



**AUDIT OF THE  
EASTERN LOS ANGELES REGIONAL CENTER  
FOR FISCAL YEARS 2011-12 AND 2012-13**

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**Department of Developmental Services**

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# EXECUTIVE SUMMARY

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The Department of Developmental Services' (DDS) fiscal compliance audit of the Eastern Los Angeles Regional Center (ELARC) was conducted to ensure ELARC's compliance with the requirements set forth in the California Code of Regulations, Title 17 (CCR, title 17), the California Welfare & Institutions (W&I) Code, the Home and Community-Based Services (HCBS) Waiver for the Developmentally Disabled, and the contracts with DDS. The audit indicated that, overall, ELARC maintains accounting records and supporting documentation for transactions in an organized manner. This report identifies some areas where ELARC's administrative, operational controls could be strengthened, but none of the findings were of a nature that would indicate systemic issues or constitute major concerns regarding ELARC's operations. A follow-up review was performed to ensure ELARC has taken corrective action to resolve the findings identified in the prior DDS audit report.

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

## **I. Findings that need to be addressed.**

### **Finding 1: Targeted Case Management Time Study – Recording of Attendance (Repeat)**

The review of the Targeted Case Management (TCM) Time Study revealed that ELARC continues to under/overstate its hours on the TCM Time Study forms (DS 1916), specifically nine of 20 sampled employees had vacation and sick hours recorded incorrectly. This resulted in 1.75 hours that were overstated and 26.05 hours that were understated. This is not in compliance with the Targeted Case Management Rate Study Process and Instructions.

### **Finding 2: Petty Cash Policies and Procedures**

The review of the petty cash revealed the \$300.00 fund amount did not reconcile with the cash and receipts on hand, a receipt for \$23.91 was missing. Further review of ELARC's policies and procedures revealed weaknesses in the controls over the petty cash reconciliations. This is not in compliance with ELARC's Policies and Procedures for Petty Cash.

### **Finding 3: Property Survey Reports Not Completed Prior to Disposal**

The review of 51 sampled items from the inventory listing revealed that five items were disposed prior to the completion of the required STD. 152 forms; instead the STD. 152 forms were completed and approved by the Department of General Services (DGS) after the disposal. This is not in compliance with Article IV, section 4(a) and the State's Equipment Management System Guidelines.

**Finding 4: Vendors Not Enrolled in Electronic Billing**

The review of ELARC's electronic billing process found that 33 vendors out of 2,414 have not been enrolled in electronic billing. None of the vendors received an exemption from ELARC, which would have precluded them from enrolling in the electronic billing process. This is not in compliance with W&I Code, section 4641.5(a).

**Finding 5: Lack of Medi-Cal Reimbursement Procedures**

The vendor audit of College Hospital Inc. (CHI), vendor number HH0937, service code 700, identified that CHI failed to bill Medi-Cal for \$627.00 after the Treatment of Authorization Request (TAR) was approved for an ELARC consumer. As a result, a follow-up review at ELARC was conducted which found that ELARC does not have procedures in place to determine whether vendors have applied for Medi-Cal reimbursements for consumers who are Medi-Cal eligible. ELARC has no knowledge of Medi-Cal approvals or denials unless it is notified by the vendors and of the amounts that should be reimbursed by the vendor from Medi-Cal if approved.

**II. Finding that has been addressed and corrected by ELARC.**

**Finding 6: Missing Conflict Of Interest Statements**

The review of ELARC's payroll files revealed six of the 24 sampled employees had missing Conflict of Interest (COI) statements. This is not in compliance with W&I Code, section 4626 (e), (f) and (g) and ELARC's Conflict of Interest Policy, section IV.

ELARC has taken corrective action to resolve this issue by providing COI statements for the employees.

## BACKGROUND

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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 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 monitored by the DDS Federal Programs Operations Section to assess overall programmatic compliance with HCBS Waiver requirements. The HCBS Waiver compliance monitoring review has 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 centers' fiscal, administrative and program operations.

DDS and Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc., entered into a contract, HD099004, effective July 1, 2009, through June 30, 2016. This contract specifies that Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc., will operate an agency known as the Eastern Los Angeles Regional Center (ELARC) to provide services to persons with DD and their families in Alhambra, East Los Angeles, Northeast, and Whittier areas. The contract is funded by State and Federal funds that are dependent upon the ELARC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at ELARC from September 30, 2013, through November 1, 2013, and was conducted by the DDS' Audit Branch.

## **AUTHORITY**

The audit was conducted under the authority of the W&I Code, section 4780.5, and Article IV, Section 3 of the State Contract.

