



**AUDIT OF THE
EASTERN LOS ANGELES REGIONAL CENTER
FOR FISCAL YEARS 2005-06 and 2006-07**

Department of Developmental Services

This report was prepared by the
California Department of Developmental Services
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EXECUTIVE SUMMARY

The fiscal compliance audit of Eastern Los Angeles Regional Center (ELARC) revealed that ELARC 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, ELARC maintains accounting records and supporting documentation for transactions in an organized manner. This report identifies some areas where ELARC'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 ELARC'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 ELARC or seriously compromise its ability to account for or manage State funds.

Finding 1: Equipment Inventory

The review of ELARC's inventory worksheets revealed that staff did not sign and date the worksheets to document the physical inventory was taken at least once every three years. In addition, ELARC has not been completing the required Equipment Acquired Under Contract form (DS 2130), for newly purchased equipment. This is not in compliance with the State's Equipment Management System Guidelines issued by DDS for regional centers.

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

Finding 2: Over-Stated Claims

A review of the Operational Indicator reports revealed four instances in which ELARC over-claimed expenses to the State. These payments were either due to duplicate payments, or miscalculated billings for the service months. The total overpayment was \$879.62. This is not in compliance with Title 17, Section 54326 (a)(10).

ELARC has taken corrective action by making adjustments for the overpayments.

Finding 3: Deceased Consumer Files

The review of the Uniform Fiscal System (UFS) Death report identified five consumers with multiple dates of death recorded. For good internal controls and accounting practices, ELARC should ensure the actual date of death is accurately recoded in UFS.

ELARC has taken corrective action to resolve the multiple dates of death during the course of fieldwork by updating its records to reflect the consumers' actual 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 DDS Federal Programs Operations Section staff 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 the Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc. entered into contract HD049004, effective July 1, 2004, through June 30, 2009. This contract specifies that the 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 the Alhambra, East Los Angeles, Northeast, and Whittier areas. The contract is funded by State and federal funds that are dependent upon ELARC performing certain tasks, providing services to eligible consumers, and submitting billings to DDS.

This audit was conducted at ELARC from January 28, 2008, through March 12, 2008, and was conducted by DDS's 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 ELARC'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
- ELARC's contract with the 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 ELARC'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 ELARC's financial statements. We limited our scope to planning and performing audit procedures necessary to obtain reasonable assurance that ELARC was in compliance with the objectives identified above. Accordingly, we examined transactions, on a test basis, to determine whether ELARC was in compliance with Title 17, the HCBS Waiver for the Developmentally Disabled, and the contract with DDS.

Our review of the ELARC'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 (FYs):

- 2005-06, issued September 29, 2006
- 2006-07, issued November 1, 2007

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 ELARC. 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 the \$2,000 resource limit as required by the Social Security Administration (SSA). In addition, we determined if any retro Social Security benefit payments received were not 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 are maintained.
- The Client Trust Holding Account, an account used to hold unidentified consumer trust funds, is not used by ELARC. An interview with ELARC staff revealed that ELARC 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 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 ELARC's bank accounts to determine if the DDS had signatory authority as required by the contract with the 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 ELARC's 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 support 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 the DDS.
- We reviewed ELARC'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 to DDS annually. Prior to January 1, 2004, the survey required regional centers to have 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 ELARC'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 the regional center 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 ELARC, 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:

- 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 ELARC and reviewed supporting documentation to determine the degree and completeness of ELARC's implementation of corrective action taken.

CONCLUSIONS

Based upon the audit procedures performed, we have determined that except for the items identified in the Findings and Recommendations Section, ELARC was in substantial compliance to applicable sections of Title 17, the HCBS waiver, and the terms of the ELARC'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 ELARC has taken appropriate corrective actions to resolve all prior audit issues.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft report on October 6, 2008. The findings in the report were discussed at an exit conference with ELARC on October 9, 2008. 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 Eastern Los Angeles 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.

ARTHUR J. LEE, CPA, Manager
Audit Branch

FINDINGS AND RECOMMENDATIONS

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

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

Finding 1: Equipment Inventory

The review of ELARC's inventory worksheets revealed that staff did not sign and date the worksheets to document that a physical inventory was taken at least once every three years. In addition, ELARC has not been completing the required Equipment Acquired Under Contract form (DS 2130), for newly purchased equipment. The State's Equipment Management System Guidelines require that ELARC maintain documentation that the physical inventory has been taken, and that form DS 2130 for newly purchased equipment is being completed.

