based on this finding, the Draft Audit Report recommends that HOME reimburse DDS \$928,343.41 for the "unsupported housing related costs."

Finding 2: Start Up Funding for CPP - Unsupported Billing. The Draft Audit Report found that there was a lack of supporting documentation for services billed to ELARC and SGPRC. The amount of the unsupported billings is \$193,857.00. The Draft Audit Report recommends that HOME reimburse DDS \$193,857.00 for the "unsupported billings."

Finding 3: Non Compliance with Memorandum of Understanding. The Draft Audit Report found that HOME was not in compliance with the MOU with WRC wherein HOME

was required to hold title of properties that was purchased using CPP Start-Up funds. The Draft Audit Report recommends that HOME should meet with the Community Services and Supports Division of DDS and WRC to "revise the MOU language to allow HOME to meet the Housing and Urban Development (HUD) requirements and to ensure DDS's security positions in all applicable property is maintained."

**Finding 4: Lack of Controls and Supporting Documentation.** The Draft Audit Report found deficiencies in HOME's internal controls over the record keeping and documentation of the services provided by the Housing Services Program and the Start-Up Funding for CPP; and, that HOME's accounting system lacked proper oversight and contained significant weaknesses in account controls and monitoring. The Draft Audit Report recommends that HOME should maintain its financial records in a consistent manner so as to clearly reflect the nature and amounts of all costs and income. In addition, the Draft Audit Report recommends that HOME develop policies and procedures to prevent and address the issues identified in the audit.

## **HOME'S RESPONSE TO DRAFT AUDIT REPORT**

### **Unsupported Billings and Lack of Source Documents**

The Recommendation in the Draft Audit Report that HOME reimburse DDS the sum of \$1,122,200.41 is based on the Findings that there is a lack of source documents resulting in "unsupported billings." However, given the status of the source documentation that is in the process of being provided to DDS, it is premature for the Draft Audit Report to render any findings as to "unsupported billings" based on the lack of source documentation. In fact, based on the preliminary review of the source documents conducted internally by HOME, the majority of the billings find support in the source documentation.

As part of its audit, the DDS audit team reviewed HOME's Excel spreadsheets and other internal working documents. However, Title 17 provides definitional guidance as to the audit procedures to be conducted by DDS:

- Section 50602(c) defines "Auditing" as "any examination of records and source documentation, pertaining to the service program and/or the provision of services to persons with developmental disabilities of any individual group, or the Department, regional center, or any authorized agency representative." The DDS audit team failed to examine all of the HOME source documentation as part of its audit, rendering the resulting Findings in the Draft Audit Report inaccurate and otherwise flawed. The HOME Excel spreadsheets contained summaries of the source documents.
- Section 50602(k) defines "Record" as "any book or document evidencing operational, financial, and service activities of a service provider ... pertaining to the service program and/or the provision of

- services for persons with developmental disabilities. Examples include books of account, general ledgers, subsidiary ledgers, check registers, cancelled checks, contracts, correspondence, financial statements, internal reports, bank statements, standard cost statements, consumer files, purchase of service authorizations, and documents evidencing consumer services... ." The HOME source documents that are being copied and provided to DDS constitute records within the meaning of section 50602(k). Pursuant to section 50602(c), an audit is defined as "any examination of records ... ." The DDS auditors did not review all of the pertinent records of HOME during the audit.
- Section 50602(o) defines "Source Documentation" as "the medium upon which evidence of a transaction is initially recorded. Examples of source documents include, but are not limited to, purchase requisitions, purchase orders, purchase of service authorizations, staffing schedules, employee hourly time reports, invoices and attendance documents for Regional Center consumers and all other persons provided services. Source documents are used to prepare records and reports." The HOME source documents that are being copied and provided to DDS constitute source documentation within the meaning of section 50602(o). Pursuant to section 50602(c), an audit is defined as "any examination of ... source documentation ... ." The DDS auditors did not review all of the source documentation of HOME during the audit.

The Draft Audit Report contends that the "Audit was conducted in accordance with the Generally Accepted Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States." HOME disputes this contention. The Draft Audit Report resulted in a finding that the lack of source documentation resulted in unsupported billings to WRC, ELARC and SGPRC in the amount of \$1,122,200.41. The failure to review 16 boxes of source documents, together with the failure to clearly articulate the specific type of documents the DDS audit team desired to review, is totally inconsistent with the GAGAS and the audit procedures contained within Title 17. From the commencement of the audit, the audit was not conducted in accordance with GAGAS standards. The DDS auditors failed to adequately inform HOME as to what documents they desired to audit, including, most importantly, the source documents that DDS found to be lacking. Unfortunately, if the DDS audit team had requested to review the HOME source documents sooner than the exit conference, these documents would have been readily available and provided to the DDS auditors. Further, these HOME source documents would have supported the billings found to be "unsupported" by DDS resulting in the recommendation that HOME reimburse DDS \$1,122,200.41.