## **CRITERIA**

The following criteria were used for this audit:

- California's W&I Code
- "Approved Application for the HCBS Waiver for the Developmentally Disabled"
- CCR, title 17
- Federal Office of Management Budget (OMB) Circular A-133
- State Contract between DDS and ELARC, effective July 1, 2009

## **AUDIT PERIOD**

The audit period was July 1, 2011, through June 30, 2013, with follow-up as needed into prior and subsequent periods.

## OBJECTIVES, SCOPE, AND METHODOLOGY

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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 with the W&I Code (or the Lanterman Act),
- To determine compliance with CCR, title 17 regulations,
- To determine compliance with the provisions of the HCBS Waiver Program for the Developmentally Disabled, and
- To determine that costs claimed were in compliance with the provisions of the State Contract.

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 ELARC's financial statements. DDS limited the scope to planning and performing audit procedures necessary to obtain reasonable assurance that ELARC was in compliance with the objectives identified above. Accordingly, DDS examined transactions, on a test basis, to determine whether ELARC was in compliance with the Lanterman Act, CCR, title 17, HCBS Waiver for the Developmentally Disabled, and the State Contract.

DDS' review of ELARC's internal control structure was conducted to gain an understanding of the transaction flow and the policies and procedures, as necessary, to develop appropriate auditing procedures.

DDS reviewed the annual audit report that was conducted by an independent accounting firm for fiscal year 2011-12, issued on January 23, 2013.

It was noted that no management letter was issued for ELARC. This review was performed to determine the impact, if any, upon the DDS audit and, as necessary, develop appropriate audit procedures.



The audit procedures performed included the following:

**I. Purchase of Service**

DDS selected a sample of Purchase of Service (POS) claims 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 Program. For POS claims, the following procedures were performed:

- DDS tested the sample items to determine if the payments made to service providers were properly claimed and could be supported by appropriate documentation.
- DDS 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 the ELARC. The rates charged for the services provided to individual consumers were reviewed to ensure that the rates paid were set in accordance with the provisions of CCR, title 17 and the W&I Code of regulations.
- DDS selected a sample of individual Consumer Trust Accounts to determine if there were any unusual activities and whether any account balances exceeded \$2,000 as prohibited by the Social Security Administration. In addition, DDS determined if any retroactive Social Security benefit payments received exceeded the \$2,000 resource limit for longer than nine months. DDS 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 was maintained.
- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, was tested to determine whether funds received were properly identified to a consumer or returned to the Social Security Administration in a timely manner. An interview with RC staff revealed that RC 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 Social Security Administration (or other source) in a timely manner.
- DDS selected a sample of Uniform Fiscal Systems (UFS) reconciliations to determine if any accounts were out-of-balance or if there were any outstanding items that were not reconciled.
- DDS analyzed all of ELARC's bank accounts to determine whether DDS had signatory authority as required by the contract with DDS.

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

## **II. Regional Center Operations**

DDS audited ELARC's operations and conducted tests to determine compliance with the State Contract. The tests included various expenditures claimed for administration to ensure that ELARC accounting staff is properly inputting data, transactions were 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 support documents were 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 were tested to determine compliance with CCR, title 17 and the State Contract.
- A sample of equipment was selected and physically inspected to determine compliance with requirements of the State Contract.
- DDS reviewed ELARC's policies and procedures for compliance with the DDS Conflict of Interest regulations and DDS 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 TCM Rate Study is the study that determines the DDS rate of reimbursement from the Federal Government. The following procedures were performed upon the study:

- Reviewed applicable TCM records and ELARC's Rate Study. DDS examined the month of June 2011 and traced the reported information to source documents.
- Reviewed ELARC's TCM Time Study. DDS selected a sample of payroll time sheets for this review and compared it to the DS 1916 forms to ensure that the DS 1916 forms were properly completed and supported.

## **IV. Service Coordinator Caseload Survey**

Under W&I Code, section 4640.6(e), regional centers are required to provide service coordinator caseload data to DDS. The following average service coordinator-to-consumer ratios apply per W&I Code, section 4640.6(c)(3):

- A. For all consumers that are three years of age and younger and for consumers enrolled in the 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 continuously in the community for at least 12 months, the required average ratio shall be 1:62. The required average ratio shall be 1:45 for consumers who have moved within the first year.
- 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. The 1:66 ratio was lifted in February 2009, upon imposition of the 3 percent operations reduction to regional centers as required per W&I Code, section 4640.6(i) and (j). The ratio continued to be suspended from July 2010 until July 2012 with imposition of the subsequent 4.25 percent and 1.25 percent payment reductions.

