AUDIT OF THE
FRANK D. LANTERMAN REGIONAL CENTER
FOR FISCAL YEARS 2005-06 and 2006-07

Department of Developmental Services

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EXECUTIVE SUMMARY

The fiscal compliance audit of Frank D. Lanterman Regional Center (FDLRC) revealed that FDLRC was in substantial compliance with the requirements set forth in California Code of Regulations Title 17, the California Welfare and Institutions (W&I) Code, the Home and Community Based Services (HCBS) Waiver for the Developmentally Disabled, and the contract with the Department of Developmental Services. The audit indicated that, overall, FDLRC maintains accounting records and supporting documentation for transactions in an organized manner. This report identifies some areas where FDLRC's administrative and operational controls could be strengthened, but none of the findings were of a nature that would indicate systemic issues or constitute major concerns regarding FDLRC's operations.

The findings of this report have been separated into the categories below:

I. These findings need to be addressed, but do not significantly impair the financial integrity of the FDLRC or seriously compromise its ability to account for or manage State funds.

Finding 1: **<u>Day Programs – Over/Under-Stated Claims</u>**

A review of 19 Day Programs revealed nine vendors totaling 1,198 instances of over or under claimed expenses to the State. There were eight vendors with 1,191 instances of underpayments, totaling $95,837.42, due to rate increases that were not applied. The remaining vendor had seven instances of overpayments totaling $773.63, due to incorrect billing for the service months. This is not in compliance with Title 17, Section 57300(c)(2)(d).

FDLRC has provided supporting documentation with its response detailing corrective action has been taken to resolve the over and under payments. A total of $665.78 in underpayments is still outstanding.

Finding 2: **<u>Family Cost Participation Program (FCPP) - Over-Stated Claims</u>**

The review of the Family Cost Participation Program (FCPP) revealed that FDLRC has been paying more than its assessed share of cost for 5 of the 25 consumers participating in the program from March 2006 to June 2007. The total amount of payments identified was $1,198.36.

FDLRC has provided supporting documentation with its response detailing that corrective action has been taken to resolve the overpayments. A total of $618.36 in overpayments is still outstanding.

Finding 3: **<u>Client Trust Disbursements Not Supported</u> (Repeat)**

A review of ten client trust money management disbursements revealed that FDLRC did not have supporting receipts for four money management checks issued to vendors for the spending down of consumer funds, but were maintained at the residential facility. Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate. This issue was identified in the prior DDS audit report. This is not in compliance with the Social Security Handbook, Section 1616.

Finding 4: **<u>Uniform Fiscal System (UFS) Reconciliations</u>**

A sample review of five monthly UFS reconciliations revealed that FDLRC could not provide reconciliations for two of the sampled months. For the three months provided, it was found that the reconciliations did not balance and were not signed and dated by the preparer and reviewer.

II. The following findings were identified during the audit, but have since been addressed and corrected by FDLRC.

Finding 5: **<u>Over/Under-Stated Claims</u>**

A review of the Transportation and Operational Indicator reports revealed 51 instances in which FDLRC over or under claimed expenses to the State. These payments were either due to duplicate payments or miscalculated billings for the service months. As a result, the total overpayment to vendors by FDLRC was $34,331.50 and the total underpayment was $7,681.12. This is not in compliance with Title 17, Section 54326 (a)(10).

FDLRC has taken corrective action by making billing adjustments with the respective vendors for the over and under payments.

Finding 6: **<u>Supplemental Claims Not Posted to General Ledger</u>**

A review of the supplemental claims for FY 2006-07, revealed that FDLRC submitted four supplemental Operations (OPS) claims in the amount of $259,205.93. However, it was found that FDLRC did not record this in the General Ledger to reflect the transactions, which is not in compliance with generally accepted accounting practices.

FDLRC has taken corrective action in resolving this issue by posting the four supplemental claims to the General Ledger.

Finding 7: **Multiple Dates of Death**

The review of the Uniform Fiscal System (UFS) Death Report identified six consumers with multiple dates of death recorded. No payments were found to have been made beyond the actual date of death. For good internal controls and accounting practices, FDLRC should ensure the actual date of death is properly recorded in UFS.

FDLRC has taken corrective action in resolving this issue by researching the correct date of death of the consumer and updating the UFS to reflect the correct date of death.

BACKGROUND

The Department of Developmental Services (DDS) is responsible, under the Lanterman Developmental Disabilities Services Act (Lanterman Act), for ensuring that persons with developmental disabilities (DD) receive the services and supports they need to lead more independent, productive and normal lives. To ensure that these services and supports are available, DDS contracts with 21 private, nonprofit community agencies/corporations that provide fixed points of contact in the community for serving eligible individuals with DD and their families in California. These fixed points of contact are referred to as regional centers. The regional centers are responsible under State law to help ensure that such persons receive access to the programs and services that are best suited to them throughout their lifetime.

DDS is also responsible for providing assurance to the Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS) that services billed under California's Home and Community-Based Services (HCBS) Waiver program are provided and that criteria set forth for receiving funds have been met. As part of DDS' program for providing this assurance, the Audit Branch conducts fiscal compliance audits of each regional center no less than every two years, and completes follow-up reviews in alternate years. Also, DDS requires regional centers to contract with independent Certified Public Accountants (CPA) to conduct an annual financial statement audit. The DDS audit is designed to wrap around the independent CPA's audit to ensure comprehensive financial accountability.

In addition to the fiscal compliance audit, each regional center will also be reviewed by the DDS Federal Programs Operations Section to assess overall programmatic compliance with HCBS Waiver requirements. The HCBS Waiver compliance monitoring review will have its own criteria and processes. These audits and program reviews are an essential part of an overall DDS monitoring system that provides information on regional center fiscal, administrative and program operations.

DDS and Los Angeles County Developmental Services Foundation, Inc., entered into contract, HD049006, effective July 1, 2004, through June 30, 2009. This contract specifies that Los Angeles County Developmental Services Foundation, Inc., will operate an agency known as the Frank D. Lanterman Regional Center (FDLRC) to provide services to persons with DD and their families in the Central, Glendale, Hollywood-Wilshire, and Pasadena areas. The contract is funded by State and federal funds that are dependent upon FDLRC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at FDLRC from June 2, 2008, through June 27, 2008, and was conducted by DDS' Audit Branch.

AUTHORITY

The audit was conducted under the authority of the Welfare and Institutions (W&I) Code, Section 4780.5, and Article IV, Provision Number 3 of FDLRC's contract.

CRITERIA

The following criteria were used for this audit:

- California Welfare and Institutions Code
- "Approved Application for the Home and Community-Based Services Waiver for the Developmentally Disabled"
- California Code of Regulations Title 17
- Federal Office of Management Budget (OMB) Circular A-133
- FDLRC's contract with DDS

AUDIT PERIOD

The audit period was from July 1, 2005, through June 30, 2007, with follow-up as needed into prior and subsequent periods.

OBJECTIVES, SCOPE, AND METHODOLOGY

This audit was conducted as part of the overall DDS monitoring system that provides information on regional centers' fiscal, administrative, and program operations. The objectives of this audit are:

- To determine compliance to Title 17, California Code of Regulations (Title 17),
- To determine compliance to the provisions of the HCBS Waiver for the Developmentally Disabled, and
- To determine that costs claimed were in compliance to the provisions of the FDLRC's contract with DDS.

The audit was conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. However, the procedures do not constitute an audit of FDLRC's financial statements. We limited our scope to planning and performing audit procedures necessary to obtain reasonable assurance that FDLRC was in compliance with the objectives identified above. Accordingly, we examined transactions, on a test basis, to determine whether FDLRC was in compliance with Title 17, the HCBS Waiver for the Developmentally Disabled, and the contract with DDS.

Our review of FDLRC's internal control structure was limited to gaining an understanding of the transaction flow and the policies and procedures as necessary to develop appropriate auditing procedures.

