

**DEPARTMENT
OF
DEVELOPMENTAL SERVICES'
AUDIT
OF
KAI-TEZ, INC.**

Program:

Supported Living Services – PW5492

December 12th, 2017

Audit Period: July 1, 2014, through June 30, 2015

Audit Section

Auditors: Mike Masui, Chief of Vendor Audits
Ermias Tecele, Supervisor
Lucy Lao-Hernandez, Auditor
Jardine Monteur, Auditor

KAI-TEZ, INC.

TABLE OF CONTENTS

	Page(s)
Executive Summary.....	1
Background.....	2
Objective, Scope, and Methodology.....	2-3
Conclusion	4
Views of Responsible Officials	4
Restricted Use.....	4
Findings and Recommendations.....	5-7
Attachment A – Summary of Unsupported Billings and Failure to Bill	8
Attachment B – Kai-Tez, Inc.’s Response.....	9
Attachment C – Evaluation of Kai-Tez, Inc.’s Response	10

EXECUTIVE SUMMARY

The Department of Developmental Services (DDS) has audited Kai-Tez, Inc. (KTI). The audit was performed upon the Supported Living Services (SLS) program for the period of July 1, 2014, through June 30, 2015.

The audit disclosed the following issues of non-compliance:

Finding 1: Supported Living Services – Unsupported Billings and Failure to Bill

The review of KTI's SLS program, Vendor Number PW5492, Service Code 896 revealed that KTI had both unsupported billings, as well as appropriate support for services that it failed to bill the Westside Regional Center (WRC). This resulted in a total of \$6,638 of unsupported billings and a total of \$12 for which it failed to bill.

Finding 2: Non-Compliance to Obtain an Independent Review of Financial Statements

The review of KTI's financial accountability requirement for the audit period of July 1, 2014, through June 30, 2015, revealed that KTI failed to comply with Senate Bill 74, Welfare and Institutions (W&I) Code 4652.5, in obtaining an independent review of its financial statement for the audit period. The amount of funds KTI received from WRC during the fiscal year was more than \$250,000, but less than \$500,000.

The net total of unsupported billings identified in this audit amounts to \$6,626 and is due back to DDS. A detailed discussion of these findings is contained in the Findings and Recommendations section of this report.

BACKGROUND

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 integrated 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. Pursuant to the W&I Code, Section 4648.1, DDS has the authority to audit those service providers and/or contractors that provide services and supports to persons with developmental disabilities.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit was conducted to determine whether KTI's financial accountability requirement and SLS program were compliant with the W&I Code, California Code of Regulations (CCR), Title 17, and the regional center's contract with KTI for the period of July 1, 2014, through June 30, 2015.

Scope

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 did not review the financial statements of KTI, nor was this audit intended to express an opinion on the financial statements. The auditors limited the review of KTI's internal controls to gain 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 KTI complied with the W&I Code and CCR, Title 17. Also, any complaints that DDS' Audit Section was aware of regarding non-compliance with laws and regulations were reviewed and addressed during the course of the audit.

The audit scope was determined by reviewing the program provided to WRC that utilized KTI's services during the audit period. KTI provided one type of service to WRC, SLS, which DDS audited. The SLS program was chosen by DDS based on the amount of Purchase of Service (POS) expenditures invoiced by KTI, which was determined by analyzing the information received during a pre-audit meeting with the vendor, an internal control, and risk analysis. It was determined that a two-month sample period would be sufficient to fulfill the audit objectives.

Supported Living Services (SLS)

During the audit period, KTI operated one SLS program. The audit included the review of KTI's SLS program, Vendor Number PW5492, Service Code 896 and testing was done for the sampled months of December 2014 and January 2015.

Methodology

The following methodology was used by DDS to ensure the audit objectives were met. The methodology was designed to obtain reasonable assurance that the evidence provided was sufficient and appropriate to support the findings and conclusions in relation to the audit objectives. The procedures performed included, but were not limited to, the following:

- Reviewed vendor files for contracts, rate letters, program designs, POS authorizations, and correspondence pertinent to the review.
- Interviewed regional center staff for vendor background information and to obtain insight into the vendor's operations.
- Interviewed vendor staff and management to gain an understanding of its accounting procedures and processes for regional center billing.
- Obtained and reviewed the vendor's internal control questionnaire.
- Reviewed vendor service/attendance records to determine if the vendor had sufficient and appropriate evidence to support the direct care services billed to the regional center.
- Analyzed the vendor's payroll and attendance/service records to determine if the appropriate level of staffing was provided.
- Reviewed the vendor's General Ledger, Payroll Records, and Trial Balance to determine the vendor's costs.
- Interviewed the vendor's Executive Director and Administrator, for vendor background information and to gain an understanding of the accounting procedures and financial reporting processes.

CONCLUSION

Based upon items identified in the Findings and Recommendations section, KTI had findings of non-compliance with the requirements of CCR, Title 17 and the W&I Code.

VIEWS OF RESPONSIBLE OFFICIALS

DDS issued a draft audit report on August 17, 2017. The findings in the report were discussed at an exit conference with Rene Farmer, KTI's Executive Director, on August 23, 2017. DDS received KTI's response, dated September 26, 2017. Mr. Farmer stated, "We have no corrections and agree with the findings."

RESTRICTED USE

This report is solely for the information and use of DDS, Department of Health Care Services, WRC, and KTI. This restriction is not intended to limit distribution of this report, which is a matter of public record.