Therefore, DDS also reviewed the Service Coordinator Caseload Survey methodology used in calculating the caseload ratios 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(e).

**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, DDS reviewed the Early Intervention Program, including the Early Start Plan and Federal Part C funding to determine if the funds were properly accounted for in the regional center's accounting records.

**VI. Family Cost Participation Program**

The Family Cost Participation Program (FCPP) was created for the purpose of assessing consumer costs 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 (IPP). To determine whether ELARC is in compliance with CCR, title 17 and the W&I Code, DDS performed the following procedures during the audit review:

- Reviewed the list of consumers who received respite, day care and camping services, for ages 0 through 17 who live with their parents and are not Medi-Cal eligible, to determine their contribution for the FCPP.
- Reviewed the parents' income documentation to verify their level of participation based on the FCPP Schedule.

- Reviewed copies of the notification letters to verify that the parents were notified of their assessed cost participation within 10 working days of receipt of the parents' complete income documentation.
- Reviewed vendor payments to verify that ELARC is paying for only its assessed share of cost.

## **VII. Annual Family Program Fee**

The Annual Family Program Fee (AFPF) was created for the purpose of assessing an annual fee of up to \$200 based on income level of families of children between the ages of 0 through 17 years of age receiving qualifying services through a regional center. The AFPF fee shall not be assessed or collected if the child receives only respite, day care, or camping services from the regional center, and a cost for participation is assessed to the parents under FCPP. To determine whether ELARC is in compliance with the W&I Code, DDS requested a list of AFPF assessments and verified the following:

- The adjusted gross family income is at or above 400 percent of the Federal poverty level based upon family size.
- The child has a developmental disability or is eligible for services under the California Early Intervention Services Act.
- The child is less than 18 years of age and lives with his or her parent.
- The child or family receives services beyond eligibility determination, needs assessment, and service coordination.
- The child does not receive services through the Medi-Cal program.
- Documentation was maintained by the regional center to support reduced assessments.

## **VIII. Procurement**

The Request for Proposal (RFP) process was implemented to ensure regional centers outline the vendor selection process when using the RFP process to address consumer service needs. As of January 1, 2011, DDS requires regional centers to document their contracting practices, as well as how particular vendors are selected to provide consumer services. By implementing a procurement process, regional centers will ensure that the most cost effective service providers, amongst comparable service providers, are selected as required by the Lanterman Act and the State Contract as amended.

To determine whether ELARC implemented the required RFP process by January 1, 2011, DDS performed the following procedures during the audit review:

- Reviewed the ELARC contracting process to ensure the existence of a Board approved procurement policy and to verify that the RFP process ensures competitive bidding as required by Article II of the State Contract as amended.
- Reviewed the RFP contracting policy to determine whether the protocols in place included applicable dollar thresholds and comply with Article II of the State Contract as amended.
- Reviewed the RFP notification process to verify that it is open to the public, and clearly communicated to all vendors. All submitted proposals are evaluated by a team of individuals to determine whether proposals are properly documented, recorded and authorized by appropriate officials at ELARC. The process was reviewed to ensure that the vendor selection process is transparent, impartial, and avoids the appearance of favoritism. Additionally, DDS verified that supporting documentation is retained for the selection process and, in instances where a vendor with a higher bid is selected, there is written documentation retained as justification for such a selection.

DDS performed the following procedures to determine compliance with the Article II of the State Contract for new contracts in place as of January 1, 2011:

- Selected a sample of Operational, Start-Up and negotiated POS contracts subject to competitive bidding to ensure ELARC notified the vendor community and the public of contracting opportunities available.
- Reviewed the contracts to ensure that ELARC has adequate and detailed documentation for the selection and evaluation process of vendor proposals, written justification for final vendor selection decisions, and those contracts were properly signed and executed by both parties to the contract.

In addition, DDS performed the following procedures to determine compliance with the W&I Code, section 4625.5 for new contracts in place as of March 2011:

- Reviewed to ensure ELARC has a written policy requiring the Board to review and approve any of its contracts of two hundred fifty thousand dollars (\$250,000) or more, before entering into a contract with the vendor.
- Reviewed ELARC Board approved POS, Start-Up and Operational vendor contracts over \$250,000 to ensure the inclusion of a provision for fair and equitable recoupment of funds for vendors that cease to provide services to consumers. Verified that the funds provided were specifically used to establish new or additional services to consumers and that the usage of funds are of direct benefit to consumers, and that contracts are supported with sufficiently detailed and measurable performance expectations and results.