We reviewed the annual audit report that was conducted by an independent accounting firm for fiscal years:

- 2005-06, issued on October 13, 2007
- 2006-07, issued on January 15, 2008

This review was performed to determine the impact, if any, upon our audit and as necessary, develop appropriate audit procedures.

The audit procedures performed included the following:

I. Purchase of Service

We selected a sample of Purchase of Service (POS) claimed and billed to DDS. The sample included consumer services, vendor rates, and consumer trust accounts. The sample also included consumers who were eligible for the HCBS Waiver. For POS the following procedures were performed:

- We tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.

- We selected a sample of invoices for service providers with daily and hourly rates, standard monthly rates, and mileage rates to determine if supporting attendance documentation was maintained by FDLRC. The rates charged for the services provided to individuals were reviewed to ensure that the rates paid were set in accordance with the provisions of Title 17.

- We selected a sample of individual trust accounts to determine if there were any unusual activities and if any individual account balances were not over $2,000 resource limit as required by the Social Security Administration (SSA). In addition, we determined if any retroactive Social Security benefit payments received were not held longer than nine months. We also reviewed these accounts to ensure that the interest earnings were distributed quarterly, personal and incidental funds were paid before the tenth of each month, and that proper documentation for expenditures were maintained.

- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, is used by FDLRC. An interview with FDLRC staff revealed that FDLRC has procedures in place to determine the correct recipient of unidentified consumer trust funds. If the correct recipient cannot be determined, the funds are returned to the SSA (or other source) in a timely manner.

- We selected a sample of Uniform Fiscal Systems (UFS) reconciliations to determine if any accounts were out-of-balance or if there were any outstanding reconciling items.

- We analyzed all of FDLRC's bank accounts to determine if DDS had signatory authority as required by the contract with DDS.

- We selected a sample of bank reconciliations for Operations and Consumer Trust bank accounts to determine if the reconciliations are properly completed on a monthly basis.

II. Regional Center Operations

We audited FDLRC operations and conducted tests to determine compliance to the contract with DDS. The tests included various expenditures claimed for administration to ensure that the accounting staff was properly inputting data, transactions were being recorded on a timely basis, and to ensure that expenditures charged to various operating areas were valid and reasonable. These tests included the following:

- A sample of the personnel files, time sheets, payroll ledgers and other supporting documents was selected to determine if there were any overpayments or errors in the payroll or the payroll deductions.

- A sample of operating expenses, including but not limited to, purchases of office supplies, consultant contracts, insurance expenses, and lease agreements was tested to determine compliance to Title 17 and the contract with DDS.

- A sample of equipment was selected and physically inspected to determine compliance with requirements of the contract with DDS.

- We reviewed FDLRC's policies and procedures for compliance to the Title 17 Conflict of Interest requirements and selected a sample of personnel files to determine if the policies and procedures were followed.

III. Targeted Case Management and Regional Center Rate Study

The Targeted Case Management (TCM) rate study is the study that determines DDS' rate of reimbursement from the Federal Government. The last rate study to determine the TCM rate was performed in May 2004 which was reviewed in the last DDS biannual audit. As a result, there was no rate to review for this audit period.

IV. Service Coordinator Caseload Study

Under the W&I Code Section 4640.6, regional centers are required to provide service coordinator caseload data annually to DDS. Prior to January 1, 2004, the survey required regional centers to have a service coordinator-to-consumer ratio of 1:62 for all consumers who had not moved from developmental centers to the community since April 14, 1993, and a ratio of 1:45 for all consumers who had moved from developmental centers to the community since April 14, 1993. However, commencing January 1, 2004, the following service coordinator-to-consumer ratios apply:

A. For all consumers that are three years of age and younger and for consumers that are enrolled on the HCBS Waiver, the required average ratio shall be 1:62.

B. For all consumers who have moved from a developmental center to the community since April 14, 1993, and have lived in the community continuously for at least 12 months, the required average ratio shall be 1:62.

C. For all consumers who have not moved from the developmental centers to the community since April 14, 1993, and who are not covered under A above, the required average ratio shall be 1:66.

We also reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload ratio to determine reasonableness and that supporting documentation is maintained to support the survey and the ratios, as required by W&I Code, Section 4640.6.

V. Early Intervention Program (Part C Funding)

For the Early Intervention Program, there are several sections contained in the Early Start Plan. However, only the Part C section was applicable for this review.

For this program, we reviewed the Early Intervention Program, including Early Start Plan and federal Part C funding to determine if the funds were properly accounted for in FDLRC's accounting records.

VI. Family Cost Participation Program

The Family Cost Participation Program (FCPP) was created for the purpose of assessing cost participation to parents based on income level and dependents. The family cost participation assessments are only applied to respite, day care, and camping services that are included in the child's individual program plan. To determine whether FDLRC is in compliance with Title 17 and the W&I Code, we performed the following procedures during our audit review.

- Reviewed the parents' income documentation to verify their level of participation based on the Family Cost Participation Schedule.

- Reviewed copies of the notification letters to verify the parents were notified of their assessed cost participation within 10 working days.

- Reviewed vendor payments to verify the regional center is paying for only its assessed share of cost.

VII. Other Sources of Funding

Regional centers may receive many other sources of funding. For the other sources of funding identified for FDLRC, we performed sample tests to ensure that the accounting staff was inputting data properly, and that transactions were properly recorded and claimed. In addition, tests were performed to determine if the expenditures were reasonable and supported by documentation. The other sources of funding identified for this audit are:

- Family Resource Center Program
- Wellness Grants
- Start Up Programs
- Medicare Moderation Act (Part D Funding)

VIII. Follow-up Review on Prior DDS's Audit Findings

As an essential part of the overall DDS monitoring system, a follow-up review of the prior DDS audit findings was conducted. We identified prior audit findings that were reported to FDLRC and reviewed supporting documentation to determine the degree and completeness of FDLRC's implementation of corrective actions.

CONCLUSIONS

Based upon the audit procedures performed, we have determined that except for the items identified in the Findings and Recommendations Section, FDLRC was in substantial compliance to applicable sections of Title 17, the HCBS waiver, and the terms of FDLRC's contract with DDS for the audit period July 1, 2005, through June 30, 2007.

Except for those items described in the Findings and Recommendations Section, the costs claimed during the audit period were for program purposes and adequately supported.

From the review of prior audit issues, it has been determined that FDLRC has taken appropriate corrective actions to resolve all prior audit issues, except for Finding three, which is included in the Findings and Recommendations Section.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on June 12, 2009. The findings in the report were discussed at an exit conference with FDLRC on June 25, 2009. At the exit conference, we stated that the final report will incorporate the views of responsible officials.

RESTRICTED USE

This report is solely for the information and use of the Department of Developmental Services, Department of Health Care Services, the Centers for Medicare and Medicaid Services, and the Frank D. Lanterman Regional Center. It is not intended and should not be used by anyone other than these specified parties. This restriction does not limit distribution of this report, which is a matter of public record.

FINDINGS AND RECOMMENDATIONS

The findings of this report have been separated into the two categories below.

I. The following findings need to be addressed, but do not significantly impair the financial integrity of FDLRC or seriously compromise its ability to account for or manage State funds.

Finding 1: **Day Programs – Over/Under-Stated Claims**

A review of 19 Day Programs revealed nine vendors totaling 1,198 instances of over or under claimed expenses to the State. There were eight vendors with 1,191 instances of underpayments, totaling $95,837.42, due to rate increases that were not applied. No supporting documentation was provided by FDLRC that a lower rate had been negotiated with the vendors in this finding. The remaining vendor had seven instances of overpayments totaling $773.63, due to incorrect billings for the service months. (See Attachment A for a summary. A detailed summary has been provided to FDLRC under a separate cover as Attachment A.1.)