The Draft Audit Report is deficient in other areas. In the Draft Audit Report, DDS should specifically describe the evidence relied upon in reaching its Findings and Recommendations. DDS failed to do so. The Draft Audit Report is silent as to the specific evidence relied upon by DDS in reaching its Findings and Recommendations. In the Draft

Audit Report, DDS fails to describe how it made the Findings that Vendor No. P66263 has unsupported billings for each of the fiscal years audited in the total amount of \$928,343.41; that Vendor No. PE1311 has unsupported billings for fiscal year 2006-2007 in the amount of \$142,857.00; and, that Vendor No. PW0025 has unsupported billings for fiscal year 2006-2007 in the amount of \$51,000.00.

In summary, the DDS audit team relied upon insufficient and incomplete documentation and information to reach the Findings and Recommendations contained in the Draft Audit Report. The failure to review the HOME source documents renders the Findings in the Draft Audit Report inaccurate and flawed. For purposes of audit accuracy, it is unreasonable to rely only on the HOME Excel spreadsheets and other internal working documents to reach the conclusion of "unsupported billings" and the recommendation that HOME reimburse DDS the sum of \$1,122,200.41. The method and circumstances of the Audit are inconsistent with GAGAS standards. The resulting Draft Audit Report needs to be revised after the DDS audit team has had the opportunity to examine the HOME source documentation that will be provided to DDS as part of this Audit.

#### **Non Compliance with the WRC Memorandum of Understanding**

In the Draft Audit Report, DDS contends that HOME breached its MOU with WRC dated November 15, 2007. Pursuant to the MOU, HOME was required to hold title to the properties purchased with CCP Start-Up Funds. Based on a review of the grant deeds, HOME does not hold title to the properties; rather, HOME transferred title to its affiliates.

In order to be in compliance with the HUD requirements, HOME transferred title of the properties purchased using CCP Start-Up Funds to its affiliate, HOME Housing Corporation. Pursuant to the DDS recommendation, please be advised that MOU has been amended by WRC and HOME to provide that HOME Housing Corporation will be the holder of title of the real properties purchased, in part, with CPP Start-Up Funds. The amended language of the MOU is necessary in order to be consistent with the HUD guidelines and requirements regarding the holding of title to the properties.

#### **Lack of Controls and Supporting Documentation**

In the Draft Audit Report, the DDS auditors "identified significant deficiency" in HOME's internal controls regarding record keeping and documentation of services in reference to the Housing Services Program and the Start-Up Funding for CCP Program. The Draft Audit Report found that "HOME does not have proper accounting controls to ensure that the services provided to consumers are properly recorded and billed. Its accounting system lacks proper oversight, and there are significant weaknesses in account control and monitoring. In addition, HOME's internal controls are ineffective in preventing or detecting fraud, detecting and correcting billing errors, and ensuring compliance with program requirements."

In September 2009, Ms. Patterson was the new Executive Director of HOME. The Accounting Manager for HOME has only been in his position for less than one month. The HOME office was in a state of disarray. Offices and hallways were stacked with boxes of files. Each office had filing cabinets and drawers containing disorganized papers and other documents. Business documents, correspondence, statements, invoices and other papers were scattered throughout the office. Ms. Patterson, together with three other employees, searched throughout the office to locate and organize all of the documents, correspondence, statements, invoices and other business information. Ms. Patterson and her staff of three employees were determined to rebuild the business of HOME. While Ms. Patterson and her staff were rebuilding and restructuring the business operations, they were also working with HUD in terms of its annual audit, negotiating with the County Tax Assessor's Office as to property taxes arrearage and managing/responding to the complaints of tenants and caregivers concerning the condition of their homes.

Through the efforts of Ms. Patterson and her staff, HOME is now a fully functional and operational business. The offices have been reorganized and all of the files are maintained in a centralized location. The boxes of unorganized papers and documents have been reviewed and placed within the appropriate files in the office. HOME has updated its Accounting Policies and Procedures. Financial and accounting matters are now captured and properly entered in the general ledger. Source documents are retained and placed in their respective files. Systems are in place for the maintenance of financial records and documentation to consistently create accurate billings and accounting of funds received.