The process above was conducted in order to assess ELARC's current RFP process and Board approval of contracts over \$250,000 as well as to determine whether the process in place satisfies the W&I Code and ELARC's State Contract requirements as amended.

#### **IX. Statewide/Regional Center Median Rates**

The Statewide and Regional Center Median Rates were implemented on July 1, 2008, and amended on December 15, 2011, to ensure regional centers are not negotiating rates higher than the set median rates for services. Despite the median rate requirement, rate increases could be obtained from DDS under health and safety exemptions where regional centers demonstrate the exemption is necessary for the health and safety of the consumers.

To determine whether ELARC was in compliance with the Lanterman Act, DDS performed the following procedures during the audit review:

- Reviewed sample vendor files to determine whether ELARC is using appropriately vendorized service providers, has correct service codes, and that ELARC is paying authorized contract rates and complying with the medium rate requirements of the W&I Code, section 4691.9.
- Reviewed vendor contracts to verify that ELARC is reimbursing vendors using authorized contract median rates and verified that rates paid represented the lower of the statewide or regional center median rate set after June 30, 2008. Additionally, DDS verified that providers vendorized before June 30, 2008, did not receive any unauthorized rate increases, except in situations where health and safety exemptions were granted by DDS.

#### **X. Other Sources of Funding from DDS**

Regional centers may receive other sources of funding from DDS. DDS performed sample tests on identified sources of funds from DDS to ensure ELARC's accounting staff were 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 sources of funding from DDS identified in this audit are:

- Start-Up Funds, Community and Placement Program.
- Prevention Program.

#### **XI. Follow-up Review on Prior DDS Audit Findings**

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

## CONCLUSIONS

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Based upon the audit procedures performed, DDS has determined that, except for the items identified in the Findings and Recommendations Section, ELARC was in compliance with applicable sections of the CCR, title 17, the HCBS waiver, and the State Contracts with DDS for the audit period, July 1, 2011, through June 30, 2013.

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 ELARC has taken appropriate action to resolve all prior audit issues with the exception of Finding 1. ELARC has implemented procedures to address the issue regarding Finding 1; however, the issue remains unresolved.

## **VIEWS OF RESPONSIBLE OFFICIALS**

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DDS issued a draft report on April 17, 2014. The findings in the report were discussed at a formal exit conference with ELARC on April 22, 2014. At the exit conference, DDS stated it would incorporate the views of the responsible officials in the final report.



## **RESTRICTED USE**

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This report is solely for the information and use of DDS, Department of Health Care Services, Centers for Medicare and Medicaid Services, and ELARC. This restriction does not limit distribution of this report, which is a matter of public record.

## FINDINGS AND RECOMMENDATIONS

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

### I. Findings that need to be addressed.

#### **Finding 1: Targeted Case Management Time Study – Recording of Attendance (Repeat)**

The review of the TCM Time Study revealed that nine of 20 sampled employees had vacation and sick hours recorded on their timesheets which did not properly reflect what was recorded on the TCM Time Study forms (DS 1916). The difference between the employees' time sheets and the TCM Time Study forms were overstated by a total of 1.75 hours and understated by 26.05 hours. ELARC indicated this occurred due to an oversight. ELARC also explained that it provided more training and developed additional procedures requiring the time cards to be printed and reviewed by the Supervisors weekly since the issue was identified in the prior audit report.

The Targeted Case Management Rate Study Process and Instructions state:

“...All regional center case management staff (category CM) will complete the DS1916 during the rate study...The total hours worked during the day, including overtime must be shown...”

For good business and internal control practices, vacation and sick leave should be recorded correctly on the DS 1916. Time recorded incorrectly may result in an incorrect calculation of the TCM rate, which could result in the requirement to return overpayments of the TCM rate to the Federal Government or not maximizing Federal funds for understated hours.

#### **Recommendation:**

ELARC should re-evaluate its current procedures and determine whether additional controls need to be implemented to ensure that all employee timesheets reconcile to the TCM Time Study forms.

#### **Finding 2: Petty Cash Policies and Procedures**

The review of the petty cash revealed the \$300.00 fund amount did not reconcile with the cash and receipts on hand; a receipt for \$23.91 was missing. Further review of ELARC's policies and procedures revealed weaknesses in the controls over the petty cash reconciliations. The policies and procedures do not require the reconciliations to be completed periodically, instead the reconciliations are only required to be completed when a replenishment request is submitted.

ELARC's Policies and Procedures for Payments to OPS Vendors for Petty Cash Payments states in part:

“Once properly approved, the Custodian gives the cash to the requestor. A receipt must be returned to the Custodian for said purchases.”