Title 17, Section 57300(c)(2)(d), states:

"For those vendors for whom the Department establishes a rate, once the vendor has received notice of the rate established by the Department, any regional center, or its designee, purchasing or intending to purchase services from the vendor may negotiate with the vendor the level of payment for services provided to its consumers for a specified period of time. The level of payment may be less than but shall not exceed the maximum reimbursement possible during the period specified, using the rate established by the Department and the units of service used by the vendor to charge and invoice the regional center for services provided to consumers as the basis for determining the maximum reimbursement possible."

FDLRC provided additional documentation in its response to the draft report showing that corrective action has been taken. Overpayments totaling $773.63 and underpayments totaling $95,171.64 have been resolved through either vendor repayments or check payments. The remaining underpayments totaling $665.78 are still outstanding.

Recommendation:

For the underpayments, FDLRC should make payments totaling the $665.78 owed to the vendor. In addition, FDLRC should continue to review the payment invoices and rate letters to ensure any over and/or underpayments are addressed and corrected that may have occurred in the course of doing business with its vendors.

Finding 2: **Family Cost Participation Program (FCPP) - Over-Stated Claims**

The review of the Family Cost Participation Program (FCPP) revealed that FDLRC has been paying for the cost of services that are the responsibility of the families under the requirements of the FCPP for 5 of the 25 consumers participating in the program from March 2006 to June 2007. This occurred when the participating family accounts were left unmonitored for a period of time due to employee turnover. As a result, payments totaling $1,198.36 were made to vendor H17557 by FDLRC, but which were the responsibility of the families. (See Attachment B)

Title 17, Section 50255(a), states:

"The parents of a child who meet the definition under Section 4783(a)(1) of the Welfare and Institutions Code shall be jointly and severally responsible for the assessed amount of family cost participation."

FDLRC provided additional documentation in its response to the draft report showing that corrective action has been taken. It was found that FDLRC had recovered $580 of the $1,198.36 in overpayments. The remaining overpayments totaling $618.36 are still outstanding.

Recommendation:

FDLRC should develop and implement policies and procedures to ensure that only the costs FDLRC is responsible for are entered into the UFS to prevent the possibility of any overpayments. The position responsible for assessing the share of cost is an integral part of the FCPP function, and cross-training of other employees within the unit should be done to ensure no disruption in the continuity of monitoring FDLRC's share of cost for FCPP.

Finding 3: **Client Trust Disbursements Not Supported (Repeat)**

A review of ten client trust money management disbursements revealed that FDLRC did not have supporting receipts for four money management checks issued to vendors for the spending down of consumers' funds, but were maintained at the residential facility. The checks were disbursed when the consumer's resources were close to or over the $2,000 resource limit. This issue was identified in the prior DDS audit report.

FDLRC contends it has adequate procedures to account for money management checks disbursed from the consumers' trust accounts by having their service coordinators perform quarterly or semi-annual reviews of the income and receipts at the residential facility. FDLRC also provided a letter from the SSA dated May 1, 2007, which covered most of the audit period and expressed satisfaction with FDLRC's ability to handle funds on behalf of its payees and contained no specific recommendations to change its practices. However, unsuccessful attempts were made to reach the SSA to verify the practice of having receipts maintained at the residential facility was adequate to Social Security Guidelines..

Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate. In addition, the client trust funds account for benefits received from the Social Security Administration.

Social Security Handbook, Chapter 16, Section 1616 states:

"The responsibilities of a representative payee are to:

D. Keep written records of all payments received from SSA along with receipts to show how funds were spent and/or saved on behalf of the beneficiary."

Recommendation:

As the representative payee for its consumers, FDLRC should develop and implement policies and procedures requiring supporting receipts for disbursements made from the client trust accounts. The receipts should be maintained by FDLRC in each consumer's file with the money management check requests for the expenditures. This will ensure all money management checks disbursed to vendors are for appropriate purposes and that there is a proper accounting of Social Security benefits.

Finding 4: **<u>Uniform Fiscal System (UFS) Reconciliations</u>**

A sample review of five monthly UFS reconciliations revealed that FDLRC could not provide reconciliations for two of the sampled months. For the three months provided, it was found that the reconciliations did not balance and were not signed and dated by the preparer and reviewer. (See Attachment C)

State Contract Article IV, Section 3(a) states in part:

"The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract (hereinafter collectively called the "records") to the extent and in such detail as will properly reflects net costs (direct and indirect) of labor, materials, equipment, supplies and services, reimbursement is claimed under the provisions of this contract in accordance with mutually agreed to procedures and generally accepted accounting principles."

In addition, for good internal controls and accounting practices reconciliations should be signed and dated by both the preparer and reviewer and be performed on a monthly basis to detect any errors or reconciling items. This will ensure that any errors or reconciling items are identified, researched, and corrected.

Recommendation:

FDLRC should develop policies and procedures to ensure that all UFS reconciliations are properly completed in a timely manner to ensure that any errors or reconciling items are identified, researched, and corrected. In addition, FDLRC should monitor the preparation of the UFS reconciliations to ensure that there are signatures and dates from the preparer and reviewer and that all completed UFS reconciliations are kept and maintained in a safe and secure area.

II. The following findings were identified during the audit, but have since been addressed and corrected by FDLRC.

Finding 5: <u>Over/Under-Stated Claims</u>

A review of the Transportation and Operational Indicator reports revealed 51 instances in which FDLRC over or under claimed expenses to the State. There were 46 instances of overpayments totaling $34,331.50, due to duplicate payments. The remaining five instances were underpayments totaling $7,681.12, due to miscalculated billings for the service months.

Title 17, Section 54326 (a)(10) states:

"All vendors shall…

(10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center."

In addition, for good business and internal control practices, FDLRC should generate and monitor the Operational Indicator reports periodically to detect and correct any overpayments that may have occurred in the course of doing business with its vendors.

FDLRC has taken corrective action by making billing adjustments for the over and under payments.

Recommendation:

FDLRC should continue to review the payment invoices, rate letters, and Operational Indicator reports to ensure any payment errors that may have occurred in the course of doing business with its vendors are identified and corrected on a timely basis.

Finding 6: **Supplemental Claims Not Posted to General Ledger**

A review of the supplemental claims for FY 2006-07, revealed that FDLRC submitted four supplemental OPS claims in amount of $259,205.93. However, it was found that FDLRC did not record this in the General Ledger to reflect the transactions.

One of the basic assertions for the recording of accounting transactions is that all transactions and events that should have been recorded are documented in the proper accounting period.

FDLRC has taken corrective action in resolving this issue by posting the four supplemental claims to the General Ledger.

Recommendation:

FDLRC should take steps to strengthen its procedures to ensure that all State claims are posted to the General Ledger and that FDLRC follows proper generally accepted accounting procedures.

Finding 7: **Multiple Dates of Death**

The review of the Uniform Fiscal System (UFS) Death Report identified six consumers with multiple dates of death recorded. In all of the instances there were two different dates of death. Further review found that no payments were made beyond the actual date of death for each of the six consumers.

State Contract, Article IV, Section 1(c)(1) states in part:

"Contractor shall make available accurate and complete UFS and/or CADDIS information to the state. Accordingly Contractor shall:

1) Update changes to all mandatory items of the Client Master File at least annually except for the following elements, which must be updated within thirty (30) days of Contractor being aware of an of the following events:

    a) The death of a consumer;
    b) The change of address of a consumer; or
    c) The change of residence type of a consumer."

In addition, for good internal controls and accounting practices, FDLRC should ensure the actual date of death is accurately recorded in the UFS to avoid any potential payments after the date of death.

FDLRC has taken corrective action to resolve this issue by researching and correcting the dates of death of the consumers' records in the UFS.

Recommendation:

FDLRC should ensure its staff is provided with written procedures and training on the recording of deceased consumers in the UFS. In addition, FDLRC should continue to review all current deceased consumer files to ensure that only one date of death is recorded in the UFS.