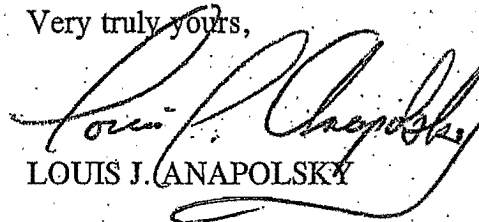
Ms. Patterson has put in place business operating systems, with policies, procedures and internal controls that provide important checks and balances. HOME has hired two individuals with accounting experience and training; these individuals have discreet separation of duties to provide greater accounting controls. The Accounting Manager is knowledgeable as to standard accounting practices as well as experienced in the management of HUD properties; the bookkeeper is also knowledgeable concerning accounting procedures and practices. HOME has been successful to establish an excellent working relationship with HUD and is receiving subsidies on all of its HUD projects. Property tax exemptions have been filed and property taxes are paid on the appropriate properties. The HOME properties are clean and safe; HOME has updated many of the properties to properly accommodate the needs of the consumers. The consumers, in turn, appear to be very pleased with the updates made to their residences as the number of complaints from the consumers to WRC has greatly decreased. In addition, HOME has been able to add many consumer services and activities to its programs.

In summary, HOME is now maintaining its financial records in a consistent accounting manner such that the financial records reflect the nature and amount of all income and expenses. HOME has made significant progress in a short period of time to restructure its business and thereby fulfill its mission to provide permanent, affordable, accessible and safe housing to individuals within the disabled community.

Edward Yan, Manager  
September 21, 2010  
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Thank you for your time and attention to this matter. If you have any question concerning the above, please do not hesitate to contact me at this office.

Very truly yours,



LOUIS J. ANAPOLSKY

LJA\bms  
Enclosures  
cc Olivia Patterson

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**Attachment C**  
**DDS Evaluation of**  
**HOME's Response to the Draft Report**

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**DEPARTMENT OF DEVELOPMENTAL SERVICES**  
**Review of Home Ownership Made Easy's (HOME)**  
**Response to the Draft Audit Report**  
**Submitted By:**  
**Knox, Lemmon, Anapolsky, Schrimp, LLP**

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As part of the audit process, HOME was afforded the opportunity to respond to the draft audit report and provide a written response to each finding identified therein. The Audit Branch received HOME's response to the draft audit report, dated September 21, 2010. The response included computer generated spreadsheets, a computer disc containing scanned documents, and a letter indicating that 16 boxes of supporting documentation were available for review.

DDS evaluated HOME's written responses to the draft audit report upon receipt and determined that HOME completely disagreed with Findings 1 and 2, and without conceding fault, HOME stated that it has made the necessary corrections to address the issues identified in Findings 3 and 4.

**General Statements Made By HOME and DDS' Rebuttal**

- *HOME stated that, "HOME was unfamiliar with the audit process and did not understand the specific type of source documentation DDS needed to review as part of its audit." Furthermore, HOME stated that, "Ms. Patterson became the Executive Director of HOME in March of 2009" and that "At the time, Ms. Patterson did not understand the type of source documentation requested by the DDS audit team."*

During the audit, the DDS audit team worked closely with HOME's staff as well as WRC's Controller, Administrator, and Executive Director. During the audit, DDS was assured by all parties that the types of documents needed were clearly understood. WRC's Administrator stated she had many years of experience as an auditor and would provide the necessary assistance and guidance to HOME.

HOME's statement that staff did not understand the type of source documents needed to support its billings is not an appropriate or acceptable explanation to resolve the findings, but, only further supports the issues identified in the audit report. Additionally, the argument that staff is new does not allow HOME the right to disregard the California Code of Regulations, Title 17.

- *Home stated that, "During the exit conference that occurred on July 21, 2010, HOME was asked by DDS if it had any source documentation such as invoices, receipts, and cancelled checks."*

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*Ms. Patterson retrieved one of the 16 boxes from an adjacent office containing HOME's source documentation for the fiscal years subject to audit. DDS did not review the box of documents provided by Ms. Patterson or any of the other 15 boxes of source documentation contained in the adjacent office."*

DDS does not dispute that HOME had a number of documents in boxes. DDS does take issue with HOME for not being able to sufficiently support its billings. During the exit conference, HOME did not demonstrate or provide any examples that the boxes contained the necessary supporting expenditure documentation that could be tied to specific consumer billings. Furthermore, throughout the audit, DDS auditors requested that HOME substantiate its billings with specific allowable expenses that could be traced to specific consumer billings.