Also, good internal control and sound business practices dictate that petty cash reconciliations are completed periodically to ensure cash receipts and disbursements are processed timely and are correctly recorded.

**Recommendation:**

ELARC should ensure the petty cash custodian is aware that all receipts must be returned as supporting documentation for petty cash reconciliations. In addition, ELARC should revise its current petty cash procedures to have the petty cash reconciliations completed periodically, rather than completing it when submitting a request for replenishment. This would identify any irregularities that may occur during the course of doing business.

**Finding 3: Property Survey Reports Not Completed Prior to Disposal**

The review of 51 sampled items from the inventory listing revealed that five items were disposed prior to the completion of the required STD. 152 forms; instead the STD. 152 forms were completed and approved by the Department of General Services (DGS) after the disposal. ELARC stated it disposed of the equipment prior to the DGS approval because of its lack of storage space. ELARC tracked the disposed items by removing the state tags and attaching the state tags to a separate sheet which was then used in completing the STD. 152 forms at a later date. (See Attachment A.)

Article IV, section 4(a) of the State Contract states in part:

“...Contractor shall comply with the State's Equipment Management System Guidelines for regional center equipment and appropriate directions and instructions which the State may prescribe as reasonably necessary for the protection of State of California property.”

Section III (E), of the State's Equipment Management System Guidelines, dated February 1, 2003, states in part:

“RCs shall work directly with their regional Department of General Services' (DGS) office to properly dispose of State-owned equipment. RCs will complete a Property Survey Report (Std.152) for all State-owned equipment subject to disposal. DGS must review and approve the Std. 152 before the equipment is actually disposed.”

**Recommendation:**

ELARC must adhere to the State’s Equipment Management System Guidelines and ensure a STD. 152 report is completed prior to disposing of State property.

**Finding 4: Vendors Not Enrolled in Electronic Billing**

The review of ELARC’s electronic billing process found that 33 out of 2,414 eligible vendors have not been enrolled in electronic billing. Exceptions are granted for vendors paid by vouchers and vendors who demonstrate enrolling in electronic billing will present a financial hardship. However, it was found that none of the 33 vendors were paid by vouchers or demonstrated that submitting billings electronically would have presented a financial hardship. ELARC explained that efforts are still being made to enroll the remaining vendors. (See Attachment B.)

W&I Code, section 4641.5(a) states:

“(a) Effective July 1, 2011, regional centers shall begin transitioning all vendors of all regional center services to electronic billing for services purchased through a regional center. All vendors and contracted providers shall submit all billings electronically for services provided on or after July 1, 2012, with the exception of the following:

- (1) A vendor or provider whose services are paid for by vouchers, as that term is defined in subdivision (i) of Section 4512.
- (2) A vendor or provider who demonstrates that submitting billings electronically for services presents substantial financial hardship for the provider.”

**Recommendation:**

ELARC must continue to work on enrolling these vendors to the electronic billing process to be in compliance with W&I Code, section 4641.5(a).

**Finding 5: Lack of Medi-Cal Reimbursement Procedures**

During a vendor audit of CHI, vendor number HH0937, service code 700, it was identified that a total of \$20,396.40 was approved for Medi-Cal reimbursement for three ELARC consumers for services provided from July 1, 2011, through August 31, 2013. However, the review of the vendor invoices indicated that CHI only reimbursed ELARC \$19,769.40 and was unaware that \$627.00 was still outstanding since it did not bill Medi-Cal for the TAR approved services. CHI has subsequently reimbursed ELARC a total of \$627.00.

As a result of this issue, a follow-up review was conducted at ELARC which found that ELARC does not have procedures in place to determine whether vendors have billed Medi-Cal once a TAR has been approved. Since ELARC has

no procedures in place, it was unaware of amounts that should be reimbursed by the vendors from Medi-Cal and it has no knowledge of Medi-Cal approvals or denials unless it was notified by the vendors.

Good internal controls and sound business practices dictate that regional centers have written policies and procedures in place to follow-up with vendors who provide services to Medi-Cal eligible consumers. The procedures must ensure regional centers are receiving copies of Medi-Cal approvals or denial letters to assist in the monitoring of reimbursements, and any Medi-Cal payments received by the vendor are returned to the regional center and used to offset the claim.

**Recommendation:**

ELARC must develop procedures to ensure that all vendors who have consumers eligible for Medi-Cal are billing for reimbursements appropriately. The procedures must also include a detailed follow-up process to ensure that ELARC receives a copy of the Medi-Cal approval or denial letter to assist it in the monitoring of reimbursements.