EVALUATION OF RESPONSE

As part of the audit report process, FDLRC is provided with a draft report and is requested to provide a response to each finding. FDLRC's response dated September 8, 2009, is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendation section and a summary of the findings in the Executive Summary section.

DDS' Audit Branch (Audits) has evaluated FDLRC's response. Except as noted below, FDLRC's response addressed the audit findings and provided reasonable assurance that corrective action would be taken to resolve the issues. Audits will confirm FDLRC's corrective actions identified in the response during the follow-up review of the next scheduled audit.

Finding 1: **Day Programs – Over/Under-Stated Claims**

FDLRC had submitted supporting documentation with its response to show that progress is being made to correct the over and underpayments identified in the audit. Audits has reviewed the documentation in detail to determine if each of the identified amounts in Attachment A of the DDS draft report has been corrected and/or resolved by FDLRC.

In the first part of FDLRC's response, it stated they have recovered the $773.63 in overpayments. Based on our review and evaluation of the additional information provided by FDLRC, Audits recognizes that the total overpayment of $773.63 has been resolved.

In the second part of FDLRC's response, it stated they have addressed the underpayments to the seven vendors identified in the audit. It was explained that a total of $28,326.70, was paid to the vendors. Additional information was requested from FDLRC to support the repayment to vendors. The additional information verified that FDLRC had made additional payments to the seven vendors. It was found that FDLRC has fully resolved the underpayments to six vendors, but for one vendor, Kaiser Adult Behavioral, vendor number HE0161, a majority of the underpayments totaling $16,565.42 has been resolved with a remaining balance of $665.78. Therefore, based on the review and evaluation of the additional information provided by FDLRC, Audits recognizes that the underpayments totaling $36,627.14 have been resolved and a total of $665.78 is still outstanding.

Lastly, FDLRC disagreed that an underpayment of $58,544.50 was made to One Step Ahead, vendor HD0014. FDLRC provided documentation to support the rate paid by FDLRC was lower than the established rate. Therefore, based on our review and evaluation of the additional information provided by FDLRC, Audits agrees this specific underpayment issue has been resolved.

A follow-up review will be performed in the next scheduled audit to determine if the underpayments in the amount of $665.78 have been resolved.

Finding 2: **Family Cost Participation Program (FCPP) - Over-Stated Claims**

FDLRC disagreed that 18 of the 25 consumers participating from March 2006 to June 2007 were overpaid. FDLRC explained that they found 2 of the 18 authorizations were not adjusted, resulting in overpayments totaling $618.36. Additionally, FDLRC explained that 14 of the 18 consumers reviewed were miscalculated because the assessment amounts were interpreted incorrectly and that 2 consumers were Medi-Cal eligible, but had not been entered into the system.

As a result, we reviewed the information provided and confirmed two of the authorizations were not adjusted resulting in $618.36 in overpayments. In addition, we are confirmed that two of the consumers were Medi-Cal eligible. We also confirmed that 11 of the 14 consumers were calculated incorrectly because the assessment amounts were interpreted incorrectly. However, we do not agree that the other three consumers were miscalculated since it was found that FDLRC had recovered overpayments totaling $580 from the three consumers. Therefore, the finding has been revised from 18 to 5 consumers participating in the program from March 2006 to June 2007 that resulted in overpayments in the amount of $1,198.36.

A follow-up review will be performed in the next scheduled audit to determine if policies and procedures have been implemented and cross-training of other employees within the unit has been done to ensure no disruption in the continuity of monitoring FDLRC's share of cost for FCPP.

Finding 3: **Client Trust Disbursements Not Supported (Repeat)**

FDLRC contends it has adequate procedures to account for money management checks disbursed from the consumers' trust accounts by having their service coordinators perform quarterly or semi-annual reviews of the income and receipts at the residential facility. It was also explained that if the service coordinators come across any significant problems then corrective action is taken by FDLRC on the residential facilities to ensure adequate safeguards are in place for consumer funds.

FDLRC also provided a letter from the SSA dated May 1, 2007, which covered most of the audit period and expressed satisfaction with FDLRC's ability to handle funds on behalf of its payees and contained no specific recommendations to change its practices.

We reviewed the letter from the SSA which found satisfaction with FDLRC's ability to handle funds on behalf of its payees and contained no specific recommendations to change its practices. The letter also stated, "The financial records of twenty-five clients were reviewed and found to be very complete;" however, we are unable to verify that the practice of having receipts maintained at the residential facility was tested because we were unable to reach a representative. Therefore, based on our interpretation of the Social Security Handbook, Chapter 16, Section 1616, records of payments and receipts are the responsibility of the representative payee not the residential facility.

As a result, our finding remains unchanged and a follow-up review will be performed in the next scheduled audit to determine if this issue has been resolved.

Finding 4: **<u>Uniform Fiscal System (UFS) Reconciliations</u>**

FDLRC explained that the Revenue Manager is responsible for preparing the monthly reconciliations and maintaining the appropriate reports. If any discrepancies are identified, these are researched and corrected on a timely basis. It was also explained that the Controller reviews the completed reconciliations and signs and dates these to verify that these have been reviewed.

A follow-up review will be performed in the next scheduled audit to determine if this issue has been resolved.

Frank D. Lanterman Regional Center
Day Programs - Summary of Over/Underpayments
Fiscal Years 2005-06 and 2006-07

	Vendor Name	Vendor Number	Service Code	Amount Outstanding	Comment
1	Exceptional Children Foundation	H00664	505	($593.48)	1
2	Oparc Adult Development	H25844	510	($281.98)	1
3	All People Access Community Services	H32729	510	($8,663.83)	1
4	Adult Basic Learning Environment Inc Glendale	HD0023	510	($5,398.76)	1
5	Ideal Behavioral Management and Day Treatment	H73650	515	($3,941.58)	1
6	One Step Ahead	HD0014	515	($58,544.50)	2
7	Kaiser Adult Behavioral	HE0161	515	($17,231.20)	3
8	Adult Basic Learning Environment	S25154	515	($1,182.09)	1
			Total Underpayments	**($95,837.42)**	

9	Ballard Vocational Service Center	HT0089	515	$773.63	1
			Total Overpayments	**$773.63**	

Legend:

1 = Corrective action has been taken by FDLRC to resolve the over/underpayments.

2 = FDLRC provided DDS' response to One Step Ahead's (HD0014) appeal, which supports the payment rate of $70.31, which was used by FDLRC. As a result, this issue has been resolved.

3 = FDLRC made a payment to the vendor for $16,565.42, leaving an underpayment balance of $665.78.

Attachment B

Frank D. Lanterman Regional Center
Overpayments of Units for the Family Cost Participation Program
Service Code 862 - In-Home Respite Services Agency
Vendor Numbers H17557, H07719, and HL0363
Fiscal Years 2005-06 and 2006-07