HOME submitted with its response a CD-ROM purportedly containing the electronic images of the documents in the 16 boxes. After the analysis of the large volume of electronic documentation submitted with the HOME response, the DDS audit team was not able to identify or trace maintenance related expenses to any specific consumer billing. The audit team's evaluation of the disk's electronic data revealed that it contained HOME's general operations' documents such as mortgages invoices, insurance invoices, accounting service invoices, office software invoices, Home Choice documents, a delinquent tax bill, cancelled checks, etc. Such documents do not support the Purchase of Service (POS) expenditures in question. It is HOME's responsibility to provide the supporting documentation in a manner that does not require auditors to guess which expenditures support a particular billing.

The Service Code 101 contracts agreed upon by HOME and WRC specify the type of records needed to support the billings to WRC. Page three of the Service Code 101 contract provides the billing and reporting requirements for the POS funds. Pursuant to the contract, HOME was to be reimbursed in arrears and was required to maintain service records that showed the consumer name, service date, location, actual time, and nature of services provided. Because WRC did contractually obligate HOME to provide a specific level of deliverable services and bill in arrears, all payments made to HOME should have been based on actual costs and documented.

Since Finding 1 involves the lack of support for maintenance and repair expenses, DDS expected to receive sufficient maintenance and/or

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repair related expenses for each consumer served during the audit period, which will include the consumer name, service date, location, actual time, and the nature of services provided.

**HOME's Response to Unsupported Billings and Lack of Source Documentation (Findings 1 and 2)**

DDS's evaluation of HOME's response found that HOME did not directly address Findings 1 and 2 as requested during the formal exit meeting. However, HOME did submit an overall response to all Unsupported Billings and Lack of Source Documentation issues as noted below:

- *HOME stated, "However, given the status of the source documentation that is in the process of being provided to DDS, it is premature for the Draft Audit Report to render any findings to 'unsupported billings' based on the lack of supporting documentation. In fact, based on the preliminary review of the source documents conducted internally by HOME, the majority of the billings find support in the source documentation."*

DDS disagrees with HOME's argument. HOME has been allowed more than ample time to gather and properly document its expenses related to the draft audit report findings. HOME states, "...based on the preliminary review of the source documents conducted internally by HOME, the majority of the billings find support in the source documentation." It is unfortunate that HOME is still completing its "preliminary review of the source documents" since they were to provide the information during the audit. It was incumbent upon HOME to provide sufficient supporting documentation as required per CCR, Title 17, Section 54326(a)(3). It is not the auditors' responsibility to sort through boxes of miscellaneous documents to determine whether the documents provide adequate evidence to support the billings identified in Finding 1.

*The HOME response also stated, "The DDS audit team failed to examine all the HOME source documentation as part of its audit, rendering the resulting Findings in the Draft Audit Report inaccurate and otherwise flawed. The HOME Excel spreadsheets contained summaries of the source documents."*

DDS disagrees with HOME's statement that the audit was inaccurate and otherwise flawed. It is the responsibility of HOME to maintain

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records of service provided to consumers in sufficient detail to verify delivery of the units of services billed. The presentation of 16 boxes of documents and a CD-ROM purporting to contain allowable expenses is not sufficient supporting detail to verify delivery of units of service billed. DDS auditors conducted three separate preliminary meetings with HOME and WRC staff, which consisted of Ms. Patterson, Executive Director of HOME, Ms. Callaghan, WRC's Administrator, and Mr. Danneker, WRC's Executive Director, prior to the commencement of the audit field work. At these meetings the auditors explained the audit process and the type of documents needed in the audit. In addition, WRC worked closely with HOME during this audit, which involved participating in the preliminary meetings all the way through to attending the exit meeting. Furthermore, Ms. Callaghan stressed on numerous occasions that she was a former auditor and had previously worked with DDS' auditors during their fiscal audits of the WRC. It was the auditors' understanding that she was indirectly supervising the HOME audit as it was conveyed in meetings that HOME's management team had recently changed and could be unfamiliar with past issues.