**II. Finding that has been addressed and corrected by ELARC.**

**Finding 6: Missing Conflict Of Interest Statements**

The review of ELARC's payroll files revealed six of the 24 sampled employees were missing COI statements. Further review of the six employees revealed one employee did not have a new COI on file to acknowledge a change in position, another employee did not have COI statements for FY's 2011-12 and 2012-13 and the remaining four employees were missing COI statements for FY 2012-13. ELARC explained this occurred due to an oversight on its part.

ELARC has taken corrective action to resolve this issue by providing COI statements for the employees.

W&I Code, section 4626 states in part:

- “(e) The department shall develop and publish a standard conflict-of-interest reporting statement. The conflict-of-interest statement shall be completed by each regional center governing board member and each regional center employee specified in regulations, including, at a minimum, the executive director, every administrator, every program director, every service coordinator, and every employee who has decisionmaking or policymaking authority or authority to obligate the regional center's resources.
- (f) Every new regional center governing board member and regional center executive director shall complete and file the conflict-of-interest statement described in subdivision (e) with his or her

respective governing board within 30 days of being selected, appointed, or elected. Every new regional center employee referenced in subdivision (e) and every current regional center employee referenced in subdivision (e) accepting a new position within the regional center shall complete and file the conflict-of-interest statement with his or her respective regional center within 30 days of assuming the position.

- (g) Every regional center board member and regional center employee referenced in subdivision (e) shall complete and file the conflict-of-interest statement by August 1 of each year.”

Also, ELARC’s Conflict of Interest Policy, section IV, Procedures states:

“Each new Regional Center employee and ELARC Board member shall prepare and file an initial conflict of interest statement pursuant to these regulations. Subsequent statements shall be filed thereafter whenever a change in status would create a present or potential conflict of interest. Annual statements shall be filed thereafter on the anniversary date of the initial filing.”

**Recommendation:**

ELARC should reinforce its policies and procedures with its human resources management to ensure COI statements are completed to ensure compliance with W&I Code, section 4626 and its Conflict of Interest Policy.

## EVALUATION OF RESPONSE

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As part of the audit report process, ELARC has been provided with a draft report and was requested to provide a response to each finding. ELARC's response dated May 22, 2014, is provided as Appendix A. This report includes the complete text of the findings in the Findings and Recommendations section, as well as a summary of the findings in the Executive Summary section.

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

**Finding 1: Targeted Case Management Time Study – Recording of Attendance (Repeat)**

ELARC concurs with the finding and has taken action to incorporate DDS' recommendation by re-evaluating its procedures and implementing additional controls. In its prior response, ELARC explained that during the Time Study Survey, time cards are printed weekly and reviewed by the employee's Supervisor to ensure the time-off recorded is accurately reflected on both the timesheets and DS 1916s. ELARC stated that its newly added controls now require that Supervisors forward the DS 1916 forms to the Time Keeper for additional review, who then provides feedback to the Service Coordinator and Supervisor of any items that need to be reconciled. ELARC continues to amend its procedures; however, recording attendance continues to remain an issue. ELARC must enforce its prior and current procedures to ensure time-off recorded is accurately reflected on both the timesheets and DS 1916s before submitting the forms to DDS. DDS will conduct a follow-up review during the next scheduled audit to determine if this issue has been corrected.

**Finding 2: Petty Cash Policies and Procedures**

ELARC concurs with the finding and has taken action to implement DDS' recommendation by revising its policies and procedures. The new policy and procedure will require a revision to the petty cash request form which will state a receipt must be submitted to support purchases and that a detailed explanation must be provided if a receipt has not been submitted. In addition, ELARC will require reconciliations of the petty cash be completed quarterly to identify irregularities in a timely manner. ELARC did not provide copies of the revised petty cash request form or its revised policies and procedures; therefore, DDS will conduct a follow-up review during the next scheduled audit to determine if this issue has been corrected.

**Finding 3: Property Survey Reports Not Completed Prior to Disposal**

ELARC stated that it will adhere to the State's Equipment Management System Guidelines and ensure STD.152 reports are completed prior to disposing of State property, and all disposed equipment is approved by DGS, not by DDS, as stated in its response. DDS will conduct a follow-up review during the next scheduled audit to determine if this issue has been corrected.

**Finding 4: Vendors Not Enrolled in Electronic Billing**

ELARC stated that it will continue to work on enrolling the remaining vendors to the electronic billing process to ensure compliance with W&I Code, section 4641.5(a). DDS will conduct a follow-up review during the next scheduled audit to determine if this issue has been corrected.