			A		B	C	D	E	
Vendor Number	**Year/Month**	**Unique Client Identification Number**	**Share of Cost Per Unit**		**Units Paid by FDLRC**	**Difference**	**Rate**	**Overpayment Amount**	**Comment**
			FDLRC Portion	**Family Portion**					
H17557	200611	[redacted]	14.00	1.00	15.00	1.00	$12.88	$12.88	1
H17557	200612	[redacted]	14.00	1.00	15.00	1.00	$12.88	$12.88	
H17557	200701	[redacted]	14.00	1.00	15.00	1.00	$12.88	$12.88	
H17557	200702	[redacted]	14.00	1.00	15.00	1.00	$12.88	$12.88	
H17557	200703	[redacted]	14.00	1.00	15.00	1.00	$12.88	$12.88	
H17557	200705	[redacted]	14.00	1.00	15.00	1.00	$12.88	$12.88	
H17557	200706	[redacted]	14.00	1.00	15.00	1.00	$12.88	$12.88	
H17557	200610	[redacted]	28.00	4.00	32.00	4.00	$17.25	$69.00	2
H17557	200611	[redacted]	28.00	4.00	32.00	4.00	$17.25	$69.00	
H17557	200612	[redacted]	28.00	4.00	32.00	4.00	$17.25	$69.00	
H17557	200701	[redacted]	28.00	4.00	32.00	4.00	$17.25	$69.00	
H17557	200702	[redacted]	28.00	4.00	32.00	4.00	$17.25	$69.00	
H17557	200703	[redacted]	28.00	4.00	32.00	4.00	$17.25	$69.00	
H17557	200704	[redacted]	28.00	4.00	32.00	4.00	$17.25	$69.00	
H17557	200705	[redacted]	28.00	4.00	32.00	4.00	$18.12	$72.48	
H17557	200602	[redacted]	23.00	1.00	24.00	1.00	$12.50	$12.50	1
H17557	200603	[redacted]	23.00	1.00	24.00	1.00	$12.50	$12.50	
H17557	200603	[redacted]	10.00	14.00	24.00	14.00	$8.85	$123.90	3
H17557	200604	[redacted]	10.00	14.00	24.00	14.00	$8.85	$123.90	
H17557	200605	[redacted]	10.00	14.00	24.00	14.00	$8.85	$123.90	
H17557	200606	[redacted]	10.00	14.00	24.00	14.00	$8.85	$123.90	
H17557	200607	[redacted]	10.00	14.00	24.00	14.00	$9.12	$127.68	
H17557	200608	[redacted]	10.00	14.00	24.00	14.00	$9.12	$127.68	

Attachment B

Frank D. Lanterman Regional Center
Overpayments of Units for the Family Cost Participation Program
Service Code 862 - In-Home Respite Services Agency
Vendor Numbers H17557, H07719, and HL0363
Fiscal Years 2005-06 and 2006-07

			A		B	C	D	E	
Vendor Number	Year/Month	Unique Client Identification Number	Share of Cost Per Unit		Units Paid by FDLRC	Difference	Rate	Overpayment Amount	Comment
			FDLRC Portion	Family Portion					
H17557	200609	[redacted]	10.00	14.00	15.00	5.00	$9.12	$45.60	3
H17557	200610	[redacted]	10.00	14.00	24.00	14.00	$9.12	$127.68	
H17557	200611	[redacted]	10.00	14.00	24.00	14.00	$9.12	$127.68	
H17557	200602	[redacted]	1.00	3.00	4.00	3.00	$12.50	$37.50	1
H17557	200603	[redacted]	1.00	3.00	4.00	3.00	$12.50	$37.50	
H17557	200604	[redacted]	1.00	3.00	4.00	3.00	$12.50	$37.50	
H17557	200605	[redacted]	1.00	3.00	4.00	3.00	$12.50	$37.50	
H17557	200606	[redacted]	1.00	3.00	16.00	15.00	$12.50	$187.50	
H17557	200607	[redacted]	1.00	3.00	4.00	3.00	$12.88	$38.64	
H17557	200608	[redacted]	1.00	3.00	4.00	3.00	$12.88	$38.64	
H17557	200609	[redacted]	1.00	3.00	4.00	3.00	$12.88	$38.64	
H17557	200610	[redacted]	1.00	3.00	16.00	15.00	$12.88	$193.20	
H17557	200611	[redacted]	1.00	3.00	4.00	3.00	$12.88	$38.64	
H17557	200612	[redacted]	1.00	3.00	4.00	3.00	$12.88	$38.64	
H17557	200703	[redacted]	1.00	3.00	4.00	3.00	$12.88	$38.64	
H07719	200604	[redacted]	14.00	1.00	15.00	1.00	$15.03	$15.03	1
H07719	200605	[redacted]	14.00	1.00	15.00	1.00	$15.03	$15.03	
H07719	200606	[redacted]	14.00	1.00	15.00	1.00	$15.03	$15.03	
H07719	200607	[redacted]	14.00	1.00	15.00	1.00	$15.48	$15.48	
H07719	200608	[redacted]	14.00	1.00	15.00	1.00	$15.48	$15.48	
H07719	200609	[redacted]	14.00	1.00	15.00	1.00	$15.48	$15.48	
H07719	200610	[redacted]	14.00	1.00	15.00	1.00	$15.48	$15.48	
H07719	200611	[redacted]	14.00	1.00	15.00	1.00	$15.48	$15.48	

Attachment B

Frank D. Lanterman Regional Center
Overpayments of Units for the Family Cost Participation Program
Service Code 862 - In-Home Respite Services Agency
Vendor Numbers H17557, H07719, and HL0363
Fiscal Years 2005-06 and 2006-07

Vendor Number	Year/Month	Unique Client Identification Number	A Share of Cost Per Unit FDLRC Portion	A Share of Cost Per Unit Family Portion	B Units Paid by FDLRC	C Difference	D Rate	E Overpayment Amount	Comment
H07719	200612	[redacted]	14.00	1.00	15.00	1.00	$15.48	$15.48	1
H07719	200701	[redacted]	14.00	1.00	15.00	1.00	$16.35	$16.35	
H07719	200702	[redacted]	14.00	1.00	15.00	1.00	$16.35	$16.35	
H07719	200703	[redacted]	14.00	1.00	15.00	1.00	$16.35	$16.35	
H07719	200704	[redacted]	14.00	1.00	15.00	1.00	$16.35	$16.35	
H07719	200705	[redacted]	14.00	1.00	15.00	1.00	$16.35	$16.35	
H07719	200706	[redacted]	14.00	1.00	15.00	1.00	$16.35	$16.35	
H17557	200703	[redacted]	29.00	25.00	52.00	23.00	$9.12	$209.76	1
H17557	200704	[redacted]	29.00	25.00	54.00	25.00	$9.12	$228.00	
H17557	200705	[redacted]	29.00	25.00	54.00	25.00	$9.12	$228.00	
H17557	200706	[redacted]	29.00	25.00	54.00	25.00	$9.12	$228.00	
H17557	200603	[redacted]	15.00	1.00	16.00	1.00	$12.50	$12.50	2
H17557	200604	[redacted]	15.00	1.00	16.00	1.00	$12.50	$12.50	
H17557	200605	[redacted]	15.00	1.00	16.00	1.00	$12.50	$12.50	
H17557	200606	[redacted]	15.00	1.00	16.00	1.00	$12.50	$12.50	
H17557	200608	[redacted]	15.00	1.00	16.00	1.00	$12.88	$12.88	
H17557	200609	[redacted]	15.00	1.00	16.00	1.00	$12.88	$12.88	4
H17557	200610	[redacted]	15.00	1.00	16.00	1.00	$12.88	$12.88	
H17557	200612	[redacted]	15.00	1.00	16.00	1.00	$12.88	$12.88	
H17557	200605	[redacted]	9.00	3.00	10.00	1.00	$12.50	$12.50	1
H17557	200610	[redacted]	9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200611	[redacted]	9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200612	[redacted]	9.00	3.00	12.00	3.00	$12.88	$38.64	

Attachment B

Frank D. Lanterman Regional Center
Overpayments of Units for the Family Cost Participation Program
Service Code 862 - In-Home Respite Services Agency
Vendor Numbers H17557, H07719, and HL0363
Fiscal Years 2005-06 and 2006-07