- *HOME argued that the source documents which were provided to DDS constituted of records as defined in CCR, Title 17, Section 50602(k), the definition of records; CCR, Title 17, Section 50602(o), the definition of source documents. Additionally, HOME argued that the DDS auditors did not comport with CCR, title 17, Section 50602(c), the definition of an audit.*

DDS agrees that the documents are copies of HOME's records and source documents as defined by the stated regulations. However, DDS auditors did complete an audit as defined by CCR, Title 17, Section 50602(c). DDS did review HOME's source documents/records and determined that HOME did not sufficiently support its billings. As stated above, the audit team's evaluation of the CD-ROM revealed that it contained HOME's general operations' documents such as mortgages invoices, insurance invoices, accounting service invoices, office software invoices, Home Choice documents, a delinquent tax bill, cancelled checks, etc... Such documents do not support the Purchase of Service (POS) expenditures in question.

Although, HOME has stated that it has located 16 boxes of documentation that can support its billings, it is HOME's responsibility to provide precise and detailed information to support its billings. It is not the auditors' responsibility to sort through boxes of miscellaneous

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documents of HOME and its subsidiary's operations to determine whether they provide adequate evidence to support the billings identified in Finding 1. It was incumbent upon HOME to provide sufficient supporting documentation as required per CCR, Title 17, Section 54326(a)(3). It is not the auditors' responsibility to sort through boxes of miscellaneous documents in order to determine whether they provide adequate evidence to support the billings identified in Finding 1.

During the informal exit meeting on January 4, 2010 and subsequent formal exit meeting held on July 21, 2010, Ms. Callaghan and Ms. Patterson informed the audit team that HOME had hired an accountant to analyze the boxes and prepare schedules with supporting maintenance documentation for the POS expenditures. Per Ms. Callaghan and Ms. Patterson, it was their understanding that their new accountant was to prepare detailed schedules for the consumers served and provide the supporting maintenance related documentation for the POS expenditures. It is the Auditee's responsibility to provide such detailed information to support its billings. HOME did not provide any additional documentation. Consequently, no adjustments will be made to Finding 1.

- *HOME disputes the contention that the audit was conducted in accordance with the Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States. HOME contends that "the failure to review the 16 boxes of source documents, together with the failure to clearly articulate the specific type of documents the DDS audit team desired to review, is totally inconsistent with the GAGAS and the audit procedures contained within CCR, Title 17.*

DDS disagrees with HOME's argument that the audit was not conducted in accordance with GAGAS. HOME has provided no citations in which to directly argue their contention. Nevertheless, DDS auditors did comply with Section 7.55 of GAGAS Fieldwork Standard. This Standard states, "Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions." However, it was incumbent upon HOME to provide sufficient supporting documentation as required per CCR, Title 17, Section 54326(a)(3). It is not the auditors' responsibility to sort through boxes of miscellaneous documents to determine whether they provide adequate evidence to support the billings identified in Finding 1.

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**Start-Up Funding for CPP – Unsupported Billing (Finding 2)**

Although Ms. Patterson was unaware of this CPP transaction between HOME and ELARC and provided no evidence to support Finding 2, the DDS audit team was able to obtain ELARC's assistance in resolving this finding. The audit team obtained confirmation from ELARC that HOME reimbursed \$147,157.05 (original amount plus interest) to ELARC. In addition, SGPRC provided sufficient information to justify the \$51,000.00 billings. The additional information received from SGPRC and ELARC has assisted in resolving the amount identified in Finding 2. As a result, an adjustment of \$193,857.00 has been made to Finding 2. DDS will request repayment of the \$147,157.05 from ELARC.

Although, DDS considers Finding 2 resolved, no assistance was provided by HOME to resolve this finding. It was the DDS auditors who performed the necessary work, which was the responsibility of HOME, in order to resolve this finding.

**Non-Compliance with the WRC Memorandum of Understanding (MOU) (Finding 3)**

- HOME stated, "Pursuant to the DDS recommendation, please be advised that the MOU has been amended by WRC and HOME to provide that HOME Housing Corporation will be the holder of the title of the real properties purchased, in part, with CPP Start-Up Funds."

HOME submitted an agreement to DDS and considered this finding resolved; however, DDS does not agree and considers the agreement unacceptable because it does not resolve the issue surrounding the protection of DDS's security interest in the CPP properties.