**Finding 5: Lack of Medi-Cal Reimbursement Procedures**

ELARC stated that it was not aware that vendors were getting reimbursed from Medi-Cal for emergency placements into Institutions for Mental Disease (IMD). ELARC indicated it was not aware of Medi-Cal approvals or denials of a TAR unless notified by the vendors. ELARC has since recovered a reimbursement of \$627.00 from CHI for services that were reimbursed by Medi-Cal.

In addition, ELARC has developed Operations Policies and Procedures to address emergency placements to all IMDs. ELARC indicated it now has a system in place to identify and track individuals placed in IMDs, and also has procedures in place to notify the Client's Rights Advocate and DDS when an emergency placement to an IMD is made. Furthermore, ELARC has incorporated a process to obtain the TAR approval or denial from an IMD to ensure a reimbursement is identified and reimbursed to ELARC. DDS will conduct a follow-up review during the next scheduled audit to determine if this issue has been corrected.



**Eastern Los Angeles Regional Center  
Property Survey Reports Not Completed  
Fiscal Years 2011-12 and 2012-13**

	<b>Item Description</b>	<b>Serial Number</b>	<b>State Tag Number</b>
1	Gateway 300L	28622746	333856
2	Gateway 300L	29568205	333887
3	HP Deskjet 5650C	C6490A	347739
4	HP Laserjet 4	USCB015092	308272
5	Xerox Copier	086K50070	347738

**Eastern Los Angeles Regional Center  
Vendors Not Enrolled in Electronic Billing  
Fiscal Years 2011-12 and 2012-13**

	<b>Vendor Number</b>	<b>Vendor Name</b>
1	PE2025	[REDACTED]
2	PX0394	American Home Pharmacy
3	H26269	Barnes Park Extended Day
4	H16617	California Medical
5	P91824	Caremax Pharmacy
6	V28041	[REDACTED]
7	HE0162	City of Montebello
8	PP4549	Demi RX Pharmacy
9	P93298	Glesener Pharmacy
10	PE1383	Golden Elite Pharmacy, Inc.
11	PE0790	Golden Elite Pharmacy, Inc.
12	ZE0002	Home Delivery Incontinent
13	PE1389	Hygeia LTC Pharmacy
14	PX0367	[REDACTED]
15	PX0309	[REDACTED]
16	HE0204	Maple Hill Fam Home / OHR
17	P20739	Medrec Services, Inc.
18	PK3751	Mercy Plaza Pharmacy
19	PP4436	Modern Health Pharmacy
20	PP3382	Modern Health Pharmacy
21	PE1288	Montebello Professional
22	PJ4059	Parkview Medical Plaza Pharmacy, LTC
23	PJ4058	Parkview Medical Plaza Pharmacy, LTC
24	PW5271	Pharmacy of the Stars
25	HE0130	Q.H.M.S. Candlelight Home
26	Z29343	Sears Commercial Credit
27	HP5481	Sierra View Care Center
28	HP5199	St. Mary's Home
29	PM0076	Unipharma
30	PD1357	Westaid Pharmacy
31	PE0338	Whittier Medical
32	H26203	Wonder World Preschool
33	H26204	Wonder World Preschool

**APPENDIX A**

**EASTERN LOS ANGELES REGIONAL CENTER**

**RESPONSE  
TO AUDIT FINDINGS**



**EASTERN LOS ANGELES REGIONAL CENTER**

1000 S. Fremont Ave. • P.O. Box 7916 • Alhambra, CA 91802-7916 • (626) 299-4700 • FAX (626) 281-1163

May 21, 2014



Edward Yan  
Manager, Audit Branch  
Department of Developmental Services  
1600 Ninth Street  
Room 230, MS 2-10  
Sacramento, California 95814

Dear Mr. Yan:

We had a conference call on Tuesday, April 22, 2014 at 10:00a.m. with the DDS' Audit Branch to discuss the findings of the audit conducted at Eastern Los Angeles Regional Center from September 30, 2013 through November 1, 2013 for the fiscal years 2011-12 and 2012-13.

Our responses to the findings are attached. These findings were discussed during our teleconference and any issues were addressed. We discussed the corrections and new procedures in place to correct our findings. Also we requested the rewording of the last paragraph in the "Conclusions" section on page 12 of the DDS Draft Audit Report, where it states that "ELARC has not taken appropriate corrective action to resolve a prior audit issue". We did take and implement the corrective action on this "prior audit issue" as recommended in the prior audit report and which DDS agreed to be being appropriate. The action, unfortunately, didn't resolve the issue 100% so we are taking added measures that you will find explained in the attachments. It seems DDS agreed with our request since Staci Yasui stated in an email send to me on April 25<sup>th</sup> "We will reword the last paragraph of the conclusions on page 12". Except for the conclusion on the prior audit issue we, at Eastern Los Angeles Regional Center, are in agreement with the auditor's findings.