Vendor Number	Year/Month	Unique Client Identification Number	A: Share of Cost Per Unit – FDLRC Portion	A: Share of Cost Per Unit – Family Portion	B: Units Paid by FDLRC	C: Difference	D: Rate	E: Overpayment Amount	Comment
H17557	200701	[redacted]	9.00	3.00	12.00	3.00	$12.88	$38.64	1
H17557	200702	[redacted]	9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200703	[redacted]	9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200704	[redacted]	9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200705	[redacted]	9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200607	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	1
H17557	200608	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	
H17557	200609	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	
H17557	200610	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	
H17557	200611	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	
H17557	200612	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	
H17557	200701	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	
H17557	200702	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	
H17557	200703	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	
H17557	200704	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	
H17557	200705	[redacted]	8.00	4.00	12.00	4.00	$12.88	$51.52	
H17557	200706	[redacted]	12.00	48.00	60.00	48.00	$12.88	$618.24	3
H17557	200604	[redacted]	22.00	1.00	23.00	1.00	$12.50	$12.50	1
H17557	200605	[redacted]	22.00	1.00	23.00	1.00	$12.50	$12.50	
H17557	200606	[redacted]	22.00	1.00	23.00	1.00	$12.50	$12.50	
H17557	200607	[redacted]	22.00	1.00	23.00	1.00	$12.88	$12.88	
H17557	200608	[redacted]	22.00	1.00	23.00	1.00	$12.88	$12.88	
H17557	200609	[redacted]	22.00	1.00	23.00	1.00	$12.88	$12.88	

Frank D. Lanterman Regional Center
Overpayments of Units for the Family Cost Participation Program
Service Code 862 - In-Home Respite Services Agency
Vendor Numbers H17557, H07719, and HL0363
Fiscal Years 2005-06 and 2006-07

			A		B	C	D	E	
Vendor Number	**Year/Month**	**Unique Client Identification Number**	**Share of Cost Per Unit**		**Units Paid by FDLRC**	**Difference**	**Rate**	**Overpayment Amount**	**Comment**
			FDLRC Portion	**Family Portion**					
H17557	200610	[redacted]	22.00	1.00	23.00	1.00	$12.88	$12.88	1
H17557	200611		22.00	1.00	23.00	1.00	$12.88	$12.88	
H17557	200701		22.00	1.00	23.00	1.00	$12.88	$12.88	
H17557	200703		22.00	1.00	23.00	1.00	$12.88	$12.88	
H17557	200704		22.00	1.00	23.00	1.00	$12.88	$12.88	
H17557	200706		22.00	1.00	23.00	1.00	$12.88	$12.88	
HL0363	200705		2.00	6.00	8.00	6.00	$17.53	$105.18	1
HL0363	200706		2.00	6.00	8.00	6.00	$17.53	$105.18	
H17557	200606		9.00	3.00	16.00	7.00	$12.50	$87.50	5
H17557	200603		9.00	3.00	28.00	19.00	$12.50	$237.50	6
H17557	200604		9.00	3.00	12.00	3.00	$12.50	$37.50	1
H17557	200605		9.00	3.00	12.00	3.00	$12.50	$37.50	
H17557	200606		9.00	3.00	16.00	7.00	$12.50	$87.50	6
H17557	200607		9.00	3.00	12.00	3.00	$12.88	$38.64	1
H17557	200608		9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200609		9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200610		9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200611		9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200612		9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200701		9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200702		9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200703		9.00	3.00	12.00	3.00	$12.88	$38.64	
H17557	200704		9.00	3.00	12.00	3.00	$12.88	$38.64	

Frank D. Lanterman Regional Center
Overpayments of Units for the Family Cost Participation Program
Service Code 862 - In-Home Respite Services Agency
Vendor Numbers H17557, H07719, and HL0363
Fiscal Years 2005-06 and 2006-07

			A		B	C	D	E	
Vendor Number	**Year/Month**	**Unique Client Identification Number**	**Share of Cost Per Unit**		**Units Paid by FDLRC**	**Difference**	**Rate**	**Overpayment Amount**	**Comment**
			FDLRC Portion	**Family Portion**					
H17557	200705	[redacted]	9.00	3.00	12.00	3.00	$12.88	$38.64	1
H17557	200612	[redacted]	18.00	1.00	19.00	1.00	$12.88	$12.88	
H17557	200702	[redacted]	29.00	1.00	30.00	1.00	$12.88	$12.88	
H17557	200701	[redacted]	29.00	1.00	30.00	1.00	$12.88	$12.88	1
H17557	200703	[redacted]	29.00	1.00	30.00	1.00	$12.88	$12.88	
H17557	200706	[redacted]	29.00	1.00	30.00	1.00	$12.88	$12.88	
H17557	200603	[redacted]	14.00	1.00	15.00	1.00	$12.50	$12.50	
H17557	200604	[redacted]	14.00	1.00	15.00	1.00	$12.50	$12.50	1
H17557	200605	[redacted]	14.00	1.00	15.00	1.00	$12.50	$12.50	
H17557	200609	[redacted]	14.00	1.00	15.00	1.00	$12.88	$12.88	
H17557	200610	[redacted]	14.00	1.00	30.00	16.00	$12.88	$206.08	6
H17557	200611	[redacted]	14.00	1.00	15.00	1.00	$12.88	$12.88	1
H17557	200612	[redacted]	14.00	1.00	15.00	1.00	$12.88	$12.88	
H17557	200704	[redacted]	14.00	1.00	15.00	1.00	$9.12	$9.12	1
H17557	200705	[redacted]	14.00	1.00	15.00	1.00	$9.12	$9.12	
H17557	200706	[redacted]	14.00	1.00	30.00	16.00	$9.12	$145.92	6
H17557	200603	[redacted]	17.00	1.00	18.00	1.00	$12.50	$12.50	
H17557	200605	[redacted]	17.00	1.00	18.00	1.00	$12.50	$12.50	
H17557	200609	[redacted]	17.00	1.00	18.00	1.00	$12.88	$12.88	
H17557	200612	[redacted]	17.00	1.00	18.00	1.00	$12.88	$12.88	1
H17557	200702	[redacted]	17.00	1.00	18.00	1.00	$12.88	$12.88	
H17557	200703	[redacted]	17.00	1.00	18.00	1.00	$12.88	$12.88	
H17557	200704	[redacted]	17.00	1.00	18.00	1.00	$12.88	$12.88	

Frank D. Lanterman Regional Center
Overpayments of Units for the Family Cost Participation Program
Service Code 862 - In-Home Respite Services Agency
Vendor Numbers H17557, H07719, and HL0363
Fiscal Years 2005-06 and 2006-07

			A		B	C	D	E	
Vendor Number	**Year/Month**	**Unique Client Identification Number**	**Share of Cost Per Unit**		**Units Paid by FDLRC**	**Difference**	**Rate**	**Overpayment Amount**	**Comment**
			FDLRC Portion	**Family Portion**					
H17557	200705	[redacted]	17.00	1.00	18.00	1.00	$12.88	$12.88	1
H17557	200706	[redacted]	17.00	1.00	18.00	1.00	$12.88	$12.88	
							Total Amount for Service Code 862	**$7,125.29**	

Legend:

C = B-A
E = D*C

1 = FDLRC provided the consumer's Individual Program Plan (IPP) amendment to support the change in units. DDS considers this issue resolved.
2 = FDLRC did not adjust the authorization, which resulted in the overpayments.
3 = The consumer became Medi-Cal eligible. DDS considers this issue resolved.
4 = The counsumer aged out of the Family Cost Participation Program.
5 = This line item was added to the schedule twice.
6 = FDLRC made overpayment(s) to the vendor and has take corrctive action by recovering the amount. DDS considers this issue resolved.

Frank D. Lanterman Regional Center
Uniform Fiscal System (UFS) Reconciliations
Fiscal Years 2005-06 and 2006-07

Month/Year	Missing Reconciliation	Unresolved Reconciling Items	Reconciliation Signed and Dated
December-05	No	Yes	No
June-06	No	Yes	No
January-07	Yes	N/A	N/A
February-07	Yes	N/A	N/A
May-08	No	Yes	No

N/A - Not Applicable

APPENDIX A

FRANK D. LANTERMAN REGIONAL CENTER

RESPONSE

TO AUDIT FINDINGS

FRANK D. LANTERMAN REGIONAL CENTER

COPY

September 8, 2009

RECEIVED
SEP 17 2009
AUDIT BRANCH

Edward Yan
Acting Manager
Audit Branch
Department of Developmental Services
1600 Ninth St., Room 230, MS 2-10

Dear Mr. Yan

Lanterman received the written audit report of fiscal years 2005-06 and 2006-07 on June 15, 2009. Attached please find our response to the findings.