It is necessary to impose provisions that restrict the use of the properties purchased in part using CPP Start-Up funds because there are no clauses in the CPP guidelines that allow DDS to recapture the principal amount of the CPP funds upon the sale, transfer or default of the purchased properties. Therefore, HOME and/or its affiliates must submit to DDS, a signed Regulatory Agreements that re-establish DDS' security interests in all the CPP properties. HOME and/or its affiliates must ensure that the Regulatory Agreements require the prior written approval of DDS for any sale, assignment, refinancing, transfer, or conveyance of the CPP properties and that the occupancy of CPP properties is intended solely for clients of WRC.

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Since the CPP guidelines require that property purchased in part using CPP funds be restricted to use as housing for regional center consumers in perpetuity or for a minimum of fifty-five (55) years from the date of purchase, DDS is requesting that prior to the recording of the Regulatory Agreements, HOME and/or its affiliates must have the content of the agreements approved in writing by DDS. Upon approval, the Regulatory Agreements must be recorded within sixty (60) days from receiving this final audit report.

**Lack of Controls and Supporting Documentation (Finding 4)**

- *HOME conceded that, "In September 2009, Ms. Patterson was the new Executive Director of HOME. The Accounting Manager for HOME has only been in his position for less than one month. The HOME office was in a state of disarray. Office and hallways were stacked with boxes of files. Through the efforts of Ms. Patterson and her staff, the boxes of unorganized papers and documents have been reviewed and placed within the appropriate files in the office and HOME has updated its Accounting Policies and Procedures. In summary, HOME is now maintaining its financial records in a consistent accounting manner such that the financial records reflect the nature and amount of all income and expenses."*

HOME stated that it has made the necessary correction and is now maintaining its financial records in a consistent accounting manner such that the financial records reflect the nature and amount of all income and expenses. However, HOME did not provide documentation to support that a system is in place to monitor and document its billings. Therefore, HOME should provide to DDS within sixty (60) days from the issuance of this final audit report documentation detailing the steps it has taken to address the issues identified in the audit report.

**DDS Conclusion:**

DDS expected to receive sufficient maintenance and/or repair related expenses for each consumer served during the audit period, which will include the consumer name, service date, location, actual time, and nature of services provided. If a dollar is billed for a consumer service, auditors would need to obtain a source document that ties the dollar to the consumer billing. It is not DDS's responsibility to determine which expenses HOME identified as support for its billings. HOME provided no additional information; consequently, no adjustments will be made to Finding 1.

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For Finding 2, DDS obtained confirmation from ELARC that HOME reimbursed \$147,157.05 to ELARC. In addition, SGPRC provided information to justify the \$51,000.00 of billings. As a result, the final report will be adjusted to reflect a \$193,857.00 reduction to the amount identified in Finding 2. Conversely, DDS will request repayment of the \$147,157.05 from ELARC. DDS considers Finding 2 resolved. See Attachment D for a summary of the final report finding amount.

For Finding 3, HOME and/or its affiliates, must submit Regulatory Agreements that re-establish the Department's security interests in the CPP properties.

For Finding 4, HOME provided no additional information to validate their claim that HOME is now maintaining its financial records in a consistent accounting manner such that the financial records reflect the nature and amount of all income and expenses. Therefore, DDS considers this issue unresolved due to the lack of additional information.

See Attachment D for a summary of the final report finding amounts.



**Home Ownership Made Easy  
Adjustment to Draft Audit Report  
Fiscal Years 2006-07, 2007-08, and 2008-09**

<i>Finding Number</i>	<i>Vendor</i>	<i>Svc Code</i>	<i>Description</i>	<b>Unsupported Billings<sup>1</sup></b>			<i>Final Report</i>
				<i>Fiscal Year</i>	<i>Draft Report</i>	<i>Adjustments</i>	
<b>1</b>	<b><u>Miscellaneous Program</u></b>						
	P66263	101	Housing Services	2006-07	\$ 95,965.00		
				2007-08	289,178.96		
				2008-09	543,199.45		
			<i>Total Housing Services</i>				\$ 928,343.41 a
<b>2</b>	<b><u>Miscellaneous Programs</u></b>						
	PE1311	999	Start-Up Funding for CPP		142,857.00	(142,857.00)	
	PW0025	999	Start-Up Funding for CPP		51,000.00	(51,000.00)	
			<i>Total Start-Up Funding for CPP</i>				\$ 0.00 b
<b>TOTAL AMOUNT DUE AFTER ADJUSTMENT:</b>					<b>\$ 1,122,200.41</b>	<b>(193,857.00)</b>	<b>\$ 928,343.41</b> Σab

<sup>1</sup>These payments were authorized by the RC(s), were paid to the vendor but were not provided by the vendor.