Sincerely,

Patricia Alvarez  
Chief, Administrative Services

Enclosure

## **EASTERN LOS ANGELES REGIONAL CENTER**

### **Targeted Case Management Time Study**

#### **Finding 1: Recording of Attendance**

In response to the finding, ELARC incorporated the recommendations provided by DDS on the Draft Audit Report and has already re-evaluated its procedures and has implemented the following additional controls to ensure that all employee timesheets reconcile to the TCM Time Study forms:

- ELARC will continue to print out weekly time cards for Service Coordination staff to reference their time off activity on the Case Management Time study. Supervisors will review for accuracy and forward the DS 1916 Forms on the 15<sup>th</sup> and 31<sup>st</sup> of the Time Study month to the Time Keeper for added internal control measures. The Time keeper will review and provide corrective measures accordingly to the Service Coordinator and Supervisor to ensure all time is reconciled. Supervisors will receive the corrective measures and ensure they are reflected correctly on the Time Study and sign off on the Case Management Time Study

### **Petty Cash Policies and Procedures**

#### **Finding 2: Fund amount did not reconcile with the Cash**

ELARC has taken the following corrective action and revised the Petty Cash Policies and Procedures to have better control over the petty cash reconciliations as stated in your recommendation in the audit draft report dated April 17, 2014:

- The policies and procedures will be printed on the petty cash request to remind the requester that a receipt must be submitted to support for the said purchase and a detailed explanation must be provided if no receipt was submitted.
- The custodian will reconcile the petty cash on a quarterly basis.

### **Inventory**

#### **Finding 3: Property Survey Reports Not Completed Prior to Disposal**

In response to the finding, ELARC will incorporate the recommendation provided by DDS on the Draft Audit Report and adhere to the State's Equipment Management System Guidelines and ensure a STD.152 report is completed prior to disposing of State property. All equipment disposed during this audit period was approved by DDS.

## Electronic Billing

### **Finding 4: Vendors Not Enrolled in Electronic Billing**

The review of the ELARC's electronic billing process found that 33 out of 2,414 eligible vendors have not been enrolled in electronic billing as of July 1, 2012. In response to the finding, ELARC will incorporate the recommendation provided by DDS on the Draft Audit Report and continue to work on enrolling these vendors to the electronic billing process to be in compliance with W&I Code, section 4641.5(a).

## Medi-Cal Reimbursement

### **Finding 5: Lack of Medi-Cal Reimbursement Procedures**

During a vendor audit of CHI, it was found that ELARC does not have procedures in place to determine whether vendors have billed Medi-Cal once a TAR has been approved. Since ELARC has no procedures in place, it was unaware of amounts that should be reimbursed by the vendors from Medi-Cal and it has no knowledge of Medi-Cal approvals or denials unless it was notified by the vendors. In response to the finding, ELARC has incorporated the recommendation provided by DDS and done the following:

- Eastern Los Angeles Regional Center (ELARC) has recovered the reimbursement of \$627.00 from College Hospital Inc. (Vendor # HH0937) for a treatment paid by ELARC, yet thereafter a Treatment Authorization Request (TAR) request was approved and covered by Medi-Cal.
- ELARC developed an Operations Policy and Procedures to address emergency placements to all Institution for Mental Disease (IMD's). The policy went into effect on February 10, 2014 and addresses the Trailer Bill Language incorporated into the Lanterman Act of 6/27/2013, recommendations made by the attending DDS Audit team and the Draft DDS Report Finding #5. ELARC now has a system in place to identify and track individuals placed in IMD's. ELARC also has procedures in place to notify the Clients Rights Advocate (CRA) and DDS when an emergency placement to the IMD is made. ELARC has also incorporated the course of action to be implemented to obtain the TAR approval / denial from an IMD to ensure a reimbursement is identified and issued to ELARC.
- ELARC continues to work on further developing a partnership with College Hospital and other mental health resources to enhance ongoing collaboration.
- Several ELARC Department Members will meet on May 28, 2014 to discuss the implementation of an internal process that will ensure the processing of a reimbursement from an IMD when it has been identified that a TAR has been approved by Med-Cal and ELARC must receive a reimbursement..