For ease of reference, and for discussion with our Board and committees, we have reprinted the Department's findings and recommendations and inserted our response in the appropriate places. We have also attached relevant documents we have cited where appropriate.

We look forward to receiving the final report after this response is received and reviewed.

Sincerely,

Patrick R. Aulicino
Associate Director
Administrative Services

cc: Diane Anand
Barry Londer
Stacy Yasui, DDS

DDS AUDIT OF 2005-06 AND 2006-07

FDLRC RESPONSE: 9/09

In June of 2008, DDS staff conducted a financial audit of fiscal years 2005-06 and 2006-07. The draft report was sent to Lanterman in June 2009 for comment. The text below copies the Department's findings and recommendations and includes Lanterman's response that is being sent to DDS. The audit, Lanterman's response, and any rebuttal from DDS will be considered part of the final audit report.

It is important to note that there were no findings in the so-called tier one category which would significantly impair the ability of the regional center to perform its duties under its contract with the state. It should also be noted that all prior audit issues are considered resolved, except for the finding related to client trust disbursements, regarding which we have a philosophical disagreement with the Department.

The full report is appended to this synopsis should you wish to review the detail.

FINDINGS AND RECOMMENDATIONS

The findings of this report have been separated into the two categories below.

I. The following findings need to be addressed, but do not significantly impair the financial integrity of FDLRC or seriously compromise its ability to account for or manage State funds.

Finding 1: <u>Day Programs-Over/Under-Stated Claims</u>

A review of 19 Day Programs revealed nine vendors totaling 1,198 instances of over or under claimed expenses to the State. There were eight vendors with 1,191 instances of underpayments, totaling $95,837.42, due to rate increases that were not applied. No supporting documentation was provided by FDLRC that a lower rate was negotiated with the vendors in this finding. The remaining vendor had seven instances of overpayments totaling $773.63, due to incorrect billings for the service months. (See Attachment A for a summary. A detailed summary has been provided to FDLRC under a separate cover as Attachment A.1.)

Title17, Section 57300 (c)(2)(d), states:

"For those vendors for whom the Department establishes a rate, once the vendor has received notice of the rate established by the Department, any regional center, or its designee, purchasing or intending to purchase services from the vendor may negotiate with the vendor the level of payment for services provided to its consumers for a specified period of time. The level of payment may be less than but shall not exceed the maximum reimbursement possible during the period specified, using the rate established by the Department and the units of service used by the vendor to charge and invoice the regional center for services provided to consumers as the basis for determining the maximum reimbursement possible."

Recommendation:

FDLRC should recover the improper overpayments of $773.63 and reimburse the recovery to DDS. For the underpayments, FDLRC should make payments of $95,837.42 owed to the vendors. In addition, FDLRC should continue to review the payment invoices, and rate letters to ensure any over/underpayments that may have occurred in the course of doing business with its vendors are addressed and corrected.

FDLRC RESPONSE:

We have recovered an overpayment $773.63 rate adjustment from 1 provider. In addition, suggested retroactive amounts owed to providers have been reviewed and paid, as necessary. A total of $28,326.70 has been paid to 7 providers. Prior to repayment, none of these providers had notified us they were due any additional funds.

Relative to the eighth provider, One Step Ahead (HD0014), we do not agree that we owe funds to the provider. We did receive a permanent rate notification dated September 4, 2002, which at $81.06 was nearly $11 higher than the $70.31 temporary payment rate. At that time we decided to audit the program to determine an appropriate permanent rate, and arrived at a rate of $74.49. We continued to pay the temporary rate while the provider appealed the audit to the Department. DDS responded on November 23, 2004, in support of the regional center's findings and that letter, a copy of which is attached, states that the Department would set the revised rate and effective date based on these findings. We never did receive a rate letter referencing the $74.49 and continued to pay the $70.31 until the Department issued new rate letters effective 7/1/06. We have paid $86.71 effective July of 2006 until the 3% reduction was implemented earlier this year.

The regional center has a system in place for reviewing DDS rate letters, many of which are submitted several months in arrears, We may receive rate letters directly from other regional centers or service providers, particularly when we are not the vendoring regional center. Community Services staff enter the new rates in the UFS system and typically notify Accounting staff when these changes occur. The new rates are included in subsequent turnaround invoices sent to the provider. While this process is fairly automated on a go-forward basis, Accounting staff need to manually compute any retroactive payments due to the provider. Given the hundreds of providers who were given these rate increases, this is a very small number that were affected.

Note: If the detail on these alleged overpayments had been provided to us at the time of the audit field work as was done with others, we could have taken care of these matters at that time with the other overpayment issues brought up.

Finding 2: **<u>Family Cost Participation Program (FCPP) – Over-Stated Claims</u>**

The review of the Family Cost Participation Program (FCPP) revealed that FDLRC has been paying for the cost of services that are the responsibility of the families under the requirements of the FCPP for 18 of the 25 consumers participating in the program from March 2006 to June 2007. This occurred when the participating family accounts were left unmonitored for a period of time due to employee turnover. As a result, payments totaling $7,125.29 were made to three vendors (vendor numbers H17557, H07719 and HL0363) by FDLRC, but which were the responsibility of the families. (See Attachment B)

Title 17, Section 50255 (a), states:

"The parents of a child who meet the definition under Section 4783 (a)(1) of the Welfare and Institutions Code shall be jointly and severally responsible for the assessed amount of family cost participation."

Recommendation:

FDLRC should develop and implement policies and procedures to ensure that only the costs FDLRC is responsible for is entered into the UFS to prevent the possibility of any overpayments. The position responsible for assessing the share of cost is an integral part of the FCPP function and cross-training of other employees within the unit should be done to ensure the continuity of monitoring FDLRC's share of cost for FCPP are not interrupted.

FDLRC RESPONSE:

FDLRC disputes the finding that 18 of the 25 consumers participating from March 2006 to June 2007 were overpaid. We have reviewed the list and find that ***only two*** of those 18 authorizations were not adjusted as they should have been in accordance with the assessment. The fiscal impact totals $618.36. One of those two clients aged out of the program in September of 2006.

Our policy provides that services are not initiated until ***after*** an FCPP assessment is completed to evaluate how many hours of service the center will fund. It appears to us that the auditors looked at the authorization amounts and assumed that the reduction should be taken from that number when in fact the reduction had ***already*** been calculated to determine the units of service authorized. This is the situation with 14 of the clients reviewed.

In two instances, the client was eligible for Medi-Cal and should not have been on this list as requiring a FCCP assessment. The problem was that the Medi-Cal number was not appropriately entered into the system.

The auditors noted five instances where the number of paid hours increased for a particular month. Of these, two were reviewed by the appropriate regional manager prior to the approval of the authorization to make sure that the appropriate reduction was taken into account. There were also three instances wherein one or two months were overpaid in error, the total of which, $580, has subsequently been recovered.

The regional center has in place a monitoring system to ensure that FCPP assessments are completed for respite, day care and camp as required. The fiscal monitor audits that an FCPP assessment is completed for these services.

We do consider that we have appropriate checks and balances in place for this system to work appropriately. When the Fiscal Monitor is absent for an extended period of time, the Associate Director has been trained to perform the share of cost assessments.

Finding 3: <u>Client Trust Disbursements Not Supported</u> (Repeat)

A review of 10 client trust money management disbursements revealed that FDLRC did not have supporting receipts for four money management checks issued to vendors for the spending down of consumer funds, but were maintained at the residential facility. The checks were disbursedwhen the consumer's resources were close to or over the $2,000 resource limit. This issue was identified in the prior DDS audit report.