Article IV, Section 4a of the contract between DDS and ELARC 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 (F) of the State's Equipment Management System Guidelines, dated February 1, 2003, states in part:

“The inventory will be conducted per State Administrative Manual (SAM) Section 8652.”

State Administrative Manual, Section 8652 states in part:

“Departments will make a physical inventory count of all property and reconcile the count with accounting records at least once every three years.

Departments are responsible for the developing and carrying out an inventory plan which will include:

2(b). Worksheets used to take inventory will be retained for audit and will show the date of inventory and the name of the inventory taker.”

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

“RCs will also provide the Department of Developmental Services’ (DDS) Customer Support Section (CSS) with a list of all state owned, nonexpendable and sensitive equipment received during each calendar quarter. This information is to be provided to CSS quarterly, utilizing the Equipment Acquired Under Contract form (DS 2130), or suitable electronic alternative.”

Recommendation:

ELARC should develop policies and procedures to ensure compliance with the State’s Equipment Management System Guidelines as required by its contract with DDS. The policies and procedures should include requirements to have the inventory worksheets signed and dated by the staff that conducts the physical inventory, and the completion and filing of all required forms with DDS.

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

Finding 2: Over-Stated Claims

A review of the Operational Indicator reports revealed four instances in which ELARC over-claimed expenses to the State. There were four instances of overpayments totaling \$879.62 due to miscalculated billings in the service month or duplicate payments.

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.”

ELARC has taken corrective action by making adjustments for the overpayments.

Recommendation:

ELARC should continue to review the payment invoices and Operational Indicator reports thoroughly to ensure any overpayments or duplicate payments that may have occurred in the course of doing business with its vendors are addressed and corrected.

Finding 3: Deceased Consumer Files

The review of the Uniform Fiscal System (UFS) Death Report identified five consumers with multiple dates of death recorded. In all of the instances there were two different dates of death. Though the five consumers had multiple dates of death recorded, no payments were found to have been made beyond the actual date of death.

Article IV, 1(C) of the contract between DDS and ELARC states in part:

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

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 any 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, ELARC should ensure the actual date of death is accurately recorded in UFS to avoid any potential payments after the date of death.

ELARC has taken corrective action to resolve the multiple dates of death during the course of fieldwork by updating its records to reflect the consumers’ actual date of death.

Recommendation:

ELARC should review all current deceased consumer files to ensure that only the actual date of death is recorded in UFS.

EVALUATION OF RESPONSE

As part of the audit report process, ELARC is provided with a draft report and is requested to provide a response to each finding. ELARC's response dated October 15, 2008 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's Audit Branch has evaluated ELARC's response. ELARC's response addressed the audit findings and provided reasonable assurance that corrective action would be taken to resolve the issues. DDS's Audit Branch will confirm ELARC's corrective actions identified in the response during the follow-up review or the next scheduled audit.

APPENDIX A

EASTERN LOS ANGELES REGIONAL CENTER

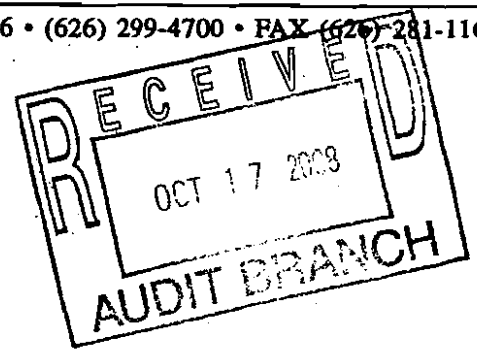
RESPONSE

TO AUDIT FINDINGS



EASTERN LOS ANGELES REGIONAL CENTER

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October 15, 2008

Arthur J. Lee, CPA
Manager, Audit Branch
Department of Developmental Services
1600 Ninth Street
Room 230, MS 2-10
Sacramento, California 95814

Dear Mr. Lee:

We had a conference call on Thursday, October 9, 2008 at 10:00a.m. with the DDS auditors to discuss the findings of the audit conducted at Eastern Los Angeles Regional Center from January 28, 2008, through March 12, 2008 for the fiscal years 2005-06 and 2006-07

The findings were discussed and any issues were addressed. There are no disputes existing and we, at Eastern Los Angeles Regional Center, are in agreement with the auditor's findings. No response is forthcoming.

Sincerely,

Patricia Alvarez
Chief, Administrative Services