FINDINGS AND RECOMMENDATIONS

Finding 1: Supported Living Services – Unsupported Billings and Failure to Bill

The review of KTI's SLS program, Vendor Number PW5492, Service Code 896, for the sampled months of December 2014 and January 2015, revealed that KTI had both unsupported billings, as well as appropriate support for services that it failed to bill to WRC.

Unsupported billings occurred due to a lack of appropriate documentation to support the units of service billed to WRC. The failure to bill occurred when KTI had appropriate supporting documentation, but it did not bill WRC.

KTI was not able to provide appropriate supporting documentation for 550 hours of services billed. The lack of documentation resulted in unsupported billings to WRC in the amount of \$6,638.

In addition, KTI provided appropriate supporting documentation for services that were not billed to WRC. This resulted in an unbilled amount of \$12, therefore, the net amount of \$6,626 is due back to DDS for the unsupported billings. (See Attachment A)

W&I Code, Section 4648.1(e)(1) states:

“(e) A regional center or the department may recover from the provider funds paid for services when the department or the regional center determines that either of the following has occurred:

- (1) The services were not provided in accordance with the regional center's contract or authorization with the provider, or with applicable state laws or regulations.”

CCR, Title 17, Section 54326(a)(3) and (10) states, in part:

“(a) 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.”

CCR, Title 17, Section 50604(d) and (e) states, in 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.”

Recommendation:

KTI must reimburse DDS \$6,626 for the unsupported billings. KTI must develop and implement policies and procedures to ensure that documentation is maintained to support the amounts billed to WRC.

KTI’s Response:

KTI stated in the response, dated September 26, 2017, that KTI agreed with the finding. (See Attachment B)

Finding 2: Non-Compliance to Obtain an Independent Review of Financial Statements

The review of KTI’s financial accountability requirement, for the audit period of July 1, 2014, through June 30, 2015, revealed that KTI failed to comply with Senate Bill 74, W&I Code 4652.5, in obtaining an independent review of its financial statement for the audit period. The amount of funds KTI received from WRC during the fiscal year was more than \$250,000 but less than \$500,000.

W&I Code, Section 4652.5(a)(1)(A) states, in part:

“(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 fifty thousand dollars (\$250,000) but less than five hundred thousand dollars (\$500,000), the entity shall obtain an independent audit or independent review report of its financial statements for the period.”

Recommendation:

KTI must obtain an independent review of its financial statements and provide copies of the independent review report after completion of the review to WRC and DDS.

KTI's Response:

KTI stated in the response, dated September 26, 2017, that KTI agreed with the finding. (See Attachment B)

Kai-Tez, Inc.
Summary of Unsupported Billings and Failure to Bill
Audit Period: July 1, 2014 through June 30, 2015

Attachment A

Finding #	Vendor	Svc Code	Description	Unit Type	Unsupported Billings		Failure to Bill		NET TOTAL
					Units ₁	Amount ₁	Units	Amount ₁	Amount ₁
1	Supported Living Services (SLS)								
	PW5492	896							
			For Sample Months: December 2014 and January 2015						
			<i>SLS Direct Care</i>						
			Sub code: VN1R	Hour	89	\$ 2,118	-	\$ -	\$ 2,118
			Sub code: V21R2	Hour	237	\$ 1,892	-	\$ -	\$ 1,892
			Sub code: V21R2	Hour	6	\$ 47	-	\$ -	\$ 47
			Sub code: V71R2	Hour	124	\$ 995	-	\$ -	\$ 995
			Sub code: VN3R2	Hour	16	\$ 166	-	\$ -	\$ 166
			Sub code: VN5R2	Hour	74	\$ 408	-	\$ -	\$ 408
			Subtotal		546	\$ 5,626		\$ -	\$ 5,626
			<i>SLS Administrative Costs Payments</i>						
			Sub code: VN6R	Month		\$ 837		\$ 12	\$ 825
			Subtotal			\$ 837		\$ 12	\$ 825
			<i>SLS Consultant</i>						
			Sub code: VN7R	Hour	4	\$ 175	-	\$ -	\$ 175
			Subtotal		4	\$ 175		\$ -	\$ 175
			Total Supported Living Services		550	\$ 6,638		\$ 12	\$ 6,626

1. Amounts and units have been rounded to the nearest whole number.

September 26, 2017

**Kai-Tez
Incorporated**

Edward Yan, Manager
Department of Developmental Services
Audit Section
1600 Ninth Street, Room 230, MS 2-10

Dear Mr. Yan:

This letter is in response to the August 17, 2017 Draft Audit Report sent to our organization that covered the audit period from July 1, 2014 through June 30, 2015 for the Supported Living Services program. In review of the Draft report we have no corrections and agree with the findings.

Should you have any further questions related to this letter and its contents please feel free to contact me directly at (310) 930-4658. Kai-Tez Incorporated is committed to providing quality services to the clients we serve and to ensure the program services reach those most vulnerable.

Sincerely,



Rene Farmer, Executive Director
Kai-Tez Incorporated

RF/nsm

Cc: Nicole Murray, Administrative/QA Director

NewKai-Tez DDS Inc.; Resp Letter 9-26-17

**THE DEPARTMENT OF DEVELOPMENTAL SERVICES'
EVALUATION OF KAI-TEZ, INC.'S RESPONSE**

KTI's response, dated September 26, 2017, did not dispute the findings and accepted DDS' recommendations.