Without supporting receipts, there is no evidence to ensure that the disbursements from the client trust funds are appropriate. In addition, the client trust funds account for benefits received from the Social Security Administration.

Social Security Handbook, Chapter 16, Section 1616 states:

"The responsibilities of a representative payee are to:

D. Keep written records of all payments received from SSA along with receipts to show how funds were spent and/or saved on behalf of the beneficiary."

Recommendation:

As the representative payee for its consumers, FDLRC should develop and implement policies and procedures requiring receipts for disbursements made from the client trust accounts. The receipts should be maintained by FDLRC in the consumer's file with the money management check requests for the expenditures. This will ensure all money management checks disbursed to vendors are for appropriate purposes and that there is a proper accounting of Social Security benefits.

FDLRC RESPONSE:

FDLRC contends that it does have adequate procedures to account for money management checks disbursed from client trust accounts.

Residential service providers, according to Section 80026 of Title 22, are required to not only keep "records of clients' cash resources....with columns for income, disbursements, and balance for each client;" but also receipts, including either the client's mark or signature for cash. In addition, "The store receipts shall constitute the receipt for purchases made for the client from his/her account." When they perform their quarterly or semi-annual reviews, our service coordinators review the client fund records at the facility; this includes a review of both income and receipts. If significant problems are noted, a plan of correction may be developed or our Fiscal Monitor may be asked to perform an audit. Past actions have resulted in dollars being returned to consumers when warranted. Our audits have shown the providers are typically good about keeping receipts, even for large purchases that are made pursuant to money management disbursements. We believe that this review provides adequate safeguards for consumer funds in residential facilities.

Our representative payee operations have also been reviewed regularly by staff from the Social Security Administration. The attached letter from the SSA dated May 1, 2007 which covers this audit period expresses satisfaction with the way in which Lanterman is handling funds on behalf of its payees and contains no specific recommendations for changes to our practices.

Finding 4: **Uniform Fiscal System (UFS) Reconciliations**

A sample review of five monthly UFS reconciliations revealed that FDLRC could not provide reconciliations for two of the sampled months. For the three months provided, it was found that the reconciliations did not balance and were not signed and dated by the preparer and reviewer. (See Attachment C)

State Contract Article IV, Section 3(a) states in part:

"The Contractor shall maintain books, records, documents, case files, and other evidence pertaining to the budget, revenues, expenditures, and consumers served under this contract (hereinafter collectively called the "records") to the extent and in such detail as will properly reflects net costs (direct and indirect) of labor, materials, equipment, supplies and services, reimbursement is claimed under the provisions of this contract in accordance with mutually agreed to procedures and generally accepted accounting principles."

In addition, for good internal controls and accounting practices reconciliations should be signed and dated by both the preparer and reviewer and be performed on a monthly basis to detect any errors or reconciling items. This will ensure that any errors or reconciling items are identified, researched, and corrected.

Recommendation:

FDLRC should develop policies and procedures to ensure that all UFS reconciliations are properly completed in a timely manner to ensure that any errors or reconciling items are identified, researched, and corrected. In addition, FDLRC should monitor the preparation of the UFS reconciliations to ensure that there are signatures and dates from the preparer and reviewer and that all completed UFS reconciliations are kept and maintained in a safe and secure area.

FDLRC RESPONSE:

The Revenue Manager prepares monthly reconciliations that are completed the last day of the month. Reconciliation spreadsheets, along with the last page of all supporting reports, are analyzed and signed by the Revenue Manager and kept in a binder. Reconciliations are then reviewed, signed and dated by the Controller. Any errors or reconciling items are identified, researched and corrected on a timely basis. The missing months occurred during a time of transition of one Manager of the Revenue Department to another.

II. The following findings were identified during the audit, but have since been addressed and corrected by FDLRC.

Finding 5: **Over/Under-Stated Claims**

A review of the Transportation and Operational Indicator reports revealed 51 instances in which FDLRC over or under claimed expenses to the State. There were 46 instances of overpayments totaling $34,331.50, due to duplicate payments. The remaining five instances were underpayments totaling $7,681.12, due to miscalculated billings for the service months.

Title 17, Section 54326 (a) (10) states:

"All vendors shall…

(10) Bill only for services which are actually provided to consumers and which have been authorized by the referring regional center."

In addition, for good business and internal control practices, FDLRC should generate and monitor the Operational Indicator reports periodically to detect and correct any overpayments that may have occurred in the course of doing business with its vendors.

FDLRC has taken corrective action by making billing adjustments for the over and under payments.

Recommendation:

FDLRC should continue to review the payment invoices, rate letters, and Operational Indicator reports to ensure any payment errors that may have occurred in the course of doing business with its vendors are identified and corrected on a timely basis.

FDLRC RESPONSE:

First of all, we review payment edit reports with every accrual. We look at the payment error messages that may be generated and correct the problem before the check run.

We review the audit indicator reports on a quarterly basis. These reports, however, can exceed 1,000 pages (or over 8,000 entries) and potential problems may not be readily apparent and may require considerable time to research. The allocation of scarce staff resources is again an issue. If there is a particular report that the auditors are using that would assist us in this process, we would like to beaware of it so that we could consider using it.

We do review the termination and completion reports monthly where there is a greater likelihood that potential overpayments may be identified. We also have procedures in place to minimize the possibility of a computer-generated check being issued which would duplicate a manual check.

Finding 6: **Supplemental Claims Not Posted to General Ledger**

A review of the supplemental claims for FY 2006-07, revealed that FDLRC submitted four supplemental OPS claims in amount of $259,205.93. However, it was found that FDLRC did not record this in the General Ledger to reflect the transactions.

One of the basic assertions for the recording of accounting transactions is that all transactions and events should have been recorded have been recorded in the proper accounting period.

FDLRC has taken corrective action in resolving this issue by posting the four supplemental claims in the General Ledger.

Recommendation:

FDLRC should take steps to strengthen its procedures to ensure that all State claims are posted to the General Ledger and that it follows proper generally accepted accounting procedures.

FDLRC RESPONSE:

Amounts reflected accounts receivable offsets to our cash advance, as directed via written correspondence from DDS. As such, these were balance sheet entries only, and did not impact the State claim. The Controller maintains detailed spreadsheets and tracks all offsets to the cash advance. We now ensure our Accountant is also provided with copies of all advance offset letters as they are received, to ensure required entries are posted to the General Ledger in a timely manner.

Finding 7: **Multiple Dates of Death**

The review of the Uniform Fiscal System (UFS) Death Report identified six consumers with multiple dates of death recorded. In all of the instances there were two different dates of death. Further review found that no payments were made beyond the actual date of death for the six consumers.

State Contract, Article IV, Section 1 (c)(1) states in part:

"Contractor shall make available accurate and complete UFS and/or CADDIS information to the state. Accordingly Contractor shall:

1) Update changes to all mandatory items of the Client Master File at least annually except for the following elements, which must be updated within thirty (30) days of Contractor being aware of an of the following events:

a) The death of a consumer;
b) The change of address of a consumer; or
c) The change of residence type of a consumer."

In addition, for good internal controls and accounting practices, FDLRC should ensure the actual date of death is accurately recorded in UFS to avoid any potential payments after the date of death.

FDLRC has taken corrective action to resolve this issue by researching and correcting the date of death of the consumers' records in UFS.

Recommendation:

FDLRC should ensure its staff is provided with written procedures and training on the recording of deceased consumers in UFS. In addition, FDLRC should continue to review all current deceased consumer files to ensure that only one date of death is recorded in UFS.

FDLRC RESPONSE:

At times, the date of the initial incident or hospitalization will erroneously be input as the date of death. We will review protocols with service coordination staff for the input of the correct date of death.